

LOTTE SHOPPING  
SUSTAINABILITY  
REPORT 2012

THINK

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TOMORROW

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# Reader's Guide

## 1. Reporting Guideline (GRI G3.1)

Lotte Shopping 2012 Sustainability Report was prepared in compliance with Sustainability Reporting Guidelines by Global Reporting Initiative and contains all profile disclosures. Lotte Shopping made every effort to include disclosures of management approach for each indicator category and to report its performance against the 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, 2011, to December 31, 2011. According to the going concern principle, this report includes partial coverage of sustainability management activities carried out in the first half of 2012. 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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### Website

**Lotte Department Store** [www.lotteshopping.com](http://www.lotteshopping.com)  
**Lotte Mart** [www.lottemart.com](http://www.lottemart.com)  
**Lotte Green** [www.lottegreen.co.kr](http://www.lottegreen.co.kr)  
**Lotte Shopping** [www.lotteshoppingir.com](http://www.lotteshoppingir.com)

# Contents

## Overview

02\_CEO Message 06\_Business Overview 08\_Global Business  
09\_ Sustainability Management Strategy 10\_ Sustainability Management KPI  
11\_ External Awards and Certification 12\_2011 Highlights

## Environment Equal Project

<b>EQUAL PROJECT 01 Environmental Management</b>	15
Greenhouse Gas Management   Energy Management   Water and Waste Management	
<b>EQUAL PROJECT 02 Environmental Offset</b>	19
High Efficiency Energy Facilities   New and Renewable Energy Facilities   Reduced Packaging   Eco Store   Environmental Campaigns	

## Product Equal Project

<b>EQUAL PROJECT 03 Product Quality &amp; Safety</b>	27
Product Safety Management   Food Hygiene Management   Providing Product Information	
<b>EQUAL PROJECT 04 Sustainability in Products</b>	31
Expanding Sales of Environment-friendly Products   Championing Local Products	

## Workplace Equal Project

<b>EQUAL PROJECT 05 HR Management</b>	35
Human Resource Development   Nurturing Professionals   Nurturing Global Employees   Fair Performance Evaluation	
<b>EQUAL PROJECT 06 Work &amp; Life Balance</b>	40
Providing Equal Opportunity   Employee Benefits   Family-friendly Management	

## Supplier Equal Project

<b>EQUAL PROJECT 07 Supplier Management</b>	45
Supplier Communication   Fair Trade Compliance   Nurturing Suppliers' Employees	
<b>EQUAL PROJECT 08 Supplier Support</b>	49
Financial Support for Suppliers   Product Development & Human Resources Support   Serving Co-workers   Supply Chain Management	

## Society Equal Project

<b>EQUAL PROJECT 09 Citizenship Input Management</b>	55
Social Contribution Strategy   Social Contribution Input Management	
<b>EQUAL PROJECT 10 Citizenship Output Monitoring</b>	58
Childbirth Promotion   Social Contribution for Local Communities   Global Social Contribution   Social Contribution through Cultural Activities	

## Customer

67\_Customer Satisfaction 68\_Customer Communication 69\_Reinforcing Online Channels  
70\_Customer Relationship Management 71\_Customer Information Protection  
72\_Safe Shopping Environment

## Our Culture

74\_ Ethics Management 76\_ Management Innovation 78\_ Communication Management  
79\_ Labor-Management Relations 80\_ Stakeholder Communication

## Appendix

82\_ Economic Performance 83\_ Corporate Governance 84\_ Sustainability Management Issues  
85\_ Environmental and Social Performance 86\_ Third Party Assurance  
88\_ Assurance Statement for GHG & Energy Target Management System 89\_ GRI G3.1 Index  
90\_ UN Global Compact



We promise to strive  
for challenge and growth to emerge  
as a global sustainable company.

Lotte Shopping has built its firm presence as the leading retailer of Korea, continuously delivering extraordinary growth since it was founded.

Now, Lotte Shopping aims to achieve yet another goal of becoming a “Respected, Global Sustainable Company.”

Along that journey, diverse interest and demands of stakeholders will remain vitally important in guiding us towards the aspiration.

We will always stay close to the voice of our stakeholders with a promise of mutual growth for the future.

# CEO Message

“Together with all our shareholders,  
we will share our dream of becoming  
a global sustainable company.”



At Lotte Shopping, we manage our business with a focus on sustainability, aspiring to deliver a rich and happy life for all our stakeholders including customers, employees, suppliers and local communities. We firmly believe that our pursuit for sustainability management will ultimately serve as the driving force for maximizing corporate value and creating continued growth for Lotte Shopping.

Last year was another good year for Lotte Shopping as we continued to achieve remarkable results amidst global economic crisis and prolonged recession. We have consolidated our basis as a global retailer through new store openings, business diversification and overseas expansion. In response to global climate change, we have dedicated our effort to reducing our carbon footprint while operating green stores and broadening eco-friendly product offerings. Furthermore, we expanded communication channels and introduced systematic support programs to drive shared growth with our suppliers.

In recognition of such accomplishments in 2011, Lotte Shopping was chosen as the Retail Super Sector Leader for two consecutive years by Dow Jones Sustainability Index World (DJSI World), while having been represented in the DJSI World for three years in a row. We also ranked 4th global retailer in department stores among Forbes Global 2000 - a ranking published by a world-renowned economic journal Forbes. Lotte Shopping has thus reaffirmed its position as a top-tier company in global retail business.

With an aspiration to move beyond the progresses made thus far, Lotte Shopping will push ahead further to take on greater responsibility that befits our status as a global retailer, seeking continuous change and innovation along the way. We will strive to pursue a balance between financial gains and social and environmental performance, while keeping ourselves focused on our goals and progresses, and incorporating the outputs in the sustainability report as transparently as possible.

We ask for your keen interest and active engagement in our dedicated endeavors for challenging ourselves to grow into a sustainable enterprise.

**Shin Heon**  
Lotte Shopping CEO



“We will bring greater prosperity to society through industry-leading social responsibility practices.”

## **Noh Byung-Yong**

Lotte Mart CEO

Lotte Mart is determined to become a company that delivers happiness to all of our stakeholders by delighting the customers, sharing growth with suppliers and fulfilling our social and ethical responsibilities.

Last year, we announced our product revolution to offer customers with more socially valuable merchandise. Guided by our determination, we developed differentiated product series such as ultra-cheap “Tongkeun (broad-minded)” and high-quality “Sonkeun (unsparing)” products, designed to seek shared growth with smaller and medium enterprises (SMEs). In addition, significant progresses have been made in various aspects of social contribution and environmental management—e.g., we became the first retailer to receive the “Green Management System” certification, launched the “Happy Dream Volunteers” involving all executives and employees, and were named No. 1 department store by the National Customer Satisfaction Index (NCSI). To address the social issue of mutual prosperity in particular, Lotte Mart worked to build strong partnership with the suppliers to lay a platform for shared growth in Korea and beyond.

We launched a Lotte Mart outlet in Luyuan, Jilin Province of China in September 2011, thus becoming the first Korean distributor that celebrated the opening of the 200th global store. With multiple stores in operation in three countries - China, Indonesia and Vietnam, Lotte Mart has truly reshaped itself as a global retailer that represents Korea.

Going forward, Lotte Mart will continue to strive towards excellence by focusing on the quantitative growth in scale and qualitative growth in efficiency. We will also exert leadership in promoting environmental management, shared prosperity as well as social responsibility as a beloved corporate citizen. We sincerely ask you for your continued interest and encouragement for our efforts to truly enrich your lives.

## “Lotte Super will be in forefront of creating an eco-friendly culture in the distribution industry.”

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Established in April 2000 as a supermarket division of Lotte Shopping, Lotte Super has since achieved sustained growth.

Under the slogan of “fresh products, friendly neighbors,” Lotte Super has given priority to purchasing local produce and hiring locally to help vitalize the local economy while creating a new customer-oriented distribution culture to enable customers to shop in a close, convenient and pleasant environment. Moreover, in tune with heightening awareness of climate change and other environmental issues, we apply environmental standards in all decision-making and are striving to carry out corporate sustainability management through distributing more eco-friendly products, saving energy and promoting green procurement.

Going forward, we will do our best to grow as a sustainable company that values communication with local communities and fulfills environmental and social responsibilities.



**So Jin-Se**

Lotte Super CEO

## “Lotte Cinema will make the value of customer satisfaction and environment preservation the first priority.”

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With a business scope spanning multiplex movie theaters along with film investment and distribution, Lotte Cinema is positioning itself as a global total entertainment company.

From site selection to wide-ranging services, our movie theater operations are guided by an underlying devotion to people, nature and movie. With eco-friendly facilities and cutting-edge equipment that create a pleasant viewing environment combined with services that go beyond customers' expectations, we aim to enhance customer satisfaction.

Lotte Cinema is committed to becoming a sustainable and well-respected global enterprise that puts customer satisfaction first and meets the diverse needs of stakeholders.



**Sohn Kwang-Ik**

Lotte Cinema CEO

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# Business Overview

Established in 1979, Lotte Shopping started off with the operation of department stores. Since then, the company has expanded its business scope to discount stores, supermarkets and cinemas to grow into Korea's leading distribution company. We are also reinforcing our 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 2011. The additions during the year included four department store branches (one in Korea, three overseas) and 28 discount stores (five in Korea and 23 overseas). Domestically, we also made further progress in the outlet, shopping mall, category killer, and fashion brand (development and import of prominent overseas brands) businesses in 2011 after successful acquisition of GS Retail's three departments and 14 discount stores in 2010, 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 department store opening in Beijing, China, in August 2008 and third (second in China) in Tianjin in June 2011. In the discount store segment, Lotte Shopping is currently operating 124 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

supermarket chain (54 discount stores, 11 supermarkets) in 2009. Additionally, we opened 15 discount stores in China and six in Indonesia in 2011. We plan to bolster our presence in the overseas countries.

\*Coverage of non-financial performance in this report extends to only our department store and discount store divisions.

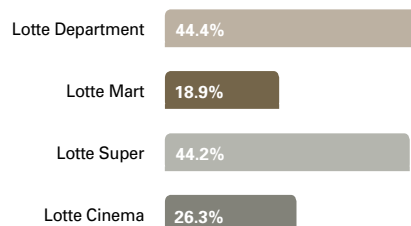
**Lotte Department Store** ● As Korea's leading retailer, Lotte Department Store continued with new department store branches and outlet stores opening, recording robust performances in 2011 by posting over 10% growth year-on-year. For 2011 alone, it opened three new stores domestically – Lotte Mall Daegu Esiapolis (a Life Style Center), Lotte Premium Outlet Paju and Lotte Mall Gimpo Airport while continuously accelerating market entry abroad by successfully opening Dongmalu branch in Tianjin, China. We also earned the honor of becoming a global top-tier retailer as we ranked fourth in the department store category in Forbes Global 2000 rankings announced by the famed economic

## Corporate Profile

Company name	Lotte Shopping Co., Ltd.
Date established	November 15, 1979
CEO	Shin Heon
Core business	Large-scale retail stores
No. of employees	24,801
Capital stock	KRW145.2 billion

## Domestic Market Share in 2011

(based on data officially disclosed)



## Lotte Shopping's Business Divisions

(as of the end of 2011)

Division	Date established	No. of stores	Merchandise
Department store	Nov. 1979	39 (36* in Korea, 3 overseas)	Clothing, sundries, home appliance, furniture, jewelry, food
Discount store	Apr. 1998	219 (95 in Korea, 124 overseas)	Food, household supplies, clothing, sundries
Supermarket	May 2001	350	Food, household supplies, sundries
Cinema	Oct. 1999	83 (75 in Korea, 8 overseas)	Film investment, distribution, screening

\* 30 department stores, five outlets and one Lotte mall (including six operated indirectly under management contracts)



magazine Forbes in April 2012. This reaffirms our position in the global distribution market.

