



### Reader's Guide

### 1. Reporting guideline

This report was prepared based on Sustainability Reporting Guidelines by Global Reporting Initiative(G3) and contains all GRI G3 profile disclosures. Lotte Shopping made every effort to include disclosures of management approach for each indicator category and to report its performance against the GRI G3 key performance indicators based on the principle of materiality.

### 2. Reporting scope

Among Lotte Shopping's four business divisions (Lotte Department Store, Lotte Mart, Lotte Super, Lotte Cinema), this report covers the economic, environmental and social performance of Lotte Department Store and Lotte Mart. Report coverage extends to the headquarters and all stores of Lotte Department Store and the headquarters and all stores of Lotte Mart. The company overview and financial results are based on Lotte Shopping. Information on environmental and social performance does not include overseas subsidiaries.

### 3. Reporting period

The reporting period is from January 1, 2010 to December 31, 2010. Based on the going concern principle, this report includes partial coverage of sustainability management activities carried out in the first half of 2010. Performance data of the past three years were presented to enable trend analysis.

### 4. Third party assurance

All report contents were verified by Solability, an independent outside agency. Refer to the third party assurance for details.



#### Additional Information

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Lotte Mart www.lottemart.com
Lotte Green www.lottegreen.co.kr
Lotte IR www.lotteshoppingir.com/eng

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### **CEO's Message**

A mighty challenge towards becoming a global sustainable company has begun.



Lotte Shopping CEO Lee Chul-Woo

Lotte Shopping is endeavoring to create an abundant and happy life for all its stakeholders, including customers, employees and suppliers through its sustainability management. To achieve this, Lotte Shopping is not only focused on economic gains but also on fulfilling its environmental and social responsibilities as a corporate citizen.

In the past year, Lotte Shopping achieved notable results in sustainability management. Even in the midst of global economic slowdown, Lotte Shopping recorded the highest performance ever. We also achieved sustainable growth as a global company by actively carrying out its social responsibilities. Lotte Shopping established a platform for a green store to help counter global climate change, while holding childbirth encouragement campaigns to search for methods of solving child birth issues, which has become a major social issue nationwide. In addition, to strengthen its ongoing coexistent management with its suppliers, an exclusive organization was established to solely focus on this issue. As a result of these efforts by Lotte Shopping, the company was selected as the world's best sustainable company in the DJSI (Dow Jones Sustainability Indexes) World's distribution category.

Using the results from sustainability management, Lotte Shopping established a new vision of becoming the world's 5th largest distribution company by 2018. To achieve this, Lotte Shopping is not only strengthening its global management, but is also aggressively searching for new business opportunities. The company is also restructuring its corporate culture to global standards, and carrying out social responsibilities that befit its corporate status.

Lotte Shopping is past the stage of becoming the best domestic company. It is now leaping towards becoming a respected global sustainable corporation. We look forward to greater support and encouragement from our stakeholders in our effort to advance ahead.

Lotte Mart is doing what it can to provide happiness to all its stakeholders through customer satisfaction, mutual growth and the fulfillment of its social & ethical responsibilities. Lotte Mart announced its product revolution to provide customers with products of value despite the global economic slowdown and inflationary increases. In addition, through continuous management innovation, we were able to achieve solid results. Eco-management activities were also initiated which included diverse social contribution activities and the establishment of eco-friendly stores. By establishing a strong partnership with suppliers to create a coexistent management, which is a significant social issue, Lotte Mart established a platform for not only mutual growth domestically, but also for the global market. With 107 stores in 3 countries such as China, Indonesia and Vietnam and 92 stores in Korea, bringing the total to 197 stores globally, Lotte Mart has become the number one domestic global distribution company in terms of the number of stores in operation. Going forward, by simultaneously pursuing growth based on scale and internal efficiencies, Lotte Mart will continue to strengthen its foundation as a company. At the same time, we will lead the industry in fulfilling our social obligations, which is a requirement for companies to be loved. We would greatly appreciate your having interest in us and in providing us with encouragement so that we can serve you with abundance.



### Lotte Mart CEO, Noh Byung-Yong

First launched in 2004 as a supermarket division of Lotte Shopping, Lotte Super is creating a new customer-oriented distribution culture to enable customers to shop in a close, convenient and pleasant environment based on its mission to "contributing to the enhancement of the quality of life through fresh and safe products." In addition, under our corporate slogan of "fresh products, friendly neighbors," Lotte Super established diverse stores across the country and gave priority to purchasing local produce and hiring locally to help vitalize the local economy. As stakeholder awareness of climate change and the environment is growing, Lotte Super is doing everything possible to practice sustainability management by applying environmental standards to all its management decisions, expanding the distribution of ecofriendly products, reducing energy and expanding green purchase. Lotte Super will continue to maintain communications with the local society and will do everything possible to grow into a sustainable company that is able to fulfill its environmental and social responsibilities.



Lotte Super CEO, So Jin-Se

Established in 1999, Lotte Cinema is a global total entertainment corporation that operates cinemas, invests in movies and distributes movies. Under the slogan "Happy Memories," Lotte Cinema operates it business to provide its customers with special emotions from location selection to diverse services based on human and environment love. In addition, Lotte Cinema is creating a pleasant environment by continuously adopting eco-friendly facilities and highly advanced equipment. The company respects customer values, and will continue to develop as a company that satisfies diverse stakeholder demands. Lotte Cinema is striving to become the best global entertainment company by taking the lead in adopting advanced technologies and simultaneously providing customers with outstanding services.



Lotte Cinema CEO, Sohn Kwang-lk

### **Business Overview**

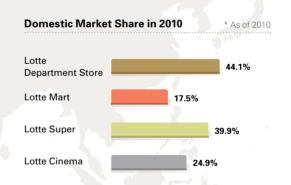
Established in 1979, Lotte Shopping started off with the operation of department stores. Since then, we have expanded our business scope to discount stores, supermarkets and cinemas to grow into Korea's leading distribution company. We are also building a global presence with department stores, discount stores and cinemas in overseas markets including China, Russia, Vietnam and Indonesia.

### **Business at a Glance**

Lotte Shopping continued with new store openings in 2010. The additions during the year included one department store, one outlet and 20 discount stores (seven in Korea and thirteen overseas). In Korea, we also made further progress in the fashion brand business while acquired GS Retail's department store and discount store businesses, thus bolstering our position in the domestic distribution market. In the global markets, we opened our first overseas department store in Moscow, Russia, in September 2007 which was followed by the second overseas department store opening in Beijing, China, in August 2008.

In the discount store segment, Lotte Shopping is currently operating 106 stores in overseas countries. To create new growth engines and establish a firm presence in China, we acquired eight stores from China Trade Association Makro Commercial Co., Ltd in 2008 and the Times Isupermarket chain (54 discount stores, 11 supermarkets) in 2009. Additionally, we opened 13 discount stores (three in China, three in Indonesia, and one in Vietnam) in 2010. We will continue to pursue store openings in the overseas countries.

### **Corporate Profile** Company name Lotte Shopping Co., Ltd. Date established November 15, 1979 CEO Lee Chul-Woo **Core Business** Large-scale retail stores No. of Employees 22,080



#### Lotte Shopping's Business Divisions

Division	Date established	No. of stores	Merchandise
Department store	Nov. 1979	37	Clothing, sundries, home appliance, furniture, food
Discount store	Apr. 1998	196	Food, household supplies, clothing, sundries
Supermarket	May 2001	277	Food, household supplies, sundries
Cinema	Oct. 1999	72	Film investment, distribution, screening

<sup>\*</sup> Department store: Includes six operated indirectly under management contracts (Lotte Station Building, Lotte Midopa, Lotte Square)

<sup>\*</sup> Coverage of non-financial performance in this report extends to only our department store and discount store

<sup>\*</sup> Discount store: Includes two logistics centers (Osan Logistics Center, Gimhae Logistics Center)

### **Lotte Department Store**

As Korea's leading retailer, Lotte Department Store continued delivering strong results in 2010 by posting 7.8% growth year-on-year. For 2010 alone, it opened two new stores in Cheongryangri, Seoul and Gwangbok, Busan while successfully acquiring three GS Square stores. We are seeking to accelerate market entry abroad on the basis of a steady growth we have achieved from overseas business. We also earned the honor of becoming a global sustainability leader by DJSI World, a recognition given for the consensus and dedication we have demonstrated across Lotte Department Store for sustainability management.

### **Lotte Super**

The year 2010 was a good year for Lotte Super as it celebrated its 9th anniversary as one of the top supermarket chains, excelling in both revenue growth and store expansion. Lotte Super offers a various selection of fresh produce, meat, fish as well as reliable packed foods, commodities, and household goods, all at reasonable prices for the convenience of shopper in local communities. To promote mutually beneficial growth, Lotte Super is cooperating with small local shops such as by adjusting merchandise items and sourcing local specialties

### **Lotte Mart**

Lotte Mart delivered outstanding top-line and bottom-line growth in 2010, thanks to its consistent drive for new store openings both in and outside Korea, innovative merchandising, and management efficiency. Total 28 stores comprising 21 in Korea and 7 abroad were successfully launched during the year. At Lotte Mart, "Value Innovative Products" were introduced with a goal to deliver new product value instead of simply competing on price. We are well on our way to building new engines of growth, backed by continued expansion of a leading toy store chain "Toys R Us" and "Digital Park" - a place for experiencing digital appliances.

### **Lotte Cinema**

Lotte Cinema has continuously evolved over the years into a custom-tailored, multi-cultural venue offering one-stop entertainment from film viewing, shopping and dining to cultural experience. Our unique approach has put us in the number two spot in Korea despite our relatively short history. From 2008, Lotte Cinema has been working diligently to realize the vision of global entertainment company as a leader in Asia - amply evidenced by its advance into overseas markets such as Vietnam and China.

### **New Businesses of Lotte Department Store**

Outlet LSC(Life Shopping Center) Premium online mall

### New Businesses of **Lotte Mart**

Toys R Us Digital Park Gas station



### No. of Stores



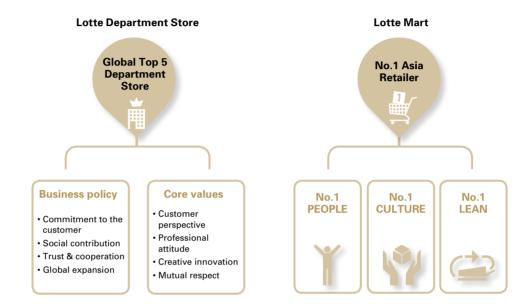
#### Sales Proportion by Division



### Vision 2018

Guided by the Vision 2018, Lotte Shopping has begun the process of reinventing itself as an excellent global distribution company. We will pursue aggressive overseas expansion, new business development, and bold innovation. In addition, we will hone employees' capabilities, foster a corporate culture and carry out social responsibility activities befitting a global top 5 enterprise.

#### **2018 VISION**



### 2011 Catchphrase

To attain the 2018 Vision, Lotte Shopping adopts a catchphrase every year that embodies the core principles governing our business activities. Lotte Department Store adopted a catchphrase "Be Together!, Great LOTTE," with a vision to emerge

as a great company that builds on shared growth and prosperity with stakeholders. Moreover, Lotte Mart set "Great Progress 2011" as the catchphrase for this year to grow into the No. 1 retailer in Asia, fuelled by "innovation and improvement."



### **Global Business**

Based on a strong footing in the domestic market, Lotte Shopping is making inroads into the overseas market.

### Global Strategy - Strategy for VRICs

We have decided on VRICs (Vietnam, Russia, Indonesia and China) as our target overseas markets. We are implementing localization strategies by launching new stores and pursuing M&A in these four countries. Presently, Lotte Department Store operates one store each in Russia and China. Various plans are being reviewed for new store

openings in overseas markets such as new site development, lease agreements, and indirect store operation under management contracts. Meanwhile, Lotte Mart has been pursuing global store opening strategies with the goal of operating 355 overseas stores and achieving sales of KRW 17.5 trillion by 2018.

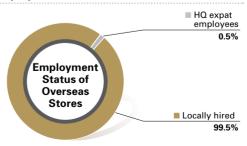


### **Overseas Manpower by Position**



\* For department stores and marts

### **Employment Status of Overseas Stores**



<sup>\*</sup> For department stores and marts

# 2010 Highlights

Lotte Shopping brings innovative customer and brand value through unrivalled service and merchandising. We drive a broad commitment to sustainability and actively engage ourselves in a wide range of social contribution activities across environmental and social spectrum.

### **DJSI World Super Sector Leader**



Lotte Shopping was chosen in November 2010 as the "Retail Super Sector Leader" in global retail by Dow Jones Sustainability Indexes World (DJSI World), along with the honor of having been indexed for two years in a row. This recognition served as an opportunity for Lotte Shopping to be acknowledged globally for its financial performance as well as its dedication for social responsibility and environmental stewardship.

### **Top Retailer in Asia by Forbes**



Lotte Shopping was selected as the "Top Retailer in Asia" among "Forbes Global 2000". Forbes Global 2000 is a list published by a U.S-based Forbes every year for global company ranking in terms of financial performance and market capitalization. Having been named as the top retailer in Asia, Lotte Shopping thus reaffirmed its position as a top-tier company in global retail business.

### **Excellent Company** in Social Responsibility



Lotte Shopping received a presidential citation for childbirth promotion in 2010, in recognition for contributing to national policy initiatives and campaigning for the cause both within and outside company. Since we declared a pledge to environmental value management in 2004, we have been an advocate of green management- disseminating environmental values and introducing eco-friendly stores. As a result, we were honored with prime minister's citation for green management.

### **Acquisition of GS Square and GS Mart**



Lotte Shopping acquired existing GS Square and GS Mart of GS Retail in February 2010. Three department stores and 14 marts were added through acquisition, thereby enabling Lotte Shopping to secure a new engine of growth in department store and mart business, further sharpening competitiveness for future growth.

### **Opening of** the 100th Overseas Mart



In August 2010, Lotte Shopping opened its 20th store in Indonesia called Mart Indonesia and its 100th overseas store in Gandaria City. Gandaria City Store is the first store launched with direct investments from Indonesia. Our future plan is to pursue overseas expansion continuously to grow both quantitatively and qualitatively as a global brand.

### **Acquisition of** ISO 14001 and ISO 27001



Lotte Department Store has been certified to ISO 14001 Environmental Management System since 2005. Moreover, to effectively respond to potential misuse and leakage of customer information, we have implemented ISO 27001- the international standard for information security management system- for the first time among distribution companies in Korea. Backed by such certified management systems in place, we are thus better equipped to act on our sustainability agenda.

### **Win-Win Management** and Mutual Growth



A consistent pursuit for shared growth with suppliers is one of the key management strategies for Lotte Shopping. To this end, we are practicing collaborative management with our suppliers in various aspects. For example, we are broadening a channel of communication with suppliers via Supplier Convention and Visit CEO programs. Also, a commemorative ceremony was held to announce an agreement for win-win partnership and fair trade with suppliers. We are creating a corporate culture of shared growth through supplier support programs.

### **Lotte Shopping Global Social Contribution**



There are various global social contribution programs unfolding at Lotte Shopping which align well with our status as a global enterprise. Among others, we are building Vietnam Lotte Schools to help children get education they deserve, and running a Matching Grant System to link our employees to sponsor children in other countries. As a corporate citizen of the global community, Lotte Shopping will consistently champion the cause for social responsibility in the journey ahead.

### **Eco-friendly Childcare Center First Open**



To live the commitment to familyfriendly management, Lotte Shopping has established eco-friendly, in-house childcare centers as a first in the industry to better support childcare for working parents. Moreover, we are passionately acting on the societal issue of low fertility in Korea. We extend strong policy support in this regard to empower female workers. Our daycare centers, built with safe and sustainable materials, foster a pleasant learning environment for children.

### **Lotte Shopping Greenhouse Gas Inventory**



As a leading company devoted to green management practices, Lotte Shopping is working extensively to respond to climate change and pursue low-carbon, green growth. We are currently building a greenhouse gas inventory to accurately identify and measure greenhouse gas (GHG) emissions produced from store operation, and mitigate the emissions. The inventory will enable us to proactively respond to the national GHG and Energy Target Management System.

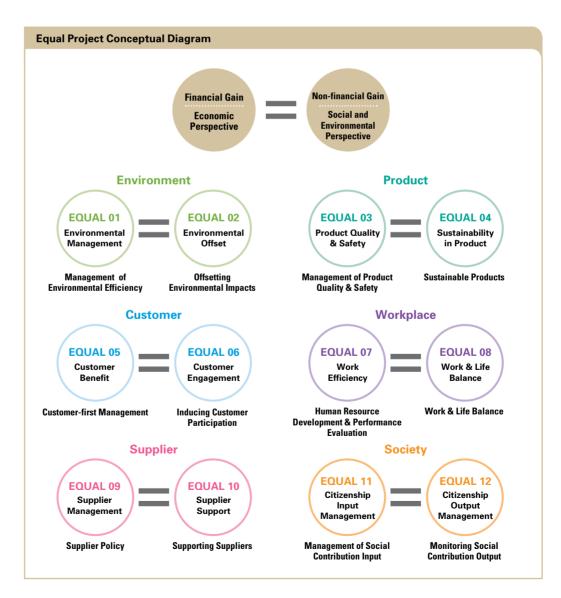
### **Sustainability Management Strategy**

Lotte Shopping fully recognizes the imperative of promoting balanced growth between financial and non-financial performance through sustainability management, believing that business performance should go hand in hand with environmental and social sustainability.

### **Equal Project**

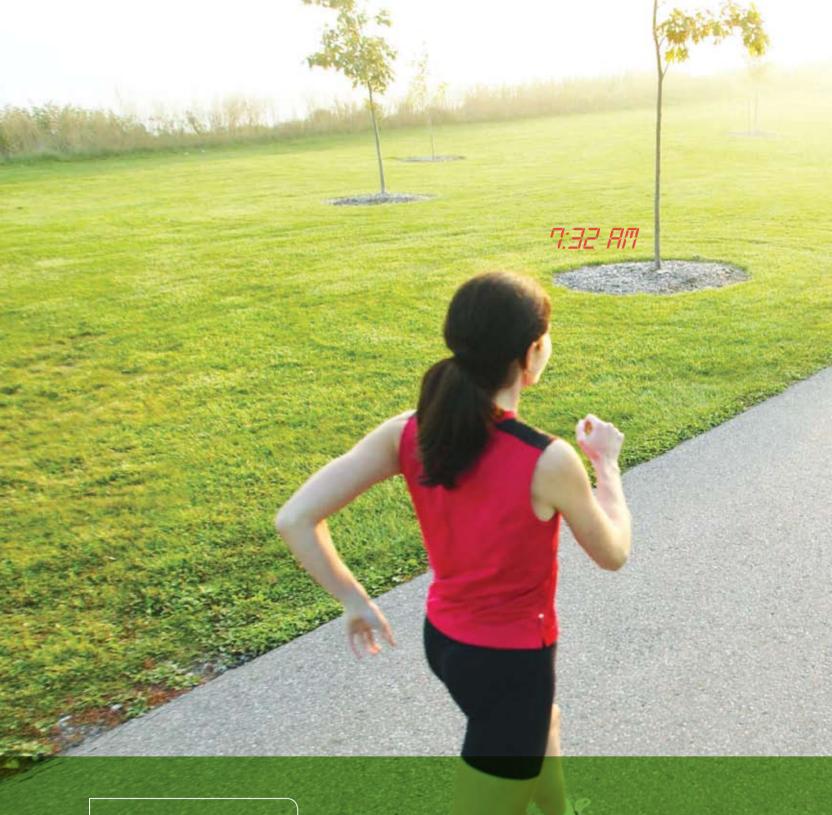
The Equal Project comprises twelve specific projects in six main domains, to enable a holistic view for implementing Lotte Shopping's sustainability strategy across its business operation. This report maintains a keen focus on sharing with the stakeholders how our sustainability strategy

for pursuing balance in financial and non-financial performance is developed and executed in each of its main domains, i.e., environment, products, customers, suppliers, social contribution and employees.



## **Key Performance Indicator**

EQUAL PROJECT 01 Environment Management	Division	2008	2009	2010	EQUAL PROJECT 02 Environment Offset	Division	2008	2009	2010
Granhauga gas amissions (CO +)	Dept.Store	227,688	242,092	256,875	Environmental gift card fund (KRW million)	Dept.Store	675	1,080	500
Greenhouse gas emissions (CO <sub>2</sub> ton)	Mart	251,500	249,328	286,782	Eco-certified stores (No. of stores)	Mart	-	1	2
	Dept.Store	416,387	450,220	475,091	Participating stores for green store	Dept.Store	-	-	3
Power consumption (Electricity) (MWh)	Mart	457,370	455,760	526,200	program (No. of stores)	Mart	-	-	2
	Dept.Store	1,479	1,370	1,508		Mart	66.4	69.1	68.8
Fuel usage (LNG) (10,000 Nm³)	Mart	1,700	1,637	1,842	Waste recycling ratio (%)	Dept.Store	69.9	68.9	68.8
	Dept.Store	3,031	3,089	3,369					
Water usage (1,000 ton)	Mart	3,495	2,993	3,016					
				-					
EQUAL PROJECT 03 Product Quality & Safety	Division	2008	2009	2010	EQUAL PROJECT 04 Sustainability in Product	Division	2008	2009	2010
HACCP-certified stores (No. of stores)	Dept.Store	5	5	7	Sales from environment-friendly multi brand stores (KRW million)	Dept.Store	214	404	855
Certified stores under hazardous product blocking system (No. of stores)	Mart	-	84	90	Environment-friendly PB products (No. of products)	Mart	-	212	66
LFSA (Lotte Mart Food Safety Audit)				_	Carbon labeling products (No. of products)	Mart	-	1	15
(No. of stores)	Mart	94.8	95.4	95.7		Dept.Store	105.6	96.4	86.4
					Green purchasing amount (KRW 100 million)	Mart	7.4	42.0	99.8
EQUAL PROJECT 05 Customer Benefit	Division	2008	2009	2010	EQUAL PROJECT 06 Customer Engagement	Division	2008	2009	2010
Customer satisfaction index evaluation (Points)	Dept.Store	89.0	82.8	84.2	Customer participation in public transportation campaign (Persons)	Dept.Store	-	3,510	5,370
	Dept.Store	23,473	24,108	21,752	Customer applications for environmental design contest (Persons)	Dept.Store	-	-	30
Number of customer complaints (Cases)	Mart	10,080	12,049	14,637	Green mileage points (KRW million)	Mart	-	97	109
EQUAL PROJECT 07 Work Efficiency	Division	2008	2009	2010	EQUAL PROJECT 08 Work & Life Balance	Division	2008	2009	2010
Tatalan tatan and the same are	Dept.Store	3,826	4,125	4,870	Formal Addition and the reco	Dept.Store	53.4	54.6	52.7
Total training expenditure (KRW million)	Mart	2,632	2,601	3,025	Female hiring ratio (%)	Mart	63.2	63.4	64.1
	Dept.Store	161	163	163	Female manager ratio (%)	Dept.Store	3.3	3.3	3.9
Training hours per employee (Hours)	Mart	107	107	103		Dept.Store	2.4	2.6	3.1
	Dept.Store	0.4	0.4	0.5	Disability hiring ratio (%)	Mart	2.1	2.0	2.1
Retirement ratio (%)	Mart	1.1	0.7	1.0					
EQUAL PROJECT 09 Supplier Management	Division	2008	2009	2010	EQUAL PROJECT 10 Supplier Support	Division	2008	2009	2010
Supplier participation in supplier	Dept.Store	400	233	272	Short-term financial support	Dept.Store	-	45	41
convention (No. of suppliers) Supplier participation in SME fairs	Mart	112		-	(KRW 100 million)	Dept.Store	-		56
(No. of suppliers) Suggestions from supplier CEO round table (Cases)	Dept.Store	-	116	113	Win-win funds (KRW 100 million)	Mart	-	-	154
EQUAL PROJECT 11 Citizenship Input Management	Division	2008	2009	2010	EQUAL PROJECT 12 Citizenship Output Management	Division	2008	2009	2010
Social contribution spending (KRW 100 million)	Dept.Store/ Mart	-	123	152	Participants in children's environmental art competition (Persons)	Dept.Store	11,353	11,689	10,662
Number of employee volunteers (Persons)	Dept.Store/	6,582	6,006	6,644	Participants in invitational event for	Dept.Store	-	735	612
Volunteer hours of employees (Hours)	Mart Dept.Store/	18,673	19,403	25,167	families with multiple children (Persons)	Dept.Store	417,515	401,122	558,547
	Mart	.5,5,5	.5,400	_0,.0,	Membership for cultural centers (Persons)	_ op.,o.o.o	,	,	223,041



W H A T I S
ENVIRONMENT
EQUAL PROJECT?

Based on the Environment Equal Project, Lotte Shopping systematically manages environmental impact from business activities and minimizes the impact through company-wide environmental offseting initiative. Moreover, Lotte Shopping promotes balanced growth between environmental and business performance to reduce costs and create new business opportunities.

# We think about Environment

Management of Environmental Efficiency
Offsetting Environmental Impacts



EQUAL PROJECT 01

Environmental Management



Cost Saving, Environmental Preservation

**Business Gain, Environmental Gain** 



Environmental Offset



Offsetting Environmental Impacts

Creation of New Opportunity, Environmental Preservation

**Business Gain, Environmental Gain** 

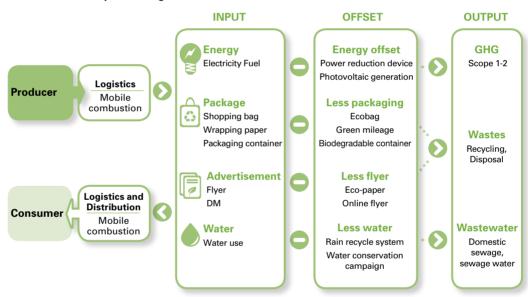


### **Environmental Management**

Greenhouse Gas Management | Energy Management | Water Management | **Waste Management** 

Environmental challenges, brought on by climate change and resource depletion, represent both a threat and an opportunity to businesses. At Lotte Shopping, we endeavor to lesson our impact on the environment by managing energy, greenhouse gas emission, water, and waste more sustainably. By defining abatement targets and monitoring progress in each phase, we seek to achieve balance in economic and environmental good.

