

# *Investor Relations*

**LOTTE Confectionery**

**1<sup>st</sup> Half, 2018**



# Contents

**I . Overview**

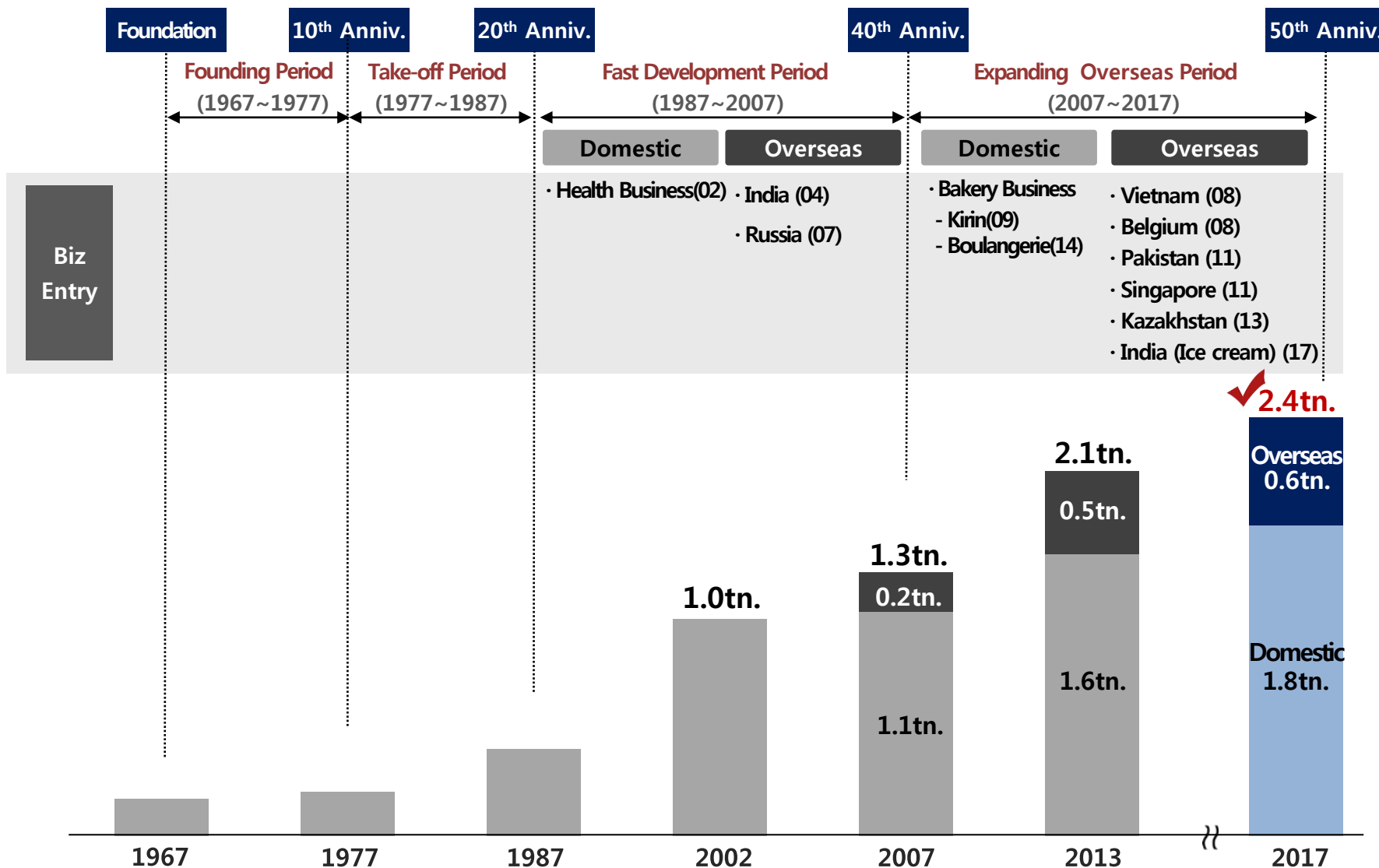