**Lotte Mart** ● Lotte Mart posted a 17% growth in sales in 2011, thanks to its consistent drive for new store openings both in and outside Korea, innovative merchandising, and management efficiency. A total of 26 stores comprising five in Korea and 21 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 growth engines, backed by continued expansion of a leading toy store chain “Toys R Us” and “Digital Park” - a place for experiencing digital appliances.

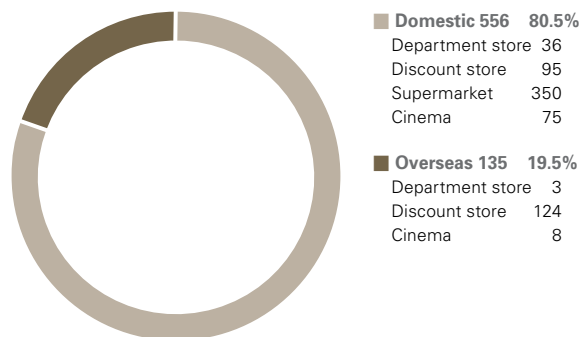
**Lotte Super** ● The year 2011 was a good year for Lotte Super as it celebrated its 10th anniversary as one of the top supermarket chains, excelling in both revenue growth and store expansion. The company offers a various selection of

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 by adjusting merchandise items and sourcing local specialties.

**Lotte Cinema** ● Lotte Cinema has continuously evolved over the years into a custom-tailored, multi-cultural venue offering one-stop entertainment from film viewing and dining to cultural experience. This unique strategy enabled the company to be placed among top two in Korea despite our relatively short history. From 2008, Lotte Cinema has been growing into a global entertainment company as a leader in Asia by penetrating into overseas markets such as Vietnam and China.

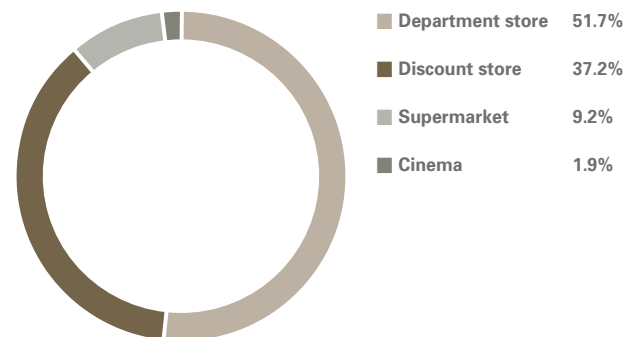
#### No. of Stores

(As of the end of 2011)



#### Sales Proportion by Division

(As of the end of 2011)



\*based on total sales officially disclosed

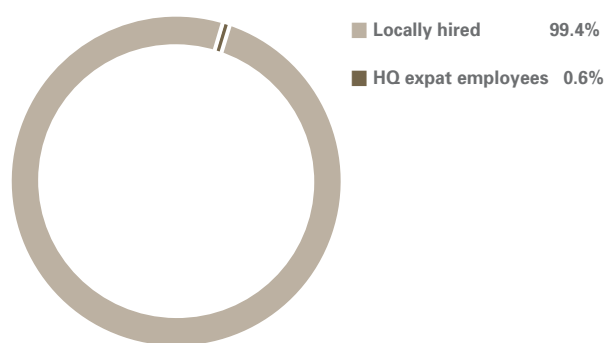
# Global Business

Lotte Shopping has been making inroads into overseas market aggressively with a view to achieving its vision of “Global Top 5 Department Store,” and “No. 1 Asia Retailer” by 2018..

**Global Strategy - Strategy for VRICs** ● Lotte Shopping has decided on VRICs (Vietnam, Russia, Indonesia and China) as its target overseas markets. The company is implementing localization strategies by launching new stores and pursuing M&A in these four countries. Starting with the successful opening of Moscow store in Russia, Lotte Department Store opened Beijing store in 2008 and Dongmaru store in Tianjin China in 2011. China. Various plans are being reviewed for new store openings in overseas markets including Culture Center store in Tianjin in 2012. We plan to establish a total of 38 new stores by 2018. Meanwhile, Lotte Mart sets a goal of opening 174 stores in China, 40 stores in Indonesia, and 15 stores in Vietnam for the coming two years by the end of 2014. The company already successfully opened 15 stores in China and six stores in Indonesia in 2011.

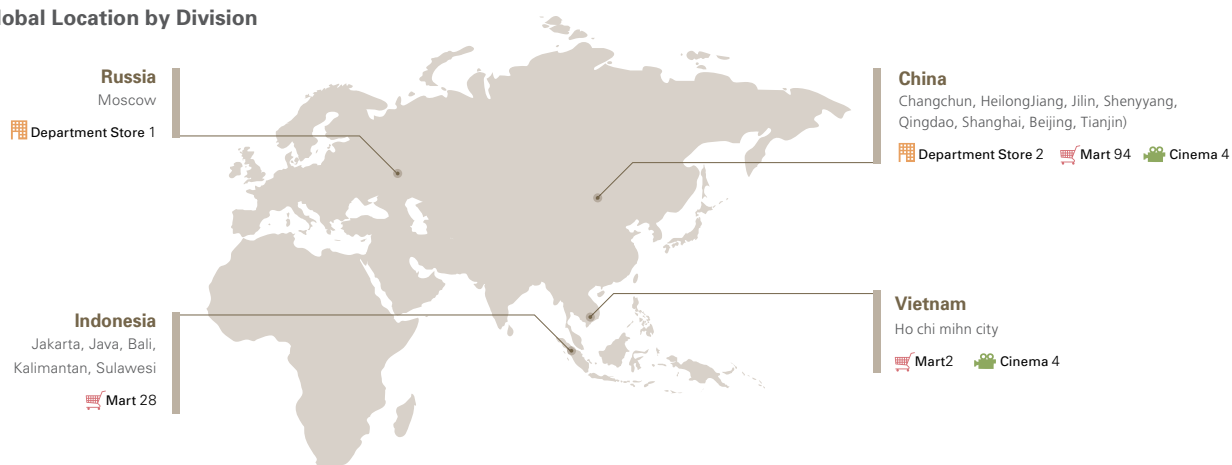
\* VRICs :Vietnam, Russia, Indonesia, and China

## Employment Status of Overseas Stores



\*For department stores and discount stores

## Global Location by Division



## Overseas Manpower Status

Country	Major jobs of locally hired employees	Type of store	Department store	Discount store
China	Branch chief, vice chief, marketing, sales management, admin, HR, etc.	Corporation, Representative office	908	17,194
Russia	Branch, marketing, sales management, admin, HR, IT, etc.	Corporation, Representative office	129	-
Vietnam	Research on markets and store sites, etc.	Representative office	21	572
Indonesia	Research on markets and store sites, etc.	Representative office	23	2,190
Total			1,081	19,956

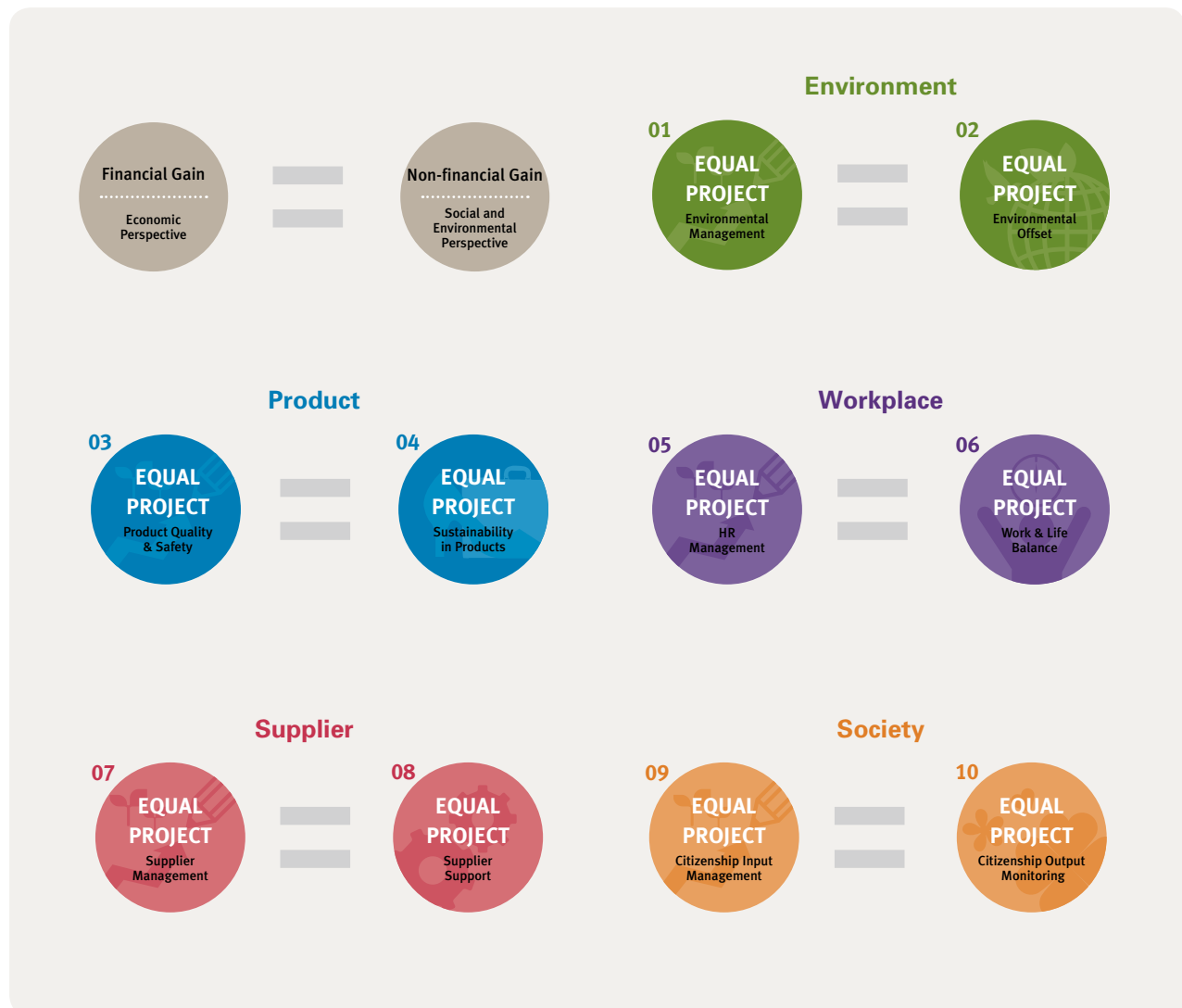
# Sustainability Management Strategy

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. The Equal Project represents our strategic measures for corporate sustainability management.