### | Environmental Impact Management |



<b>Key Performance Indicators</b>	Unit	Division	2008	2009	2010
Greenhouse gas emissions (CO <sub>2</sub> )	ton	Department Store	227,688	242,092	256,875
Greenhouse gas emissions (CO2/	ton	Mart	251,500	249,328	286,782
Power consumption (Electricity)	MWh	Department Store	416,387	450,220	475,091
Tower consumption (Liectricity)	1010011	Mart	457,370	455,760	526,200
Fuel usage (LNG)	10.000 Nm³	Department Store	1,479	1,370	1,508
Tuel usuge (ENG)	10,000 14111	Mart	1,700	1,637	1,842
Water usage	1.000 ton	Department Store	3,031	3,089	3,369
water usage	1,000 toll	Mart	3,495	2,993	3,016

Waste management

### **Greenhouse Gas Management**

To leave less carbon footprint at store unit, Lotte Shopping actively contributes to national policy implementation while clearly setting internal criteria for managing greenhouse gases emitted from store operation. In addition, we continue to bring in high-efficiency devices and eco-friendly, renewable energy facilities to lower the emission levels.

### **Greenhouse Gas Inventory**

As a retail leader for green management, Lotte Shopping is building a greenhouse inventory to identify and mitigate its greenhouse gas emissions. Greenhouse gas inventory is a system that allows a company to identify its direct and indirect source of GHG emissions generated within their defined scope of business activities, and calculate emissions from each source against criteria for inventory development.

Efforts are underway at Lotte Shopping to develop an MRV\* system for managing greenhouse gas inventory and gathering data in a more effective manner, with system development scheduled for completion in the second half 2011. Moreover, practitioner training courses continue on an ongoing basis to nurture internal expertise among the employees.

### \* MRV system : Measure, Report, Verify system

### **Reducing Greenhouse Gas Emissions**

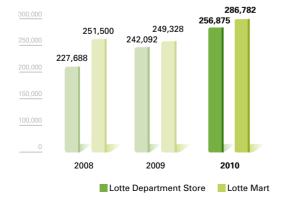
Greenhouse gases (GHG) emitted from Lotte Shopping are mostly indirect emissions from electricity used at stores. According to our GHG inventory, approximately 86.4% of our emissions were indirectly emitted from stores. In the same year, Lotte Department Store and Lotte Mart generated 543,657 tons of GHGs, up 10.6% from a year earlier. Although total emissions increased due to new store opening, the emissions per unit area were actually on a downward trend.

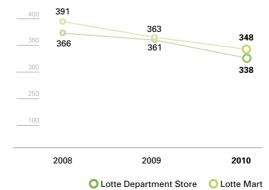
Lotte Department Store's GHG emissions per unit area for 2010 were 6.4% lower than 2009 while Lotte Mart recorded a 4.1% drop over the same period.

#### I GHG Emissions I

	Lotte Department Store			Lotte Mart			
2008	27	227,688	366	65	251,500	391	
2009	29	242,092	361	70	249,328	363	
2010	31	256,875	338	89	286,782	348	







### **Energy Management**

Energy saving is environmental responsibility to use limited resources in an efficient manner. Utilizing well-organized energy management system, Lotte Shopping strives to save energy. The company also enhances energy efficiency by managing key data companywide and setting annual energy saving targets.

### **Energy Saving**

Greenhouse gases emitted from Lotte Department Store and Lotte Mart are mostly indirect emissions from electricity used at stores. Lotte Shopping sets annual energy and fuel reduction targets as part of its efforts to heighten energy efficiency through such actions as facility replacement, strengthened energy management standards and internal awareness campaigns.

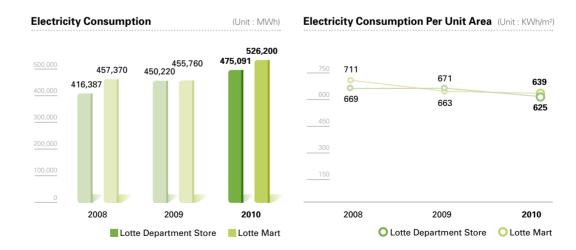
Reduced energy consumption not only leads to a smaller carbon footprint but also substantial cost savings.

In 2010, Lotte Shopping consumed approximately 1,001,191MWh of electricity, up 10.5% from the previous year in terms of total usage. However, the increase was largely due to the opening of new stores. Our actual power consumption per unit area has been on a steady decline.

In 2010, Lotte Department Store's electricity use per unit area was down 6.9% from a year earlier while Lotte Mart's electricity use per unit area also decreased 3.6% during the same period.

### | Electricity Consumption |

Lotte Department Store			Lotte Mart			
27	416,387	669	65	457,370	711	
29	450,220	671	70	455,760	663	
31	475,091	625	89	526,200	639	
	stores 27 29	No. of Total electricity stores consumption (MWh)  27 416,387  29 450,220	No. of stores         Total electricity consumption (MWh)         Per unit area (KWh/m²)           27         416,387         669           29         450,220         671	No. of stores         Total electricity consumption (MWh)         Per unit area (KWh/m²)         No. of stores           27         416,387         669         65           29         450,220         671         70	No. of stores         Total electricity consumption (MWh)         Per unit area (KWh/m²)         No. of stores         Total electricity consumption (MWh)           27         416,387         669         65         457,370           29         450,220         671         70         455,760	



### **Reducing Fuel Usage**

Lotte Shopping usually uses LNG to cool and heat stores, in addition to cooking purposes for in-house restaurants.

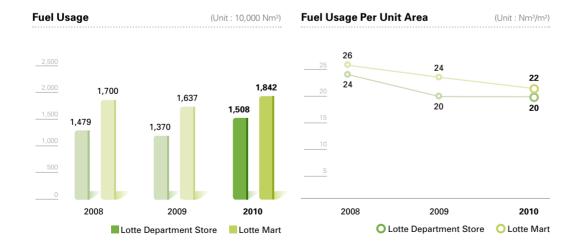
The total amount of LNG used at stores of Lotte Department Store and Lotte Mart in 2010 amounted to 33.5 million Nm³, up 11.4% increase from 28.86 million Nm<sup>3</sup> in the previous year.

Main reasons behind the increase in fuel usage were opening of new stores. However, data shows that LNG usage per unit area has declined every

Lotte Department Store used LNG of 20Nm<sup>3</sup>/m<sup>2</sup>, while Lotte Mart reduced its LNG usage per unit area by 8.3% to 22Nm<sup>3</sup>/m<sup>2</sup> in 2010.

### I Fuel Usage Trend (LNG) I

		Lotte Department Store			Lotte Mart			
2008	27	1,479	24	65	1,700	26		
2009	29	1,370	20	70	1,637	24		
2010	31	1,508	20	89	1,842	22		



### **Water Management**

The majority of water used in department stores and discount stores is used in customer toilets, food corners and restaurants. Lotte Shopping is promoting a water conservation campaign among employees and customers, in addition to reducing water use by employing and operating and rain water systems.

# **Reclaimed Water** Usage thousand tons

### **Water Usage**

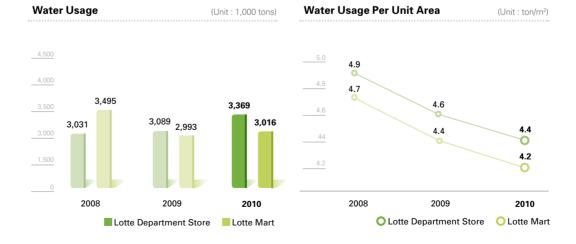
Lotte Shopping's total water usage in 2010 amounted to 6,385 thousand tons, representing a 5.0% rise from the previous year. Opening of new stores was attributable to the increase in water usage.

However, per unit water usage at Lotte Department Store and Lotte Mart equally decreased by 0.2% year-on-year. Lotte Shopping has introduced environment-friendly facilities to reuse and lower its water usage.

In 2010, four stores including Cheongryangri, Gangnam and Sangin branches have finished installing recycling equipment for rainwater. Similarly, recycling devices are currently in use at 29 of thirty-five Lotte Department Stores, resulting in KRW 3.2 billion savings for water-related cost in 2010. Lotte Mart, for its part, is working to introduce water recycling facilities to improve efficiency in water used for business operation.

### | Water Usage |

	Lotte Department Store			Lotte Mart		
2008	27	3,031	4.9	65	3,495	4.7
2009	29	3,089	4.6	70	2,993	4.4
2010	31	3,369	4.4	89	3,016	4.2



### **Waste Management**

Municipal waste from store operations comprises the majority of waste generated at Lotte Shopping. We are reducing waste generation through thorough waste separation by individual store while increasing the waste recycling rate.

### **Waste Generation**

Lotte Shopping's annual waste reached 79,288 tons. Of the amount, 54,531 tons (or 68.8%) were recycled in 2010.

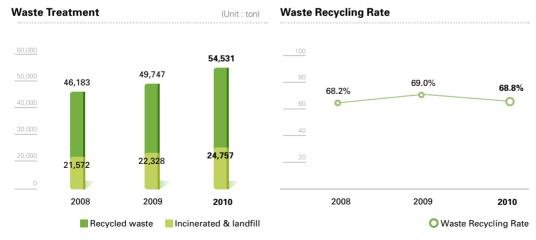
Lotte Department Store generated 38,023 tons of waste in 2010, of which 26,149 tons were recycled. Meanwhile, Lotte Mart recycled 28,382 tons of waste out of 41,265 tons of total generated waste.

Waste continued to increase due to opening of new stores, but waste per unit area barely moved at the previous year's level thanks to our stringent waste management.



### | Waste Generation |

	Lotte Department Store			Lotte Mart				
				Per unit			Per unit	
								area (ton/m²)
2008	33,957	22,563	11,394	41.0	33,799	23,620	10,178	10.7
2009	35,117	24,318	10,859	38.7	36,899	25,429	11,469	10.3
2010	38,023	26,149	11,874	35.4	41,265	28,382	12,883	10.9



<sup>\*</sup> Total waste generation volume from Lotte Department Store and Lotte Mart in 2010

<sup>\*</sup> Based on data of Lotte Department Store and Lotte Mart in 2010



### **Environmental Offset**

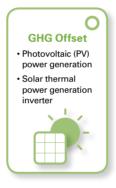
High-Efficiency Energy Facilities | New and Renewable Energy Facilities | Reduced Packaging | **Eco Store** | **Environmental Campaigns** 

. . . . .

Numerous initiatives are unfolding at Lotte Shopping to minimize environmental impact and maximize environmental benefits. "Equal Project 02" is an environmental management strategy we have embraced to build a sustainable business and a healthy environment. As part of environmental offset activities, "Equal Project 02" is designed to help protect the environment while driving business returns from saving environmental cost and creating business opportunities.

### | Lotte Shopping Environmental Offset |









<b>Key Performance Indicators</b>	Unit	Division	2008	2009	2010
Environmental gift card fund	KRW million	Department Store	675	1,080	500
Eco-certified stores	No. of stores	Mart	-	1	2
Participating stores for green store	No. of	Department Store	-	-	3
program	stores	Mart	-	-	2
Waste recycling rate	%	Department Store	66.4	69.1	68.8
waste recycling rate	70	Mart	69.9	68.9	68.8

#### High-Efficiency Energy Facilities

New and Renewable Energy Facilities Reduced Packaging Eco Store **Environmental Campaigns** 

### **High-Efficiency Energy Facilities**

Lotte Shopping continues to introduce energy-efficient equipment to its operations, thus offsetting impact to the environment from energy use. Most of the equipment we bring in is those built for reducing power consumption, as energy used at Lotte Shopping is largely electricity consumed at store levels.

### **High-Efficiency Inverters**

Inverter Systems are designed to achieve savings in operating power and higher efficiency by controlling power load to an appropriate level of RPN. Lotte Shopping began to deploy inverters for air conditioning motors and coolant circulation pumps across the stores from 2008. As for Lotte Department Store, inverter system was placed for ten stores in 2008 and seven in 2009 while Lotte Mart installed inverters in 46 stores, thereby lowering power consumption by approximately 5%. Ten stores will be additionally equipped with inverters in 2011, with expected savings of 10.4% from the previous level in power use.

### **High-Efficiency LED Lighting**

Since 2008, Lotte Department Store has been replacing conventional lights inside stores with high-efficiency LED lamps. In 2010, it replaced a total of 45,000 halogen lamps with high-efficiency products, thus enhancing power consumption efficiency as much as ten times and lengthening the life of lamps to 8.2 years from 0.3 years. The replacement also reduced power consumption by about 1.6% and greenhouse gas emissions by 3,452 tons. Lotte Mart began installing LED lights for convenient facilities inside newly opened stores as well as non-shop areas, such as outside billboards and signs of new stores. In 2010, it expanded the light's application to inside shops and cultural centers, with a goal of replacing all lights with the energy efficient LED lighting by 2013.

### **High-Efficiency Chillers**

Lotte Shopping continued to install high-efficiency chillers which offer the dual benefits of reduced energy use and improved cooling efficiency. After the company installed two chillers at the Gwangbok Lotte Department Store in 2009, it introduced six chillers in 2010 - two at the Yeongdeungpo Store, one at the Daegu Yoolha Store, and three at the Cheongryangri. The installment of chillers leads to reduction in power consumption of 4.1% and greenhouse gas emissions by 790 tons.

### **Cost Savings through Environmental**

We have become more energy efficient and cost effective at Lotte Department Store thanks to investment we have made for environment-friendly equipment and devices. Investment of KRW 857 million was executed to install high-efficiency LED lighting in 2010. To be more specific, existing halogen lights were replaced with less-powerconsuming LED lights, thus cutting electricity bills by KRW 736 million every year going forward. On top of that, it only took us five months to recoup the investment as we were capitalized with government subsidy of KRW 589 million. We also expect to recover investment of KRW 501 million put up for water renewal system at the Gangnam store over the next five years, as the resulting water savings can slash water bills by KRW 170 million. Significant investments were also made for high-efficiency turbo chillers and photovoltaic energy units- KRW 280 million and KRW 112 million respectively, but are expected to result in savings of KRW 40 million and KRW 10 million every year. Investing for the environment will eventually turn out to be financially rewarding for Lotte Shopping.



### **New and Renewable Energy Facilities**

To help create a more sustainable world. Lotte Shopping has embarked on building eco-friendly, green infrastructure as a way to minimize environmental impact from GHG emissions and save energy. To this end, photovoltaic generation units are being deployed and rolled out, along with a plan to install hybrid streetlights using wind power and photovoltaic energy.

### Reduction in **Greenhouse Gas Emissions**

Reduction through



### Photovoltaic (PV) Power Generation

Lotte Department Store installed PV facilities (annual electricity production capacity of 2,000KWh) at the customer rest area on the rooftop of the Yeongdeungpo branch in 2010. In addition, PV facilities will be introduced to the Gimhae Outlet and the Paju Oulet in 2011. A total of 39 stores of Lotte Mart are currently operating PV facilities on their rooftops, producing 4.75 million KWh of power per annum, the highest level in the industry. This is equivalent to the electricity consumed by 1,700 families a year. The facilities also reduce greenhouse gases by approximately 2,000 tons.

### **Solar Thermal Power Generation**

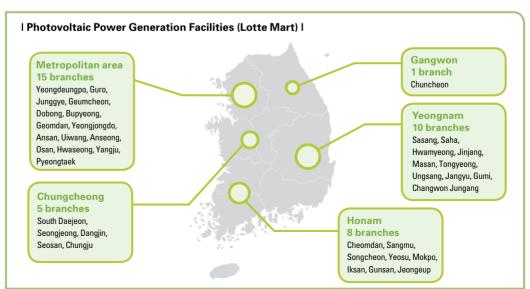
The Nowon branch of Lotte Department Store became the first domestic department store to install solar thermal energy facilities in August 2008. The flat modules installed on the roof are capable of generating about 3,150 tons of hot water used in restaurants and toilets. Furthermore, the facility is connected with the rooftop garden of the store, allowing visitors and children a firsthand look at an environmental facility in use.



Photovoltaic (PV) Power Generation Facility Installed



Solar Thermal Power Generation Facility at Lotte Department Store



High-Efficiency Energy Facilities New and Renewable Energy Facilities Reduced Packaging

> Eco Store Environmental Campaigns

### **Reduced Packaging**

Excessive and unnecessary packaging during the consumer goods distribution process causes garbage and is a waste of resources. Lotte Shopping is striving to minimize the impact of packaging on the environment by signing a contract with the Korean government and encouraging manufacturers to adopt simpler packaging, and eliminating secondary and tertiary packaging for our own products.

### **Eco-friendly Packaging**

Lotte Shopping strives to expand eco-friendly packaging by using biodegradable containers. Lotte Department Store replaced the disposable plastic containers with biodegradable containers made of corn starch. In addition, corn-based containers have replaced the plastic containers used for holiday gift sets which had previously caused a spike in disposable packaging materials. As for foods that were sold in plastic dishes, they are now being packaged in re-sealable and re-usable plastic containers that are commonly used at homes.

Lotte Mart has been using biodegradable containers made of PLA to package cooked food items since 2005. It is also expanding the use of paper containers. PLA trays are made of cornstarch and cut the use of fossil fuels compared to conventional polystyrene foamed tray. Additionally, PLA trays help to reduce hazardous substances during the waste treatment process. Lotte Mart set a precedent in the Korean distribution industry by adopting the use of recycled paper and paper for packaging all fruit gift sets instead of Styrofoam packaging.

### **Green Mileage Campaign**

The Green Mileage campaign is designed to remove unnecessary secondary packaging that was previously used for bundle sales and promotional purposes and instead promote the efficient use of resources and help protect our environment. In May 2008, Lotte Mart participated in the Ministry of Environment's voluntary agreement to reduce packaging and has since provided more mileage points to the customers who buy green mileage products. Since October 2010, we have broaden the range of Green Mileage products - expanding from existing mileage products with secondary packages removed as well as ECO SMILE product groups. More products are now available for mileage benefits, with points earned year-around.

### **Guidelines on Excessive Packaging**

Lotte Department Store created and handed out guidelines to eliminate secondary packaging for each product group and to prevent excessive packaging for holiday (Chuseok and Lunar New Year holiday) gift sets. Additionally, it conducted a review of cosmetics and liquor gift sets to check their compliance with the packaging guidelines during the sales period for Chuseok gift sets.

### I Packaging Standards by Product Group I

Processed foods and health supplements	less than 15%	1 or 2
Beverages	less than 10%	1
Liquor	less than 10%	1 or 2
Cosmetics and detergents	less than 10%	1 or 2
Sundries	less than 30%	1 or 2
Shirts and underwear	less than 10%	1
Composite goods (item which groups several individual products together)	less than 25%	1

### **Eco Store**

Eco Stores are low-carbon, environment-friendly stores that Lotte Shopping is seeking to establish. We aim to diminish environmental impact generated from the lifecycle of our stores, from its launch to operation. We are actively involved in government certification programs and projects, while undertaking numerous initiatives.



### **Pilot Project for Green Store**

Lotte Shopping became the first retailer in Korea to have been chosen by the Ministry of Environment as a pilot green store company in 2010. The pilot project for green store is an initiative led by the Ministry of Environment for greening retail outlets - mainly by promoting the sale of eco products and use of eco-friendly facilities at the stores. Under this project, high-efficiency lights have been installed to bring down power consumption while various promotional activities and events were executed by stores to drive up sales of sustainable products. Lotte Shopping will continue to exert leadership in facilitating low-carbon, green growth and addressing climate change by expanding green stores.

### **Electric Vehicle Pilot Project**

Lotte Mart became the first industry player in January 2010 to sign an MOU with the Ministry of Environment to take part in the ministry's pilot project for building electric vehicle (EV) charging infrastructure. Lotte Mart has set up EV charging stations at two stores in Seoul and deployed EVs to all stores in December 2010 for product delivery. Lotte Mart plans to roll out EV charging stations to enhance customer convenience and offset environmental impact.

### **Green Building Certification**

The Chuncheon branch and the Changwon Jungang branch of Lotte Mart acquired a certification of excellence as a green building from a government agency for using PV power generation facilities, LED lighting, energy saving facilities, and eco-friendly & recycled materials.

### | Overview of Eco-Friendly Facilities (Lotte Mart) |

	Details
High-efficiency energy facilities	Installation of highly efficient facilities to reduce energy use at stores (inverters and automatic controls)
Photovoltaic power generation facilities	PV power generation units placed on the idle rooftop parking area to produce electricity
Hybrid streetlamps	Solar power charged during daytime and used for outside lighting and lamps during nighttime
High-efficiency lighting equipment	Replacement of existing lighting fixtures within and outside the stores with more energy-efficient lighting system such as LEDs
Natural lighting system	Utilization of natural sunlight drawn into the buildings during daytime and reducing power consumption
Green finishing materials	Environmentally sound finishing materials used for the store interiors to create a healthier and safer environment for the shoppers



Lotte Shopping's Pilot Project for Green Store



Electric Vehicle (EV) Charging Station at Lotte Mart

High-Efficiency Energy Facilities New and Renewable Energy Facilities Reduced Packaging

> Eco Store **Environmental Campaigns**

### **Environmental Campaigns**

A wide spectrum of policy endeavors ranging from direct environmental offset to various campaign drives are underway at Lotte Shopping to leave a healthier environment behind.

### **Environmental Gift Card Fund**

Since Lotte Department Store declared its commitment to green value management in 2004, it has been conducting a campaign in which a portion of sales from gift cards are reverted to an environmental fund. The environmental gift card campaign promotes a virtuous cycle in which the money paid by a consumer for a gift card is used in part to fund various environmental preservation projects like preventing global warming, thus returning the results of consumption back to a healthier natural environment. The campaign offers customers an easy way to join in efforts to preserve our planet. For the past seven years, Lotte Department Store accumulated KRW 5.2 billion for the environmental gift card fund and donated the money to an environmental NGO.

### **Use of Environmental Gift Card Fund**

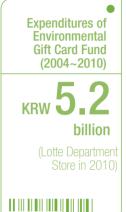
- Environmental School for Children
- · Environment-friendly
- Environmental Film Festival
- Campaign to prevent global warming
- · Support to create environmental curriculum
- · Support of exhibition on climate change

### **Eco Flvers**

We take environmental concerns into account when producing flyers at Lotte Department Store. Ecologically sound, light-weight papers and soy ink are used to print flyers in order to develop greener advertising media and specifications. Starting from January 2011, the amount of paper used per flyer was reduced from 80 to 70 grams, which translated into 15,810 thirty-year-old hardwood trees saved and 5,859 tons of greenhouse gas emissions abated every year.

### **Energy Saving at Stores**

There are a different set of policies in place at Lotte Shopping for safeguarding our environment, including environmental campaigns. To take part in nationwide endeavors to conserve energy during the peak times in summer and winter, we have set forth internal guidelines for temperature control in all of our stores along with light savings and light-outs criteria. In addition, "Energy Minus, Love Plus" campaign is being carried out to contribute to society using fund raised from energy saving activities.



### | Review of Energy Saving Activities |

Review target	Review contents  Control lighting by standards for lighting and lights-out schedule, turn on lights only in necessary areas after close of business (construction, promotional event preparation, etc.), maintain appropriate internal temperature according to A/C and heating standards, shut off power and unplug PC, OA devices, lighting equipment		
Store			
Office	Designate two staff members (main and assistant) for each team and division for office energy control, turn off and shut off power for lighting, OA, heating equipment, unplug devices, turn off lights during meal times		
Parking lot	Light parking area in sections by controlling vehicles' entry by floor, turn lights off during daytime for areas with natural lighting, comply with standards for parking lot emissions facilit operations		
Warehouse / back office	Storage manager to check lights off, lighting of every other light and put out all lights in unused areas		
External lighting	Control lights of outside facilities by stages such as streetlamps and show windows		



W H A T I S
PRODUCT

EQUAL PROJECT?

Excellence in product quality and safety defines the management value that Lotte Shopping seeks to deliver to satisfy and reassure customers. Product Equal Project aims to prevent potential risks and provide only the finest products for the customers through maintaining a consistent emphasis on quality and safety as a way to generate strong business profits built on customer trust.





# EQUAL PROJECT 03

**Product Quality &** Safety



### **PROJECT 04**

Sustainability in Product



Management of Product Quality & Safety

**Risk Management** 

**Business Gain** 

**Sustainable Products** 

Creation of New Opportunities, **Expanding Environment-friendly Products** 

Business Gain, Socio-Environmental Gain

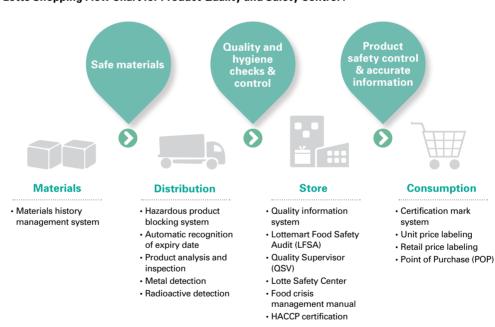


### **Product Quality & Safety**

Product Safety Management | Food Hygiene Management | Providing Product Information

Excellence in product quality and safety defines the management value that Lotte Shopping seeks to deliver to satisfy and reassure customers. "Equal Project 03" aims to prevent potential risks and provide only the finest products for the customers through maintaining a consistent emphasis on quality and safety- as a way to generate strong business profits built on customer trust.

### Lotte Shopping Flow Chart for Product Quality and Safety Control I



Key Performance Indicators	Unit	Division	2008	2009	2010	
HACCP-certified stores	No. of stores	Department Store	5	5	7	
Certified stores under hazardous product blocking system	No. of stores	Mart	-	84	90	
LFSA (Lotte Mart Food Safety Audit)	No. of stores	Mart	94.8	95.4	95.7	

### **Product Safety Management**

A structured system intended to prevent potential hygiene and safety risks is firmly put in place at Lotte Shopping. General product lifecycle information- from manufacturing, distribution to purchasing- is supplied to customers, along with fact-based information on hazardous products with direct impact on customer safety.

### **HACCP\* Certification**

HACCP is a state-recognized hygiene control system devised to block risk factors at each stage of the food supply chain, from the production of raw materials to production, processing, storage and distribution, to the end point of final consumers. In December 2008, Lotte Department Store (six branches: Jamsil, Yeongdeungpo, Gwangju, Dingrae, and Konkuk University Star) received the industry's first HACCP certification for its livestock products corner. In 2010, two more branches (Gwangbok and Cheongryangri) acquired the certification. All workers and sales representatives at Lotte Department Store's HACCP-certified livestock corner strictly adhere to a HACCP standard manual. In addition, a hygiene control program is enforced to control all hazardous elements which include a daily log of worksite entries and exits, worksite temperature regulations, hygiene uniform, dress codes, various microbial inspections, hygiene education and sterilization of cooking utensils. Going forward, Lotte Department Store plans to further reinforce its autonomous management system and gradually expand its application to more stores in order to lead the way in providing safe and secure goods to customers.