**II. Domestic Business**

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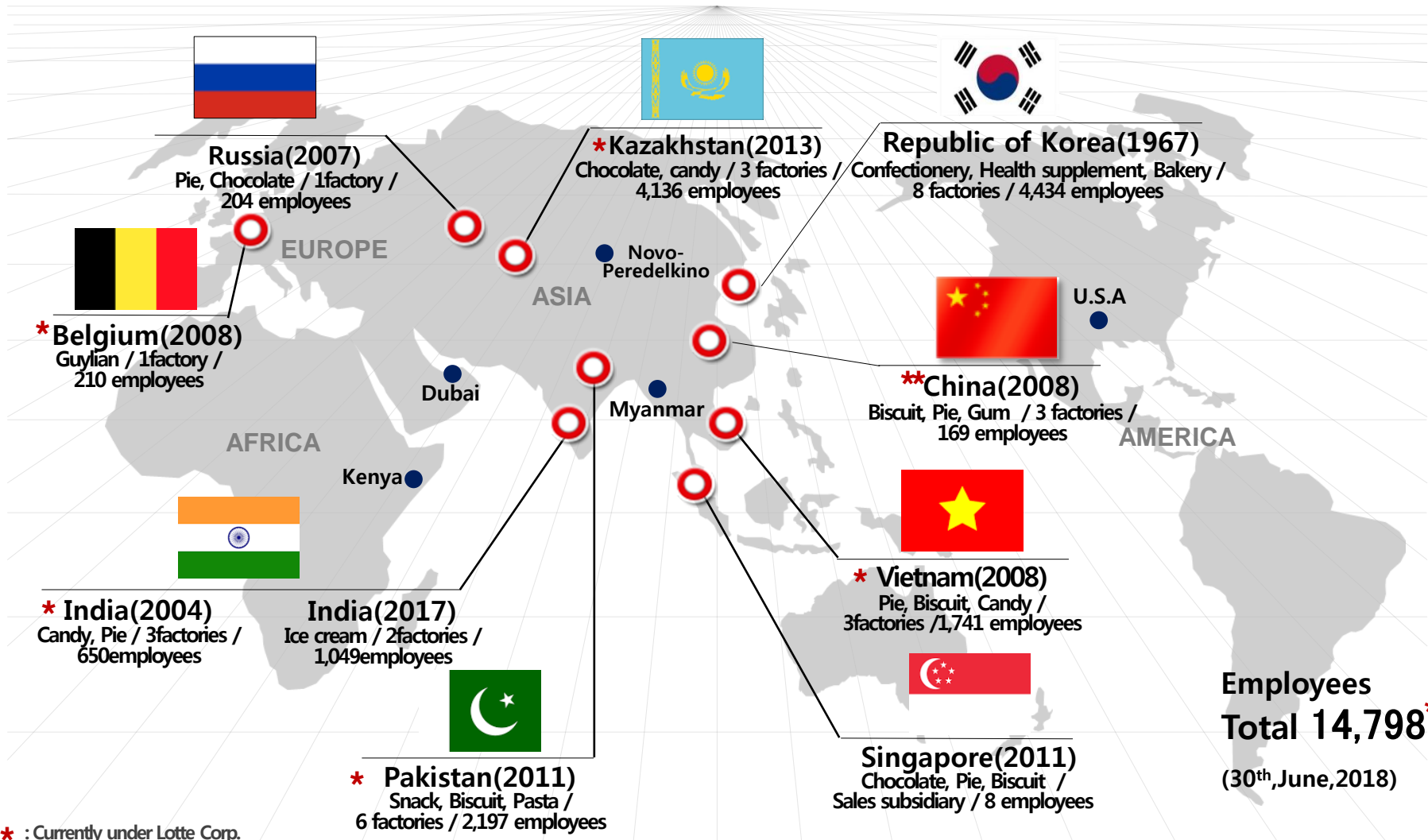
Founded in 1967/ Newly established in Oct.17 after spin-off