**Equal Project** ● The Equal Project comprises ten specific projects in five 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 between financial and non-financial performance is developed and executed in each of its main domains, i.e., environment, product, supplier, society and workplace.

Equal Project Conceptual Diagram



# Sustainability Management KPI

## 01 Environmental Management

Sustainability Management KPI	Division	2009	2010	2011
Greenhouse gas emissions (tCO <sub>2</sub> e)	Dept. Store	242,092	256,875	276,953
	Mart	251,186	312,622	337,299
Power consumption (Electricity) (MWh)	Dept. Store	450,220	475,091	512,098
	Mart	455,760	526,200	574,939
Fuel usage (LNG) (10,000 Nm <sup>3</sup> )	Dept. Store	1,370	1,508	1,639
	Mart	1,637	1,842	1,808
Water usage (1,000 tons)	Dept. Store	-	-	-
	Mart	2,993	3,016	3,521

## 03 Product Quality & Safety

Sustainability Management KPI	Division	2009	2010	2011
HACCP-certified stores (No. of stores)	Dept. Store	5	7	10
Certified stores under hazardous food blocking system (No. of stores)	Mart	84	90	95
LFSA (Lotte Mart Food Safety Audit) (No. of stores)	Mart	95.4	95.7	94.8

## 05 HR Management

Sustainability Management KPI	Division	2009	2010	2011
Total training expenditure (KRW million)	Dept. Store	4,125	4,799	6,515
	Mart	2,601	3,025	3,421
Training hours per employee (Hours)	Dept. Store	163	163	180
	Mart	107	103	123
Retirement ratio (%)	Dept. Store	0.4	0.5	0.7
	Mart	0.7	1.0	0.9

## 07 Supplier Management

Sustainability Management KPI	Division	2009	2010	2011
Supplier participation in supplier convention (No. of suppliers)	Dept. Store	233	272	484
	Mart	-	-	42
Supplier participation in SME fairs (No. of suppliers)	Mart	-	-	187
Co-workers who received education (Persons)	Dept. Store	75,678	83,461	119,586

## 09 Citizenship Input Management

Sustainability Management KPI	Division	2009	2010	2011
Social contribution spending (KRW 100 million)	Dept. Store/Mart	123	152	157
Number of volunteer groups (No. of groups)	Dept. Store/Mart	76	100	139
Number of employee volunteers (Persons)	Dept. Store/Mart	6,006	6,644	10,636
Volunteer hours of employees (Hours)	Dept. Store/Mart	19,403	25,167	51,718

## 11 Customer

Sustainability Management KPI	Division	2009	2010	2011
[External survey] Customer satisfaction index (Points)	Dept. Store	72	73	75
	Mart	72	72	73
[Internal survey] Customer satisfaction index (Points)	Dept. Store	76.5	80.1	*77.2
	Mart	61.8	90.4	94.3
No. of customer grievances received (Cases)	Dept. Store	25,829	21,976	18,173
	Mart	13,429	16,805	16,455

\*Deterioration due to stricter evaluation standard

## 02 Environmental Offset

Sustainability Management KPI	Division	2009	2010	2011
Green mileage points (KRW million)	Mart	97	109	154
Green store designated by the Ministry of Environment	Dept. Store	-	3*	3
*Green store participating in pilot project (No. of stores)	Mart	-	2*	15
Green building certification store (No. of stores)	Mart	-	1	2
Environment-friendly gifts presented (No. of gifts)	Dept. Store	428,417	406,803	504,641
	Dept. Store	96	86	87
Green purchasing amount (KRW 100 million)	Mart	42	100	102
	Dept. Store	11,689	10,662	10,472
Participants in children's environmental art competition (Persons)	Mart	210	210	210
	Dept. Store	69.1	68.8	69.1
Waste recycling rate (%)	Mart	68.9	68.8	68.2

## 04 Sustainability in Products

Sustainability Management KPI	Division	2009	2010	2011
Sales from environment-friendly multi brand stores (KRW 100 million)	Dept. Store	268	339	391
Sales of environment-friendly PB products (KRW 100 million)	Mart	114	256	330
Sales of products purchased through direct transaction with producers (KRW 100 million)	Mart	3,051	4,335	5,208

## 06 Work & Life Balance

Sustainability Management KPI	Division	2009	2010	2011
Female hiring ratio (%)	Dept. Store	54.6	52.7	51.7
	Mart	63.4	64.1	65.8
Female manager ratio (%)	Dept. Store	3.3	3.9	4.3
	Mart	4.1	4.9	6.4
Disability hiring ratio (%)	Dept. Store	2.6	3.1	3.4
	Mart	2.0	2.3	2.5

## 08 Supplier Support

Sustainability Management KPI	Division	2009	2010	2011
Short-term financial support (KRW 100 million)	Dept. Store	45	41	112
Percentage of cash settlement out of total purchasing expenses (%)	Dept. Store	51.1	59.1	95.1
Win-win funds (KRW 100 million)	Dept. Store	-	56	486
	Mart	-	154	515

## 10 Citizenship Output Monitoring

Sustainability Management KPI	Division	2009	2010	2011
Amount of Love Sharing Fund executed (KRW million)	Mart	-	29	125
Number of children helped by one-to-one overseas child sponsorship program (Persons)	Dept. Store	440	600	600
Membership for cultural centers (Persons)	Dept. Store	401,122	558,547	650,000
	Mart	382,966	412,738	524,381

## 12 Our Culture

Sustainability Management KPI	Division	2009	2010	2011
No. of employees participating in ethics training (Persons)	Dept. Store	-	373	407
No. of violations (Cases)	Dept. Store	20	17	17
	Mart	-	37	42
LCost savings by Lean Transformation (KRW million)	Dept. Store	16,315	20,194	20,500

# External Awards and Certification

Name of award	Details	Sponsor	Date awarded
<b>Sustainability Management</b>			
Incorporated into the DJSI World index	Incorporate for three consecutive years & selected as the most outstanding retail company	Dow Jones, SAM	Oct. 2011
Child Birth, Great World Competitive Exhibition, Order of Civil Merit, Camellia Medal	Selected as an outstanding family-friendly management company & child birth encouragement campaign	Ministry of Health & Welfare	Aug. 2011
Great Work Place 100, Grand Prize	Corporate culture area	GWP Korea	Nov. 2011
Korea CSR Award, Sustainability Scope	Selected as outstanding company for sustainability management practices	Korea Journalist Forum	May 2011
Sustainability Management grand prize	Mutual growth area	Korea Sustainability Management Evaluation Institute	Oct. 2011
Social Contribution Award	Selected as an outstanding company	Dong-A Ilbo	Jun. 2011
Low Carbon Green Growth Meritous Award	Ministry of Environment Award for operating green stores	Ministry of Environment	Oct. 2011
Excellent Green Distribution Company 2011	Awarded for three consecutive years in green environment and low carbon area	Ministry of Public Administration and Security	Dec. 2011
Green Management System Certification	Certified for outstanding green management system	Korean Standards Association	Nov. 2011
Green Safety Management Grand Prize	Recognized for excellence in green management and green service area	Korea Economic Daily	Jul. 2011
Green Merchandise of the Year	Awardee: Changwon Jungang branch	Korea Green Purchasing Network	Oct. 2011
Green Building Certification Criteria	Gimpo Airport Outlet was certified	Korea Land & Housing Corporation	Nov. 2011
Indoor Air Quality Certification	Measurement of indoor air quality	Korean Standards Association	Jul. 2011
Patriotic Culture Award	In recognition of promoting patriotic awareness	Ministry of Patriots and Veterans Affairs	Dec. 2011
<b>General Management</b>			
ISO 27001 Certification	International standard for information security management system (ISMS)	BSI Korea	Feb. 2011
IR Award	Selected as an exemplary IR company	MoneyToday	Sep. 2011
Corporate Innovation Award	Presidential award in the category of large enterprise	Korea Chamber of Commerce & Industry	Dec. 2011
Korea Idea Management Award	Grand prize, three consecutive years in the category of distribution service	Korea Suggestion System Association	Nov. 2011
National Productivity Grand Prize	Selected as an outstanding corporate operational management company by the Ministry of Knowledge Economy	Korea Productivity Center	Sep. 2011
Korea SCM Grand Prize	Selected in recognition of contributing to domestic SCM/ logistics industry by the Ministry of Knowledge Economy	Korean Society of Supply Chain Management	Nov. 2011
ARC (Annual Report Competition) Award	Selected as an outstanding publisher of annual report	MerComm of the USA	Sep. 2011
10th Korea Safety Grand Prize	Awarded by the Ministry of Public Administration and Security for excellent safety management	National Emergency Management Agency	Nov. 2011
<b>Service</b>			
1st in the NCSI(National Customer Satisfaction Index) department store and discount store category	1st in the customer satisfaction index of the department store category for 9 consecutive years.	Korea Productivity Center & Others	Dec. 2011
1st in the KS-SQI(Korean Standard Service Quality Index)	1st in the discount store category	Korea Management Association	Jul. 2011
CCM Certification	Recertified as consumer centered management company	Fair Trade Commission, Korea Consumer Agency	Jul. 2011
VOC-MS Certification	Highest rating AAA	Korea Management Association	Jun. 2011
Customer Satisfaction Management Grand Prize	Customer satisfaction category	Korea Economic Daily	Jan. 2012
Korea Service Award	Grand prize in overall category	Korean Standards Association	Jun. 2011
Korea Management Award	Grand prize in customer satisfaction category	Korea Management Association	Nov. 2011
Customer Happiness Management Award	Recognized as outstanding customer-centered management company	Service Marketing Association & Others	Sep. 2011
Consumer Grand Prize	Selected in recognition of enhancing quality of consumers' lives	Korean Society of Consumer Studies	Oct. 2011
Consumer Rights Promotion Award	Brand that contributed to enhancing the consumer rights	Korean Society of Consumer Studies	Dec. 2011
Seoul Metropolitan Government Women Happiness Certification	Nine stores were certified in recognition of woman-friendly facilities	Seoul Metropolitan Government	Nov. 2011
Barrier-free Building Certification	Three stores were certified in recognition of operating convenient facilities	Seoul Metropolitan Government	Oct. 2011
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	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
Excellent Shopping Mall "1st" Certification	All of our department stores were certified in recognition of excellent shopping environment	Korea Tourism Organization & Others	Oct. 2011
<b>Brand</b>			
1st in the NBCI (National Brand Competitiveness Index)	Department store category for nine consecutive years	Korea Productivity Center & Others	Sep. 2011
KS-PBI (Premium Brand Index)	Excellent in terms of brand awareness and image	Korean Standards Association	May 2011
K-BPI (Korea-Brand Power Index)	No.1 in department store category - 13 consecutive years	Korea Management Association	Mar. 2011
Brand Star Award	No. 1 in brand value in the industry - 12 consecutive years	Brandstock Corp. & Others	Mar. 2011
Highest Brand of the Year	Discount store category	Joongang Ilbo /Brandstock Corp.	Nov. 2011
Korea Representative Brand Award	Brand trusted by consumers	Korea Brand Management Association	Sep. 2011
Chosun Ilbo Advertising Award	Grand prize in distribution category	Brandstock Corp. & Others	Nov. 2011
Korea Internet Communications Award	Grand prize in social media category - two consecutive years	Korea Internet Communication Association	Dec. 2011
Internet Eco Award	Grand prize in distribution and shopping category	Korea Internet Professional Association	Dec. 2011
Smart App Award	Grand prize in corporate service category	Korea Internet Professional Association	Dec. 2011
App Award Korea	Selected as App of the year	Digital Chosun	Dec. 2011

# 2011 Highlights

Lotte Shopping has enhanced brand value through unrivalled customer services, competitive products and merchandising. We've also actively engaged ourselves in a wide range of activities across environmental and social spectrum, which brings about heightening our corporate image as well as creating customer value. We have been acknowledged both in Korea and abroad by various awards and recognitions, particularly in the category of service, logistics, environmental management, and transparent management.