### **Integrated Product Safety Control System**

For consumer safety, products we offer at Lotte Shopping are controlled with the highest level of safety standards across their entire distribution process via product lifecycle management and Cyber Product Safety Center.

### **Product Lifecycle Management System**

Product lifecycle management system of Lotte Group gives an integrated view for handling the history of products via an online system. For every phase of product lifecycle, information is registered and managed across manufacture, production, distribution and after-sales service, including data on raw/subsidiary materials and quality. Lotte Shopping operates product lifecycle management system and Cyber Food Safety Center at the corporate level. Taking a closer look, product lifecycle management system retains information pertaining to place of origin, expiration, inspection certificates and allergen risks in order to manage product and quality information as well as product history. Cyber Food Safety Center runs a network-based system to provide support for legal compliance, complaints handling, hazards prevention, site management, community operation and training.

### I Integrated Product Safety Control System I

### **Production** history management

Information tracking from incoming control, materials release. quality assurance to product shipping

#### **Product** lifecycle management

Product/quality information and history management (e.g., place of origin, expiry, inspection certificates allergen risks)

### PB/0EM product management

PB product development, PB/ **OEM** production history tracking

#### **Cyber Food Safety Center**

Statutory/ regulatory compliance, hazards-related information for risk prevention. product hygiene training

#### Customer safety portal

Promoting product lifecycle management system and providing production history/product lifecycle information for customers

#### Integrated management

Product lifecycle system monitoring (e.g., ensuring a holistic view on system access and operation by store, along with statistics)

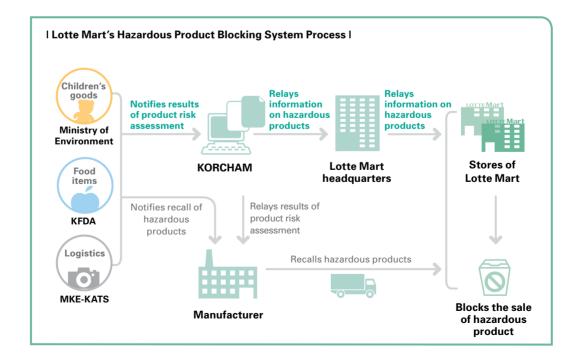
<sup>\*</sup> HACCP (Hazard Analysis Critical Control Point)

### 위해상품차단시스템 운영매장 Hazardous Product Blocking System Certification Mark

### **Hazardous Product Blocking System**

In April 2009, Lotte Mart became the first industry player in Korea to adopt a system that effectively blocks the sale of hazardous products with the Ministry of Knowledge Economy (MKE), Ministry of Environment, Korea Food and Drug Administration (KFDA) and Korea Chamber of Commerce and Industry (KORCHAM). The system works by linking information on hazardous products provided by state agencies like the Ministry of Knowledge Economy, Ministry of Environment, KFDA and Korean Agency for Technologies and Standards (KATS) with Lotte Shopping's computer system via KORCHAM's KorEANnet Product & Safety site (www.koreannet.or.kr). If the barcode of a hazardous product is scanned at the checkout counter, the sale is immediately blocked to safeguard customers.

We ensure a safe shopping experience for consumer by directly transmitting hazardous product information to the checkout counters on a real-time basis. Consumers now no longer have to take the trouble to find out hazards information of products they want to buy since any unsafe products that they may come across at the stores will be blocked from purchase at the counters. This hazardous product blocking system has also been upgraded recently to serve as a more sophisticated tool for product management. Now, new enhancements enable real-time gathering of accurate product information as opposed to the legacy system that had required up to 24 hours of lead time from collecting hazards information to intercepting product sales at the counters.



### **Food Hygiene Management**

All the food sold at Lotte Shopping is rigorously controlled with the strictest standards for safety and hygiene. They are regularly audited for safety at the stores and additionally inspected by external agencies. We also adopt a proactive approach for prevention by disseminating hygiene management manuals for the employees.

### **Quality Assessment Personnel System**

Lotte Department Store introduced a quality assessment personnel system in August 2003 to improve its food hygiene and safety levels, as well as enhance customer trust. Quality assessment personnel system is designed as an internal tool for preemptively eliminating hygiene risks from any food handled at Lotte Department Stores, through on-site audits for the food floors and a series of testing and analysis. Quality assessment personnel evaluate sanitation and labeling compliance of the food sections and in-store restaurants, and check the employees and worksites for conformity to hygiene and cleanliness guidelines. Since May 2009, one quality assessment personnel is assigned for each store and employees undergo training to work as assessment personnel. We encourage employees to acquire national food handler certification. Going forward, we will continuously work to strengthen the quality assessment personnel system so as to implement more systematic, specialized food sanitation management and deliver safer products and more reliable information to our customers.

### **Food Safety Inspection**

Lotte Department Store works in conjunction with Lotte Safety Center to conduct status checks on sanitation control. On-going monitoring is done for underperforming stores with poor inspection results so as to enhance their standards for food hygiene. As a nationally recognized testing laboratory, Lotte Safety Center lists up ten control points for hygiene management and performs monthly layout inspections on all of our department stores to detect food poisoning risks and hazardous materials contents.

We also commission testing of roughly 3,500 products every year with a view to blocking and preventing the sale of unsafe products at the source. To increase our in-house capability for safety inspection, various lab devices for testing and analysis have been installed internally to conduct pesticide persistence tests on farm produce and bacteriological examinations on cooking and preparation equipment.

For summer season, we put stringent hygiene controls in place from a preventive perspective for the product categories associated with food poisoning risks- such as by suspending and/or limiting the sales of the concerned products.

#### I Preventive Measures for Food Hygiene I

#### Strict hygiene standards for facility control

- HACCP certification for meat handling
- Standardization of facility hygiene criteria for deli / snack sections

#### Scenario-based manual for contingency management

· Manuals containing information on contingency reporting. handling as well as compensations

### Knowledge about hygiene regulations

 Periodic examinations on store managers for their knowledge on hygiene related rules and regulations

#### **Improvement** of food hygiene operations

· Rigorous hygiene trainings (conducted once every quarter in collaboration with Korea Food & Drug Administration)

#### Food hygiene control for summertime

 Seasonal suspension of sales of food items with risks of food poisoning during summer

### LFSA\*

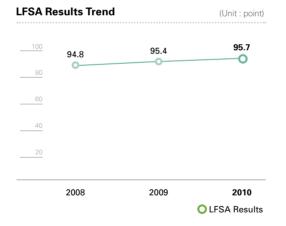
Lotte Mart regularly monitors hygiene management at stores by employing the services of an outside hygiene specialist. Any shortcomings are promptly addressed and amended along with related education. The first LFSA review conducted in March 2005 contributed to raising awareness about hygiene among store employees and to building a hygienic working environment. Since 2007, Lotte Mart has expanded inspections of the food corner to include the food courts and employee cafeteria to improve overall hygienic levels throughout stores.

\* LFSA (LOTTE Mart Food Safety Audit)

### **Quality Supervisor System**

Lotte Mart introduced Quality Supervisors (QSV) for all stores since October 2010 to perform daily field checks on product expiration, storage and labeling compliance. Quality supervisors conduct visual product inspections for foreign body contamination or packaging defects, and then notify the findings to product division at the headquarters via internal quality control system. This information is shared across the stores to prevent recurrence of similar quality issues.

To enhance expertise, QSVs take training every four times a year to familiarize themselves with legal requirements, and disseminate their learning across the stores in order to ensure strict compliance with hygiene laws and regulations.





Lotte Mart QSV (Quality Supervisor)

### I LFSA Management Categories I

### **Product** management · Management of best-by dates · Storage method of

raw materials

temperatures

storage

· Compliance with

### Microbial inspection

- · Inspection of cooking tools
- · Inspection of workers' hygenic condition

### Management of legal documents

· Preparation of basic legal documents

#### Hygiene standard of work environment & facilities

- Cleaning of worksite and warehouse
- · Cleanliness of cooking tools
- · Cleanliness of work devices

### Personal hygiene

- · Cleanliness of personal attire
- · Correct handwashing
- · Knowledge of how to prevent food poisoning

Product Safety Management Food Hygiene Management Providing Product Information

### **Providing Product Information**

Accurate product information is essential for customer trust and safety. We have set up strict criteria for self-control of product accuracy and fully protect customers' right to know.

### **Product Information Provision System**

Lotte Department Store is taking steps to guarantee consumers' right to know and make purchasing choices by systematically managing price per unit, sales price and point of purchase (POP) to provide correct and accurate information to customers. As for Lotte Mart, POP automatic labeling system was introduced in 2009 and POP environment has since been standardized across all branches. An extra layer of product details have also been provided at POP since 2010 (price, materials, specifications, characteristics) to help customers make informed choices.

### **Automatic Expiry Recognition**

Lotte Mart was the first in the industry in Korea to adopt a barcode-based expiry recognition system. The system uses the expiry information in the new barcode (GS1 data bar) to prompt our staff at POS to either cancel or replace soon-to-expire products picked up by customers. This is expected to help customers enjoy higher level of product safety. At present, field pilots have been completed and final adjustments are underway for stable implementation in 2011.

### | Product Information |

	Lotte Department Store	Lotte Mart
Unit price labeling	Adopt automatic calculation system to prevent manual calculation errors     Conduct regular screening for information accuracy	Display final price on a regular basis     Provide monthly information on specification, price, and unit price for key products and conduct semiweekly market survey for most competitive pricing
Retail price labeling	Guidelines for labeling brand price and store price     Conduct screening for minimum error	Provide extra product information to prevent usage errors  Consider including Frequently Asked Questions in price labels
POP	Guidelines for indoor display advertisements, i.e. POP, DM     Provide distinct product features at POP	Redefine POP priority and product details from customer perspective     Standardize POP guidelines across all stores for higher customer convenience



### **Sustainability in Product**

Environment-friendly Products | Green Purchasing | Championing Local Products

"Equal Project 04" is our sustainability strategy with specific focuses on continuous identification and expansion of sustainable products, encouraging sustainable consumption, and ultimately realizing economic, environmental, and social benefits.

### | Expanding Distribution of Sustainable Products |



<b>Key Performance Indicators</b>	Unit	Division	2008	2009	2010
Sales from environment-friendly multi brand stores	KRW million	Department Store	214	404	855
Environment-friendly PB products	No. of products	Mart	<del>-</del>	212	66
Carbon labeling products	No. of products	Mart	-	1	15
Green purchasing amount	KRW 100 million	Department Store	105.6	96.4	86.4
Green purchasing amount		Mart	7.4	42.0	99.8

## **Environment-friendly Products**

As a retailer bridging producers and consumers, expanding sales of environmentfriendly products are one of our most direct and significant impact on our stakeholders. We live our commitment by expanding green and organic specialty shops and developing environment-friendly PB products.

#### **Green Food**

Higher customer awareness of food safety and environment protection naturally leads to increasing attention to green food and healthy lifestyle. We exceed such customer expectations by proposing organic produces and pesticide-free food among others. The organic food specialty shops in each store create a strong network of safe, reliable, and healthy food.

#### **Eco-Shop Featuring Environment-friendly Products**

Lotte Department Store operates Eco-Shop where only environment-friendly products are sold. The first Eco-Shop was opened in 2008 while the second Eco-Shop was opened at Jamsil branch in 2009. At the Eco-Shop, sundries such as accessories, toys, stationary and interior goods, and clothing items that are made from environmentally friendly materials and fabrics are sold. Revenues from the sale of environmentally friendly products at Eco-Shop go toward an environmental fund that is used for diverse environmental campaigns. Going forward, Lotte Department Store will operate more Eco-Shops.

#### | Organic Products |

(Unit: KRW million)

	2008		2010
Sales of organic brand products	17,392	26,821	33,857
Proportion of sales of organic brand products out of total agricultural products	15.5%	21.3%	21.4%

#### | Eco-Shop Products |





A logo of Eco -Smile

#### **Development of Eco-friendly PB Products**

Lotte Mart has developed environmentally friendly private brand (PB) products in order to promote eco-friendly green consumption. In March 2009, Lotte Mart became the first Korean discount store to develop an eco-friendly logo called "Eco-Smile" and provide customers with information that helps sustainable consumption. Lotte Mart also expanded the carbon labeling system to PB products. Carbon labeling system is being pursued as part of the government-led eco-friendly green management initiative.

Eco-Smile is a compound word made up of "ecology" and "smile." The mark represents an earth where nature and man live in harmony. The Lotte Mart concept brand was designed to allow consumers to easily identify and select eco-friendly products. The mark is attached to all eco-friendly PB products of Lotte Mart such as those with reduced packaging, natural raw materials, reduced pollutants and low carbon certified products. Lotte Mart began developing eco-friendly PB products in earnest from 2008 and launched the Eco-Smile mark in 2009 to coincide with a largescale expansion of its eco-friendly PB product lineup. As of the end of 2010, Lotte Mart had developed a total of 278 eco-friendly PB products on an accumulated basis.

The eco-friendly PB product lineup includes pesticide-free and organically-certified agricultural products, which have reduced environmental pollutants; products made with biodegradable PLA materials; toilet paper made of recycled milk cartons; and bamboo-using kitchen goods.

#### **Environment-friendly Certified Organization**

Lotte Mart is striving to go beyond securing safe products to reduce pollution from agricultural activities, expand environmental preservation activities and grow the list of environmentally friendly agricultural goods. To this end, it established an eco-friendly agricultural team in December 2009 and submitted an application to become an environmentally friendly certified organization to the National Agricultural Products Quality Management Service (NAQS). After a strict evaluation process, NAQS designated Lotte Mart as no. 59 environmentally friendly certified organization in February 2010.

Furthermore, Lotte Mart is actively involved in the government's carbon labeling scheme, having acquired certification for 22 items in 16 product categories.

Going forward, Lotte Mart will expand eco-friendly PB products gradually to promote sustainable consumption.

#### | Lotte Mart's Eco-friendly PB Products |

(Unit: No. of products)

		2008	2010	
Eco-friendly raw materials	Natural materials, recycled materials, bamboo, etc	84	20	39
Organic	Organic agro and livestock products, processed foods	59	17	60
Eco-friendly packaging	Biodegradable packaging, reduced no. of printings	68	-	15
Environmental certification	Carbon certification, fair trade, environmental certification	1	29	3
Total		212	66	117



#### **Eco-friendly Vegetable Factory**

Committed to offering only the cleanest and freshest produces, Lotte Mart launched, for the first time in the industry, its own vegetable factory. The factory grows and sells vegetables directly from the store. The in-house farming is managed by strict standards in highly controlled conditions, completely isolated from external factors. This first-of-its-kind effort is producing uniform quality for vegetables in most optimal conditions, overcoming seasonal and geographical limitations. Products from the vegetable factory boast high level of hygiene and safety, having been water-cultured in a clean room setting. On top of that, they are delivered to customers in the freshest conditions, bypassing the otherwise long distribution chain.

#### **Environmental Consciousness**

Various efforts are unfolding at Lotte Mart to improve customer awareness of high quality green products. As a customer proposal, Eco Products Promotion Booths have been set up in several stores, displaying nationally certified products, carbon labeled items, and eco-friendly PB products, while introducing relevant certification schemes and encouraging green consumption. The booths are key contributors to popularization of green products.

#### **Vegetable Factory Overview**

#### Venue

Lotte Mart-Seoul Station

#### Name

Happy Garden

#### Items

Two lettuce varieties per month)



#### Monthly Sales of Vegetable Factory (2010)

(Unit : KRW thousand) 2,123 Sep. Oct. 1,025 Nov 2,530 Dec. 523 Jul. KRW 8,710 thousand





- 1. Lotte Mart's Eco-friendly Vegetable Factory
- 2. Lotte Mart's Eco Products Promotion Booths

### **Green Purchasing**

One of our top purchasing priorities is products with least environmental impact and environmental certification. Our green purchasing also applies to internal supplies, brochures, flyers, equipments and facilities.

**Green Purchasing Growth Rate** 

#### **Green Purchasing Voluntary Agreement**

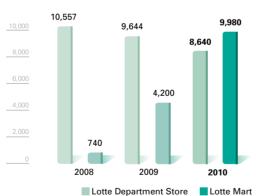
Lotte Department Store participated in the 1st "Green Purchasing Voluntary Agreement" led by the Ministry of Environment in December 2006. To continue to join green purchasing initiative, Lotte Department Store took part in the 2nd "Green Purchasing Voluntary Agreement" in June 2010. Moreover, it in green purchases and is striving to expand the list of items bought that are certified as being environmentally friendly.

Lotte Mart also participated in the "Green Purchasing Voluntary Agreement" in 2009 and set out green purchasing policy as a key environmental management direction. Products that received environmental certification are given priority according to Lotte Mart's purchasing policy.

#### **Expansion of Green Purchasing**

One of the green initiatives at Lotte Department Store is to use environment-certified papers for flyers. It has also been reducing the flyer size and weight for greener purchasing. The scope of green purchasing, along with its size, expanded from mere office supplies to LED lights and other high-efficiency facilities. Lotte Mart, for its part, has adopted recycled packaging materials for online orders and biodegradable containers in the food isles and stalls. Not only that, in September 2010, it signed up for the "no plastic bags" campaign of the government and now offers standard garbage bags in place of disposable plastic bags.

### **Green Purchasing Performance**



I Green Purchasing Performance I (Unit: KRW million)

Year	Lotte Department Store	Lotte Mart	Total	Growth rate
2008	10,557	740	11,297	-
2009	9,644	4,200	13,844	23%
2010	8,640	9,980	18,620	35%



Lotte Department Store Joined Green Purchasing Voluntary Agreement



Lotte Mart Introduces Standard Garbage Bags

## **Championing Local Products**

We believe in empowering local communities by boosting local economy and adopting high quality local specialties. We will be more active in local merchandising for win-win partnership with our host communities and for product quality.

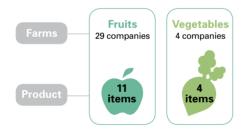
#### **Contract with Farms**

Lotte Department Store currently maintains supply contracts with 33 farms nationwide. They provide the store with top quality products such as fruits and vegetables. The contract benefits both parties. Farms are ensured a stable customer and price, while Lotte Department Store secures a steady supply of high quality goods. Meanwhile, various efforts are being made by Korean government to secure high quality products through cooperation with the farms designated as the "Agricultural Master". Lotte is currently expanding the number of contracts with farms that are recognized for having top end goods in the country based on accumulated data.

#### **Direct Transactions with Producers**

Lotte Mart carries out various policies such as direct transactions with producers and presenting regional specialties to provide high quality products to our customers at reasonable prices. As a result, sales of these products increased by over 40% every year. Going forward, Lotte Mart will expand direct transactions with producers, thus enhancing customer satisfaction and pursuing mutual prosperity with its partners.

#### | Agricultural Product Contract Status |



#### | Direct Transactions with Producers |

(Unit: KRW million)

	2008	2009	2010
Fruits	792	1,255	1,633
Vegetables, grains	513	697	1,083
Marine products	54	17	94
Livestock products	959	1,082	1,750
Total	2,318	3,051	4,560

#### | Lotte Department Store's Contract with Farms | Lotte · Establishes quality standard · Proposes quantity plans · Conducts secondary inspection **VENDOR PRODUCERS** Discovers producers · Secures stable customer Conducts initial inspection · Produces high quality agricultural products quality agricultural products



W H A T I S
CUSTOMER
EQUALPROJECT?

Customer Equal Project is our customer management strategy of striking a delicate balance between customer-first services and customer engagement. For us, customers are important partners in creating a sustainable society and achieving the triple bottom lines.



Customer-first Management
Maximization of Customer Satisfaction
Business Gain

Inducing Customer Participation
Promoting Sustainable Consumption
Business Gain, Socio-Environmental Gain

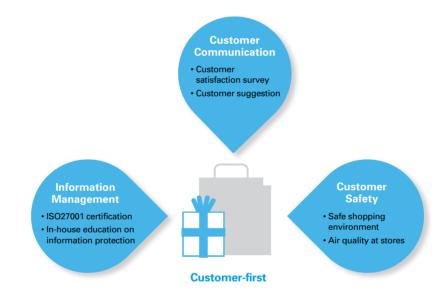


## **Customer Benefit**

Enhancing Customer Satisfaction | Customer Communication | Reinforcing Online Channels | Customer Relationship Management | Customer Information Protection | **Safe Shopping Environment** 

Our customer-first management philosophy mandates us to first identify their needs, provide high quality services, and maximize their satisfaction. "Equal Project 05" is about maximizing customer satisfaction and completing a virtuous cycle of prosperity.

#### | Lotte Shopping's Customer Management Strategies |



Key Performance Indicators	Unit	Division	2008	2009	2010
Customer satisfaction index evaluation	Points	Department Store	89.0	82.8	84.2
No. of customer complaints	Cases	Department Store	23,473	24,108	21,752
		Mart	10,080	12,049	14,637

**Enhancing Customer Satisfaction** 

**Customer Communication** Reinforcing Online Channels Customer Relationship Management Customer Information Protection Safe Shopping Environment

### **Enhancing Customer Satisfaction**

Sustainability management requires continuous communication with customers to identify their needs and to provide high quality products and services. In this context, we created Customer Service Charter and enhance service level by carrying out various programs.

#### **Lotte Shopping's Customer Service** Charter

Lotte Shopping is dedicated to becoming a leading company by declaring its commitment to quality service to internal and external stakeholders. To this end, Lotte Department Store and Lotte Mart established the "Customer Service Charter" and "Customer Satisfaction Charter" respectively to serve as guidelines for employees.

#### **Enhancing Customer Satisfaction on Services**

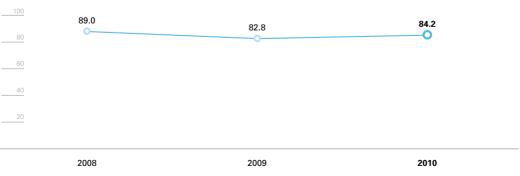
Lotte Shopping regularly checks customer satisfaction levels and operates various service monitoring programs to explore strategic measures to enhance customer satisfaction. Thanks to continued efforts for communicating with customers and service improvements, Lotte Department Store ranked no.1 for eight consecutive years in the National Customer Satisfaction Index (NCSI) survey in the department store category.

#### I Service Satisfaction Monitoring Programs I

	Program	Survey period	Details		
Customer satisfaction surv		Half-yearly	Use the survey to identify customers' needs and make improvements		
Monitoring by agency	Monitoring by external agency	Quarterly	Use mystery shoppers to evaluate current status and identify room for improvement		
Lotte Department	Monitoring on employees' phone call answering manner	Quarterly	Monitor and improve staffs' ability to handle calls from customers		
Store	•	Monthly	Select service-related topics and troubleshoot on site		
	VOC evaluation	Monthly	Select key customer complaints and conduct follow-up evaluation		
	Satisfaction level on delivery service	Monthly	Survey customer satisfaction with product deliveries		
Homemaker monitoring		Monthly	Select at-home mothers for each branch as agents for service quality evaluation		
Lotte Mart	Customer satisfaction survey	Monthly	Conduct direct customer satisfaction survey led by CS managers		



(Unit : Point)



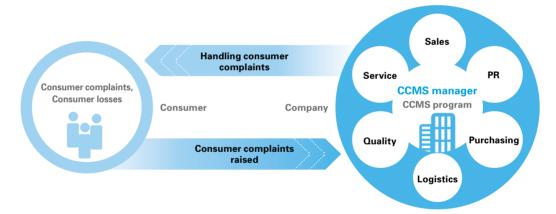
#### **CCMS\* Certification**

The Korea Fair Trade Commission recommends that corporations introduce and operate the CCMS program to prevent customer complaints and offer prompt relief for any complaints that do arise. Lotte Department Store adopted CCMS in June 2008 and built a companywide preventative internal control system and autonomous management system for customer complaints. In recognition of our efforts, we became the first department store

in Korea to acquire CCMS certification in July 2009. In September 2010, it declared joint adoption of CCMS with 71 partners. Expanding the scope to small and medium-sized suppliers with relatively underdeveloped or vulnerable system for handling consumer complaints has set a good example of win-win partnership along the supply chain.

\* Consumer Complaints Management System

#### I CCMS Operation Process I





Supplier CCMS Agreement



Supplier CCMS Declaration Ceremony

Enhancing Customer Satisfaction

#### Customer Communication

Reinforcing Online Channels Customer Relationship Management Customer Information Protection Safe Shopping Environment

### **Customer Communication**

Lotte Shopping is keeping its ears open to various customer opinions and comments. The Want Slip, MD suggestion system, homemaker monitoring system and shopping improvement activities are just some of the programs used by Lotte Shopping to communicate with customers.

#### **Want Slip**

"Want-slip" is a special program at Lotte Department Store, designed to invite more voice of the customers (VOC) directly. It engages all floor and office staffs across the company, in collecting on-site complaints and proposals from customers and making improvements. The "Want-slip" is unique in that it asks staffs to actively seek out customers - which is quite an evolution from the past schemes, i.e. emails, VOC boxes, customer counseling centers, where customers had to make conscious effort to express their ideas.

#### **Customer Suggestion System -**"If I am an MD"

Lotte Department Store operates an open online system to receive product planning and suggestions. Members of the department store's homepage can register and submit their ideas on a store, brand, new product, as well as other suggestions and examples from overseas. In an effort to encourage consumers to propose suggestions, the best ideas are selected on a regular basis and awarded prizes. The relevant teams then examine ways to apply the ideas into their operations. In 2010, there were a total of 3,794 suggestions (11 per day), among which 120 suggestions were selected as the best ideas through monthly evaluation process.

#### **Voice of Customer (VOC) System**

Lotte Shopping is always listening to customers. Customer service centers at all stores are ready to receive customer praises, complaints and suggestions and handle related processes in a prompt and accurate manner. The online VOC system offers 24-hour access for customers to post inquiries or opinions. The comments are then relayed to the person in charge at the relevant team to enable a response within 24 hours. Additionally, Lotte Shopping goes beyond simply resolving issues by analyzing the root cause of customer complaints and using the results to further enhance customer service.