\* 2017 Sales : The sum of 1Q.17-3Q.17 Lotte Corp. & 4Q.17 of Lotte Confectionery

# Business Expansion (Overview)

Running 4 divisions (Conf./Ice cream/Bakery/Health), with 8 plants in Korea  
 Expanding business into 8 countries with 22 plants overseas



Employees  
**Total 14,798**<sup>\*\*\*</sup>  
 (30<sup>th</sup>, June, 2018)

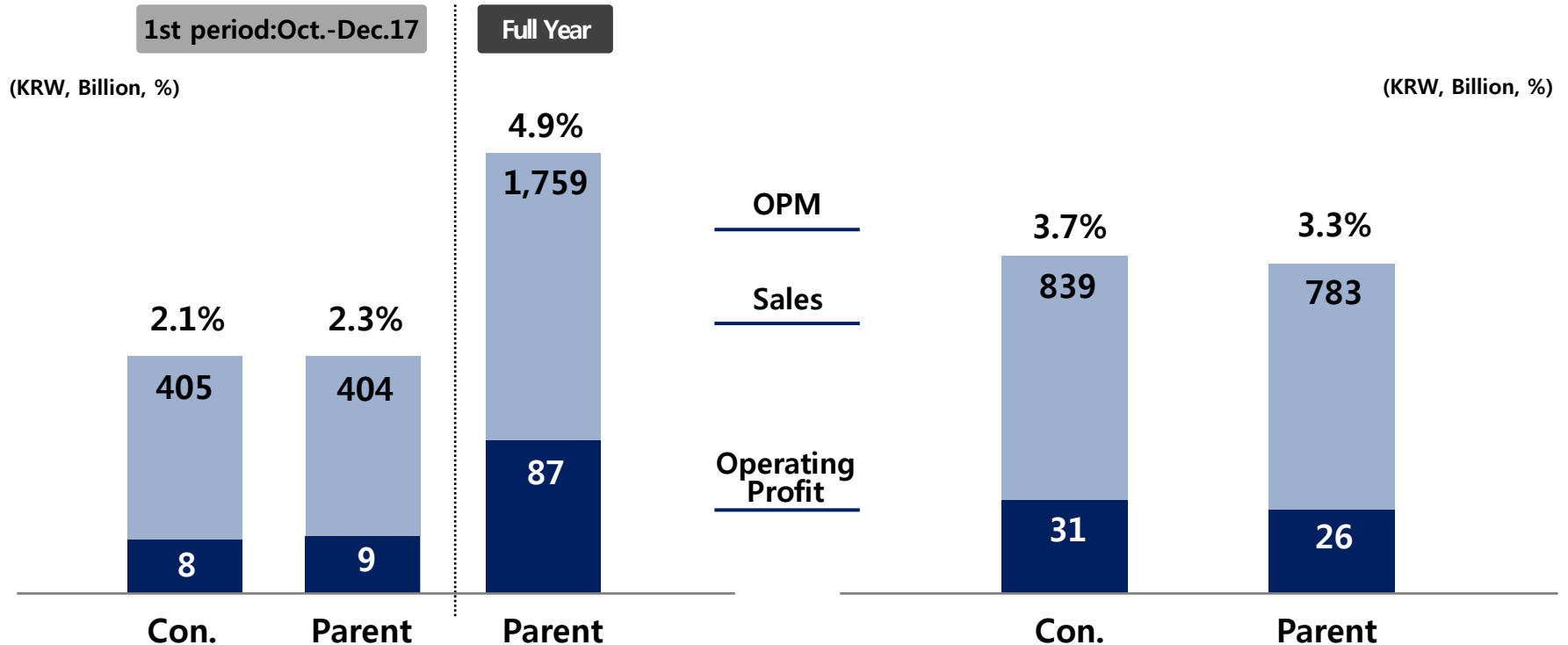
\* : Currently under Lotte Corp.  
 \*\* : Except for Qingdao, the others are under Lotte Corp.  
 \*\*\* : Republic of Korea / Qingdao / Singapore / India (Ice) / Russia