01

## Super Sector Leader by DJSI World



Once again in November 2011, Lotte Shopping was included in the Dow Jones Sustainability Index World (DJSI World), inclusion for three consecutive years and also chosen as the "Retail Super Sector Leader" in global retail industry 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.

02

## Global Top 4 Retailer by Forbes

According to the announcement by Forbes in April 2012, Lotte Shopping was selected as the "Global Top 4 Retailer" among "Forbes Global 2000," two notches up from the 6th in the previous year. Forbes Global 2000 is a list published by Forbes every year for global company ranking in terms of financial performance and market capitalization. Having been named as a global top-tier retailer, Lotte Shopping thus reaffirmed its brand value and growth potential in global retail business.



03

## No.1 in the National Customer Satisfaction Index

Lotte Department Store ranked no.1 for nine consecutive years in the National Customer Satisfaction Index (NCSI) survey in the department store category while Lotte Mart was newly included in the index, topping the list among the large-scale discount stores in 2011. This recognition indicated our competitive edges and helped us assure customers' love and trust. The NCSI is a composite index reflecting customers' expectation and satisfaction level on each company's products and services.



04

## Great Work Place 100 Grand Prize

Lotte Department Store received the "Great Work Place 100" Grand Prize in the distribution category in 2011 in recognition of high ratings in the areas of "confidence in top management" and "pride in work and organization." In addition, the company grabbed the top-five honor in the list of "best company to work for" by college students. The survey conducted by Job Korea, an online job-search portal, verified that we had created a good corporate culture to work for and gained a positive image from college students.



05

## Sector Leader on the Green Ranking List

Lotte Shopping was selected as the no.1 company in the consumer and commercial service sector among the Korea's 100 major companies listed on the Green Ranking, proving its leading competitive edge in the environmental management. All the stores of the company introduced the "Green Card" system in a bid to promote green consumption. Moreover, to create a green store, various efforts such as the introduction of high efficiency facilities and expansion of eco-friendly product sales have been committed across the company. As a result, three stores of Lotte Department Store and 15 stores of Lotte Mart received the green store certification from the government.



06

### Global Social Contribution

There are various global social contribution programs unfolding at Lotte Shopping which align well with our status as a global retail enterprise. Among other programs which focus on the very needs of each overseas country, we began operating the second "Vietnam Lotte School" and the "Lotte Dream Center" in Ethiopia to help children get education they deserve, and supporting start-up programs for low-income bracket in Indonesia. As a corporate citizen of the global community, Lotte Shopping will consistently champion the cause for social responsibility in the journey ahead.



07

### Mutual Growth Programs

At Lotte Shopping, we are carrying out win-win management through various programs that help our suppliers improve financial healthiness and develop new products. The size of Lotte Department Store's two funds - mutual prosperity fund and coexistent cooperation fund - was expanded by KRW 100 billion while "Sonkeun (unsparing)" brand, a new brand of Lotte Mart was launched to help SMEs exploit new markets.



08

### Ethics Management Declaration Ceremony

Lotte Shopping is promoting an ethical mindset while stimulating ethical activities based on the "Lotte Shopping Code of Ethical Conduct." Lotte Department Store's employees above managerial level participated in a declaration ceremony where strong intent on voluntary implementation of ethics management was pledged. In addition, the company has diversified the reporting channels by opening the "E(ethics)-Line," an ethical hot-line and sent e-mails to all employees and co-workers to encourage them join the ethical activities.



09

### Environmental Management System

Lotte Shopping makes every effort to establish a world-class environmental management system. In 2005, Lotte Department Store became the first company in Korea's distribution industry to acquire the ISO14001 certification, and has since renewed the certification every year. In 2011, certification coverage was enlarged to all the stores including newly opened branches through the renewal evaluation. Lotte Mart also received the industry's first Green Management System certification from the Ministry of Knowledge Economy in 2011, in recognition of its achievements such as establishing a greenhouse gas emission management system, expanding environment-friendly products, operating green stores, and introducing photovoltaic power generation facilities.



10

### Plastic Bag-Free Stores

All the stores of Lotte Mart decided to stop using plastic shopping bags on signing a "Disposable Plastic Shopping Bag-free Store" agreement with the Ministry of Environment. Instead, the company has distributed various types of reusable standard plastic bags and shopping baskets of different sizes and materials in order to minimize consumers' inconvenience and create a plastic-bag free shopping culture in early stage. In 2011, a total of 70 million sheets of plastic bag were saved in this process.







We think about

# Environment

**Cost Saving**  
Enhancing  
Efficiency

**01**

**EQUAL PROJECT**

**Environmental Management**

Management of  
Environmental  
Efficiency



**Environmental  
Preservation**  
Spreading  
Environmental  
Value

**02**

**EQUAL PROJECT**

**Environmental Offset**

Offsetting  
Environmental  
Impacts

Business Gain

Environmental Gain

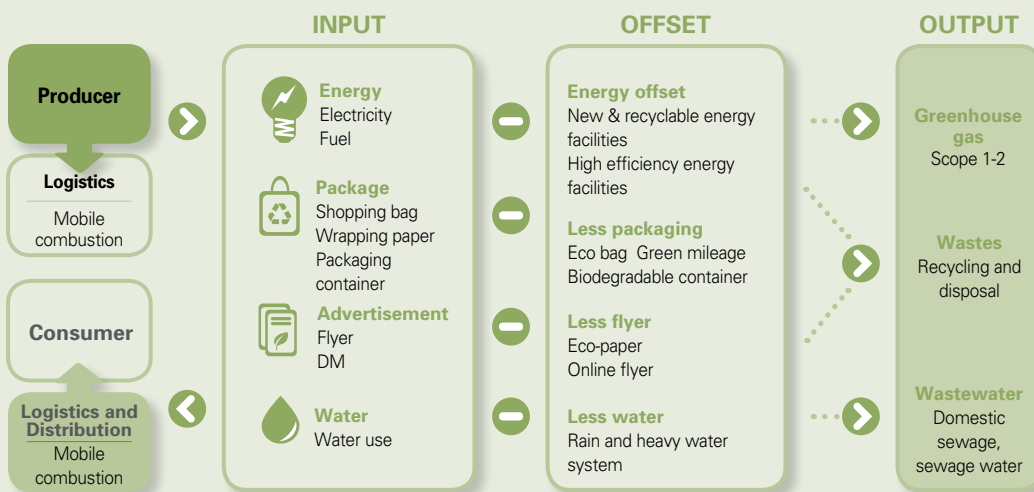


# 01 Environmental Management

## Greenhouse Gas Management<sup>1</sup> Energy Management<sup>1</sup> Water and 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 lessen our impact on the environment by managing energy, greenhouse gas emission, water, and waste more sustainably. By setting the reduction goals and monitoring progress in each phase, we seek to achieve balance in business and environmental gain.

### Lotte Shopping's Environmental Impact Management



### Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Greenhouse gas emissions (CO <sub>2</sub> )	tCO <sub>2</sub> e	Department Store	242,092	256,875	276,953
		Mart	251,186	312,622	337,299
Power consumption (Electricity)	MWh	Department Store	450,220	475,091	512,098
		Mart	455,760	526,200	574,939
Fuel usage (LNG)	10,000 Nm <sup>3</sup>	Department Store	1,370	1,508	1,639
		Mart	1,637	1,842	1,808
Water usage	1,000 ton	Department Store	3,089	3,323	3,374
			2,993	3,016	3,521

\*2012 Lotte Shopping Sustainability Report uses the total floor area registered in the official building ledger to calculate the "per unit area data" (per square meter data) of greenhouse gas emissions, energy consumption, water usage and waste generation (p16~18) instead of the store floor area used in 2011 sustainability report. Accordingly, there may be disparities between the per unit data of two reports.

# Greenhouse Gas Management

To reduce greenhouse gas (GHG) emissions at each store, Lotte Shopping actively contributes to national policies while clearly setting internal criteria for managing greenhouse gases emitted from store operation. We define greenhouse gas emission reduction targets every year while bringing in high-efficiency facilities and eco-friendly, renewable energy facilities to lower the emission levels.

**Greenhouse Gas Inventory** ● Lotte Shopping is building a greenhouse inventory to identify and reduce 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 manage emissions from each source in a systematic manner. In order to manage greenhouse gas inventory and gather data more effectively, the company developed a greenhouse gas and energy goal management system and began operating the computerized system in July 2011. Companywide efforts are underway at Lotte Shopping to achieve the reduction target.

**Greenhouse Gas and Energy Management Target** (Unit : tCO<sub>2</sub>e)

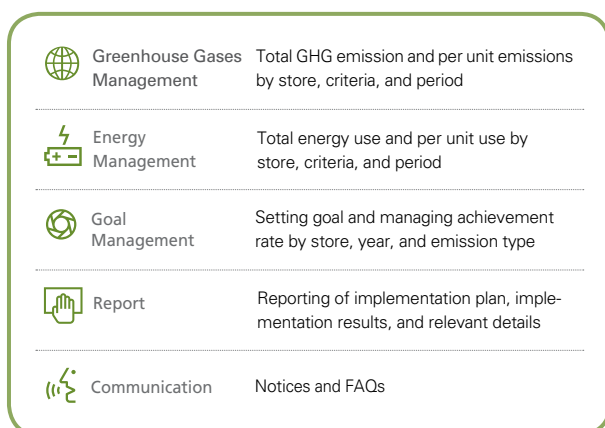
Division	No. of stores	Estimated emissions	Reduction target	Reduction rate
Department Store	38	358,223	7,881	2.2%
Mart	105	386,907	8,512	

**Environmental Management System** ● In 2005, Lotte Department Store became the first company in Korea's distribution industry to acquire the ISO14001, an international standard for environmental management. The company completed the renewal evaluation of its ISO14001 certification in December 2011, by which its environmental management is implemented

more efficiently. Meanwhile, Lotte Mart received the industry's first Green Management System certification from the Ministry of Knowledge Economy in 2011. This certification was in recognition of its active environmental management activities such as establishing a greenhouse gas emission management system, expanding environment-friendly products, and introducing photovoltaic power generation facilities, which helped save resources and energy. The Green Management System is a government-led management certification system based on the Basic Law on Low Carbon and Green Growth.