#### | Online VOC Appeals |

(Unit : No. of cases)

	Lotte l	Lotte Department Store			Lotte Mart		
		2009	2010	2008		2010	
Inquiry	14,082	14,117	14,480	5,111	6,904	8,756	
Satisfaction	1,348	1,346	1,740	666	861	1,392	
Dissatisfaction	8,043	8,645	5,532	4,303	4,284	4,489	
Total	23,473	24,108	21,752	10,080	12,049	14,637	

### **Reinforcing Online Channels**

Lotte Shopping has been expanding online and mobile services for customer convenience and richer shopping experience. We are shaping an online world of better accessibility, wider opportunities for participation, and easier communication channels so that ultimately more customers can benefit from all we have to offer.

#### **Fashion Webzine FLARE**

"FLARE" is Korea's very first fashion webzine, launched by Lotte Department Store in April 2009. It has since kept customers most up to date on various fashion brands and also helped them shop online. At a simple click, product details, images, and matching items, selected by professional fashion coordinators, are brought to customers. Issued every first and third Wednesdays of the month and offered via mobile application service as well, FLARE enjoys huge popularity: Its monthly average page views run as high as 50,000 over total 50 editions published as of April 2011.

#### **Lotte Inside Eye**

Lotte Inside Eye is a smart phone application based on augmented reality technology, released by Lotte Department Store in March 2011. This innovative application, unveiled for the first time in the industry, helps shoppers navigate through the stores, while providing information on brands and events.

In 2010, a new application of "Lotte Department Store" was showcased, enabling customers to browse "FLARE" and other online flyers on their smart phones.

#### **SNS\* Communication**

Lotte Department Store uses a twitter account for 1:1 real-time communication with customers. Announcing "Listening ever closer from you" on twitter, it responds to customer inquiries within one hour, takes in their requests and proposals and offers business as well as product/brand information. The new media is fully leveraged for higher customer satisfaction. Since opening in August 2010, the twitter account has gained the largest number of followers in the Korean retail industry. Today, total three twitter accounts and one facebook account are used for more intimate interactions with customers.

\* SNS : Social Network Service



Fashion Magazine "FLARE"



Lotte Department Store Twitter

**Enhancing Customer Satisfaction Customer Communication** 

Customer Relationship Management

Reinforcing Online Channels Customer Information Protection Safe Shopping Environment

## **Customer Relationship Management**

Customer relationship management allows us to provide differentiated value to customers and enhance their loyalty to Lotte Shopping. Furthermore, by collecting and analyzing customer data, we are able to understand what customers want and their lifestyles and provide new merchandise and services in a timely manner.

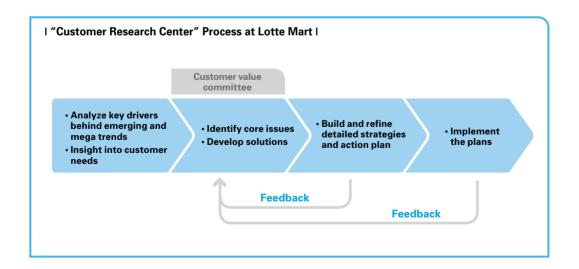
#### **Customer Segmentation**

Utilizing the Customer Relationship Management (CRM) system, Lotte Department Store segments customers for a variety of purposes. The CRM describes activities to provide differentiated value according to customer traits. CRM system enables us to segment customers by demographic factors such as age, occupation and home address as well as various characteristics such as purchasing power, loyalty, and purchasing potential during promotion periods.

Lotte Department Store's marketing and sales support activities that use CRM go beyond delivering information to target customers through DM and SMS. They also include cultural marketing that incites customer participation and one-to-one marketing. Moreover, CRM helps us make key decisions such as establishing internal strategies through analysis of customer purchasing patterns of different commercial districts.

#### **Customer Research Center**

Customer research center of Lotte Mart was designed around the idea of strengthening customer study and trend analysis and shifting from reactive (after-sales services) to proactive (service proposals) in the midst of fast trend changes in the market. The customer research team has built a multi-tiered consumer research toolkit and share research outcomes in monthly Trend Forums, chaired by the CEO. Proactive solutions identified are reviewed and implemented.



### **Customer Information Protection**

Lotte Shopping regards the personal information of all customers as an invaluable asset and is dedicated to effectively safeguarding such assets. In light of the increasing number of customer information leaks, Lotte Shopping is sparing no effort to prevent relevant incidents.

#### **Guidelines on Managing Customer** Information

Lotte Shopping has drawn up the Guidelines on Managing Customer Information in order to comply with the Act on Promotion of Information and Communication Network Utilization and Information Protection, etc. The guidelines specify the entire process of dealing with personal information, such as collecting personal data, as well as the utilization, consignment and disposal of such data. The guidelines are available to anyone via online channel so that he or she can conveniently access to them.

#### **Customer Information Protection**

Lotte Department Store has been devoted to establishing an information security system of international standards. A dedicated team was set up in 2007 to build "Information Protection Master Plan" and "Information Security Policy and Guidelines." Lotte Mart also holds quarterly committee meetings on information security, led by a dedicated team newly organized in 2011. Concerns and challenges in information security find solutions in the meetings. Meeting outcomes are shared across all relevant organizations and reflected in screening and feedback processes.

A new system introduced in Lotte Department Store in October 2010 features encryption of information as it is automatically saved in the system.

#### **ISO27001 Certification**

February 2010 marked the first-in-the-industry certification of Lotte Department Store for ISO27001. It is an international standard for information security management system (ISMS) adopted in Korea in 2005. One hundred fifty key domestic companies have so far been certified. The certification served to reaffirm the sophisticated level of information security at Lotte Department Store.

#### **Information Security Training and Campaigns**

Staffs of Lotte Department Store across the country are trained continuously on protection of customer information. The teams that come into direct contact of customer information are regularly inspected on information security. From November 2010, Fridays are celebrated as Information Protection Day, when all confidential and personal data are screened for tighter control.



ISO 27001 Certification



Information Protection Day Poster (Lotte Department Store)

**Enhancing Customer Satisfaction Customer Communication** Reinforcing Online Channels Customer Relationship Management

Customer Information Protection Safe Shopping Environment

## **Safe Shopping Environment**

Safety is a top priority for retail facilities that are visited by many people. Lotte Shopping engages in continuous facility inspections, improvements, as well as employee education and training to ensure that customers can enjoy shopping in a safe and secure environment.

#### **Safety Rounding**

Seasonal safety rounding at Lotte Shopping helps prevent fire, accidents, and business risks. We focus on specific topics for each seasonal or quarterly safety rounding, conducted as part of our strategies to enhance competitiveness. Lotte Shopping conducts safety assessments and awards prizes to the best performing stores while those that fare poorly are subject to another review. Stringent assessment standards are applied for each store.

#### Air Quality at Stores

Key air quality elements in stores and indoor parking facilities are regularly measured and controlled for customers and staff health. In compliance with Indoor Air Quality Control in Public Use Facilities, etc. Act, we take annual measurements for each store (between February and June every year), using both "Indoor Air Quality Fair Testing Method" published by the Ministry of Environment and our internal standard for air quality measurement.

#### I Air Quality Measurement Results I

				Lotte Dep	partment Store	Lotte Mart		
	Measured item							
	Particulate matter	μg/m²	65.2	46.5	44.0	31.4		
C+	Carbon dioxide	ppm	508.8	50.8	570.5	57.1		
Store	Formaldehyde	μg/m²	20.4	20.4	27.2	27.2		
	Carbon monoxide	ppm	2.2	24.4	1.1	12.2		
	Particulate matter	μg/m²	87.2	48.4	63.6	35.3		
Indoor	Carbon dioxide	ppm	544.9	54.4	508.5	50.9		
parking lot	Formaldehyde	μg/m²	11.7	11.7	25.4	25.4		
	Carbon monoxide	ppm	3.3	16.5	3.3	16.5		

#### I Seasonal Safety Inspections by Theme I

#### 1st quarter inspection (Jan. ~ Mar.) 2nd quarter inspection (Apr. ~ Jun.) · Electrical thermal imaging · Fire extinguishing and measurement gas facility inspection Quarterly inspection · Thawing season and • Generator operation springtime inspection inspection Construction site Escalator inspection Seasonal Safety • Emergency drill Inspections by Theme • Fire drill 4th quarter inspection (Oct. ~ Dec.) 3rd quarter inspection (Jul. ~ Sep.) · Fire extinguishing equipment · Winter fire prevention inspection · Safety inspection for · Hazardous materials storms and floods · Electrical thermal imaging measurement (3rd) · Electrical thermal imaging measurement (2nd) • Fire drill competition (Oct.) · Special fire prevention education



# **Customer Engagement**

Sustainable Consumption | Reducing Carbon Footprint | Eco Leadership

Customers are important players and our key partners in creating sustainable society. "Equal Project 06" is our corporate-wide strategy that fundamentally invites customers to engage in our sustainable management activities, embrace sustainable consumption, and jointly pursue environmental and social good.

#### | Lotte Shopping's Programs to Induce Customer Participation |



Key Performance Indicators	Unit	Division	2008	2009	2010
Customer participation in public transportation campaign	Persons	Department Store	-	3,510	5,370
Customer applications for environmental design contest	Persons	Department Store	-	-	30
Green mileage points	KRW million	Mart	-	97	109

## **Sustainable Consumption**

Our corporate-wide recycling initiative is a logical outcome of our strong belief in protection and preservation of precious resources. Moreover, a variety of activities are carried out to help customers embrace sustainable consumption lifestyle and take part in these efforts.

#### **Green Mileage Campaign**

Lotte Mart carries out the Green Mileage campaign more actively. The Green Mileage campaign is designed to save resources by removing unnecessary secondary packaging. Replacing the previous system that was applied to every individual product, Lotte Mart introduced a new system under which ten products were selected as Green Mileage goods. Lotte Mart provides customers who purchase these ten products with Lotte member points for up to 2% of the purchase amount, which is quadruple the existing amount of 0.5%.

In 2010, Lotte Mart sold approximately KRW 5.6 billion worth of Green Mileage products and awarded customers with totally KRW 109 million worth of Green Mileage points.

#### **Eco Bag Campaign**

Lotte Department Store gives out seasonal eco gifts as part of its environment campaign. From May to November 2010, over 50,000 "eco grab bags" with polar bear prints were given out from 29 stores nationwide. Motivated by customer

enthusiasm, it plans to make 20,000 more. In addition, celebrating our sponsorship of Keith Haring Asia exhibition, we gave out 30,000 "Keith Haring eco bags" on June 18 through 20. Lotte Mart, for its part, has been giving out wheeler bags and grab bags in an effort to reduce the use of plastic bags. Refill products are first priority free gifts. In 2010 alone, total 250,000 green grab bags and 150,000 wheeler bags were given out from branches nationwide.

#### **Eco Flyers**

Eco flyers of Lotte Department Store, published online and accessible via mobile application services, is an excellent example of our transition to paperless environment. Following the groundbreaking initiative, we started a visualization campaign in February 2011, featuring, in our emails, total clicks on eco flyers and the number of trees saved from such green lifestyle. This intuitive illustration shows that as of April 2011, total 65,840 trees have been saved since the launch of the eco flyers in April 2009.





Eco Bao



Eco Flyers

### **Reducing Carbon Footprint**

Our green campaign aims to promote green lifestyle with minimum carbon footprint. In line with our message that "small change matters to the environment," we select easy initiatives that customers can get readily involved to make a difference.

#### **Cool Biz & Warm Biz Campaigns**

Our Cool Biz & Warm Biz Campaigns go back to 2005. The basic idea is to change fashion to save energy and protect the environment. Cool Biz is about not wearing neckties in the summer and Warm Biz, wearing extra cardigans or vests in the winter to reduce the need for heating and air conditioning. Lotte Department Store organized Cool Biz Fashion Show with attractive fashion concepts featuring no neckties. It is but one of the many examples of our active endeavors toward greenhouse gas reduction and green lifestyle.

#### **Public Transportation Campaign**

Lotte Department Store has been championing the use of public transportation for both customers and employees. The campaign has been successful, not only saving energy but also reducing traffic in the vicinity. Total five campaigns were carried out in 2010, engaging total 3,510 customers. In 2011, total 5,370 customers participated in a 10-day campaign from April 1. Future plans are to have

basic campaigns run all through the year (in-store broadcasts, LCD displays, website postings) and to partner with Seoul metropolitan government to designate Public Transportation Days more than once a month, when bus/subway transit card recharging service is provided.

#### **Energy Saving Campaign**

Lotte Mart partners with Korea Energy Management Corporation (KEMCO) and Korea Environment Industry and Technology Institute (KEITI) in rolling out various voluntary eco campaigns for customers. For instance, in April and October, when energy consumption start to rise, "standby power saving" campaign was launched jointly with KEMCO. In August, when demand for air-conditioning increases, "energy efficiency disclosure" campaign was launched for air conditioning appliances. In December, "wear your inners" campaign contributed to saving heating energy in the stores.



Cool Biz Fashion Show



**Public Transportation Campaign** 

## **Eco Leadership**

Lotte Shopping fulfills its environmental responsibilities by leading innovative green campaigns. The company reaches out to customers with various educational and action-driven programs.

#### **Greensumer Community**

As a part of environmental activities conducted in cooperation with customers, Lotte Mart established the Eco Smile Club for greensumers who are interested in environmental activities in May 2009. Eco Smile Club members receive diverse information on environmental activities and products through the quarterly Eco Smile DM. As of April 2010, the number of registered members was 7,400. The goal is to have 10,000 registered members in the near future through active marketing.

#### **Environmental Design Contest**

Celebrating World Environment Day in June 2010, Lotte Department Store hosted, jointly with UNEP Korea and sponsored by the Ministry of Environment and Maeil Economic Daily, "environmental design contest." Topics of the contest were green grab bags and home decoration items using recycled lifestyle items. Participation was wide, ranging from grade school students to college students to housewives, and 10 winners were selected. In the spirit of the contest, total 30 finalists were exhibited

at the front entrance of the main store, while featuring them in print advertisements and special brochures.

#### **Eco Tree Project**

For five months from May to September of 2009, Lotte Mart carried out the Eco Tree event. Customers who purchased green products during that period received leaf-shaped stickers called eco leaves and were asked to attach the stickers to the Eco Tree located within the store. Lotte Mart purchased a real tree for every 100 stickers and as a result, the 80,000 stickers collected during the period translated into 800 trees. In March 2010, Lotte Mart invited 200 Eco Smile Club members and regular customers to attend a ceremony at Seoul Forest to plant the 800 trees and an additional 400 trees donated by Lotte Mart. The 10-month project was a rewarding as well as an educational opportunity to learn about the importance of the environment and to experience tree planting. Future plans are to continue the green campaigns, rich with cultural and educational stimulations.



**Environment Design Contest** 



Eco Tree Project



W H A T I S
WORKPLACE
EQUALPROJECT?

Workplace Equal Project is our corporate-wide strategy for work & life balance of employees, with special emphasis on staff self-development and performance-based compensation for higher work efficiency and greater quality of life.







EQUAL PROJECT 07

**Work Efficiency** 

**EQUAL PROJECT 08** Work & Life Balance



Human Resource Development & Performance Evaluation

**Work Efficiency** 

**Business Gain** 

Work & Life Balance

**Enhancing Employee Satisfaction** 

Business Gain, Socio-Environmental Gain



# **Work Efficiency**

Human Resource Development | Nurturing Distribution Professionals | Nurturing Global Employees | Nurturing Global Employees | Fair Performance Evaluation

Employees are our invaluable assets as well as our future. We are committed to staff skills development and fair evaluation of performance so as to attract best talents and improve work efficiency. These ultimately contribute to direct business gains.

#### I Lotte Shopping Talent Management Map I



Key Performance Indicators	Unit	Division	2008	2009	2010
Tabel to take a second three	KRW million	Department Store	3,826	4,125	4,870
Total training expenditure	KITTY IIIIIIOII	Mart	2,632	2,601	3,025
Training hours per employee	Hours	Department Store	161	163	163
Training flours per employee	riours	Mart	107	107	103
Retirement ratio	%	Department Store	0.4	0.4	0.5
	/6	Mart	1.1	0.7	1.0

### **Human Resource Development**

Attaining Lotte Shopping's vision of becoming a world-class distribution company requires human resources capable of powering the company's growth towards this vision. Accordingly, we have defined the attributes of an ideal employee, established processes for competency development, and provided training programs to employees.

#### **Employee Education Course**

Our staff education focuses on hands-on job training with an objective of developing all employees into retail professionals. For effective training, we mapped job skills for each job and title, while offering courses on core corporate values, pro-leader managerial skills, and subject-matter expertise. In light of our status as a global retail player, we also train experts for each country of our presence.

#### **Credit Accumulation System**

Employees of Lotte Department Store benefit from a personal credit system, designed to encourage active self-development. It offers online courses, correspondence courses, and group trainings by job and title, while a cyber training system, entitled "e-campus," facilitates sharing of knowledge among staffs and enhances accessibility to diverse online contents. Practical hands-on programs form an essential part of the curriculum for real-life application. Ultimate goal is to develop self-initiating and creative talents.

#### **Lifelong Learning**

To satisfy employees' learning needs and support their lifelong learning, Lotte Department Store offers a 4-year internal university program to holders of degrees from a 2-year junior college and high school graduates. Available to personnel of Lotte Shopping and vendors' employees (co-workers), these programs are intended to give motivation and boost loyalty among workers. An undergraduate course has been jointly run with Kyung Hee University since 2006. Totally 95 individuals have completed the program and the current enrollment is 74. In the meanwhile, the cyber program with Seoul Digital University was launched in March 2009. More cyber programs have been available since March 2011 when we started opening courses at Kyung Hee Cyber University, Hanyang Cyber University, Sejong Cyber University, and Cyber Hankuk University of Foreign Studies. To encourage employees to participate in these programs more actively, Lotte Department Store gives benefits of tuition fee cut by 30% to 50%.



In-company Language Course for Employees



Passion & Challenge Course

### **Nurturing Distribution Professionals**

Developing retail professionals is critical for growing into a top global retail player. In the light of our vision and business needs, we designed job-specific training curriculum for growth and development of our employees.

**Employees who Completed Retail** College Course (Lotte Department Store) 

#### **Distribution Professional Course**

Lotte Department Store offers retail college programs well as distribution professional courses, jointly with a university, for developing customertailored retail talents. Launched in 1994, the retail college has so far produced 491 retail professionals by 2010. The courses include basic business management, field improvement workshops, and research presentations. In addition, regular language tests motivate the staffs to improving their foreign language skills. Opportunities to tour or study best retail practices overseas also help them learn the latest trends and management skills in retail industries home and abroad.

#### **Merchandiser Training Course**

Lotte Department Store runs a fashion academy to strengthen the capabilities of its merchandisers (MD). Total 209 MDs have so far attended the academy including 28 MDs in 2011 (including 10 senior MDs). Lotte Mart, for its part, has been operating a PB academy since 2008 to enrich the merchandising,

PB development and sourcing skills of its MDs. Key course topics include global trends, negotiation skills, overseas sourcing, PB development, and quality control. Executives of prominent manufacturers and professors of universities are invited as instructors, offering three-tiered courses (introduction, basic, advanced) according to the level of experience. These educational efforts result in unique and high quality private brands of Lotte Mart.

#### **Passion & Challenge Course**

Lotte Department Store organized 2010 Passion & Challenge training to help its staff improve their leadership skills and embrace the true spirit of communication. The program, targeting 800 junior managers, was designed after intensive marine corps training with such topics as field leadership, mutual respect, and spirit of communication and professionalism. It was an excellent opportunity to share the vision and the core values of the company.

#### | Nurturing Distribution Professionals |



## **Nurturing Global Employees**

Lotte Shopping has been passionate about reaching out to new developing countries including China, Vietnam, Indonesia, and Russia, It is our belief that key to overseas business success and growth lies in human talents with global perspectives. This explains why development of regional experts is one of our first priorities.

#### **Resident Employee Candidates Training**

At Lotte Department Store, we select a pool of talents to lead overseas businesses operations. These candidates for resident employees then undergo systematic training. Any staff can sign up for the candidacy. They are evaluated against the criteria of job performance, career length and foreign language skills and a pool of candidates is selected. In 2011, 52 candidates were selected for China, 36 for Vietnam, 38 for Indonesia, and 16 for Russia. The candidates undergo a year-long "candidate training" before a resident employee is finally chosen by the criteria of global refinement, knowledge of host countries, and foreign language fluency.

#### **Globally Talented Executives**

In the midst of rapid expansion of overseas operations, Lotte Department Store is serious about developing executives with global perspectives and capabilities. For those scheduled for promotion to an executive level, English test scores are reviewed. Meanwhile, "regional experts" program sends out those scheduled for residency to their host countries for a year to familiarize the language and the retail practices before the actual assignment.

#### **Global School**

Lotte Mart is one of the most active Korean retail players in the overseas markets, with operations in China, Indonesia, and Vietnam. Befitting its leadership, "Lotte Mart Global School" was launched in April 2011 to offer training courses to the locally-hired employees in the host countries. Local staffs are invited from China, Vietnam, and Indonesia for job-specific trainings as well as for networking with the head office staffs.

#### **Language Breaks**

Employees of Lotte Mart can sign up for a temporary leave for foreign language residency training. This was designed to develop foreign language talents in the face of growing overseas operations of the company. All staffs can sign up for the break in approved destinations (relevant to business), i.e. English-speaking countries, China, and Vietnam. Upon return, they are assigned to overseas business divisions as a priority to leverage and continue their overseas exposures.

### **Fair Performance Evaluation**

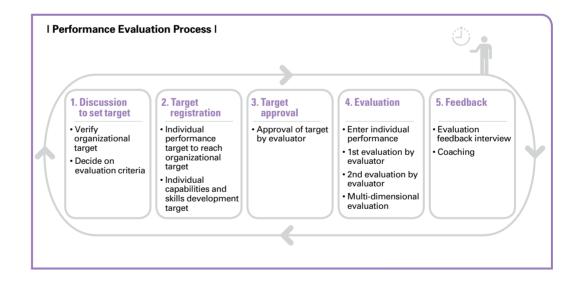
Lotte Shopping realizes corporate culture encompassing fair performance evaluation and compensation. To this end, the company encourages employees to display their abilities to the fullest through nondiscriminatory salary system, performance-based compensation, and fair performance management process.

#### **Performance-oriented Compensation**

Lotte Shopping has an annual salary system based on ability and performance. In addition to basic pay and bonus, employees receive incentive pay depending on individual performance and special incentive pay based on the company's annual operating results. Evaluations of individual performance are used to determine an employee's annual salary grade, which in turn determines a salary. In 2008, differential incentive pay was given to employees in managerial posts to provide greater motivation to improve performance levels. The differential incentive pay scheme started applying to all employees from 2010.

#### **Performance Evaluation Process**

To ensure objectivity, evaluations are carried out based on targets and criteria agreed on with each individual. Compensations are set according to evaluations that reflect whether targets have been reached and individual performance levels. Evaluations are conducted twice a year through discussion between the team leader, who is the evaluator, and team member, who is the evaluatee. Quantified targets and criteria are set for all employees which are in line with the company performance targets.



#### **Capability Driven Organization Culture**

We embarked on an innovative journey on April 1, 2011 by abolishing the existing rank hierarchy and adopting New Grade Scheme. Under the new paradigm, only those with full capability are given job qualifications and only those qualified with high performance are given actual job titles, which are then linked to financial compensation. In short, promotion to a higher grade means acquiring job qualifications and titles and ultimately receiving higher compensation. Some of the existing job titles, i.e. senior manager, manager, and junior manager, were realigned in the new system that distinguishes leadership (Team Head, Manager, etc.) and general staffs (Senior, Chief, etc.).

#### **Best Merchandiser Prize**

"KRW 100 Million CMD (Chief Merchandiser)" is a title of the best merchandiser scheme, introduced by Lotte Department Store in February 2010 for the first time in the industry to motivate and encourage competition among its merchandisers. In March, six senior merchandisers were selected for their contribution in the previous year and raised their total annual salary to KRW 100 million with extra bonuses. Scope of the scheme will expand in 2011 for stronger staff motivation, along with opportunities for overseas market survey for hidden jewels of products and brands. For the period of January – December 2010, six merchandisers were selected from a pool of 69 (those with over six months experience) and received KRW 100 million annual salary.

#### I New Grade Scheme I

		Working staff
S1		
S2		
M1		
M2		
SA		
А		
JA	 	

After: Job titles based on performance and capability

#### | Best Merchandiser Scheme |



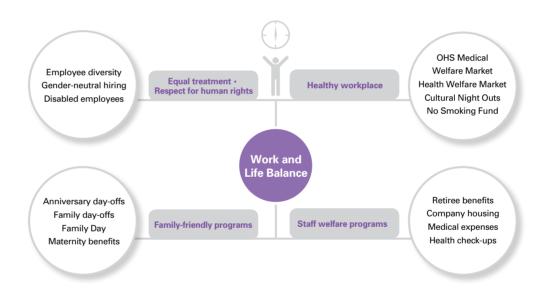


### **Work & Life Balance**

Providing Equal Opportunity | Creating Healthy Workplace | Employee Benefits | Family-friendly Management

Lotte Shopping committed to achieving work-life balance for employees and ensuring they realize their best potentials. "Equal Project 08" is our strategy that goes beyond performance management and work efficiency: it is about ensuring work-life balance, equal treatment, and high quality of life for each one of our employees. It is a testament to our strong pursuit of social good.

#### | Work & Life at Lotte Shopping |



Key Performance Indicators	Unit	Division	2008	2009	2010
Female hiring ratio	%	Department Store	53.4	54.6	52.7
remale mining ratio	/0	Mart	63.2	63.4	64.1
Female manager ratio	%	Department Store	3.3	3.3	3.9
Disability hiring ratio	%	Department Store	2.4	2.6	3.1
Disability filling ratio	/0	Mart	2.1	2.0	2.1

Family-friendly Management

**Employee Benefits** 

## **Providing Equal Opportunity**

Any discrimination based on gender, education, or disability is banned at Lotte Shopping in our journey toward a world, where all employees enjoy equal opportunities and fair treatment. Discriminatory elements are excluded from staff transfers, appointments, and promotions, while feedback is collected for prevention of potential grievances.

#### Non-discriminative **Recruiting and Compensation**

Lotte Shopping does not impose restrictions based on gender or age when hiring new employees and provides equal opportunity to all candidates. As of the end of 2010, the total number of employees stood at 6,555 for Lotte Department Store and 11,548 for Lotte Mart. Female workers as a percentage of total regular workforce was 52.7% for Lotte Department Store and 64.1% for Lotte Mart, well exceeding 50% level. Female employees above managerial position account for 3.9% of all employees above managerial posts but this figure is on a rising trend.