# Sales & Profit (Consolidated/Parent)

18.1H Sales : KRW 839B(Con.) / KRW 783B (Parent)

## 2017 Results

## 1H 2018 Results



\* Results under K-IFRS

\* 2017 Parent : The sum of Jan.17 – Sep.17 of Lotte Corp & 4Q.17 of Lotte Confectionery

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## Running 4 divisions in domestic business

(KRW, Billion, %)

Business	17		1Q.18		2Q.18		1H.18	
	Sales	%	Sales	%	Sales	%	Sales	%
Confectionery	1,155	65.7	275	72.3	243	58.3	518	66.1
Ice Cream	350	19.9	51	13.3	105	28.5	156	19.9
Bakery	173	9.8	39	10.3	39	10.0	78	10.0
Health/Others	81	4.6	15	4.1	16	3.2	32	4.0
<b>Total</b>	<b>1,759</b>	<b>100.0</b>	<b>380</b>	<b>100.0</b>	<b>403</b>	<b>100.0</b>	<b>783</b>	<b>100.0</b>

\* Parent results under K-IFRS / Export is included in Confectionery

\* FY17 : The sum of Jan.17 – Sep.17 of Lotte Corp & 4Q.17 of Lotte Confectionery

# Domestic Business Strategy

## Strengthening confectionery & ice cream / Nurturing bakery & health

	Market&Sales(17)	Main Strategy	Products
Confectionery	<p>Market Size: <b>2.5tn.</b></p> <p>Lotte Conf.: <b>1.1tn. (42%)</b></p>	<ul style="list-style-type: none"> <li>• Launching market growth leading products</li> <li>• Allying with the global companies</li> </ul>	
Ice Cream	<p>Market Size: <b>0.9tn.</b></p> <p>Lotte Conf.: <b>0.3tn. (36%)</b></p>	<ul style="list-style-type: none"> <li>• Studying new - demand market</li> <li>• Strengthening functional / premium brands</li> </ul>	
Bakery	<p>Market Size: <b>0.4tn. (mass-produced)</b></p> <p>Lotte Conf.: <b>0.1tn. (19%)</b></p>	<ul style="list-style-type: none"> <li>• Strengthening mass produced bread</li> <li>• Improving efficiencies of in-store bakeries</li> </ul>	
Health	<p>Market Size: <b>3.8tn.</b></p> <p>Lotte Conf.: <b>0.03tn.</b></p>	<ul style="list-style-type: none"> <li>• Raising brand awareness by rebranding</li> <li>• Focusing on developing health food</li> </ul>	

\* Market size : Confectionery, ice cream - the estimate of top 4 companies' sales  
Bakery - the estimate of industry / Health - research of Korea Health Supplements Association

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# Overseas Sales Trend (Disclosure)

Running overseas business over 8 countries  
/ Entered in India ice cream market (1Q.18)

(KRW, Billion, %)