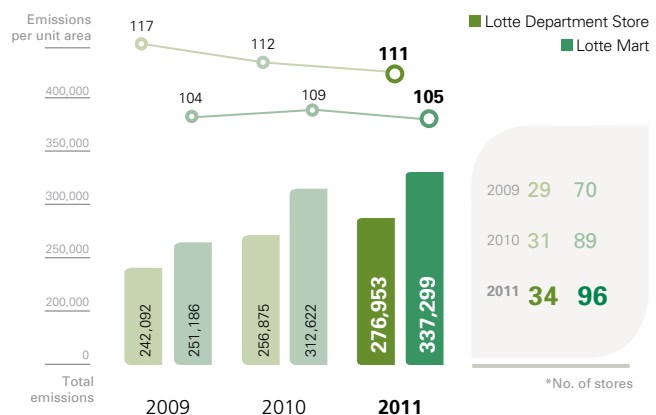
**Reducing Greenhouse Gas Emissions** ● Greenhouse gases emitted from Lotte Shopping are mostly indirect emissions from electricity used at stores. According to our GHG inventory, approximately 82.9% of our emissions were indirectly emitted from stores in 2011. Although total emissions increased substantially, the emissions per unit area decreased significantly backed by thorough management. Increase in total emissions was caused by change in measurement criteria at the logistics centers which account for 40% of total direct emissions. By the alteration, emissions from fuels and combustion gases of distribution vehicles were added. In 2011, total emissions rose around 7.9% from a year earlier due to opening of new store while the emissions per unit area dropped 2.6% over the same period.

## Greenhouse Gas and Energy Goal Management System (LOTTE-MRV)



## GHG Emission Trend

(Unit : tCO<sub>2</sub>e, kg/m<sup>2</sup>)



# Energy Management

Energy saving is an 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 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 2011, Lotte Shopping consumed approximately 1,087,037 MWh of electricity, up 8.6% 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 was down 2.0% from a year earlier.

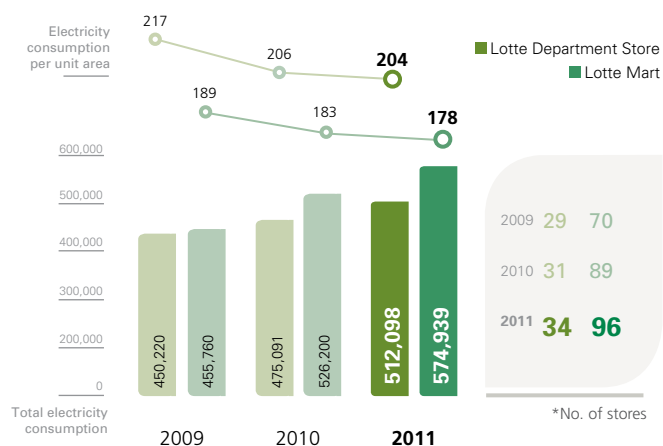
**Reducing Fuel Usage** ● Lotte Shopping usually uses LNG to cool and heat stores, in addition to cooking purposes for in-store restaurants. The total amount of LNG used at stores of Lotte Department Store and Lotte Mart in 2011 amounted to 34.47 million Nm<sup>3</sup>, up 2.9% from 33.50 million Nm<sup>3</sup> in the previous year. However, data shows that LNG usage per unit area declined by 0.46 Nm<sup>3</sup>/m<sup>2</sup> in 2011.

## Energy-saving Checklists

Category	Details
Store	Control of lights according to the standard lighting schedule
	Lights for places necessary only after closing hours (preparation of events, construction etc.)
	Indoor temperature control based on the heating and air conditioning standards
Office	Shutting off power supply of PCs, OA equipment & electric devices and unplugging sockets
	Appointing manager/deputy manager for energy management at each team/department
	Switching off power supply of lights, OA equipment & electric appliances, pulling the plugs
Parking lot	Indoor lights off for dining hours
	Parking section based lighting by encouraging orderly parking according to car model
	Lights-off for areas with natural lighting during the day
Warehouse and rear of the building	Compliance to the exhaust system operation standard
	Checking whether the lights are off by the warehouse manager
	Alternate lighting system and lights-off for spaces not in use
Outside lighting	Phased control of external facilities, i.e. street lights, show windows

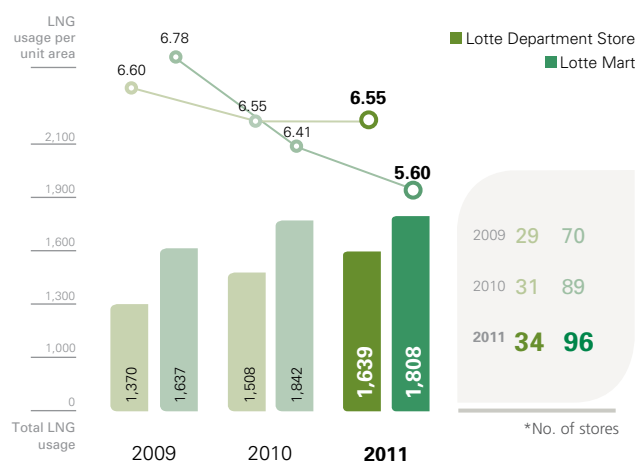
## Electricity Consumption Trend

(Unit : Mwh, kwh/m<sup>2</sup>)



## Fuel Usage Trend

(Unit : 10,000 Nm<sup>3</sup>, Nm<sup>3</sup>/m<sup>2</sup>)

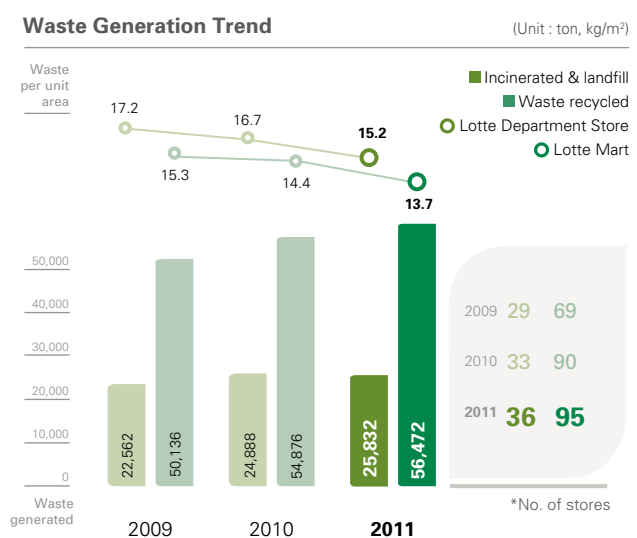
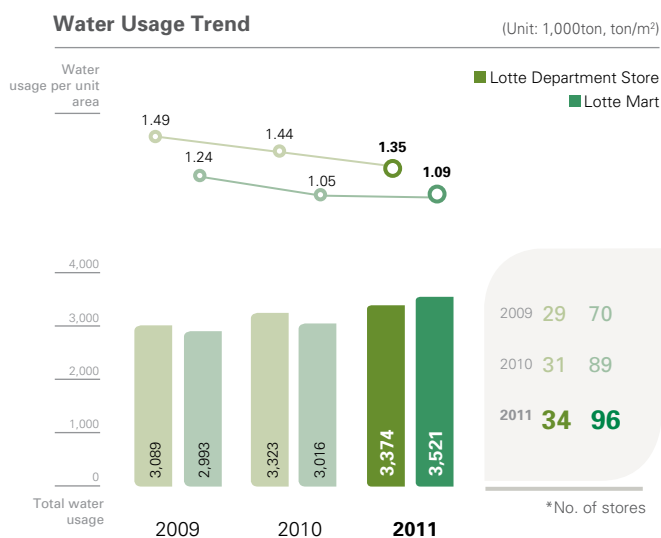


# Water and Waste Management

The majority of water consumed in stores of Lotte Shopping is used in customer toilets, restaurants and food corners while large portion of waste generated at Lotte Shopping is municipal waste from store operations. In a bid to reduce water use, the company employs and operates heavy water and rain water systems. It also increases the waste recycling rate through thorough waste separation.

**Water Usage** ● Due mainly to opening of new stores, Lotte Shopping's total water usage in 2011 rose to 6,895 thousand tons, representing an 8.8% rise from a year earlier. However, water usage per unit area decreased by 1.8% year-on-year to 1.2 tons. Lotte Shopping has introduced environment-friendly facilities to reuse and lower its water usage. In 2011, five stores including Esiapolis. Joongdong, Gimpo Airport, Ansan, and Paju Outlet branches have finished installing recycling equipment for heavy water and rain-water, resulting in KRW1.54 billion savings for water-related cost for the year. The company introduced water recycling facilities in two new stores in 2012 – Suwan Outlet and Pyeongchon branches - to improve efficiency in water used for business operation. As of now, a total of 29 stores of Lotte Department Store operate recycling facilities for heavy water and ground water while ten stores operate rainwater storage facilities.

**Waste Generation** ● Lotte Shopping's annual waste totaled 82,304 tons. Of the amount, 56,472 tons (or 68.6%) were recycled in 2011. Lotte Department Store generated 38,167 tons of waste in 2011, of which 26,360 tons (or 69.1%) were recycled. Meanwhile, Lotte Mart recycled 30,112 tons (68.2%) out of 44,137 tons of total generated waste. Waste increased due to opening of new stores, but waste per unit area continued to show downward trend on the back of our stringent waste management.



# 02 Environmental Offset

High-efficiency Energy Facilities<sup>1</sup> New and Renewable Energy Facilities<sup>1</sup> Reduced Packaging<sup>1</sup>  
Eco Store<sup>1</sup> Environmental Campaign

Numerous initiatives are unfolding at Lotte Shopping to minimize environmental impact and maximize environmental gains. 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.

## Key Performance Indicators



**Energy Offset**

- High-efficiency facilities
- LED lighting
- Photovoltaic (PV) power generation



**Water Offset**

- Rainwater recycling system
- Heavy water recycling system



**Waste Offset**

- Environment-friendly packaging
- Green mileage campaign
- Guidelines on excessive packaging



**Green Campaign**

- Eco bag and eco-flyer
- Green purchasing
- Customer participating program

## Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Green mileage points	KRW million	Mart	97	109	154
No. of green stores designated by the Ministry of Environment (*No. of green stores participating in pilot project)	No. of stores	Department Store	-	3*	3
	No. of stores	Mart	-	2*	15
Green building certification store	No. of stores	Mart	-	1	2
Environment-friendly gifts presented	No. of gifts	Department Store	428,417	406,803	504,641
Green purchasing amount	KRW 100 million	Department Store	96	86	87
		Mart	42	100	102
Participants in children's environmental art competition	Persons	Department Store	11,689	10,662	10,472
		Mart	210	210	210
Waste recycling rate	%	Department Store	69.1	68.8	69.1
		Mart	68.9	68.8	68.2

# 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.

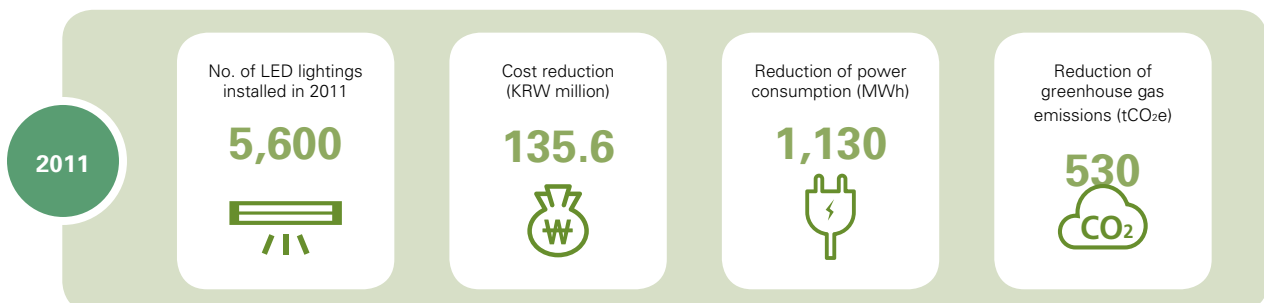
**High-efficiency Inverters** ● Inverter systems are designed to achieve savings in operating power and higher efficiency by controlling power load to an appropriate level of revolutions per minute (RPM). Lotte Shopping began to deploy inverters for air conditioning motors and coolant circulation pumps across the stores from 2008. Two newly opened stores (Paju Outlet and Gimpo Airport branch) of Lotte Department Store introduced inverter systems in 2011. At present, the systems are under operation at 28 stores of Lotte Department Store and 49 discount stores of Lotte Mart. Going forward, we will install inverters both at newly opened stores and existing stores under renewal process.