At Lotte Shopping, gender is not a factor in HR decisions. Male and female staffs come under a single organization hierarchy and receive equal salary defined by their ranks or job experience.

#### **Disabled Employees**

The disabled employee ratios of Lotte Department Store and Lotte Mart exceed the legal requirement which is 2%. Lotte Shopping received awards in recognition of its active hiring of disabled persons ('True Company' Gold Award given by the Ministry of Labor and the Korea Employment Promotion Agency for the Disabled in September 2007, a citation for promoting the welfare of disabled persons given by the Gwangju City mayor in 2008).



'True Company' Gold Award given by the Ministry of Labor

#### | Average Salary by Rank (base=100) |

(Unit: %, based on annual salary of male employees)

	Rank	M2	SA	А
Lotte Department	Male	100	100	100
Lotte Department Store	Female	100	100	100
Lotte Mart	Male	100	100	100
Lotte Mart	Female	99.5	98.8	100

#### I Female and Disabled Employees I

		Lotte Department Store		Lotte Mart			
				2010			2010
Total employees	No. of employees	6,004	5,911	6,555	9,323	9,114	11,548
Female employees	%	53.4	54.6	52.7	63.2	63.4	64.1
Female employees above managerial position	%	3.3	3.3	3.9	-	-	-
Disabled employees	No. of employees	154	159	197	188	177	247
Disabled employee ratio	%	2.4	2.6	3.1	2.1	2.0	2.1

### **Creating Healthy Workplace**

Lotte Shopping offers various health promotion programs for employees, as their health has direct impact on the health and the success of our business. Our programs cover both physical as well as psychological health of the staffs.

#### **Healthy Working Campaign**

Healthy Working Campaign of Lotte Department Store stretches across the entire year, targeting both work and home lifestyles. Both indoor and outdoor of the buildings have been designated as non-smoking areas; team dinners are advised against running late; and unhealthy/inappropriate drinking episodes are encouraged to be reported all in an effort to ensure healthy work and life. Lotte Mart launched a healthy workplace campaign to enhance employees' physical wellbeing.

Programs like "having breakfast before punching in," medical benefit mall, exercise benefit mall, smoking cessation fund, and cultural gatherings are boosting employees' satisfaction and wellbeing.

#### **Health Check-Up**

We finance annual health check-ups for all employees every year. Medical history is managed at an individual level for prevention of exacerbations.

**Medical Fee Assistance for Employees** 

685

622

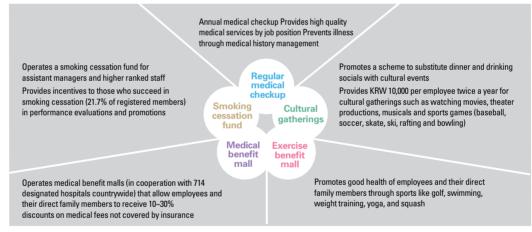
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541

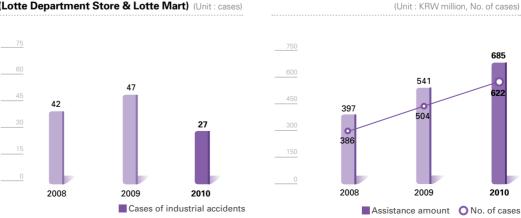
504

2009

#### I Healthy Workplace Campaign I



#### **Industrial Accidents** (Lotte Department Store & Lotte Mart) (Unit: cases)



## **Employee Benefits**

Lotte Shopping offers a wide range of welfare benefits to employees for richer and healthier working experience. Key employee benefits include financial loans and tuition subsidies. Coverage of the welfare program has been expanded to partners and their families.

#### **Employee Benefits**

Lotte Shopping is operating a variety of employee benefit programs. Financial assistance for employees includes various loans and support for children's schooling expenses from kindergarten to university. Lotte Shopping also operates and offers financial assistance for condominiums and club activities. Employees who have to relocate to a store in another region are given funds for housing and moving expenses, along with transportation fees to visit their hometowns. In addition to casualty insurance offering payment of up to KRW 200 million to protect employees and their families from accidents and illness, employees are entitled to support for medical expenses and physical checkups. We also emphasize safety training in the workplace to minimize the number of accidents on the job. Recently, we stepped up cooperation with outside agencies to extend benefits in more diverse areas such as pensions, medicine and real estate.

#### **Assistance for Retirees**

Lotte Shopping carries out assistance programs for retirees. A memorial plague is handed to retiring personnel in recognition of their service to the company. In addition, Lotte Shopping sends out various documents requested by retirees by mail free of charge. In 2008, an outplacement program was introduced to provide systematic support to retirees. Services available include consulting and training to help retirees find new jobs or start their own business, professional counseling, and wealth management advice.

#### I Co-worker Welfare & Services Policy Status I

	Target	Details
Providing 'Children's Day' gifts	Long tenure co-workers	Provide Lotte confectionary gift set
End of year gifts	Long tenure co-workers	Provide online points Provide in-kind
Provide flowers for family occasions	Long tenure co-workers	Personal marriage, children marriage, personal loss, close relative loss wife's parent's loss, wife's loss
Provide birthday gifts	Long tenure co-workers	
Provide funeral accessories	Long tenure co-workers	Personal death, parents loss, wife's parent's loss, wife's loss, brother's loss, children's loss
Enable usage of condominiums	All co-workers	Can use condominiums related to the company
Co-worker group insurance	Long tenure co-workers	Membership period: August 3, 2010 ~ August 3, 2011     Support disaster related death, disabled due to disaster & cancer
Sharing opportunity via psychological & difficulty consultation	All co-workers	Individual psychological consultation (depressive disorder, stress, etc.)     Difficulty consulting (work environment, problems, suggestions, etc.)

### **Family-friendly Management**

Lotte Shopping encourages employees to achieve a balance between work and their personal lives. Family-friendly programs such as support for expecting mothers and childcare are helping to increase employee satisfaction and work efficiency.

#### **Family-friendly Programs**

To help employees achieve work-life balance, Lotte Shopping has implemented various familyfriendly programs. Since 2007, employees have been invited to cheer baseball games. Currently, vendors' employees join the program, too. In addition, events have been held for employees' families and children. Among others, event for employees' children was introduced in 2009. They were invited to a company visit, movie screening, dining, and received gifts. As an on-the-spot experience education program, a ski camp for children of employees was held during the winter vacation, and gained good responses from their families. Going forward, Lotte Shopping will develop family-friendly programs that may satisfy employees and their families, thus creating familyfriendly corporate culture.

#### **Family-friendly Company Certification**

Lotte Shopping became the first company in the distribution industry to be certified as a familyfriendly company by the Ministry of Health and Welfare in 2009. This certification is given to companies that practice family-friendly management and have programs that help workers balance their work and family responsibilities. Certification is given based on document review and onsite inspection. We will continue the efforts and encourage employees to work hard during the regular work hours and spend more quality time with their families. This will be a significant contributor to higher staff morale, satisfaction, and productivity.



Trip to a Baseball Game



Family-friendly Company Logo

#### **Childbirth Promotion**

Lotte Shopping is taking steps to increase childbirth to resolve the social problem of Korea's low birthrate. Increased benefits related to childbirth and childcare for employees (including vendors' employees) are easing the burden of raising children. Considering the high female representation of the workforce in the service industry, improvements are being made to help working mothers meet their responsibilities to their children as well as work commitments.



Childbirth Promotion Campaign Logo

#### **Eco-friendly Childcare Center**

Lotte Department Store was the first in the retail industry to build an in-house childcare center to better support its employees in child rearing and to improve the quality of life of female staff. It has also been touted as a best practice addressing the national concern of low fertility. The first Lotte Department Store's Childcare Center is tailored to the needs of department store staff; given the opening hours of department stores, the center operates extended hours and on holidays and provides free dinners. Lotte Department Store provides financial support so employees pay fees lower than those charged by conventional childcare centers and a shuttle bus service is available for employees' convenience.

Eco-friendly materials and products were used for furnishings, learning materials and toys.



Lotte Department Store's . Childcare Center

#### I Childbirth and Childcare Benefits I

		Category	Details		
	Congratulatory pay	Congratulatory pay for birth of a child	<ul> <li>Congratulatory pay given to employees upon childbirth</li> <li>KRW 100,000 and 3-day holiday regardless of rank</li> </ul>		
Child birth	Maternity leave	Holiday related to childbirth	3-month (90-day) holiday before/after     45-day holiday immediately after childbirth guaranteed by law     Salary paid during the leave     60 days: Normal salary (excluding overtime allowance)     30 days: Subsidy from the government's job center		
Child care	Support for schooling fees	Support for schooling fees of employees' children	Kindergarten, middle and high school, university (excluding elementary school)     Covers actual educational cost		
	Medical fee assistance	Medical fee assistance for employees and their families	<ul> <li>For spouse and children registered in an employee's medica insurance card</li> <li>Support provided: KRW 5 million ~ 10 million (per year) according to years of employment</li> </ul>		
	Family allowance	Family allowance included in employees' salary	Offered to employees assistant manager and below     KRW 20,000 per spouse and KRW 10,000 per child		
	Childcare leave	Holiday related to childcare	Offered to female employees with children under the age of 3 Maximum 1-year leave per child (leave can be divided up) Subsidy from the government's job center provided during leave (KRW 500,000 per month)		
Other	Gifts for employees	Children's day gift Year-end gift	Offered to all employees of Lotte Shopping and vendors     Distributed twice a year (Children's Day, year-end)		





Supplier Policy

Communication and Fair Trade

Mutual Growth, Service Management

Business Gain, Socio-Environmental Gain

Business Gain, Socio-Environmental Gain



# **Supplier Management**

Supplier Communication | Fair Trade Compliance | Fair Trade Training and Communications | **Nurturing Supplier's Employees** 

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Suppliers are important partners to achieve sustainable development through mutual prosperity. Lotte Shopping maintains diverse communication channels to enable the company to listen to its suppliers. By voluntarily abiding by fair trade rules, Lotte Shopping is establishing a platform for mutual prosperity with the partner suppliers. "Equal Project 09" is a strategy the company is pursuing to help improve existing policies and achieve mutual prosperity by establishing and operating its fair trade and mutual prosperity policies.

#### | Lotte Shopping's Win-Win Policy |



<b>Key Performance Indicators</b>	Unit	Division	2008	2009	2010
Supplier participation in supplier convention	No. of suppliers	Department Store	400	233	272
Supplier participation in SME fairs	No. of suppliers	Mart	112	-	-
Suggestions from supplier CEO roundtable	No. of cases	Department Store	-	116	113

# **Supplier Communication**

Lotte Shopping is sharing its vision that it hopes to achieve with its suppliers, while listening to them to help achieve sustainable mutual prosperity. While actively collecting opinions and suggestions from suppliers through diverse channels of communications, these opinions and suggestions are continuously reflected to achieve policy improvements.

#### **Supplier Satisfaction Survey**

Lotte Shopping conducts satisfaction surveys of suppliers to hear their opinions and resolve any

The survey covers Lotte Shopping's system regarding transaction ties, employee attitudes, and ethical transactions. Survey results are then analyzed and reflected on operations. To maintain fairness, anonymity is ensured for survey respondents. Additionally, if any ethical breaches are discovered through the survey, corrective steps are taken such as punitive measures against the relevant individuals and resolution of disadvantages against suppliers.

#### **Supplier Convention**

Lotte Department Store regularly holds 'Supplier Convention' to achieve mutual prosperity through communications. During the '5th Supplier Convention' in 2010 where 484 attended from the suppliers, the Lotte Department Store adopted and announced the 'Sliding Margin' reduction policy in which the suppliers' sales margin is reduced by 5% maximum. This announcement drew a lot of attention from the distribution industry.

#### | Supplier Satisfaction Survey (Methods and Items) |

- Survey subject : Suppliers (owners and employees)
- · Survey areas : Satisfaction level of suppliers regarding system and fair transactions
- Survey method : Survey by personal interview (PI)

- System: Fairness of evaluation system and store allocation
- Employee: Professionalism and ethics of employees
- Fair trade: Coercive actions, compliance with standard trade agreement



Supplier Visit Day



Supplier Invitational Convention

**Supplier CEO** Roundtable **Participants** suppliers 

### **Supplier CEO Roundtable and Supplier Visit Day**

Among the many Lotte Department Store's communication channels such as the informal supplier CEO roundtable and the 'visit day,' the informal supplier CEO roundtable is held on a regular basis. Since 2009, a total of four informal CEO roundtables were held to help improve suppliers' profitability and enhance co-worker's competencies by collecting suggestions in each area and improving policies. In addition, on a semiannual basis, supplier representatives from each product group are invited for an informal roundtable discussion. Results of the roundtable discussions are reflected in the overall work process. To get even closer to the voice of suppliers, Lotte Mart designated a day in each month as 'Supplier CEO Visit Day.' Lotte Mart also established a 'Supplier Visit Day' each month, where Lotte Mart's CEO makes a visit to each supplier to create an environment of open communications with employees and management of the suppliers. Problems faced by suppliers are heard and diverse measures to overcome these problems are sought through these visits.

#### **Establishing a Special Organization for Mutual Growth**

Lotte Shopping launched a special organization in November 2010 to oversee the continuous implementation of coexistent management and mutual prosperity with its suppliers.

Lotte Shopping's Mutual Growth Implementation Office operates a Mutual Growth Implementation Committee headed by the CEO with related executives as committee members. By establishing mutual prosperity with suppliers as a major management policy, the company provides its suppliers with financial support and continuously develops programs to help foster professionals within the companies.

#### **Holding Supplier Invitational Fairs**

Lotte Mart held a supplier invitational fair to help search and foster outstanding small & medium enterprises (SMEs). Through the supplier invitational fair, the company's objective is to create a take-off platform for mutual prosperity with the companies and help outstanding SMEs expand their overseas marketing channels. A total of 187 firms that passed the 1st round of consultations were led through a sales test. Those selected as outstanding firms were allowed to set up permanent shop and will be converted to a PB development company.



Lotte Mart's Supplier Invitational Fairs

#### | Supplier Roundtable Opinion Collection Results |

				2010 2nd	
MD establishing & leaving shop / product management	35	32	24	24	Evaluation policy improvement
Marketing support	13	5	3	3	Joint promotion planning & implementation
Sales policy	9	9	12	12	Margin adjustment rationalization & minimization
Strengthening services	2	4	4	4	Humanism education expansion for co-worker training
Others	4	3	4	4	_

Nuturing Supplier's Employees

# Fair Trade Compliance

In 2001, Lotte Shopping set an industry precedent by publicly announcing its Fair Trade Compliance Program in order to establish a fair and equal partnership with its suppliers. Additionally, the company formed an exclusive organization to systemically oversee related training, inspections, interventions and briefings to the BOD.

#### **Activities to Prevent Fair Trade Violations**

Every year, Lotte Department Store produces and distributes the 'CP Handbook' and 'Work Manual' to prevent fair trade violations. The CP Handbook contains various regulations like large scale retail notices, and Q&A. The Work Manual includes guidance applicable to the conduct of daily business.

# **Fair Trade Surveillance and Supervision**

Lotte Shopping conducts reviews of items that are particularly susceptible to fair trade violations due to the nature of the department store business. The reviews focus on unfair transactions during the adjustment of product groups as when tenant businesses enter or exit our stores, raising the sales-based margin during a contract period, forced participation in promotional events, misleading labeling and advertising, etc. This provides more efficient surveillance and supervision of related matters to prevent suppliers and customers from incurring disadvantages. The reviews are conducted on a regular or need-be basis. When any violations are discovered, relevant employees face reprimands and measures are taken to resolve the damages incurred by suppliers.

## **Supplier Mutual Prosperity Agreement** Ceremony

To establish a joint partnership for coexistence and self-regulated fair trade compliance, Lotte Department Store held a mutual prosperity agreement ceremony with the Fair Trade Commission and suppliers in June 2010. Through the agreement ceremony, a mutual prosperity agreement was concluded between the Lotte Department Store and suppliers in the distribution sector, and aggressive support was promised the suppliers to help achieve mutual prosperity.



Mutual Prosperity Agreement Ceremony (Lotte Shopping)

#### | Lotte Shopping's Fair trade Activities |

- Distribution of CP Handbook (volume 9) and Work Manual
- · Distribution of work guidelines related to labeling and advertising
- · Launch of fair trade compliance campaign (distribution of posters, leaflets and PR activities)
- · Fair trade CP mail notification and signing of compliance pledge by all employees

- · Unfair labeling and advertising during bargain sale
- · Store entrance and exit procedures and interior works
- · Levying of costs unrelated to sales promotions
- Forced participation in sales promotion and discount events
- · Unfair dispatching of co-workers
- · Unfair changing of contract during contract period

- Win-win partnership fund for suppliers
- · Loan support for supplier through financial institutions
- · Education/training support (nurturingemerging designers, joint development of brands)
- · Adherence to ethical regulations by both parties

# **Fair Trade Training and Communications**

Lotte Shopping is promoting fair trade awareness for its employees through diverse training programs. In addition to the on-site training & evaluation, online training is held simultaneously. As part of the company's effort to expand communications with suppliers, Lotte Shopping actively operates a fair trade 'open voice' or 'Shinmungo' policy.

#### **Implement Fair Trade Practice** Training

Training sessions for all employees

Fair trade practice workshop (once for

New employee training (once for



#### **Fair Trade Training and Evaluation**

All Lotte Department Store's employees participate in fair trade training programs such as new employee training and program to nurture in-house fair trade experts. They also receive trainings from invited experts in fair trade laws and regulations. In particular, employees from the sales and product head offices are required to complete a minimum two hour training course every half-year. Additionally, to evaluate employees' understanding of the Fair Trade Law and impact of the training programs, a Fair Trade Law test is conducted three times a year. Lotte Mart also holds mandatory training for its employees focused on fair trade practices related to large retail shop notifications, display advertisements and gifts. To make sure fair trade practices are applied to the employees' daily work, an internal test is carried out twice a year for the employees. In addition, fair trade practice related training is a compulsory course for new employee introductory training.

#### **Fair Trade Practice Related Communications**

As a communications channel, a self-regulatory fair trade compliance administrator from Lotte Department Store shares opinions with suppliers through direct correspondence every year. Through the correspondence, Lotte Department Store is not only showing its determination towards self-regulatory fair trade compliance practices, but is also capitalizing on collecting information on the difficulties faced by suppliers and to gather personal requests, which are then reflected in management. After collecting information on the difficulties faced by suppliers, the selfregulatory fair trade compliance administrator provides support to the suppliers by aggressively implementing measures to improve trade relations. This plays a critical role in establishing mutual trust between the Lotte Department Store and its suppliers. Lotte Shopping operates a fair trade 'open voice' or 'Shinmungo' policy to listen to opinions from suppliers and to prevent and take corrective measures related to unfair trade practices. Anonymous reports on the homepage guarantees protection of the person reporting unfair trade practices, and helps in confirming such incidents quickly so as to initiate corrective measures. The fair trade 'Shinmungo' is a critical system that allows two-way communications guaranteeing suppliers to freely express their opinions.

#### | Lotte Shopping Fair Trade Training System |

- · New employee introductory training
- Product team head / Mder / related department training
- · Shop head / manager training

- Training in connection with The SNU Law Research Institute & Competition Law Center
- Fair Trade Commission Civil Servant External Training

• Lotte Cyber Campus

- · Department store: 3 times annually
- · Mart: 2 times annually
- · Re-exam for slow progress individuals

Nuturing Supplier's Employees

# **Nurturing Supplier's Employees**

Lotte Shopping provides systematic specialized training opportunities for supplier employees in contact with customers to help enhance their work competencies. Acknowledging that each co-worker's competency will translate into customer's love, diverse specialized training programs are held.

#### **Co-worker Training System**

Lotte Department Store provides a step-by-step customized training program for all co-workers, including new co-workers. Practical work focused training programs are being initiated for all coworkers working at Lotte Department Store to help foster 'True Professionals' and to enhance commitment & pride. The training programs include introductory courses for employees starting work and 'Charlotte Academy,' a highly professional course. In addition, by providing various offline and diverse online training courses simultaneously, Lotte Department Store is trying to foster true leaders that can lead change and create new customer values.

#### **Internal Corporate Lecturer Policy**

Lotte Department Store adopted the 'Outstanding Shop Manager Internal Lecture Policy' in 2010 to enable experienced outstanding co-workers share their on-site experience with new co-workers. A step-by-step training course that enables the transfer of knowledge and experience to fellow onsite co-workers was also added. In addition, from the 240 Outstanding Shop Managers acting as internal lecturers, 100 were selected for overseas service training as an incentive. By being able to experience advanced department stores overseas, it provided the opportunity for the Outstanding Shop Managers to gain greater know-how and the chance to share their experience with co-workers. It also enabled them to experience greater pride in Lotte Department Store.

#### | Co-worker Training System |

	Classroom		Online training		
		Training Details	Target	Cyber	Reading Communications
Short-term introductory training	New employees	Work regulations     Service mind     Basic service manners     Job training – accounting, product inspection, safety		Product knowledge: 2 courses Sales skill: 9 courses Customer	
Long-term introductory training	Within 3~6 months after entering the company	Incentive & mutual friendship     Corporate loyalty & pride     Customer emotion & sensitivity enhancement services     Customer psychology & customer handling technique     Basic job / psychological training	No limit on	management: 5 courses  • Service management: 4 courses  • Shop management: 5 courses  • Performance	Sales skill: 6 courses     Customer     management:     6 courses     Service management     2 courses     Performance     management:     3 courses
Long-term enhancement training	Employees that have completed the long-term training program Over 1 year	Self leadership course	target & term	management: 5 courses  • Organization vitalization: 7 courses	Organization vitalization: 2 courses     Self development: 13 courses
New Shop Manager course	Employees that have completed the long-term training program Over 1 year	Conditions for a Shop Manager Masterpiece shop's master piece splendid teamwork Creating masterpiece services		IT course: 5 courses     Language:     11 courses     Self development:     1 course	Organization vitalization: 7 courses  Total: 32 courses
Specialist Course Charlotte Academy	New Shop Manager Less than 1 year	Professional's attitude Happy workplace		Total: 55 courses	

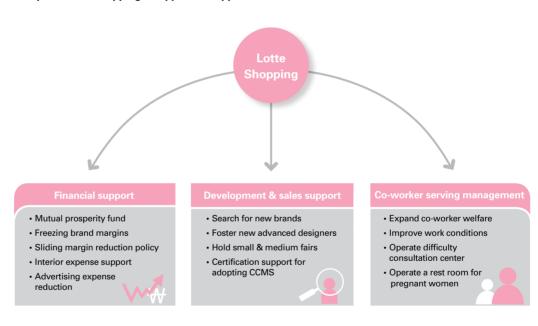


# **Supplier Support**

Financial Support for Suppliers | Product Development Support | Serving Co-workers

Acknowledging that suppliers are companions for mutual growth, Lotte Shopping develops and operates systematic support programs to enhance their actual sustainability levels. "Equal Project 10" is a strategy focused on achieving mutual growth by enhancing competitiveness of suppliers through diverse support programs such as financial support, small & medium company search, brand development, promotions, management support, co-worker welfare & health management, etc.

#### I Scope of Lotte Shopping's Support to Suppliers I



Key Performance Indicators	Unit	Division	2008	2009	2010
Short-term financial support	KRW 100 million	Department Store	-	45	41
Win-win funds	KRW	Department Store	-	-	56
vviii-wiii iuiius	100 million	Mart	<del>-</del>	-	154

# **Financial Support for Suppliers**

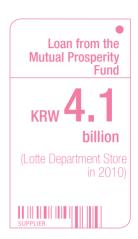
Through cooperation with financial companies, Lotte Shopping provides financial support & advanced payments and operates a fund to alleviate financial difficulties of small & medium suppliers. This financial support is being expanded to help support all suppliers including purchasing companies.

#### **Mutual Prosperity Fund for Suppliers**

Lotte Department Store operates mutual prosperity fund to provide short-term funds to suppliers. As of the end of 2010, a total of KRW 15 billion was created. Among the 1,000 suppliers that regularly engage in business with Lotte Department Store, those with smaller revenues or those that can apply for credit quarantee insurance are given priority for loans from the fund. The maximum amount extended per company is KRW 400 million. Contrary to previous practices in which suppliers were aided in obtaining loans from financial firms with Lotte credit, this loan comes from Lotte Department Store's own fund which was specially created to achieve mutual prosperity.

## **Working Capital Support for Small & Medium Supplier**

With the start of the purchasing card in 2002, Lotte Mart provides diverse financial support to suppliers, which include network loans, family loans, damoa loans, electronic credit sales receivables guaranteed loans and mutual prosperity funds. In 2011, to expand mutual growth with suppliers, Lotte Mart initiated direct financial support by securing KRW 25 billion in funds. Including the indirect financial support in connection with financial companies, the total financial support amount is projected to be expanded in 2011. In addition, through a regular financial support policy survey, the company gathers suggestions from suppliers, which are then used to improve its financial support to the suppliers. By directly consulting with suppliers in financial difficulty, Lotte Mart provides financial support catered towards the needs of the supplier.



#### | Supplier Financial Support Program |

	Details
Established a coexistent cooperation fund	Provide favorable interest rates to the Lotte Department Store suppliers through cooperation with commercial banks
Mutual prosperity fund support	Provide no interest short-term liquid money loans
Advanced money for food products purchase	Advanced purchase payments for food
Cash settlement with suppliers	100% cash settlement with suppliers for product & purchase costs
Freeze margin on all brands	Froze margins on all Lotte Department Store brands in 2010

## **Product Development Support**

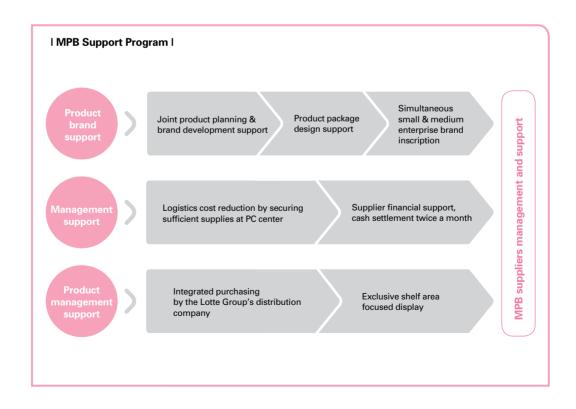
Lotte Shopping established and operates diverse support policies to help suppliers market their products and develop brand products. An incubating policy is being initiated to help search and foster designers with limitless growth potentials, while new products are being introduced through joint development with suppliers.