Country	Fiscal Year			1H			1H.18 Remarks
	'16	'17	YoY	'17	'18	YoY	
 KAZ	169	195	15.1%	95	90	▲4.9%	• Sluggish growth due to FX effects (3.3% YoY growth in local currency)
 BEL	112	116	3.3%	40	42	5.4%	• Sales growth in Europe
 PAK	102	112	10.4%	54	52	▲4.7%	• Sluggish growth due to FX effects (10.5% YoY growth in local currency)
 IND (Conf.)	62	67	7.6%	30	32	6.5%	• Sales growth of Choco-pie / Candy
 IND (ICE)	-	-	-	-	55	New Biz	• Merger of Havmor (Dec.17)
 CHN	79	31	▲60.2%	19	9	▲55.2%	• In process of restructure
 SGP	11	12	12.9%	6	6	2.4%	• Growth of export to Malaysia
 RUS	29	38	29.6%	18	19	6.1%	• Acquired shares on May, 2018 (100%) - Sales/profit consolidation from 3Q.2018
 VNM	67	64	▲4.3%	22	24	6.9%	• Sales growth of Candy / Biscuit
<b>Total</b>	<b>630</b>	<b>634</b>	<b>0.7%</b>	<b>284</b>	<b>328</b>	<b>15.5%</b>	

\* Referred to Lotte Corp. / Sales are based on annual exchange rate

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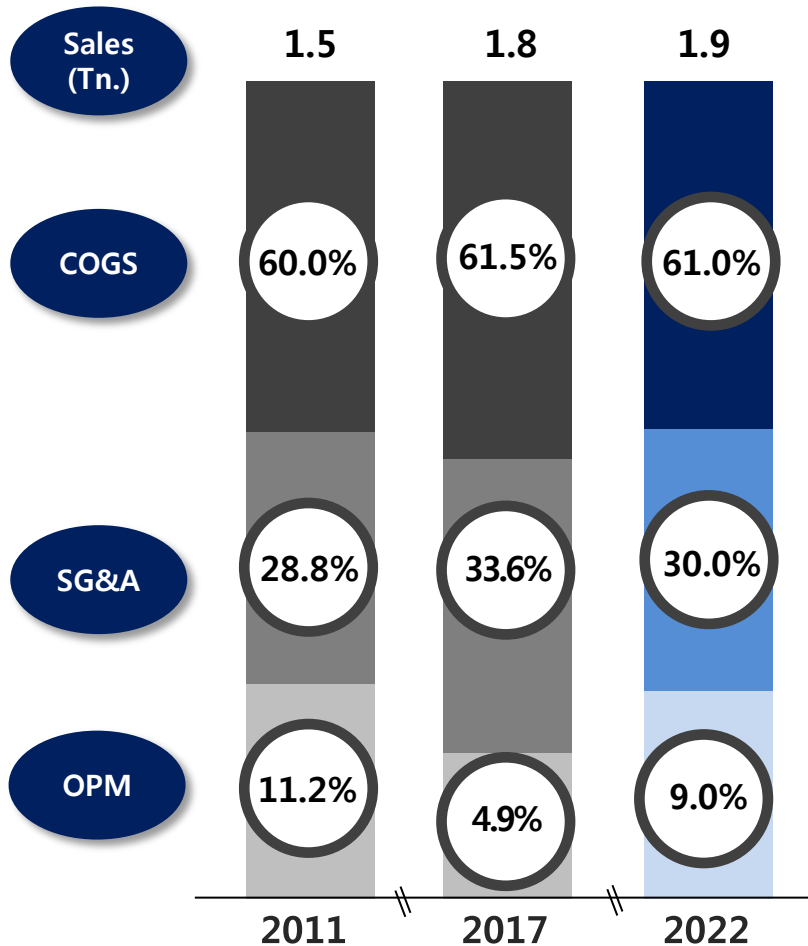
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## Improving operating profit to high single level




### Main Strategy

- 1 Strengthen market power of main business**  
- Brand power build-up / Preemptive response to the distribution environment
- 2 Restructure Business Portfolio**  
- Business remodeling / SKU optimization
- 3 Execute ZBB tasks by business unit**  
- Cost-structure rationalization to the level of the global players
- 4 Invest in new technologies**  
- AI Project / Production-flexibility
- 5 Find new business item**