**High-efficiency LED Lighting** ● Since 2008, Lotte Department Store has been replacing conventional lights inside stores with high-efficiency LED lamps. In 2011, the company replaced a total of 5,600 halogen lamps installed at the parking lots and store's passages in Daegu, Esiapolis, Paju Outlet, and Gimpo Airport branches with high-efficiency LED lamps, thus reducing power consumption by 1,130MWh and greenhouse gas emissions by 530 tCO<sub>2</sub>e. Currently, 29 stores are installing LED lamps. All of its stores will replace 44,000 lights with LED lights

for the coming years. Meanwhile, 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 installing six chillers in 2010 – two at Yeongdeungpo store, one at Daegu Yoolha store, and three at Cheongryangri store, Lotte Department Store introduced the cooling equipment to newly opened Paju Outlet and Gimpo Airport store in 2012, thus increasing the number of stores using high-efficiency chillers to six. Comparing to the general chillers, high-efficiency chillers lead to reduction in power consumption by 421 MWh and 196 tCO<sub>2</sub>e of greenhouse gas emissions per annum. We will continue to install these chillers both at newly opened stores and existing stores under renewal process.

## Effects of Installing LED Lighting



# New and Renewable Energy Facilities

Lotte Shopping has embarked on establishing 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 installation of hybrid streetlights using photovoltaic energy.

**Photovoltaic (PV) Power Generation** ● PV facilities on the rooftops of Lotte Department Store's branches offer dual benefits of shading parking lots on the rooftops and reducing greenhouse gas emissions. PV facilities with annual electricity production capacity of 25,000 KWh were introduced to the Esiapolis branch and the Paju Outlet in 2011. The company increased the annual capacity to 48,000 KWh by installing the facilities at Suwan Outlet and Pyeongchon branch in 2012. 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 in Korea. This is equivalent to the electricity consumed by 1,700 families a year. The facilities also reduce greenhouse gases by approximately 2,000 tCO<sub>2</sub>e, which can be achieved by planting 720,000 pine trees.

**Photovoltaic Streetlight** ● In December 2011, the company installed photovoltaic streetlights in suburb areas – four at Paju Outlet and seven at Gimpo Airport branch, which is estimated to reduce power consumption by 9 MWh and greenhouse gas emissions by 4.2 tCO<sub>2</sub>e annually. We will introduce PV streetlights to new stores continuously in the coming years.

**Solar Thermal Power Generation** ● 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, resulting in cost reduction of KRW 7.5 million a year. 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.

**Geothermal Energy Facilities** ● Geothermal energy facilities deliver economic benefits while offsetting environmental impacts because they don't need any extra fuels except geothermal energy. The system is used to cool and heat buildings while supplying hot water at the same time. We installed the facilities at newly opened Gimpo Airport branch in December 2011.

## Photovoltaic (PV) Power Generation Status

Category	Photovoltaic power generation facilities		Photovoltaic streetlight	
	Esiapolis branch	Paju Outlet branch	Paju Outlet branch	Gimpo Airport branch
Date of installation	Apr. 2011	Dec. 2011	Dec. 2011	Dec. 2011
Power generating hours per day	3.84		9	
Annual production capacity (KWh)	4,204	21,024	3,285	5,748
Annual CO <sub>2</sub> reduction (tCO <sub>2</sub> e)	2	9.8	1.5	2.7
Cost reduction per year (KRW)	504,480	2,522,880	394,200	689,760



Photovoltaic Power Generation Facility at Paju Outlet



# 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 packaging for our own products.

**Eco-friendly Packaging** ● Lotte Shopping has been a participant of the Ministry of Environment's voluntary agreement to reduce promotional packaging since 2008. The company 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. As for foods that were sold in plastic dishes, they are now being packaged in re-sealable airtight containers that are commonly used at homes. Lotte Mart set a precedent in the Korean distribution industry by adopting the use of recycled paper and paper for packaging gift sets instead of Styrofoam packaging. On Lunar New Year holiday in 2012, the company sold 14 less-packaging gift sets which lowered prices around 10% by eliminating unnecessary packaging materials, gaining favorable responses from its customers.

**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. Replacing the previous system that was applied to every individual product, Lotte Mart introduced a new system under which 49 products were selected as Green Mileage goods in 2010. The company provides customers who purchase these products with Lotte member points for up to 2% of the purchase amount, which is quadruple the previous amount of 0.5%. In 2011, Lotte Mart sold approximately KRW10 billion worth of Green Mileage products and awarded

customers with totally KRW 140 million worth of Green Mileage points.

**Guidelines on Excessive Packaging** ● Lotte Shopping created and handed out guidelines to eliminate secondary packaging for each product group and to prevent excessive packaging for 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. In December 2011, we signed the "Agricultural Product Green Packaging Agreement" with the Ministry for Food, Agriculture, Forestry and Fisheries and follow the implementation guideline in a bid to prevent excessive packaging. At the same time, we tightened the regulation on excessive packaging by extending the coverage from agricultural product gift sets to every individual good. We are committed to preventing unnecessary packaging through lowering compressive strength and printing degrees of packaging materials.

## Packaging Standards by Product Group

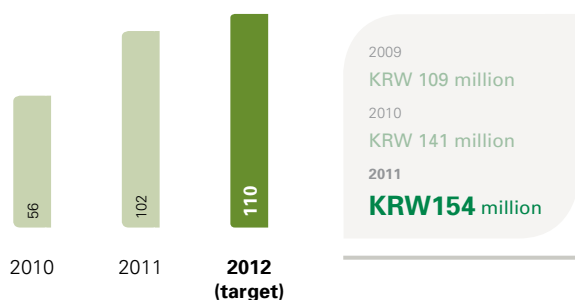
Product type	Packaging space ratio	No. of packaging
Processed foods and health supplements	less than 15%	2
Beverages	less than 10%	1
Liquor	less than 10%	2
Cosmetics and detergents	less than 10%	2
Sundries	less than 30%	2
Shirts and underwear	less than 10%	1

## Green Mileage by Year

(Unit: KRW 100 million)

Sales of green mileage products

Green mileage points



Signing Ceremony for "Agricultural Product Green Packaging Agreement"



# Eco Store

Lotte Shopping aims to diminish environmental impact generated from the lifecycle of its store operation. To this end, the company is actively involved in government certification programs and projects.

**Green Store** ● Lotte Shopping began participating in a pilot project for green store led by the Ministry of Environment in 2010. The company has since made various efforts such as introduction of high-efficiency LED lightings and facilities, expanding eco-friendly product sales, and green campaign to enhance customer awareness. Accordingly, three stores of Lotte Department Store (Yeongdeungpo branch, Ilsan branch, and Ulsan branch) and two stores of Lotte Mart (Chuncheon branch and Pyeongtaek branch) were selected as the green store in November 2011. Since then, as 13 more stores of Lotte Mart including Changwon Jungang branch have been selected as the green store, the company became the leader in the industry in Korea with a total of 15 green stores under operation. Green store is designated after evaluating overall eco-friendliness level of store's building facilities, logistics, merchandise sales, and operations.

## Eco Store

Category	Details
Eco-friendly material	Eco-mark flooring materials, painting materials for wall and ceiling, wall paper, and adhesive
Kids lounge	Air sterilizer, oxygen concentrator
Cultural center	Air sterilizer, oxygen concentrator in kids classroom and multi-purpose room
Rest area	Environment-theme graphics and landscaping
Parking lot	Sound of nature
Lighting	High quality LED lighting
Ecological park on the rooftop	Biotope ecological park considering ecosystem

**Participation in Electric Vehicle Pilot Project** ● In January 2010, Lotte Mart signed a memorandum of understanding 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 (Jamsil branch and Guro branch) in Seoul. Even after the pilot project was completed in December 2011, we have kept operating the EV charging stations by mutual agreement with the Ministry of Environment. In addition, we engage in the "Smart Transport" project, a smart grid project led by the Ministry of Knowledge Economy. Under the project, our Jeju branch began

operating an electric vehicle and a charging station in November 2010. Lotte Mart plans to establish more charging stations across the nation in consideration of the penetration level of electric vehicles in Korea to secure customer convenience and create environment-friendly stores.

**Green Building Certification** ● In February 2011, Changwon Jungang branch of Lotte Mart became the second store after Chuncheon branch that acquired a certification of excellence as a green building from a government certification agency for using PV power generation facilities, high efficiency facilities, and eco-friendly materials. Gimpo Airport branch of Lotte Mall also obtained the green building certification as being rated as the first-class resource-saving building. One of the most striking features of the branch is its theme park which provides the 129,000 square meter green space, or over 60% of total land space.

**Creating Environment-friendly Space** ● In a bid to provide a comfortable shopping space to customers, Lotte Shopping has expanded the use of eco-friendly resources and materials for interior design. In addition, the company focuses more on the improvements of the finishing materials to offer more environmentally friendly rest areas, kids lounges and cultural centers for customers.



◀ Lotte Mart's Eco-friendly Resting Lounge

Green Park at Bupyeong Branch of Lotte Department Store ▶



# Environmental Campaigns

Various activities ranging from direct environmental offset to various campaign drives are underway at Lotte Shopping to minimize environmental impacts. In addition, our customers are encouraged to get involved while various events are offered to raise their environmental awareness.

**Campaign to Reduce Plastic Bags** ● Lotte Mart made a business agreement with the Ministry of Environment in September 2010 to build “stores without plastic bags” and suspended sales of plastic bags. Moreover, we are contributing to the reduction of plastic bags by selling reusable garbage disposal bags that can be used both as shopping bags and garbage bags. Lotte Department Store continues its “eco-bag campaign” to minimize the use of plastic bags. Since 2004, we have distributed approximately 400,000 eco-bags every year and received a better response in 2012 when we produced eco-bags and pouches printed with works of a famous French artist. Lotte Mart also gave out around 310,000 eco-bags in 2011 and increased the practicality of the cart-type shopping bag by strengthening the wheels.