#### **Fostering New Advanced Designers**

In April 2010, Lotte Department Store was the first in Korea to conclude a working agreement with the Seoul Industrial Communications Promotion Agency to help foster new advanced designers and search for brands by providing information, operating shops and marketing jointly. Through this, in August 2010, Lotte Department Store opened a specialized select shop selling products directly produced by new advanced designers in suppliers. The specialized select shop provides an opportunity to introduce creative and adventurous products by outstanding new advanced designers. In addition, the specialized select shop can be positively evaluated as having provided expanded support in a relatively weak existing distribution phase for suppliers.

#### **MPB Product Development**

As part of Lotte Mart's small & medium enterprise mutual prosperity policy, MPB products have jointly been developed and marketed. MPB products are Lotte Mart's exclusive mutual prosperity PB that helps search for small & medium producers' brands with excellent product power but low brand recognition and with low potential for securing stable sales channels. It also helps foster independent brands competitiveness through diverse support provided by distribution companies. In 2010, there were 486 MPB products generating KRW 49 billion in sales. In 2011, 600 new products are planned with a projected revenue of KRW 70 billion.



# **Serving Co-workers**

The co-workers at Lotte Shopping deliver Lotte Shopping's values to customers at the direct point-of-contact. That is why building a strong partnership through continuous communications and support is very important. Lotte Shopping provides various welfare benefits. In addition, a policy has been established where difficulties faced at counters are actively addressed and treated.

#### **Expansion of Co-worker\* Welfare**

From April 2010, Lotte Department Store expanded the welfare support for its long-serving co-workers to similar standards as its full-time employees in order to enhance company loyalty by the coworkers. The amount allocated for existing year-end presents and flowers for celebration or condolence events have been increased, while support for funeral articles and birthday gifts have been newly added. To protect co-workers' rights and provide satisfaction for internal customers, Lotte Mart guarantees a day-off for participation in special family events such as entrance or graduation ceremonies for co-worker and service employee children, helping enhance work satisfaction by co-worker and service employees. Every year, outstanding co-workers & service employees are selected and provided with an award and prize money. In 2010, a total of 236 co-workers & service employees were provided awards.

#### **Psychological Counseling Service**

Lotte Shopping became the first company in the distribution industry to provide store visits by external professional counselors to give stress management counseling to co-workers. Additionally, certified counselors from Nanum Jari (Place for Sharing) visit co-workers to listen to any grievances and offer counseling.

#### **Open Note**

Co-workers of Lotte Department Store may use an anonymous note system to submit any grievances or requests related to their work conditions. The notes can be dropped off in the 'open note' box located within their lounge for collection. Opinions are reviewed for reflection while feedback and improvements on their grievances are guickly provided and carried out.

#### Co-workers' Day

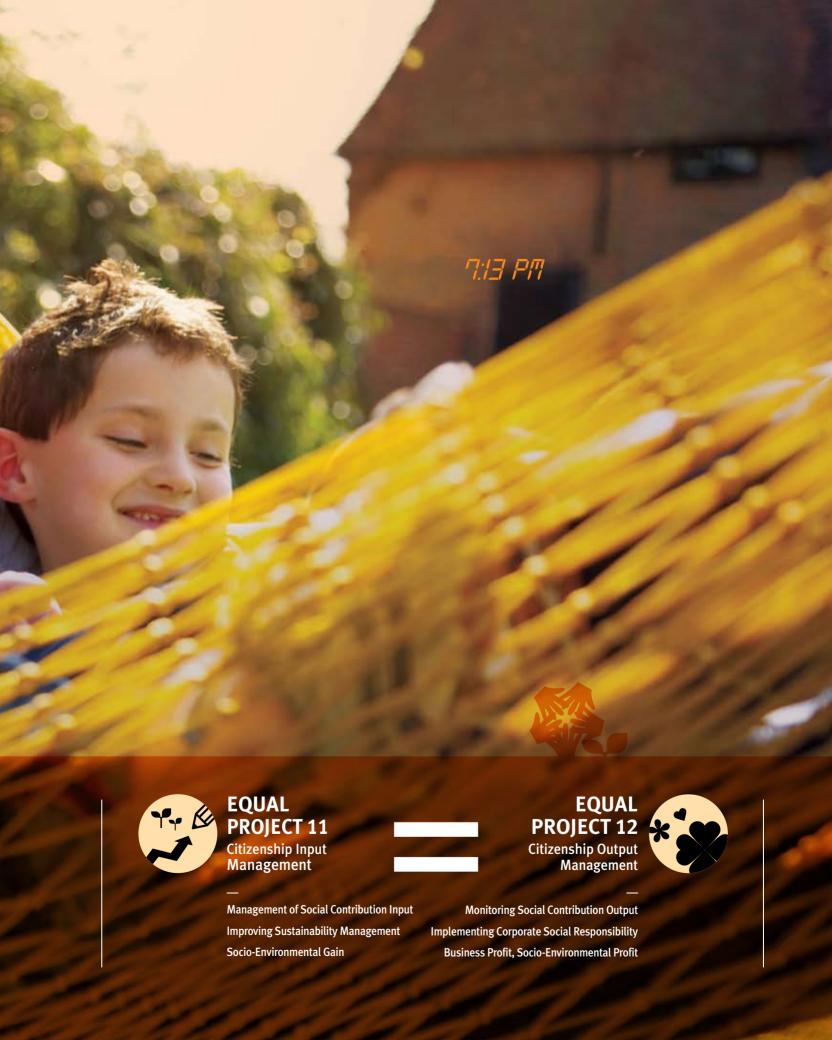
At each store of Lotte Department Store, one day of each month is designated as "Co-Workers' Day". Special events celebrating co-workers, such as birthday parties and special meals are conducive to promoting their sense of belonging and spirit of comradeship. In addition, communication between managers and co-workers becomes more productive.



Co-workers' Day

<sup>\*</sup> Co-worker: Worker who works at stores of Lotte Department Store but employed by a partner company







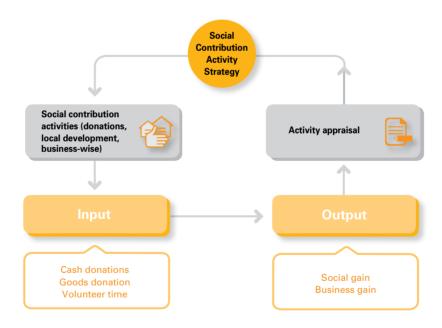
# Citizenship Input Management

Social Contribution Strategy | Volunteer Activities | Matching Grant

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The 'Citizenship Input Management' aims at enhancing social contribution activity efficiencies by quantitatively managing personnel and material elements of social contribution donations, volunteer activities and social contribution programs. It is a strategy focused on maximizing performance to enable social contribution beneficiaries receive actual benefits and for the company to give back through sustainability by efficiently managing key elements of social contribution.

#### | Lotte Shopping's Social Contribution Monitoring System Chart |



<b>Key Performance Indicators</b>	Unit	Division	2008	2009	2010
Social contribution spending	KRW 100 million	Department Store / Mart	-	123	152
Number of employee volunteers	Persons	Department Store / Mart	6,582	6,006	6,644
Volunteer hours of employees	Hours	Department Store / Mart	18,673	19,403	25,167

# **Social Contribution Strategy**

Lotte Shopping is working to share the gift of giving with more people in our society by setting up key directions for social contribution activities and systematically putting them into practice.

#### **Social Contribution Strategy**

To establish itself as a leading company contributing to the development of the country, local community and international society, Lotte Shopping is managing social contribution activities on a corporate strategy level. Lotte Shopping is developing social contribution strategies and programs that are integrated with the company's corporate strategy to eliminate one-time or simple donation-type social contribution activities, while effectively utilizing the characteristics of a distribution company and internal competencies under a long-term objective.

### **Effective Management of Social Contribution Expenses**

Lotte Shopping manages KRW 15 billion in social contribution funds annually. To effectively manage the fund, the social contribution expense items are managed in detail by type of activity and donation. A system is managed so that the funds are appropriately allocated to areas where it is most needed through the measurement of the effectiveness of social contribution fund utilization & social contribution programs. In addition, a fund execution guideline has been established to help execute the social contribution funds in a fair and transparent manner.

#### | Social Contribution Strategy |

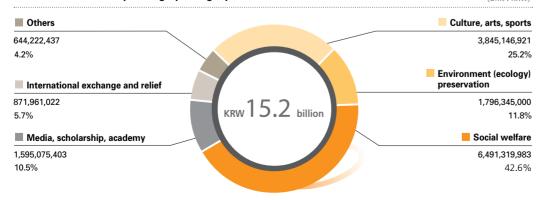


- · Birth Encouragement Campaign
- · local community partnership
- · Overseas social contribution
- · Green Campaign

- Strengthen internal & external birth encouragement social contribution activities · Lead the family-friendly
- Vitalize volunteer organizations by each branch -Diversify participatory volunteer programs
- · Strengthen overseas social contribution activities targeting regions with branches
- · Formation of a Lotte Department Store environment fund Continuously implement the Green Campaign

#### Social Contribution Spending by Category

(Unit · KRW)



## **Volunteer Activities**

Lotte Shopping voluntarily organizes and operates volunteer groups by each sales site. In addition, employees are implementing passionate share practice activities, which is part of Lotte Shopping's volunteer activities focused on local communities. Lotte Shopping is implementing diverse measures to establish itself as a loving corporate by practicing community-focused volunteer activities.

Number of employee volunteers

Volunteer hours of employees

#### **Volunteer Groups & Support**

There are currently 36 volunteer groups with 1,400 members in Lotte Department Store. As for Lotte Mart, there are 64 volunteer groups with 1,792 participating members carrying out diverse social contribution activities. To help vitalize volunteer group activities, Lotte Department Store funds each store and each volunteer group as activities expenses. A volunteer activity certification center is managed by positioning certification management staff at each store. To enhance the employees' volunteer participation, a volunteer grade certification policy is being implemented. Starting in 2011, a 'volunteer group award,' and a 'volunteer person award' will be awarded to the employees and co-workers to further encourage employees' volunteer activities.

#### **Designated as Volunteer Activities Certification Center**

In April 2006, Lotte Department Store was designated as a social welfare volunteer work certification center by the president of Korea National Council on Social Welfare (KNCWS). According to the social welfare volunteer works certification management regulations, Lotte Department Store, as a certified company, is responsible for appointing the Nanum Jari (Place for Sharing) counselors at each store, volunteer training management, establishment of a database system for certification and management of social welfare and volunteer works, and issuance of social volunteer work performance certificates for volunteers across the nation.

#### **Mentoring Program**

Since May 2010, Lotte Department Store has been actively involved in the Human Network project to carry out social contribution activities through oneto-one mentor-mentee scheme in which mentoring is being offered to low-income children and youths. Sponsored by the Ministry of Health and Welfare, the project aims at providing guidance in characterbuilding and emotional wellbeing which may not be achieved by the existing physical and financial aids. Through the voluntary participation of employees at Lotte Department Store, approximately 100 employees are carrying out true sharing activities, some things that a human network can provide, through mentoring activities. Employees visit local welfare centers where the mentee children stay to establish an emotional linkage through educational, arts & physical fitness guidance and in some cases, through emails and phone calls. These diverse share activities are being carried out to enable children in low income families to grow up with hope.



**Human Network Mentoring Agreement** 

#### | Volunteer Club Activities in 2010 |

Lotte Department Store	36	4,852	18,379
Lotte Mart	64	1,792	6,788
Total	100	6,644	25,167

# **Matching Grant**

Lotte Shopping voluntarily operates a social contribution fund through matching grant program in which the company deducts a certain amount from employees' wages and matches that amount to add the fund. The fund is used for social contribution activities.

#### **One-to-One Overseas Child Sponsorship**

Since 2009, Lotte Department Store employees have been extending help through the overseas child sponsorship program. Through one-to-one sponsorship and matching program in which the company matches the donations raised by employees, Lotte Department Store's employees are helping poverty-stricken children abroad and offering financial support to address their livelihood needs. Moreover, they act as mentors and get the chance to build a relationship with the sponsored children by exchanging letters and gifts and teaching them about the Korean culture and lifestyle. As of now, children in Vietnam, Cambodia and India are encouraged by the program.

#### **Improving Housing Environment**

Utilizing the social contribution fund which is raised by the matching grant scheme, Lotte Department Store improves housing of disadvantaged people such as senior citizens who live alone, child heads of households and the disabled in our communities. Over 200 employees from 21 stores participated in the volunteer activities and a total of KRW 55 million was used to improve housing environment. For greater employee involvement, Lotte Shopping awards in-house point to volunteering activity participants.

#### **Love Sharing Campaign**

Lotte Mart's matching grant fund has helped the underprivileged since 2005. Starting in 2008, Lotte Mart joined the We Start movement to support children of low-income families. The We Start movement is a non-profit civic initiative with a focus on "We". It aims at inspiring all of us to build a fair society where all the people are given equal opportunities by providing education, health and welfare to the needy children. Lotte Mart has been running efficient donation programs by installing happy moneyboxes at its stores nationwide and joining the angel campaign with civic groups.







Improving Housing Environment (Lotte Department Store)



"Love Sharing" Campaign (Lotte Mart)



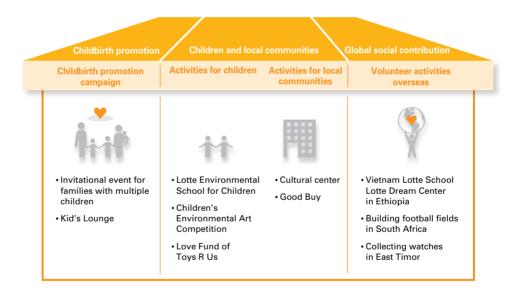
# **Citizenship Output Monitoring**

Childbirth Promotion | Global Social Contribution | Social Contribution for Local Communities | Social Contribution Programs for Children

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Citizenship Output Monitoring is a system in which the actual benefits to the beneficiaries and society as a whole is monitored as a result of the financial and personnel inputs made by Lotte Shopping. By implementing social contribution activities that actually provide real benefits to the beneficiaries, rather than a one-sided social contribution measure, Lotte Shopping is striving to grow alongside society.

#### I Lotte Shopping's Major Social Contribution Programs I



Key Performance Indicators	Unit	Division	2008	2009	2010
Participants in children's environ- mental art competition	Persons	Department Store	11,353	11,689	10,662
Participants in invitational event for families with multiple children	Persons	Department Store	-	735	612
Mambarahin for oultimal contars	Doroono	Department Store	417,515	401,122	558,547
Membership for cultural centers	Persons	Mart	328,514	382,966	412,738

## **Childbirth Promotion**

Recognizing the seriousness of low birthrate in Korea, Lotte Shopping initiated the childbirth promotion campaign to do its part in resolving the issue. The company approaches the campaign from two distinct perspectives; one to fulfill corporate social responsibility and two as an investment for our future based on our belief that a low birthrate can hurt corporate competitiveness.

### **Invitational Event for Families** with Multiple Children

Invitational event for families with multiple children is part of the Lotte Department Store's corporatewide campaign to encourage birth. This event is jointly held with the Ministry of Health & Welfare to continuously expand the interest and positive awareness of encouraging birth on a nation-wide level. In December 2010, 600 members of families with more than 3 children country-wide were invited to participate in the "2nd Da-doongee Family Outing Invitation.' Through diverse events such as the family love luck lottery and children's congratulatory chorus performance, and gifts provided to the families, it was an opportunity for the invited families to share happiness.

## **Opened the Seoul Arts Center** Kid's Lounge

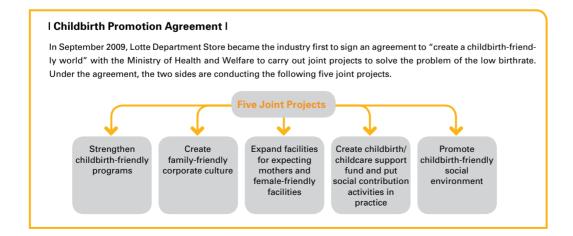
As part of Lotte Department Store's child birth encouragement social contribution activity, a "Lotte Department Store Kid's Lounge" was opened at the Opera House of the Seoul Arts Center in December 2010. The Lotte Department Store Kid's Lounge is a place where families can entrust their children safely while watching performances at the Seoul Arts Center. This has substantial meaning in that the company was able to enhance customer satisfaction.



Invitational Event for Families with Multiple Children



Lotte Department Store Kid's Lounge Open



## **Global Social Contribution**

Focused on countries where Lotte Shopping has a presence in such as Vietnam, China and Indonesia, the company is actively carrying out its social contribution activities to establish closer ties with local communities. Through social contribution projects in Ethiopia and South Africa, Lotte Shopping is practicing love sharing as a global distribution company.

#### **Vietnam**

As a result of a 13 months construction project starting in February 2010, Lotte Department Store opened its "2nd Lotte School" in the Bac Giang Province near Hanoi, Vietnam. In a newly opened two-story building, classrooms were expanded from three to eight, playground was renovated, and a fence built. By providing diverse facilities and materials, Lotte Department Store was able to provide the children with a safe and pleasant place to study as much as they want. This school project was the company's 2nd global educational support activity after the 1st Lotte School was opened in Quang Ngai Province in central Vietnam in September 2009. A 3rd and 4th Lotte School will be established going forward. Starting in 2010, Lotte Mart has been providing support to help foster young soccer dreamers in Vietnam. Lotte Mart also sponsored Taekwondo uniforms and goods to Vietnam's Taekwondo national team. In addition, with the cooperation of the Lotte Foundation, the company has been offering scholarships to three universities every year. Through this scholarship program, the Vietnamese young are naturally familiarizing themselves with Lotte Mart.

#### Indonesia:

By delivering donations and relief goods to the earthquake and Tsunami disaster recovery efforts in Indonesia, Lotte Mart is trying to share some of the pain suffered by the local citizens. In addition, through the cooperation of the Lotte Foundation, Lotte Mart provided scholarships to two universities in Indonesia to contribute to fostering future growth engines in Indonesia.

#### China

As part of the Lotte Department Store's 'Green China Project' campaign, a forestation project was initiated in Nankai Province, Tianjin in March 2011. To contribute to the clearing up of the skies above Tianjin due to yellow dust and pollution, the forestation project was jointly initiated with the citizens of Tianjin and various NGO groups. The forestation project took consideration of the local vegetation. This project help further solidify Lotte Department Store's image as a contributor to local community and as a volunteer corporate. With the initiation of the orphanage support project in China's Beijing area in 2011, the company is doing everything possible to practice social contribution activities in China. Visits to the orphanages in the Beijing area are done on a bi-monthly basis and will be expanded to all other branches across China.



Lotte Department Store's Lotte School in Vietnam



Lotte Mart's Donations to Indonesia

Social Contribution for Local Communities Social Contribution Programs for Children

### **Ethiopia**

As part of the 60th anniversary of the Korean War, Lotte Department Store is establishing a children's educational facility, "Lotte Dream Center," in Ethiopia, one of the nations that participated in the Korean War. Comprising of three buildings housing the educational, living and boarding facilities, the Lotte Dream Center will not only be used for educational purposes. After school, the Lotte Dream Center will provide local citizens with educational opportunities and medical support. Construction is planned to be completed by August 2011. In accordance to the Ethiopian educational system, the new semester will officially start in September 2011.

#### **Republic of South Africa**

During the 2010 World Cup event, Lotte Department Store sent a volunteer expedition to South Africa, the host country. The expedition team sponsored construction of two football fields in the area of Potchefstroom. The team also took part in the finishing work of football fields. In addition, the expedition members provided medical goods and conducted volunteer activities in cooperation with the Korean Open Doctors Society.

#### **East Timor**

Since most of the families in East Timor do not have clocks at home, students tend to be tardy or absent from school. Considering that it is difficult to provide quality and quantity education to students in East Timor, Lotte Shopping is initiating a "used clock collection campaign." Through this campaign, which was held in store information desks and appreciation events, a total of 30,000 clocks were collected. In addition to the clocks and clothes donated from outside of the company, 100 computers once used by Lotte Department Store employees, and groceries of Lotte Mart were delivered to East Timor.



Lotte Dream Center in Ethiopia Constructed by Lotte Department Store



Clock Donation to East Timor by Lotte Department Store

## **Social Contribution for Local Communities**

Lotte Shopping's social contribution activities in the local communities are initiated through Lotte Department Stores and Lotte Mart's cultural centers. By providing self development & educational opportunities, and supporting cultural activities, Lotte Shopping is contributing to the enhancement of the quality of life and local society.

#### **Lotte Department Cultural Center's** "Together with Local Communities"

Lotte Shopping cultural centers offer a variety of contents so that local residents can easily access to culture and leisure. From humanity lectures such as literature, arts and philosophy to health and hobby classes for people aged 50s and 60s and children's classes, cultural centers offer programs that satisfy diverse age groups. In particular, weekend programs tailored to all family members gain good responses from the participants. In addition, Lotte Department Store is contributing to the rich cultural life of the local citizens through free daily & open lectures on diverse topics, and various seasonal events such as puppet shows and magic shows. Art work exhibitions and presentation opportunities are provided to enable members to show off their skills.

## **Lotte Mart Cultural Center's** "Love Sharing Practice"

As part of Lotte Mart's hope project lecture event, lecture courses on three themes are held at Lotte Mart's cultural centers. By holding environment lectures related to climate change, global warming, etc. targeted towards adults and children, Lotte Mart is enhancing the awareness of issues affecting the globe. Through the sharing lectures, Lotte Mart was able to deliver donations to UNICEF. With these lectures and various campaigns, Lotte Mart is encouraging its members to individually actively participate in establishing an eco-friendly lifestyle and reducing greenhouse gas emissions.

#### | Cultural Center Status |

	Lott	te Department S	Store		Lotte Mart	
						Total no. of members (annual)
2008	25	41,860	417,515	34	47,030	328,514
2009	25	46,944	401,122	39	53,592	382,966
2010	29	60,702	558,547	48	66,469	412,738

#### | Major Lectures at Cultural Centers |

#### Lotte Department Store's Life Upgrade

- · With the increased interest in well-being & LOHAS (Lifestyle of Health & Sustainability), opened a course in health and cooking.
- · Strengthened planning for the humanities academy to contribute to the popularization of the humanities.
- · Expanded the eco-friendly eco-course.
- Organic household items & natural cosmetics manufacturing classes and handicraft courses using recycled goods.
- Entire lifestyle trend courses proposed for working moms. LOEL (Life of Open-mind, Entertainment and Luxury) groups, baby boomers and new seniors.

#### Lotte Mart's Hope Project

- · Eco-Smile for a Green Earth
- Collection of empty cosmetic cases
- Stop the usage of disposable vinvl
- Forest environment training center experience course
- · Happy dream sharing campaign
- Book sharing event
- Blood donation certificate donation
- · Lotte Mart Children Love! Birth campaign
- · Presentation performance by cultural center members
- Art handicraft exhibition

#### **Lotte Deco Market**

Starting in 2008, Lotte Department Store initiated the Deco Market where interior expendables are not scrapped, but rather sold at low cost through a bazaar, helping the environment. The gains from the bazaar are then donated to the needy neighbors. In February 2011, in conjunction with the foundation, "Happy Sharing," 4,000 items exhibited during the Christmas events were sold through the Deco Market. The gains from the sales were donated to the local children's center under the Korea Food for the Hungary International, an NGO group, to help treat children's diabetes. The KRW 7.6 million gains from the bazaar were used to treat children with diabetes. Leftover items from the bazaar were then resold through the "Happy Sharing" stores, a food for the hungry sharing store. The gains were used for domestic & overseas relief development projects.

#### **Social Contribution Activities for Local Communities**

Lotte Shopping carries out diverse local social volunteer activities by itself or in conjunction with NGO groups. Lotte Department Store continuously plans for new campaigns such as the "Lotte Department Store & Good Neighbors Social Contribution Activities Campaign." Lotte Department Store initiated the "Good Buy" campaign in 2009, the "Daddy Long Legs" campaign, a sisterhood campaign for overseas children, in 2011, and the "Haru, Present Japan with Spring" campaign to help Japanese earthquake victims in 2011, which received favorable reviews. Initiated in December 20, 2010 by Lotte Mart, "Supporting Children in Poverty" campaign selects children beneficiaries on a bimonthly basis. The selected children are provided with Lotte membership point donations by the customers. The Lotte membership points are collected by customer's using Lotte Mart's Internet shopping mall. The donated amount by customers are matched by Lotte Mart and delivered to the children through the Good Neighbors.



Lotte Department Store Deco Market

#### | Social Contribution Activities for Local Communities |

Activity	Period	Place	Detail
Good Buy Campaign for Children	Nov. 6, 2009 ~ Jan. 15, 2010	Lotte Department Store all stores	Made 10,000 memorabilia T-shirts, unfolded Lotte only products, bazaar events (main store), create a store-like atmosphere
Daddy Long Legs Campaign		Lotte Department Store all stores	Automatic support membership of overseas children relationship building campaign & unfolded 1,000 special products, held Lotte Only 100 bazaar (main store)
Haru Campaign, a program to support areas affected by the earthquake in	Mar. 25, 2011 ~ Apr. 3, 2011	Japan	Japan earthquake affected area donation support project, present Japan's earthquake hit areas with necessities for children / infants (powder milk, diapers, etc.)
Supporting children in poverty (Online fund raising campaign)	Once every two month	Lotte Mart Internet shopping mall	Select beneficiary children on a bi-monthly basis and Lotte Mart matches the donated Lotte membership points for the selected children

# **Social Contribution Programs for Children**

Lotte Shopping is in building a better and ideal future through its activities for children. The company is instilling the importance of environment among tomorrow's generation through the "Lotte Environmental School for Children" and "Children's Environmental Art Competition" while spreading warm spirit of sharing by carrying out social contribution activities for alienated children.

#### **Lotte Environmental School for Children**

Lotte Department Store operates an experiencebased education program for children aimed at teaching them about the importance of caring for our environment. The Lotte Environmental School for Children was launched in 2004 and produced 1,300 graduates over five years until 2008. Children visited an environmental farming community and went on a searchlight tour among the diverse list of learning programs. During holidays, they were offered the chance to visit glaciers in Canada, environmental wetlands in Hong Kong and study facilities in Japan devoted to preventing global warming. The curriculum reflects current environmental issues and attracts large number of applicants every year for its high quality program.