## Expanding investment & Seeking entry in new markets

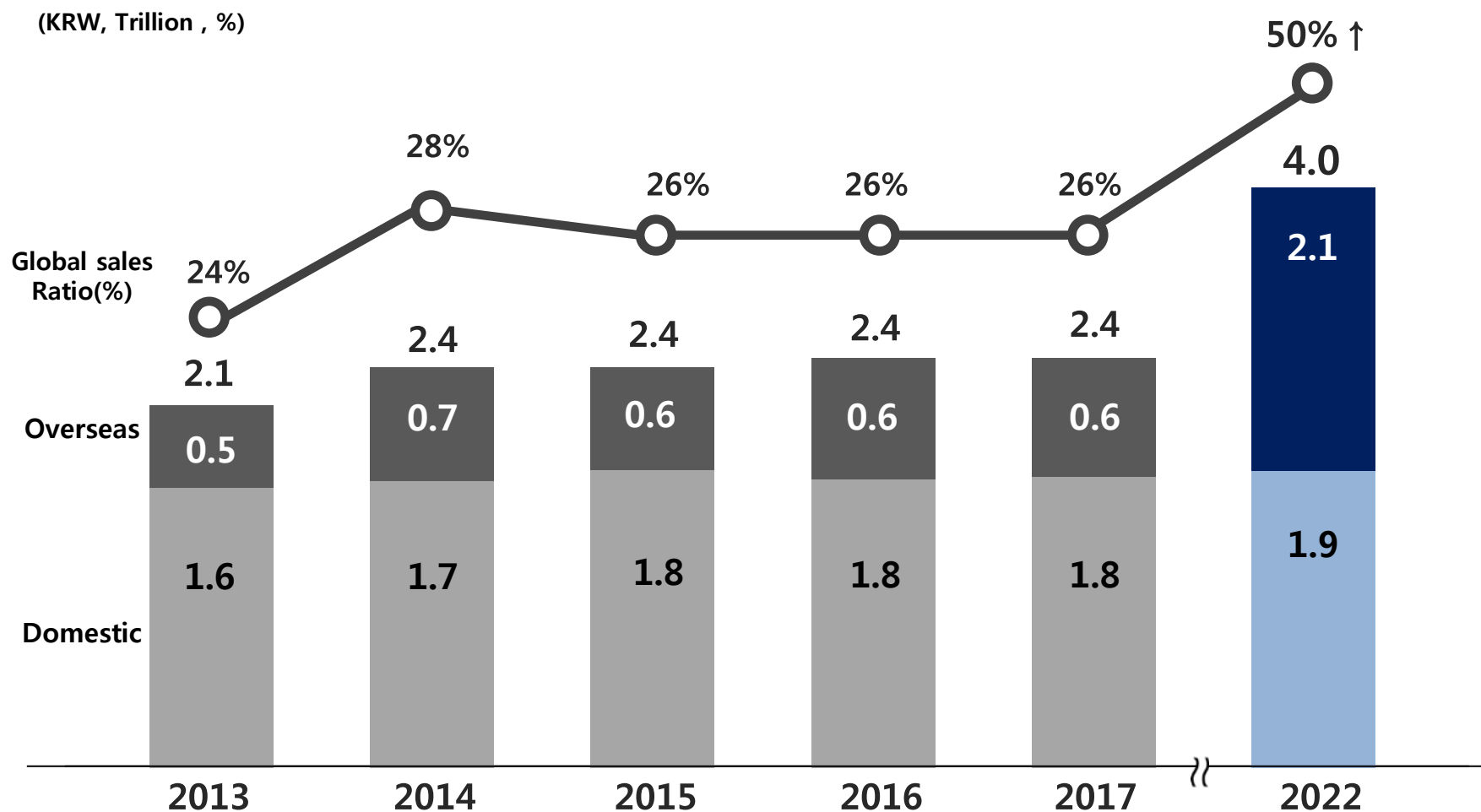
(KRW, Billion, %)