**Eco Flyers** ● We take environmental concerns into account when producing flyers at Lotte Department Store. Ecologically sound papers and soy ink are used to print over 250 million flyers demanded annually. Starting from 2011, the average weight of paper used per flyer was reduced by ten grams, which translated into 15,810 thirty-year-old hardwood trees saved and 5,859 tons of greenhouse gas emissions abated every year. Eco flyers, published online and accessible via mobile application services, is an excellent example of our efforts to reduce papers. Up to April 2012 from the launch of the eco flyers in April 2009, a total

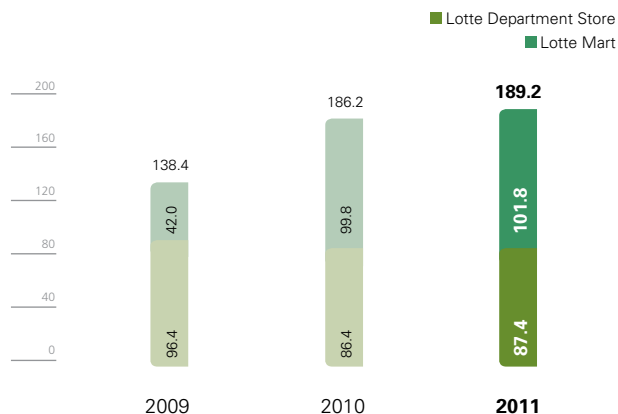
of 17 million times are accessed online and via mobile applications, bringing the same effect that 13,974 trees are saved.

**Green Purchasing** ● Lotte Shopping has participated in the “Green Purchasing Voluntary Agreement” and set out green purchasing policy as a key environmental management direction. In accordance with our “Green Purchasing” policy, products that are free from hazardous substances and receive environmental certification are given priority. The scope of green purchasing, along with its amount, expanded from mere environment-certified flyers and office supplies to LED lights and other high-efficiency facilities.

**Green Lotte Character “Saeromi” and “Haemi”** ● In March 2011, Lotte Department Store developed eco-friendly characters “Saeromi” and “Haemi” so that our customers could easily understand and receive. The leaf-shaped Saeromi has the meaning of a new and beautiful leaf that implies a new beginning of nature. The round-faced Haemi was designed on water-drop motif with a rainbow color tint. We are sharing our affections for nature through the “Green Lotte character animation, cartoon contest” and by holding touring exhibition at each store that features character zone. Furthermore, we have produced and distributed educational DVDs for children, key holders, pencils and other goods.

## Green Purchasing Performance

(Unit: KRW 100 million)



### Green Lotte International Environmental Art Contest ●

In April 2011, the first “Green Lotte International Environmental Art Contest” was held at each branch of Lotte Department Store under the theme of “Sharing Love for the Environment with Everyone.” In the contest which was designed to instill environmental awareness to the participants, over 10,000 children including non-Korean students from international and foreign schools and children from multicultural families participated. Lotte Mart also held the “Environmental Drawing Contest” in celebration of the third Resource Recycling Day in cooperation with the Ministry of Environment and the civic groups in September 2011. A total of 210 elementary school students and parents in Seoul were invited to promote the importance of resource recycling.

**Lotte Environmental School for Children ●** Lotte Department Store operates an education program for children aimed at teaching them about the importance of caring for our environment and way of coexisting with nature. A variety of experience-based programs were offered. For example, they had the chance to participate in an environmental camp, visit an environmental farming community and join overseas environmental education programs such as visiting glaciers in Canada and environmental wetlands in Hong Kong. During the period from 2004 to 2008, a total of 1,300 children had completed the



Lotte Department Store's 8th Environmental Education Course

courses. Around 240 children are now taking the 8th environmental education course at our eight cultural centers across the country.

### Attending Low Carbon Green Growth Exposition ●

Lotte Department Store and Lotte Mart attended the “2011 Low Carbon Green Growth Exposition” hosted by the Ministry of Environment in October 2011. During the exposition which was designed to guide the direction of green production and communicate with consumers, Lotte Department Store and Lotte Mart opened a Lotte Shopping Exhibit Hall and introduced various green management activities they have carried out so far such as operation of environment-friendly eco-shops, designation of green stores and building a green POS system.

**Cool Biz & Warm Biz Campaigns ●** By launching Cool Biz & Warm Biz Campaigns in 2005 for the first time in Korea, Lotte Shopping has taken initiative to save energy and present environment-friendly life styles. 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 in a bid to promote the campaigns.



2011 Low Carbon Green Growth Exposition

We think about

# Product



Risk  
Management  
Product Quality

**03**  
**EQUAL PROJECT**  
Product Quality & Safety  
Quality & Safety  
Management



Creation of New  
Opportunities  
Expanding Environ-  
ment-friendly  
Products

**04**  
**EQUAL PROJECT**  
Sustainability in Products  
Sustainable Products

Business Gain

Socio-Environmental Gain

# 03 Product Quality & Safety

Product Safety Management<sup>1</sup> Food Hygiene Management<sup>1</sup> 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 gains built on customer trust.

## Flow Chart for Product Quality and Safety Control



## Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
HACCP-certified stores	No. of stores	Department Store	5	7	10
Certified stores under hazardous product blocking system	No. of stores	Mart	84	90	95
LFSA (Lotte Mart Food Safety Audit)	No. of stores	Mart	95.4	95.7	94.8



# 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 offered to customers, along with fact-based information on hazardous products which is directly related to customer safety.

## HACCP (Hazard Analysis Critical Control Point) Certification

● HACCP is a hygiene control system devised to prevent 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. Lotte Department Store received the industry's first HACCP certification in 2008, and has since expanded application to more stores. Three branches (Bundang, Jungdong, and Ansan) acquired the certification in 2011. As of now, twelve stores including Main branch and Gangnam branch obtain the HACCP certification and are providing high standard of safety. Aiming at identifying hazardous elements and controlling hygiene system more effectively, Lotte Department Store plans to help more branches acquire the certification.

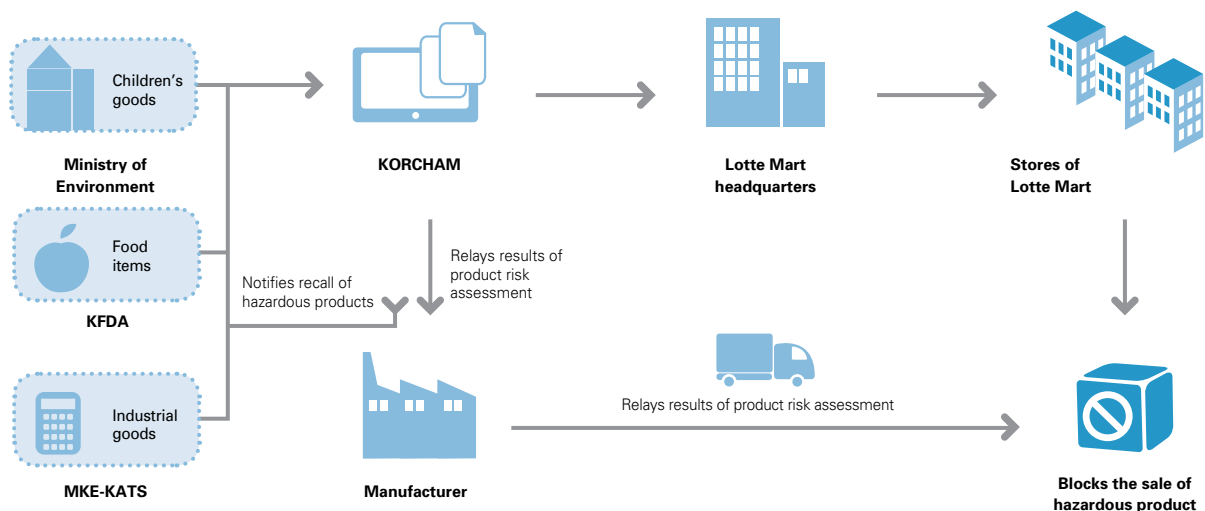
**HACCP Certification Status** \*Lotte Department Store

Year	No. of branches	Certified branch
2008	5	Jamsil, Yeongdeungpo, Gwangju, Dongnae, Konkuk University Star
2010	2	Cheongyangni, Gwangbok
2011	3	Bundang, Jungdong, Ansan
2012	2	Main, Gangnam

**Hanwoo Tracing System** ● The tracing system for hanwoo or Korean beef manages information on the delivery route, from slaughter to packaging and sales. Each of the cows has an identification ear tag which is registered with the Animal Products Grading Service's tracing support system. Since May 2008, Lotte Shopping has been conducting an online trace of all beef sold at its food stores, from its registration as a calf to sale in the distribution network. This enables customers to have confidence in the quality of hanwoo products they purchase.

**Hazardous Product Blocking System** ● In April 2009, Lotte Mart became the first company in the industry in Korea to adopt a system that effectively blocks the sale of hazardous products and improve product safety in cooperation with the Ministry of Knowledge Economy (MKE), Ministry of Environment, Korea Food and Drug Administration (KFDA) and Korea Chamber of Commerce and Industry (KORCHAM). If the barcode of a product is scanned at the checkout counter, hazardous product information is checked on real-time basis via database of a national institution and the sale is immediately blocked. The system is currently in place at 95 Lotte Mart stores nationwide, enabling us to earn customer trust and strengthen product safety management.

## Lotte Mart's Hazardous Product Blocking System Process



# Food Hygiene Management

All the food sold at Lotte Shopping is rigorously controlled with the strictest standards for safety and hygiene. To further enhance the safety level, safety inspection is conducted regularly by both in-company personnel and external agencies. We also adopt a proactive approach for prevention by disseminating hygiene management manuals.

**Quality Supervisor 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. In May 2009, the company changed the system by adopting one person one store system. That is, one quality assessment personnel is assigned for each store and regular training programs by inviting external experts are provided. In addition, diverse support programs are conducted to encourage employees to acquire the state-recognized Food Handler certification. As a result, five of our quality assessment personnel (total assessment personnel is 29) acquired Food Handler certification and six employees are in preparation for the qualification. On the other hand, Lotte Mart has placed Quality Supervisors (QSV) in every store since October 2010 to perform daily field checks on product expiration, storage and labeling compliance. To enhance expertise, QSVs take training four times a year to familiarize themselves with legal requirements.

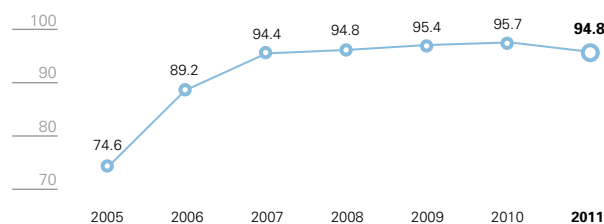
**Food Safety Inspection** • Two different types of inspection are conducted to check food safety at Lotte Shopping - internal inspection and inspection in conjunction with Lotte Safety Center. Internal inspections are conducted a weekly

and monthly basis by quality assessment personnel at each store. In addition, cross-inspections among stores are carried out to check the safety status more intensively. On-going monitoring is done for underperforming stores with poor inspection results 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 inspections on all of our department stores at least two times a year 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.

**LFSA (Lotte Mart Food Safety Audit)** • Lotte Mart regularly monitors hygiene management at stores by employing the services of an outside hygiene specialist. For any shortcomings, rapid actions are taken while relevant educations are conducted. 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 Results (Average Marks by Year)

(Unit: points)



\*Deterioration in 2011 was due to stricter standard.