**Children's Environmental Art** Competition

In its 31st event as of 2010, the Lotte Department Store environment art competition is the industries' first and largest children and youth art contest. The competition has established itself as a representative environment preservation campaign for Lotte Department Store, helping children, the leaders of tomorrow, be aware of the importance of nature preservation. Every year at least 10,000

children from across the country participate in the environment art contest. Starting in 2009, the status of the art contest was upgraded with the sponsorship from the Ministry of Environment, Ministry of Foreign Affairs & Trade, Ministry of National Defense and the Museum of Contemporary Art. Especially in 2010, the environment art contest was carried out as an 'International Art Contest' by inviting students from international schools, China, Russia and Vietnam.

#### **Practicing Love for Children**

Always together with children, Lotte Mart's Toys R Us donates 0.5% of sales under its own brand to the Korea Childhood Leukemia Foundation and the Hong Myungbo Scholarship Foundation. Since its inception in December 2007 the Toys R Us team donated a total of KRW 46 million to support children suffering from children's cancer and soccer hopefuls. The funds were used for children's cancer rehabilitation, library operations, and scholarships for fostering youth soccer.



Children's Environmental Art Competition



Donation by Lotte Mart's Toys R Us

No. of Graduates of **Lotte Environmental** 

**School for Children** 



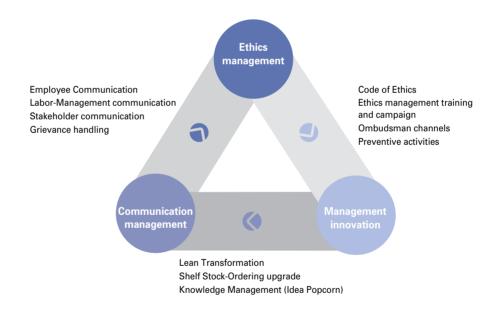


# **Our Culture**

#### Ethics Management | Management Innovation | Communication Management

By practicing ethics management, Lotte Shopping is fulfilling its social obligations in an equitable and competitive culture. Through continuous efforts towards management innovation, Lotte Shopping is firmly establishing its superior competitiveness. Reflecting the opinions and suggestions from diverse stakeholders through open communications, Lotte Shopping is creating a transparent corporate governance structure, thus obtaining the credibility from society and stakeholders. With this, Lotte Shopping is creating a sustainable growth cycle structure.

#### | Sustainable Corporate Culture |



Key Performance Indicators	Unit	2008	2009	2010
No. of employees participating in ethics training	Persons	-	-	373
Violations vs sales	Cases	-	20	27
Cost savings by Lean transformation	KRW million	3,471	16,315	20,914
Employee idea data (Idea Popcorn)	Cases	-	5,293	4,568

# **Ethics Management**

To earn stakeholders' trust and prevent management risks by unethical behaviors. Lotte Shopping takes steps to ensure that employees comply with the Code of Ethical Conduct. In addition, the company strives to induce suppliers' participation to respond to every aspect of potential ethical risks.

#### **Lotte Shopping's Ethics Management**

The Lotte Shopping Code of Ethical Conduct was adopted in 2001 as a way of promoting ethical values across the comapny. The Code of Ethical Conduct Bylaws set forth detailed guidelines on conduct to be observed by all employees.

#### **Ethics Management System**

At Lotte Shopping, potential ethical risks are being minimized by maintaining an ethics management exclusive organization to systematically practice ethics management, establishing the Codes of Ethics and the Code of Ethical Conduct, instituting compliance observation & preventive measures, holding ethical training for all employees, and carrying out campaigns to get the suppliers to participate.

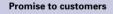
#### **Ethics Management Organization**

Lotte Shopping's Ethics Secretariat is responsible for all ethical related duties which include executing the duties of the ethical committee, managing the compliance of the code of ethics, and developing & managing ethical compliance programs. By widely implementing preventive measures for unfair trade practices and unethical conducts, and carrying out supervision & improvement measures, the Ethics Secretariat is taking the lead in creating Lotte Shopping's ethics management.

#### **Ethics Management Training and Campaign**

Every year, Lotte Shopping conducts classroom training on the significance and implementation of ethics management for employees. We also hold training and campaigns to promote ethical awareness among suppliers.

#### | Lotte Shopping Code of Ethical Conduct |



Customer respect, customer satisfaction, and customer trust

#### Responsibility and duty to shareholders

Management integrity, transparency, and shareholders right to be informed

#### Basic ethics of employees

Compliance with law. good faith, mutual respect, and competency development

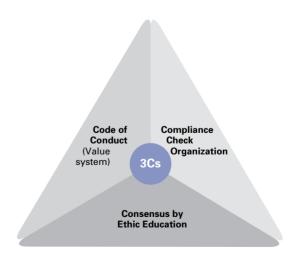
#### Ethical relations with partner companies

Fair trade, mutual development, and prohibition of unethical conduct towards partner companies

#### Responsibility to the nation and society

Sound business activities, prohibition of political activities, environmental friendliness, and safety and accident prevention

#### | Lotte Shopping's Ethics Management 3Cs |



#### **Ethics Management Ombudsman Channels**

Lotte Shopping's Ethics Secretariat gathers information related to corporate ethical conflicts through diverse channels online and offline. The acquired information is processed expediently and the results are made public at the soonest time possible. Any stakeholder with relations to Lotte Shopping such as employees, suppliers and customers can easily access this reporting system. In addition to violation reports such as corruption, wrongful acts, and damages to the dignity of the company, suggestions to policy improvements are also collected.

#### **Preventive Activities for Ethics Management**

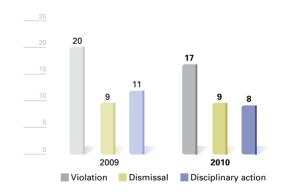
Lotte Department has prepared and distributed an ethics management manual that enables branches to carry out preventive activities voluntarily. Based on the distributed guidelines, self-inspection is conducted. Results are reviewed to find out potential risks and measures are taken guickly. In addition, Lotte Department Store conducts surveys targeting partner companies to assess ethical awareness level among employees and prevent ethical violations. The surveys also help us listen to the voices of on-site co-workers directly and carry out necessary improvement activities.

#### **Disciplinary Process and Action for Ethical Violations**

In case that there occurs a violation against the Code of Ethics and the Code of Ethical Conduct, disciplinary action is taken towards the violator based on the decision made by the ethical committee. The level of disciplinary action and reprimand is carried out in accordance the company's reprimand related regulations. In 2010, a total of 17 ethical violations were uncovered. Depending on the severity of the breach, nine individuals were dismissed and 12 were subject to disciplinary action. Meanwhile, Lotte Shopping maintain a system for protecting internal informants. The system ensures strict confidentiality of informants and protects them from retaliation or unfair treatment.

#### **Ethical Violations**

\* Lotte Department Store in 2010



#### | Ethics Management Ombudsman Channels |



Submission via Internet

Lotte Group ombudsman, Ethics Secretariat homepage. EDI homepage (Bitter/ Sweet Comments), ERP cyber-audit



Submission in writing

Regular or registered mail sent on an anonymous or identified basis



Submission via phone

Phone report directed to Ethics Secretariat on an anonymous or identified basis



Information gathering

Information obtained by Ethics Secretariat investigators from employees in stores and headquarters and co-workers

# **Management Innovation**

Lotte Shopping operates a knowledge-based system that enables the sharing of accumulated knowledge company-wide to maintain horizontal communications, and that allows the expansion of the innovative mentality horizon. Through continuous work process innovations, Lotte Shopping is improving management efficiencies and strengthening competitiveness.

#### Idea Popcorn

Idea Popcorn allows all employees to freely present their ideas. Proposed ideas are reviewed by the pertinent departments and viable ideas are implemented. In 2010, a total of 4,568 ideas were registered and 214 of them have been implemented. Idea Popcorn connected with the Knowledge Mileage and the IDEA system is contributable to realizing creative culture. To encourage employee participation, awards will be given to departments and individual for outstanding ideas and a compilation of implemented ideas will be published.

#### Lotte Jisik-in

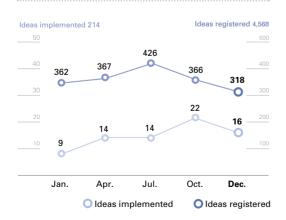
Lotte Shopping adopted the "Lotte Jisik-in (Knowledge-in)" system, starting in 2010, to be able to effectively utilize in management innovation, the group intellect of the employees and management equipped with knowledge from diverse areas. Lotte Jisik-in system creates a knowledge database and support information-sharing within the company. Anyone can submit questions through the system and an internal expert will provide prompt and accurate answers. About 2,500 questions and answers on departmental work procedures and

major company issues were registered in just the first month of operation. Along with active worker engagement, Lotte Jisik-in system is enhancing work efficiency.

#### Speed-up Campaign

The speed-up campaign was launched in 2007 to realize speed management that enables swift decision making and cooperation between departments. In 2010, electronic document approval times were down by 7% (average 78 minutes) from the previous year. More importantly, the campaign has enhanced inter-departmental cooperation and speed management. At present, connection to groupware enables real time checks on speed management indicators of pertinent departments, which in turn is encouraging greater participation by employees. One Pager campaign was kicked off in 2008 to slash unnecessary paperwork and boosting work efficiency. This campaign has simplified briefings and meetings and spurred the use of e-mails and instant messaging, thus enhancing work efficiency.

#### Idea Popcorn Results in 2010





Lotte Jisik-in Webpage

#### **Lean Transformation**

Lotte Mart has been carrying out differentiated innovation activities since becoming the first domestic retailer to introduce the Lean Transformation system in 2007. Lean Transformation refers to management innovation activity which helps remove inefficiencies and simplify work processes, thus enabling us to optimize work process and enhance work efficiency. Lotte Mart has internalized creative

problem-solving capabilities through Lean Transformation activities for the last couple of years. As a result, effects such as cost reduction and profit generation have been achieved. Lean Transformation will move beyond storeoriented innovation and improvement efforts and be applied by each division of the headquarters. They will also be applied in overseas stores and newly acquired stores to enhance work efficiency.

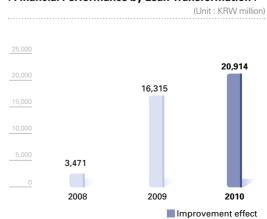
#### | Lean Transformation Concept Chart |

	Domestic	Overseas
In progress	<ul> <li>Introduced 60 stores as of the end of 2010</li> <li>Initiated corporate-wide innovation activities starting in the 2nd half of 2010</li> <li>Trained professional change management personnel &amp; 182 local agents</li> </ul>	Expanded the establishment of overseas sites     Initiated on-site improvement activities at the Shanghai, China branch in September 2010     Initiated localization in consideration of locally accumulated knowhow
Results	As of the end of 2010, KRW 40.7 billion in accumulated cost reductions & new profits generated     Exceeded the KRW 27.3 billion original target	-
Future plans	Will expand to 70 stores by the 2nd half of 2011     Formerly initiate innovation activities for on-site locations and parts of the main headquarters     Formalize the innovation performance RPL policy to firmly establish innovative activities firmly establish innovative activities	Plan to steadily expand the installation during the 2nd half of 2011     China branch, Indonesia branch, Vietnam branch

#### | Lotte Mart Lean Transformation |

#### **Lean Transformation** 1. Pursuit of end-to-end optimization across all processes 2. Process analysis and improvement using scientific methods → Continued performance and change management 3. Ongoing competency enhancement activities based on new skills development and changing awareness 4. Integrated top-down and bottom-up perspective throughout the organization

#### | Financial Performance by Lean Transformation |



# **Shelf Stock-ordering Upgrade** (POG-New CAO)

Lotte Shopping was the first in Korea to introduce an integrated shelf stock-ordering solution (POG-New CAO). The solution is designed to enable optimal merchandise flow across the value chain, from goods suppliers to customers, in order to minimize sales opportunity loss and maximize customer satisfaction.

#### **POG\* System**

Lotte Mart created the optimal product display system through the analysis of the characteristics and sales of each region by integrating the four steps which include product portfolio management, POG production, product display and analysis. The standardization of the display management process helps reduce the time it takes to display products at each store and upgrades the portfolio & display standards.

\*POG : Plan-O-Gram

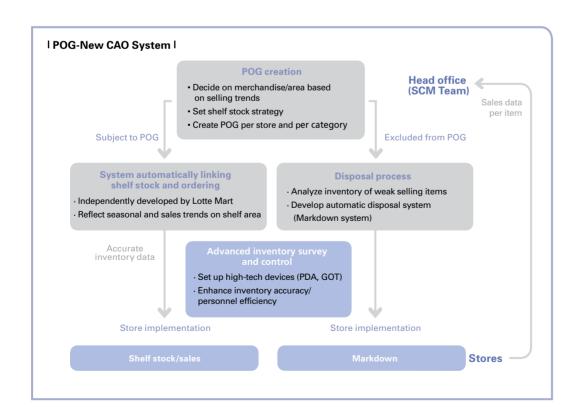
#### **POG-New CAO\* System**

Moving away from the manual ordering system that is based on the subjective judgment of store sales staff, Lotte Mart developed the New CAO system in 2008. Lotte Mart became the first Korean retailer to successfully develop a proprietary system that automatically links ordering to sales volume and shelf stock, and became the sole domestic retailer to adopt a third generation ordering method (POG-New CAO system).

\*CAO: Computer Assisted Ordering

#### **Effect of POG-New CAO System**

The independently developed, integrated shelf stockordering-inventory control solution (POG-New CAO system) has led to a gradual decrease in inventory and continued improvement in inventory days.



# **Communication Management**

Communications is one of the most important corporate values of Lotte Shopping. To enable free communications between employees and management, Lotte Shopping is creating an open corporate culture. In addition, various systems and programs are being adopted to enable creative ideas stemming from communications to be reflected in all parts of management.

#### **Dialogue with the CEO**

Dialogue with the CEO has been held since 2008. In 2010, 32 meetings were held, with 17 of them being held at the stores in the metropolitan area and 15 being done in the other regions. These sessions are organized to let store employees and co-workers express various difficulties and grievances they face. Along with difficulties and grievances, employees have expressed their views on marketing strategies and the future direction of department store operations. Information gained from the dialogue is conveyed to the pertinent departments. And the departments are required to provide feedback and report on measures taken for the issues raised during the dialogue.

**Communications Clinic** 

Starting in May 2009, Lotte Department Store adopted the "Communications Clinic" to enable efficient communications between headquarters and branches and between branches themselves. The communications training personnel makes direct visits to shops across the country to share important corporate policies and issues, while collecting suggestions to reflect in management. Since 2009 and as of 2010, there were a total of 10,375 employees participating in the communications clinic. Through the communications clinic, employees are able to freely exchange their opinions, enhance pride in the company and establish a strong mutual trust.

#### Charlotte N Broadcasting

Lotte Department Store started "Charlotte N" broadcasting system. The "Charlotte N" is an internal broadcasting system created to facilitate smooth communications between headquarters and sales branches, to enable communications with customers, and to establish mutual cooperation with suppliers. Based on a two-way communications platform, with a concept of consensus and fun, the broadcasting system creates programs that

everyone can relate to and provides vitality at the same time.

#### **PDA POS Messenger**

Lotte Department Store adopted the PDA POS Messenger in July 2010 to strengthen sales competencies through real-time sharing of sales information. By integrating the PDA POS which is actively used in all branches and the PC messenger, real-time communications among employees have become more convenient, while enhancing work efficiencies due to the minimization of unnecessary duties.

## **Senior Employees Setting an Example** Campaign

Although employees often come face to face with senior management on the shop floor, it is not easy to open communications. To solve this, senior employees are required to expand their work time on the shop floor to strengthen the bond with employees. In addition, an "Internal Employee Face to Face" day was designated on the first Sunday of each month at all stores. On this day, the department store head distributes food to the employees in the cafeteria. This is an opportunity to unite the employees, renew the atmosphere and promote the feeling of affiliation and camaraderie.

## **Measuring the Temperature of Employees** Campaign

Employee temperatures are measured once every month to vitalize communications through on-site voice listening and discussions with head of branches. This is continuously being maintained to improve internal communications through regular discussions, and to promote morale within the company by enabling fast processing of employee difficulties.



# **Employees' Grievance Handling**

Lotte Shopping is willing to listen to any voices of employees by operating various grievance handling programs, which contributes to strengthening our competitiveness. We believe that employee satisfaction is an essential prerequisite for securing outstanding workforces and high quality customer services.

#### Nanum Jari (Grievance Procedure)

Lotte Department Store operates Nanum Jari to address employees' grievances. Designed to handle grievances of employees and co-workers and upgrade irrational elements at worksites, Nanum Jari advises employees through various channels such as face-to-face visits, telephone, Internet and e-mail. Nanum Jari of each store is manned by 35 professional counselors. They advise on matters such as the work environment, sexual harassment, employee treatment, conflict resolution, and etiquette. An internal online counseling system has also been in operation since November 2007.

#### **Psychological Counseling Center**

In 2008, Lotte Department Store invited professional counselors from an outside agency to provide their services to employees once a week. Furthermore, Nanum Jari counselors have gained counseling certificates and advised employees of Lotte Shopping and vendors on issues such as family problems, depression and ways to relieve stress from 2009.

#### **Grievance Processing Committee at Store**

Lotte Mart holds a store grievance processing committee sponsored by the customer satisfaction staff bi-monthly. The committee is comprised of the store head, support manager and committee members. Difficulty issues are collected by each part of the store and consulted & solved by the committee. After the deliberation by the committee, planned measures and results are posted on the bulletin board for one month.

#### **Happy Counseling Center**

At Lotte Mart, the Happy Counseling Center allows employees to submit their grievances through diverse channels such as email, mail and telephone. The center provides advice on a wide range of grievances to all employees and makes every effort to swiftly resolve the raised issues.

#### **Sexual Harassment Preventive Training**

To prevent sexual harassment within the company through understanding the different roles of male and female employees, a sexual harassment preventive training is held once a year. In 2010, 54,032 Lotte Department Store employees and 7,570 Lotte Mart employees participated in the sexual harassment preventive training. With the subject, "Get to correctly understand sexual harassment within the company," the sexual harassment training is comprised of sexual harassment related regulations within the company, steps to be taken & implementable standard measures in case sexual harassment occurs within the company, and consultations for victims of sexual harassment and remedy processes.

No. of trainees who received sexual harassment preventive training in 2010 (Lotte Department Store and Lotte Mart)

60,602 employees

# **Labor-Management Relations Based** on Trust and Respect

The workers and management of Lotte Shopping uphold a shared philosophy and commitment to promoting trust and dialogue, mutual respect, voluntary engagement and cooperation. On the belief that labor-management relations of mutual prosperity serve as the basis for development of the company, we will spare no effort to build a sound relationship between the two sides.

No. of Union Members (Lotte Department Store and Lotte Mart)

persons

**Participation ratio** (Out of eligible members)

**55.8**%

OUR CUITURE

#### **Labor-Management Consultative Body**

Labor issues of Lotte Department Store are discussed and addressed through the collective bargaining held every other year or the monthly or quarterly labor-management council meetings. Management issues and performances are presented to employees during labor-management workshops which are held 1~2 times a year, thus boosting trust between the two parties. Lotte Mart mutually respects the relation between labor and management, and strives to establish a labormanagement culture to help promote joint interests and help continuously develop the company. Lotte Mart is trying to improve employee work conditions and eliminate conflicts through wage negotiations & collective agreements, and regular labor-management council meetings.

### **Joint Labor-Management Overseas Training Session**

Every year, joint labor-management delegations of Lotte Department Store and Lotte Mart visit overseas businesses. In February 2010, they visited Makro stores in Jakarta and Bali in Indonesia acquired by Lotte Mart as well as local shopping malls. The event served as an opportunity to increase employees' pride in the company and allow labor and management to share the company's vision. Going forward, we will introduce more overseas training programs to enhance global operational competencies.

#### | Labor Union Overview |

	Lotte Department Store	Lotte Mart
Eligible union members	2,757 persons	1,062 persons
Open Shop	Voluntary joining for Grade 4 and below employees, automatic withdrawal for Grade 3 and higher	Voluntary joining for Grade 4 and Grade 5 employees, automatic withdrawal for Grade 3 and higher
Union members	1,541 persons	592 persons
Full-time labor officials	10 persons	3 persons (time-off scheme is applied)
Affiliated group	Federation of Korean Trade Unions, Federation of Korea United Worker's Unions	

## **Stakeholder Communication**

Lotte Shopping defines shareholders, employees, customers, partner companies, local communities, and government as major stakeholders. Sustainability management at Lotte Shopping refers to activities aimed at fulfilling our responsibilities to diverse stakeholders and providing value that meets stakeholders' expectations.

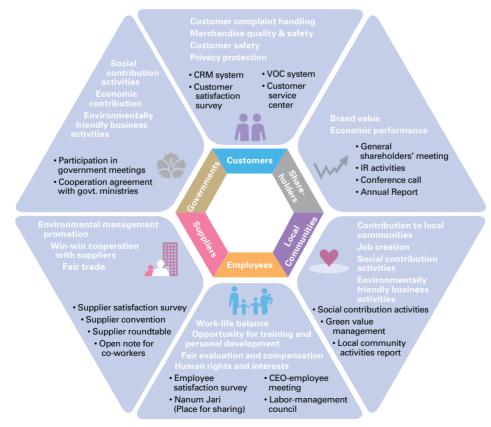
#### **Stakeholder Communication Channels**

Lotte Shopping offers diverse communication channels to receive stakeholders' views and requests and reflects them in business operations. Regular surveys by external agencies are conducted to gauge the satisfaction levels of customers, employees and partner companies, and the survey results are used to identify stakeholders' complaints and potential risks. In addition, going beyond the standardized communication channel, we map out plans to prepare diverse stakeholder engagement processes tailored to customers, shareholders, governments, employees, local communities, and suppliers.

#### **Communications Results with** Stakeholders in 2010

Through the "Housewife monitoring policy," Lotte Shopping conducts regular surveys. In 2010, customer satisfaction surveys were implemented with 3,710 participants. In addition, surveys were carried out on supplier satisfaction in relation to policies, employees and fair trade practices. A supplier convention was also held with a total 272 suppliers in attendance to exchange diverse opinions and suggestions. To listen to shareholder opinion, conference calls with shareholders were held. At the same time, NDRs (Non-deal Roadshows) and various local & government events are also utilized as windows of communication.

#### I Stakeholder Communication Channels I





# **Appendix**

**Economic Performance** 

**Environmental Performance / Employee Information** 

**Corporate Governance** 

**Stakeholder Survey Results** 

**External Awards and Certification** 

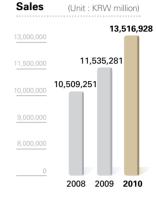
**Third Party Assurance** 

**GRI Index** 

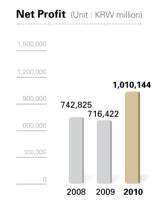
## **Economic Performance**

Lotte Shopping pursues a sustainable growth strategy to maximize economic value and generate returns for shareholders and customers.

Balance Sheet			(Unit : KRW million)
Assets	21,222,171	Liabilities	8,096,212
I. Current assets	2,599,159	I. Current liabilities	5,026,724
Quick assets	1,355,031	II. Non-current assets	3,069,488
Inventory	1,244,128		
•		Stockholders' equity	13,125,959
II. Non-current assets	18,623,012	I. Capital stock	145,217
Investment assets	5,207,913	II. Capital surplus	4,650,895
Tangible assets	11,629,659	III. Retained earnings	5,658,836
Intangible assets	450,219	IV. Capital adjustment	-32,501
Other non-current assets	1,335,221	V. Accumulated other comprehensive income	2,703,512
Total assets	21,222,171	Total liabilities and stockholders' equity	21,222,171



ncome Statement			(Unit: KRW million)
			2010
Sales	10,509,251	11,535,281	13,516,928
Gross profit	3,218,687	3,575,470	4,181,913
Operating profit	768,107	876,475	1,148,382
Profit before tax	925,046	939,770	1,326,850
Net profit	742,825	716,422	1,010,144



## **Key Financial Indicators**

				2010
Stability indicators	Current ratio	61.65%	61.65%	51.71%
	Debt-to-equity ratio	50.65%	50.65%	61.68%
	Borrowings dependency ratio	8.47%	8.47%	15.65%
Activity & growth indicators	Sales growth	8.07%	8.07%	17.18%
	Operating profit growth	1.71%	1.71%	31.02%
	Net profit growth	7.32%	7.32%	41.00%
	Total asset growth	11.40%	11.40%	13.74%
	Operating profit to sales ratio	7.31%	7.31%	8.50%
Profitability	Net profit to sales ratio	7.07%	7.07%	7.47%
indicators	Return on assets	5.88%	5.88%	5.07%
	Return on equity	16.82%	16.82%	7.94%

Francmic	Value	Generation	& Distribution	n (FVG&D)
LUUIIUIIU	value	Generation	C DISHIBUTION	

conomic value Generation & Distribution (EVG&D)					(Unit : KRW million)		
					2010		
Direct economic valu	e generated		10,509,251	11,535,281	13,516,928		
a) Income	Net sales, income from financial investments and asset disposal	Sales	10,509,251	11,535,281	13,516,928		
Economic value distr	ibuted		8,207,067	8,988,718	10,622,044		
b) Operating expenses	Purchasing expense, non-strategic investments, royalty and operating expenses	Cost of sales	7,290,563	7,959,812	9,335,015		
c) Wages & benefits	Total amount paid to employees	Wages, benefits, etc.	590,543	636,882	725,604		
d) Cost of capital	All expenses paid to providers of capital	Interest expense, etc.	28,839	67,105	136,287		
e) Taxes	Total taxes paid	Tax expense	291,964	313,962	414,169		
f) Investments in local communities	Voluntary contributions and investments (donations, etc.)	Donations	5,158	10,957	10,969		
letained economic alue	Economic value generated – Economic value distributed		2,302,184	2,546,563	2,894,884		

a) Income: Sales

b) Operating expenses: Cost of sales

c) Wages & benefits: Wages + severance pay + benefits

d) Cost of capital: Interest expense + interest on corporate bonds

Income tax expense + additional payment of income taxes + taxes and dues

f) Investments in local communities: Donations

# **Environmental Performance / Employee Information**

#### **Environmental Performance**

			Lotte Department Store		Lotte Mart			
				2009				
	nhouse gas sions (CO2)	ton	227,688	242,092	256,875	251,500	249,328	286,782
	Per unit area	kg/m²	366	361	338	391	363	348
	er consumption tricity)	MWh	416,387	450,220	475,091	457,370	455,760	526,200
	Per unit area	KWh/m²	669	671	625	711	663	639
CO <sup>2</sup> emissions		10,000 Nm³	1,479	1,370	1,508	1,700	1,637	1,842
	Per unit area	Nm³/m²	24	20	20	26	24	22
Wate	r usage	1,000 ton	3,031	3,089	3,369	3,495	2,993	3,016
	Per unit area	ton/m²	4.9	4.6	4.4	4.7	4.4	4.2
Waste generated		ton	33,957	35,177	38,023	33,799	36,899	41,265
	Waste recycled	ton	22,563	24,318	26,149	23,620	25,429	28,382
	Recycling rate	%	66.4	69.1	68.8	69.9	68.9	68.8

#### **Employee Information**

			Lotte Department Store			Lotte Mart		
Total	employees	Persons	6,004	5,911	6,555	9,323	9,114	11,548
	Regular	Persons	4,410	4,344	4,609	3,613	3,539	4,114
	Non-regular	Persons	1,594	1,567	1,946	5,710	5,575	7,434
Resig	ned employees	Persons	224	208	262	482	312	469
	Turnover rate	%	0.4	0.4	0.5	1.1	0.7	1.0
New hires		Persons	143	131	201	697	260	714
	Male	Persons	68	79	94	566	210	572
	Female	Persons	75	52	107	131	50	142
Fema	le employees	%	53.4	54.6	52.7	63.2	63.4	64.1
	Manager	%	3.3	3.3	3.9	-	-	-
	New hires	%	52.4	39.7	53.2	-	-	-
Disab	led employees	Persons	154	159	197	188	177	247
	Disabled employee ratio	%	2.4	2.6	3.1	2.1	2.0	2.1

# **Corporate Governance**

Lotte Shopping is committed to ensuring transparent and sound corporate governance that meets global standards. Continued improvement in corporate governance it helps us gain stakeholder trust and contributes to our sustainable growth.