Country	Sales			OPM			Strategy
	'17	'22	CAGR (18-22)	'17	'22	Growth	
 KAZ	195	320	10%	14%	14%	-	• Capa-up investment for sustainable growth - Chocolate / Jelly
 PAK	112	230	15%	11%	13%	2%P	• Launching Choco-Pie & Spout(gum)
 BEL	116	160	7%	8%	11%	3%P	• New line investment for premium market - Gift-type (Sep.17) / Premium Bar (Jun.19)
 IND (Conf.)	67	110	10%	▲3%	3%	Turn-around	• Strengthening sales infrastructure
 RUS	38	70	13%	11%	9%	▲2%P	• Building new lines for candy & Choco-Pie - Candy (Jan.18) / Choco-pie (Jan.19)
Others	107	165	9%	▲17%	8%	Turn-around	• China : Restructuring
<b>Total</b>	<b>634</b>	<b>1,055</b>	<b>11%</b>	<b>5%</b>	<b>11%</b>	<b>6%P</b>	
<b>New Biz</b>	-	<b>1,000</b>	-	-	<b>10%</b>	-	• Including Havmor • Prioritizing areas to penetrate
<b>Total</b>	<b>634</b>	<b>2,055</b>	<b>26%</b>	<b>5%</b>	<b>11%</b>	<b>6%P</b>	

\* Referred to Lotte Corp. / Sales & operating profit aware based on annual exchange rates

# Long-term Growth Strategy

## Accomplishing KRW 4.0 trillion in sales until 2022



\* Domestic : Parent results under K-IFRS (Pre-split)

Overseas : The sum of 8 subsidiaries' sales is based on annual average exchange rates (Pre-split / Including equity method subsidiaries – Russia and Vietnam)

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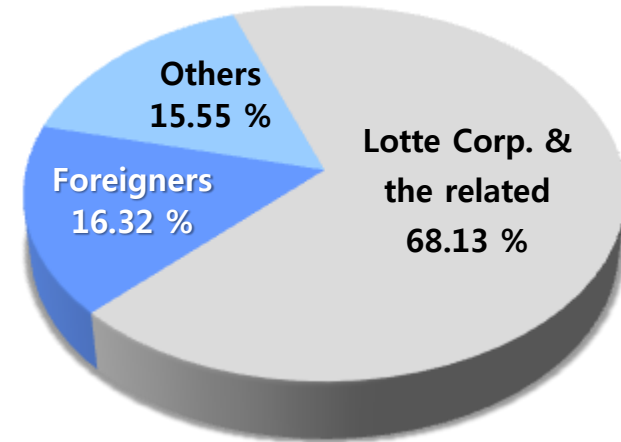
# Appendix – Shareholder Information



## Principal Shareholder Status

Shareholders	Ownership(%)
Lotte Corporation	21.37
Lotte Aluminum	15.29
Lotte Holdings	9.89
Lotte Scholarship Foundation	8.69
Shin, Kyuk Ho	6.83

\* As of 30<sup>th</sup>, June, 2018



※ Foreigners : Excluding Lotte Holdings



## Dividend / Payout Ratio

	Pre-split (Ex.Lotte Confectionery)				After Split	
	2013	2014	2015	2016	4Q.2017	2Q.2018
Share Price (₩)	1,912,000	1,780,000	2,279,000	178,500	146,000	181,000
Cash Dividend (₩million)	5,630	7,318	16,019	16,062	1,179	-
Dividend Rate (DPS/face value)	80.0%	104.0%	225.4%	226.0%	56%	-
Dividend Per Share	4,000	5,200	11,270	1,130	280	-
Dividend Yield (DPS/Share Price)	0.2%	0.3%	0.5%	0.6%	0.2%	-
Payout Ratio (Dividend/Net Profit)	10.2%	439.0%	20.24%	21.35%	60.5%	-

\* 2013-2016 Ex.Lotte Confectionery / Consolidated base