### **Board of Directors**

The Lotte Shopping board of directors comprises 11 directors, six of whom are outside directors. Outside directors hold majority of the BOD, ensuring transparency. At present, CEO Lee Chul Woo serves as chairman of the board. Ye Jong Seok, head of Hanyang University Global MBA, was appointed as an outside director at the 41st general shareholders' meeting in March 2011, in succession to Im Jong In whose terms had expired. The eligibility criteria for outside directors is based on article 191-16, paragraph 3 and article 54-5, paragraph 4 of the Securities and Exchange Act, and article 37-6, paragraphs 2 and 3 of the enforcement ordinance of the same law. The compensation limit for directors is subject to approval at the general shareholders' meeting to prevent moral hazard by executives.

### **BOD Meetings and Resolutions**

The board of directors, in general, holds regular meetings once a month. Board resolutions require the presence of the majority of the directors and a majority vote from the directors present. The board held 14 meetings in 2010 to deliberate and decide on major management issues. Attendance rate of outside directors was as high at 96% on average in 2010.

#### | Board of Directors |

Executive	Term in office	Average attendance rate
Six (excluding 11 BOD directors)	Two years	96%

#### **BOD Committees**

The Outside Director Recommendation Committee and Audit Committee were set up under the BOD to ensure transparency and to check senior management's ability and expertise in overseeing

economic, environmental and social activities. The Outside Director Recommendation Committee nominates candidates for outside directors who represent the interests of shareholders. The committee, composed of one executive director and one outside director, held two meetings in 2010 to nominate outside director candidates and appoint chairman of the Outside Director Recommendation Committee. The Audit Committee shall establish, conduct, and assess the internal audit plans. Lotte Shopping's Audit Committee is comprised of three members all of whom are outside directors. The committee is independently operated and its responsibilities include auditing the company's accounting & financial statements and investigating the company's asset status. It has the right to request work reports from the board of directors. A total of six audit committee meetings were held in 2010. Agendas related to the financial statement audit and external audit were processed in a transparent manner. The committee is contributing to the transparency of Lotte Shopping's governance structure based on global standards.

### **Compensation for Directors**

Compensation for directors is subject to the directors' compensation ceiling approved at the general shareholders' meeting. The approved ceiling in 2010 was KRW 11 billion, the same as the previous year. The compensation amount paid out was KRW 6,472 million. Likewise, compensation for company executives is subject to the directors' compensation ceiling approved at the general shareholders' meeting. The approved ceiling was KRW 11 billion and KRW 1,239 million was paid per executive in 2011. Average compensation paid to an outside director and an auditor (outside director) was KRW 48 million and 44 million, respectively in 2011.

# **Stakeholder Survey Results**

Lotte Shopping carried out a survey to collect opinions from stakeholders on the company's sustainability management and to reflect the results in the sustainability report. During the online survey carried out for 2 weeks between March 23 and April 6, 2011, the company's stakeholders and sustainability management related experts participated.

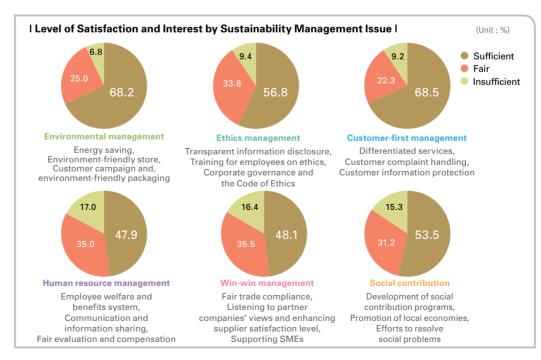
### **Sustainability Management Survey**

Some of the suggestions related to sustainability management included requests to (1) further focus on social obligations related to local society contributions and economic development, 2 increase concerns related to providing support to suppliers and strengthening relations with suppliers through mutual prosperity, and (3) further develop and implement mid- to long-term social contribution programs

that fully represents Lotte Department Store. The contents of the survey included (1) appraisal of the overall sustainability management level of Lotte Department Store, 2 appraisal of the level of detail by subject, and ③ suggestions related to sustainability management. A total of 628 people participated in the questionnaire survey, enabling the company to appraise the level of sustainability management and to identify core issues.

### I Breakdown of Stakeholder Survey Respondents I

	No. of respondents	Proportion		No. of respondents	Proportion
Customers	306	48.7%	Research institutions and academia	4	0.6%
Employees	199	31.7%	NGOs	5	0.8%
Shareholders	10	1.6%	Consulting firms	5	0.8%
Investors	2	0.3%	Media	1	0.2%
Suppliers	32	5.1%	Sustainability management staff	7	1.1%
Local communities	45	7.2%	Others	7	1.1%
Government agencies	5	0.8%	Total	628	100.0%



# **External Awards and Certification**

### | External Awards and Certification |

	Name of award	Details	Sponsor	Date awarded
	Green Safety Management Grand Prize	Lotte Department Store Marketing Strategy	Korea Economic Daily	Apr. 2010
	Korea Social Contribution Grand Prize in the eco-system preservation category	Selected as an outstanding environment management company	Korea Journalist Forum	May 2010
Sustainability	Child Birth, Great World Competitive Exhibition, Presidential commendation	Selected as an outstanding child birth encouragement campaign & outstanding family-friendly management company	Ministry of Health & Welfare	Sep. 2010
Management	Incorporated into the DJSI World indexes	Incorporate for 2 consecutive years & selected as the most outstanding retail company	Dow Jones-SAM	Oct. 2010
	This year's Green Product award	Selected as an outstanding eco-friendly product sales & green management practice company	Korea Green Purchase Network	Oct. 2010
	Low carbon green growth meritorious prime minister's award & Ministry of Environment award	Selected as the most outstanding eco-management company	Ministry of Environment	Nov. 2010
	Exemplary tax payer award	Selected as an outstanding exemplary tax payer	Ministry of Strategy & Finance	Mar. 2010
	Non-smoking meritorious award	Awarded the Ministry of Health & Welfare award for promoting a non-smoking culture	Ministry of Health & Welfare	May 2010
	This year's most excellent corporate award	Designated as this year's most outstanding corporate by the Korean Academic Society of Business Administration	Korean Academic Society of Business Administration	Aug. 2010
General Management	True Company awards	Selected as an outstanding disabled hiring company	Ministry of Em- ployment & Labor	Sep. 2010
	Fair Trade Commission meritorious award	Selected as an outstanding fair trade company during the 'Consumer's Day' commemoration	Fair Trade Commission	Dec. 2010
	National productivity grand prize	Selected as an outstanding corporate operational management company	Korea Productivity Center	Nov. 2010
	Korea idea management grand prize	Selected as an outstanding innovative management company	Korea Suggestion System Association	Dec. 2010
	1st in brand power, department store category	Selected 1st for 12 consecutive years in the brand influential appraisal related to consumer life	Korea Management Association (KMA)	Mar. 2010
	1st in the brandstar department store category	Selected as the number 1 company in the domestic brand value by industry for another year in 2011	Brandstock Corp. & Others	Mar. 2010
Service	Korea service grand prize / customer satisfaction grand prize	Selected as an outstanding customer service company	Korean Standards Association	Jun. 2010
	1st in the NBCI (National Brand Competitiveness Index) department store category	Selected 1st in the national brand competitiveness department category for 8 consecutive years	Korea Productivity Center & Others	Sep. 2010
	1st in the NCSI(National Customer Satisfaction Index) department store category	1st in the customer satisfaction index of the department store category for 8 consecutive years	Korea Productivity Center & Others	Oct. 2010
M	GMP(Great Marketing Practice) award	Selected as the most outstanding marketing case company by the Korean Marketing Association	Korean Marketing Association	Oct. 2010
Marketing	2010 Korea Internet communications grand prize, overall grand prize	Selected as the most outstanding online communications company	Korea Internet Communication Association	Dec. 2010

# **Third Party Assurance**

#### To the Management and the Stakeholders of Lotte Shopping

Lotte Shopping (hereinafter called "LOTTE") Sustainability Report 2011 (hereinafter "The Report") was structured and prepared by the management of LOTTE, who retains responsibility for the contents and data presented in The Report. SolAbility (hereinafter "The Auditor") was assigned by the management of LOTTE to conduct an independent third-party review of the full Report. The objective of this review is to externally assure that statements and data presented in The Report are free of material misstatements and based on thorough data collection systems.

#### Assurance Methodology

The Auditor's assurance work has been planned and performed in accordance with internal guidelines that go beyond leading international assurance standards. The Report and Report contents have been evaluated against the following criteria:

- Responsiveness
- Materiality
- Reliability

In addition, The Report has also been assessed against the reporting criteria as outlined in the Global Reporting Initiative's Sustainability Reporting Guidelines (GRI G3).

#### Scope of this assurance engagement

The Auditor's assurance engagement covers and reviewed and examined the following:

- · Review of whether financial data has been derived adequately and correct from the financial statement audited by an external third-party auditor
- · Provision of assurance on whether policies and management systems in The Report are reflected adequately
- · Provision of assurance on whether non-financial data in The Report is presented in full, and free of material misstatement

#### Assurance process and works undertaken

In order to provide assurance to the stakeholders, The Auditor undertook the following steps during the assurance engagement:

- · Reviewed a selection of external media reports
- Review of the current sustainability issues that could affect LOTTE's business and are of interest to LOTTE's
- · Reviewed LOTTE's processes for determining material issues to be included in The Report
- · Performed a peer review of global sustainability reports to benchmark disclosure levels
- Reviewed selected group-level documents relating to safety, social, ethical and environmental aspects of LOTTE's performance, to test the coverage of topics within The Report against stakeholder information needs.
- · Conducted interviews with senior managers of LOTTE
- Reviewed relevant policies, guidelines and management systems at store and corporate level
- · Reviewed LOTTE approach to data collection and data management at corporate and site level
- · Reviewed internal performance documentation of non-financial data presented in The Report
- · Conducted LOTTE headquarter visits, interviewing high level management and operational managers for relevant business units
- Reviewed environmental, health and safety related processes at site and corporate level
- Reviewed store data collection and management systems at site level and verified sample data to test whether non-financial data have been collected, consolidated and reported appropriately at corporate level and the locations visited.

#### Limitations of this assurance engagement

The scope of this assurance engagement was limited to LOTTE headquarter and a sample store visited in Korea. The Auditor did not conduct any visits to overseas facilities or projects in which LOTTE holds interests. Our review of data processes included the following data sets: environmental data, health & safety data, as well as social data. Verification of non-financial data was conducted based on samples on corporate and store level; however, not all data at all stores have been verified. Our review of these data processes at operations level was limited to the LOTTEoperated businesses visited.

#### **Findings**

We reviewed and provided feedback on drafts of The Report and the data presented, and where necessary changes were made. On the basis of the work undertaken, nothing came to our attention to suggest that The Report does not properly describe LOTTE's non-financial performance.

#### Our conclusions

On the basis of our review and in accordance with the terms of reference for our work we provide the following conclusions on The Report. Our conclusions should be read in conjunction with the above section on "Assurance process and works undertaken" and "Limitations of this assurance engagement"

#### Completeness

Has LOTTE provided significant information to its stakeholders in an appropriate manner? Has LOTTE reflected its business operation and external impacts in The Report?

- · We consider that the scope of The Report and information contained in The Report reflects stakeholders' interests appropriately and covers the material issues.
- · We don't consider that there are material issues that are not contained in The Report concerning stakeholders' interests.

#### Materiality

Has LOTTE provided a balanced representation of material issues concerning LOTTE's sustainability performance in its operations and business interests?

- We consider that the information contained in The Report covers the most relevant aspects of LOTTE's sustainability management and performance according to LOTTE's business and operations.
- •Nothing has come to our attention that causes us to believe that LOTTE's management has not applied its processes for determining material issues to be included in The Report, as described in "Assurance Methodology"

#### Reliability

Are the contents and the data presented in The Report complete and free of material misstatements?

- · We have reviewed internal policies, processes and management systems. Nothing has come to our attention that causes us to believe that The Report contents are not free of material misstatements.
- We have reviewed data collection systems and verified samples of the presented non-financial data. Nothing has come to our attention that causes us to believe that health, safety or environmental data presented in The Report has not been properly collected and consolidated from information reported at operations level.

#### Responsiveness

How does The Report respond to stakeholder concerns and information needs? Does The Report fully reflect LOTTE's operations and external impacts?

· We have reviewed internal and external stakeholder-related information and consider that the information presented in The Report responds to most stakeholder information needs and requests.

#### Observations and issues for further consideration by the management of LOTTE

- · LOTTE has made steady progress in improving management systems and policies related to sustainability issues over the past years
- · We welcome the inclusion of product sustainability in the new report format, a first step to extend sustainability from operational impacts to the external impacts
- · While LOTTE has made progress in terms of sustainability, most activities happen isolated in the absence of a corporate-wide integrating sustainability framework
- The Auditor therefore recommends that
  - LOTTE keeps refining and developing its sustainability management systems and structure across all operations, and extends relevant policies and management to overseas expansion projects.
- Defines long-term sustainability key performance indicators and targets on corporate level and implements regular internal reporting and monitoring of these indicator on the top management level
- Capitalises on synergy potential by streamlining sustainability management policies and processes across the different business units

#### Our independence

The Auditor was not involved in the preparation of any part of The Report, and has no other affiliation with LOTTE that might compromise our independence or autonomy or place The Auditor under LOTTE's influence, therefore ruling out any possible conflicts of interest.

> August 22, 2011 Andy Gebhardt Director



SolAbility Co., Ltd. is a company based in Korea, exclusively specialised in corporate sustainability management services for corporate clients.

# **GRI Index**

•: Reported •: Partly reported •: Not reported N/A: Not availableable

G3 item		e raray n		oorted N/A: Not availableal
number	Content	Page	Reporting level	Remarks
Strategy	& Profile	-		
PROFII	<u>LE</u>			
1.1	Declaration issued by CEO about reporting structure, strategy, and sustainability	2-3	•	
1.2	Key impact, risk, description on opportunities	2-3	•	
ORGA	NIZATIONAL PROFILE			
2.1	Organization title	4-5	•	
2.2	Representative brand, product and/or service	4-5	•	
2.3	Organizational operation structure	4-5	•	
2.4	Head office/center location	4-5	•	
2.5	Location of overseas business unit and number of countries, nation's name having concrete relationship with sustainability issues covered in the report or key business unit	7	•	
2.6	Features of ownership structure and legal form	4, 107	•	
2.7	Activity market form	4-7	•	
2.8	Size of reporting structure	4-7	•	
2.9	Key changes of size, structure, and ownership structure in reporting period	4-7	•	
2.10	List of awards in reporting period	8-9, 109	•	
REPOF	RTING PARAMETER			
3.1	Reporting period	1	•	
3.2	Publication date of recent report	1	•	
3.3	Reporting period	1	•	
3.4	Report and contact info of report's content	1	•	
3.5	Processes for report's content definition and decision	108	•	
3.6	Reporting coverage	1	•	
3.7	Concrete limited items about Reporting coverage and boundary	1	•	
3.8	Reporting standards affecting comparison possibilities in periods and/or groups such as joint-venture company, subsidiary, contract firm, etc	1	•	
3.9	Standards of data measurement method and calculation including techs and assumption supporting predictions applied in the process of information collection such as achievement index, etc	1	•	
3.10	Reengineering results and reasons of information proposed in the previous reports	-	0	
3.11	Updated items of coverage, boundary, measurement method compared with previous reports	1	0	
3.12	Chart showing locations of public notices in the report	112	•	
3.13	Policy and current habitual about outside assurance of the report	110	•	
CORPO	DRATE GOVERNANCE, COMMITTEE, PARTICIPATION			
4.1	Organizational ownership structure	107	•	
4.2	Describe if chair of board of directors keeps the position of the executive together, describe management role and reason for assignment of chair if applicable	107	•	
4.3	In case of unified structure in board of directors, the number of independent members or non-executive members	107	•	
4.4	Mechanism proposing advice or direction to board of directors by shareholders and employees	107	•	
4.5	Relationship between organizational achievements and incentives for members ofboard of directors, high-level managers, executives	107	•	
4.6	Process of conflict prevention for interests inside board of directors	107	•	
4.7	Process deciding expertise and quality of board of directors to support organizational strategy for economy, environment, and society	107	0	
4.8	Statements, codes of conduct, and principles about mission and core value developed internally related to economic, environmental, social achievements and activities	6, 10-11	•	
4.9	Steps for management and understanding of economic, environmental, and social achievements of board of directors	-	0	

	•: Reported	Partly re	ported O:N	ot reported N/A: Not availableable
4.10	Process of self-evaluation of achievements for board of directors	-	0	
4.11	Prevention approaches or adoption of principles and adoption methods	-	0	
4.12	Economic, environmental, social consitutions developed outside with support/join of organization, principles, or other initiatives	8-9, 64, 73	•	
4.13	Major membership qualification of associations and domestic/overseas organizations	-	0	
4.14	List of stakeholders' attendance	108	•	•
4.15	Recognition of stakeholders' attendance and selection criteria	108	•	-
4.16	Formation, attendance type of stakeholders including attendance rate of stakeholders in groups	103, 108	•	
4.17	Main topics and interests suggested by stakeholders and counter measures	108	0	
Manager	ment approach and performance indicators			
ECON	ОМУ			
EC1	Direct economic value creation and distribution	105	•	
EC2	Financial effect for climate change and opportunities and risks about business activities	14-25	•	
EC3	Organizational incentive coverage for pension benefit plan	65	0	
EC4	Beneficial records of government subsidy	-	N/A	No relevant case study
EC5	Wage rate of entry-level employee to consitional minimum wage of on-site major business unit	-	0	
EC6	On-site purchase policy of major business unit, habitual and rate	39	•	
EC7	Local employment process of major business unit and rate of high-level managers	7	•	
EC8	Infrastructure investment and service support activities and effects for public interests	86-92	•	
ENVIR	CONMENT	,		
EN1	The amount of raw materials used for weight or volume standards	-	N/A	Because of the characteristics of the distribution industry, no direct raw materials are used.
EN2	Rate of recycling among raw materials used	-	N/A	Because of the characteristics of the distribution industry, no direct raw materials are used.
EN3	Amount of direct energy consumption for primary energies	16-17	•	
EN4	Amount of indirect energy consumption for primary energies	16-17	•	
EN5	Total energy amount saved by saving and efficiency improvement	16-17	0	
EN6	Energy reduction rate as the results of these initiatives	20-25	•	
EN7	Initiative and achievement to reduce indirect energy consumption	20-25	•	
EN8	Total water intake for each supplier	18	•	
EN10	Total amount and rate of water reused and recycled	18	•	
EN11	Possession, renting, managed ground location and size in eco system protection area or near region	-	N/A	No relevant case study
EN12	Key impacts caused by products, services, corporate activities near eco system regions	-	N/A	No relevant case study
EN16	Total emission amount of direct/indirect greenhouse gas	17	•	
EN17	Emission amount of other indirect greenhouse gas	17	•	
EN19	Emission amount of destructive material of ozone layer	-	0	
EN20	Emission amount of major air pollution materials like NOx, SOx, and others	-	N/A	Has been exempted as a company restricted in air pollution material usage such as LNG.
EN21	Total amount of waste water and water quality for final discharge sources	_	0	
EN22	Discharged amount of waste material for formation and process methods	19	•	
EN23	Discharge rate and amount of critical contaminated materials	-	N/A	Regulation compliance, No relevant case study
EN26	Initiatives for reducing the environmental effects of products and services, degree of impact reduction	34-39	•	
EN27	Recycling rate of sold products and packing materials for product categories	23	•	
EN28	Penalty charged for violation of environmental regulations and non-expense restrictions	-	N/A	No relevant case study

SOCIE	TY: LABOR AND HABITUAL			
LA1	Employment type, employment contract and regional HR status	106	•	
LA2	Transfer rate and amount for age, gender, region	106	•	•
LA4	Employee ratio for adopting collective negotiation	102	•	
LA5	Minimum notice period about key updates of organizational management, objection statement about collective agreement	102	•	Is not complied by the collecti agreement, but notifications are regularly made through work cooperation requests, messengers and bulletin boar
LA7	Regional occurrence of Injury, occupational disease, missed workdays, absence, and occupational accidents	64	•	
LA8	Education, training, counseling, prevention and risk management program to support employees, families, local communities about critical diseases	64	0	
LA10	Annual education time period for per position-based employee	56	•	
LA11	Continuing education program to support technical management and continuing employment availability and help retirement management	57, 65	•	
LA12	Employee ratio for periodic evaluation about achievement and career development	60-61	•	
LA13	Governance organization's structure and employment size for gender, age, small group membership, other diversity related index	62-63	•	
LA14	Basic wage ratio in male/female employees in employment categories	63	•	
SOCIE	TY: HUMAN RIGHTS			
HR1	The amount and rate of key investment agreement for human rights article or human rights inspection	73-74	•	
HR2	Ratio of human rights inspection for major suppliers and contract firms	73-74	0	•
HR4	Car accidents and related handling for total automobiles	63,79	0	
HR5	Management to support relevant rights and business units estimated for potential violation of freedom of associations and collective negotiations	102	•	
HR6	Management to eradicate child labor and business units with high risk of child labor occurrence	95-96	0	
HR7	Management to eradicate forced labor and business units with high risk of forced labor occurrence	95-96	0	
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	95-97	•	
SOCIE	TY: SOCIETY			
SO1	Program's feature, coverage, and effectiveness for evaluation and management for impact on local communities in the level of start, operation, and end of business activities	94-96, 82	•	
SO2	The amount and rate of business units analyzed for corruption risk	94-96	•	
SO3	Employee ratio of education for anti-corruption policy and process	94	•	
SO4	Management for corruption accidents	96	•	
S05	Position for public policy, setup of public policy and attendance to lobbying	94-96	•	
SO8	Penalty and non-expense restrictions charged for violation of law and regulations	-	N/A	•
SOCIE	TY: PRODUCT GUARANTEES			
PR1	Customer's health and safety impact evaluation process during the use of products and services for improvement, ratio of major products and services with relevant evaluation	28-32	•	
PR3	Information type of products and services with process-based request, ratio of major products and services applicable to such information requirements	33	0	
PR5	Customer satisfaction related activities including results of customer satisfaction survey	43	•	
PR6	Restrictions, standards, and self-motivated principle compliance program related to marketing communication such as advertisement, promotion, and sponsorship, etc.	73-74	•	
PR9	The amount of penalty for violation of law and regulation about supply and use of products and services	-	N/A	No relevant case study

# **Lotte Shopping 2011 Sustainability Report Reader Survey**

Thank you for your interest in Lotte Shopping 2011 Sustainability Report. Please take a moment to fill out this reader survey. Your feedback will be reflected in future reports as part of our efforts to improve the quality and integrity of report contents.

Address: 17th fl. Lotte Shopping Center Building, 1 Sogong-dong, Jung-gu, Seoul 100-721 Korea Contact: Corporate Social Responsibility, Management Planning Team, Lotte Department Store

Tel: 82-2-2118-2031 Fax: 82-2-2118-2280

Email: nathun@lotteshopping.com

Other ( 2. How helpful		-	ancing your u	ınderstanding	of Lotte Sho	pping's
sustainability  Very helpful	activities / Helpfu		□ Average	□ Not ver	y helpful 🗆	Not helpful at al
Mhatinfaun	otion did :	romuniah to a	oo in this yes	- aut?		·
<ul><li>3. What informal</li><li>Company overvious</li></ul>	•	<b>you wish to s</b> Business strateg	•	stor information	□ Customer	convice
	<b>- 5</b>	Social contributi	ons □ Envi	ronmental	□ Other (	)
regarding emplo	oyees		man	agement		
I. What is your	oninion o	n the level o	f information	provided in a	ach nart?	
r. Wilat is your	оринон о			•		Ni-sh-l-f-l-s
Business Overvie	2/ <b>Λ</b> /	Very helpful	Helpful	Average	Not very helpful	Not helpful at a
Environment Equ		_	_	_	_	_
Product Equal Pr	,					
Customer Equal	•					
Workplace Equal	Project					
Supplier Equal P	roject					
Society Equal Pro	oject					
Our Culture						
5. What issues	would you	u like to see a	addressed in	future reports	s?	
6. Please provious sustainability	-		or suggestic	ons on Lotte S	Shopping's	





# **Contact us**

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