Experimental Analysis of Products / Quality Assessment Personnel

LFSA Management Categories

Product management	<ul style="list-style-type: none"> <li>• Management of best-before dates</li> <li>• Storage method of raw materials</li> <li>• Compliance with storage temperatures</li> </ul>
Microbial inspection	<ul style="list-style-type: none"> <li>• Inspection of cooking tools</li> <li>• Inspection of workers' hands</li> </ul>
Management of legal documents	<ul style="list-style-type: none"> <li>• Preparation of basic legal documents</li> </ul>
Work environment & facility hygiene	<ul style="list-style-type: none"> <li>• Cleaning of worksite and warehouse</li> <li>• Cleanliness of cooking tools</li> <li>• Cleanliness of work devices</li> </ul>
Personal hygiene	<ul style="list-style-type: none"> <li>• Cleanliness of personal attire</li> <li>• Correct hand-washing</li> <li>• Knowledge of preventing food poisoning</li> </ul>

# Providing Product Information

Accurate product information is essential to earn trust from customers and enhance customer safety level. In a bid to guarantee customer rights, we provide customers with accurate product information through strict management criteria and thorough self-inspection.

**Product Information Provision System** ● Lotte Shopping 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. Since August 2011, Lotte Department Store has produced advertising manuals and has held employee training sessions to abide by related laws and to minimize customer misconceptions. In order to block the problems such as typographical errors and calculation errors that arose due to the handwritten entry system, we developed a system that automatically calculates and inputs the unit price while also introducing the electric price indicator at Main branch (headquarters) in February 2012. As for Lotte Mart, POP automatic labeling system was introduced in 2009 and POP environment has since been standardized across all branches. Since

2010, an extra layer of product details such as prices, materials, specifications, and characteristics have also been provided at POP.

**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. Staffs at fresh food corners utilize the system to check and manage products. To help customers enjoy higher level of product safety, modification and complementation processes for stable implementation of the system are currently underway.

## Product Information

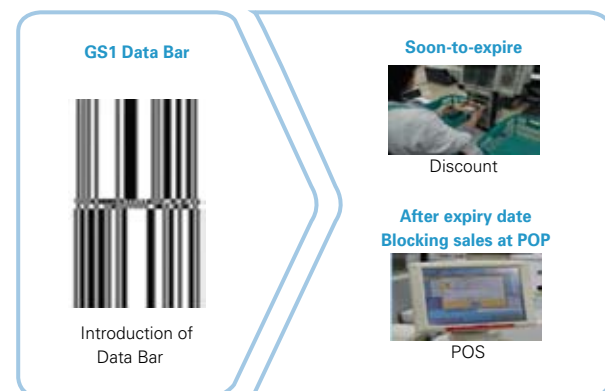
	Lotte Department Store	Lotte Mart
Unit price labeling	<ul style="list-style-type: none"> <li>- Adopt automatic calculation system to prevent manual calculation errors</li> <li>- Conduct regular screening for information accuracy</li> </ul>	<ul style="list-style-type: none"> <li>- Display final price on a regular basis</li> <li>- Provide monthly information on specification, price, and unit price for key products and conduct semiweekly market survey for most competitive pricing</li> </ul>
Retail price labeling	<ul style="list-style-type: none"> <li>- Guidelines for labeling brand price and store price</li> <li>- Conduct screening for minimum error</li> </ul>	<ul style="list-style-type: none"> <li>- Provide extra product information to prevent usage errors</li> <li>- Consider including Frequently Asked Questions in price labels</li> </ul>
POP	<ul style="list-style-type: none"> <li>- Guidelines for indoor display advertisements, i.e. POP, DM</li> <li>- Provide distinct product features at POP</li> </ul>	<ul style="list-style-type: none"> <li>- Redefine POP priority and product details from customer perspective</li> <li>- Standardize POP guidelines across all stores for higher customer convenience</li> </ul>



Electric Price Indicator

## Automatic Expiry Recognition System

### Flow on Data Bar



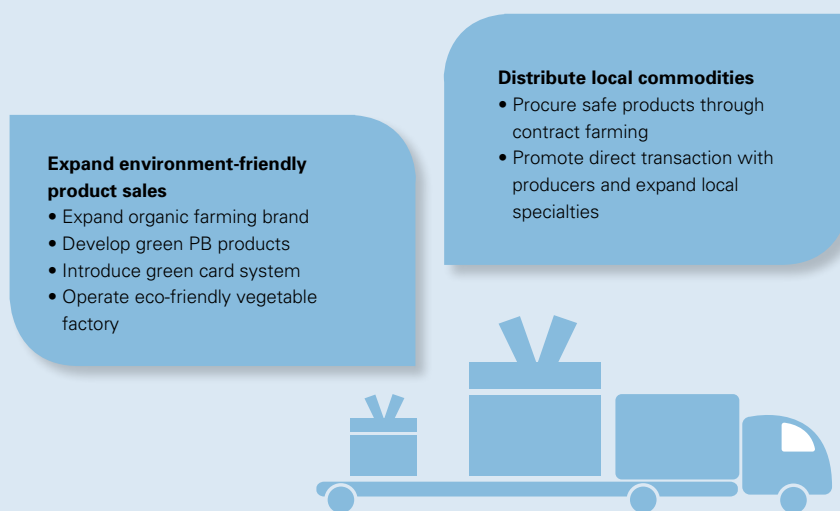


# 04 Sustainability in Products

## Expanding Sales of Environment-friendly Products | 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 gains.

### Expanding Distribution of Sustainable Products



Lotte Shopping's sustainable products

### Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Sales from environment-friendly multi brand stores	KRW 100 million	Department Store	268	339	391
Sales of environment-friendly PB products	KRW 100 million	Mart	114	256	330
Sales of products purchased through direct transaction with producers	KRW 100 million	Mart	3,051	4,335	5,208

# Expanding Sales of Environment-friendly Products

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

## Eco-Shop Featuring Environment-friendly Products ●

Lotte Department Store operates Eco-Shop featuring a choice selection of clothing items, kitchen utensils, bathroom articles and other recycled products that are made from environmental-friendly materials and fabrics. The first Eco-Shop was opened at Main branch (headquarters) in 2007 followed by the second Eco-Shop at Jamsil branch in 2009. Revenues go toward an environmental fund that is used for diverse environmental campaigns. Sales amounted to KRW 8.85 million in 2011 while a total of KRW 4.78 million of proceeds was donated for environmental purposes. We will operate more Eco-Shops to heighten consumer awareness on green products and spread green consumption culture across the country.

**Green Card Program ●** Lotte Shopping is an active participant in the Ministry of Environment's Green Card program to encourage green lifestyles across the nation. This program helps people practice green consumption in their daily lives by offering them a wide range of benefits when they purchase eco-friendly products with a Green Card. We joined the program in April 2011 and all the stores of Lotte Shopping have conducted the program since November 2011. Currently, a total of 309 product items (89 of Lotte Department Store and 220 of Lotte Mart) are subject to the green card program.

**Development of Eco-friendly PB 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 large-scale expansion of its eco-friendly PB product lineup.

As of the end of 2011, a total of 378 eco-friendly PB products were developed on an accumulated basis. The eco-friendly PB product lineup includes organic agricultural products including process foods, disposable products made with biodegradable plastic materials, and kitchen goods that use fast-growing bamboos. Our "smart eco tissue," in particular, was awarded a grand prize in the environment-friendliness category of the "PL Buyer Design Award," which made the company become the first in the industry in Asia to earn the honor.

**Eco-friendly Vegetable Factory ●** Lotte Mart became the first company in the industry to launch own vegetable factory inside its store. The in-house farming is managed by strict standards in highly controlled conditions, completely isolated from external factors. It helps secure uniform quality for vegetables and high level of hygiene and safety. Vegetable factories generated KRW 4.4 million of sales in 2011 while providing on-the-spot education to family shoppers.

## Organic Products

(Unit: KRW million)

Year	Sales of organic brand products	Sales of agricultural products	Proportion of sales of organic brand products out of total agricultural products
2008	17,392	112,067	15.5%
2009	26,821	122,622	21.3%
2010	33,857	157,912	21.4%
<b>2011</b>	<b>39,081</b>	<b>171,354</b>	<b>22.8%</b>

\*Based on data of Lotte Department Store

## Eco-friendly PB Product Status

(Unit: KRW million)

Category	Details	2009		2010		2011	
		Products	Sales	Products	Sales	Products	Sales
Eco-friendly raw materials	Natural materials, recycled materials, bamboos	84	40	104	80	180	110
Organic foods	Organic agricultural and livestock products, processed foods	59	40	76	73	83	100
Eco-friendly packaging	Biodegradable packaging materials, degree of printings	68	32	68	30	84	40
Environmental certifications	Carbon certification, fair trade, eco-friendliness	1	2	30	73	31	80
Total		212	114	278	256	378	330
Growth rate				31%	125%	35%	30%

\*Based on data of Lotte Mart

# Championing Local Products

Distribution of goods produced in local communities brings dual benefits. Farms are ensured a stable customer and price, resulting in economic vitalization of the community while Lotte Shopping secures a steady supply of high quality goods through local merchandising. .

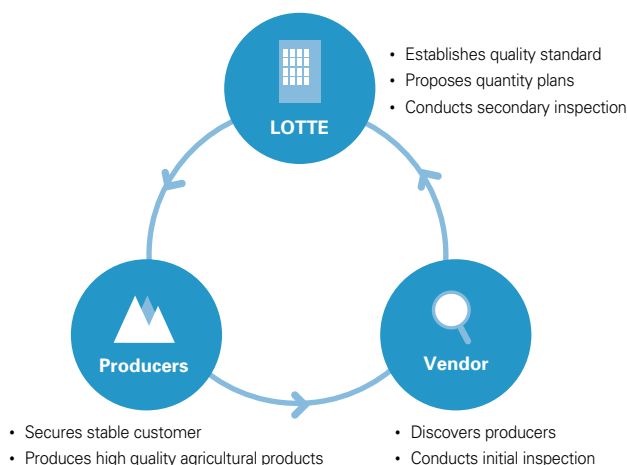
**Contract with Farms** • Since Lotte Department launched a “Contract with Farms” program in 2005, it has expanded supply contracts every year. In 2010, the company adopted a direct procurement scheme for fruits and vegetables, increasing the number of supply contracts by 10 to 33. Currently it maintains supply contracts with 33 farms (29 fruit and vegetable farms, four vegetable farms) nationwide, securing top quality products. Purchasing from the farmers who obtained the “Agricultural Master” certification from the government (Lee Yoon-Hyeon for pear, Kim Jin-Soo for grape, Sung Jae-Hee for sweet persimmon) helps us secure high-grade products. In the meanwhile, Lotte Mart has expanded the direct procurement scopes. Accordingly, sales of those products purchased directly from the farmers increase over 20% every year. Going forward, we will strengthen the direct procurement scheme and sell more specialized goods under the scheme in order to gain dual benefits of customer satisfaction and mutual growth with suppliers.

**Developing Local Specialties** • Lotte Department Store is trying to provide the best products to our customers by strictly dealing with goods and developing various local special-

ties. In particular, we have expanded the “direct procurement” from local farmers to deliver fresh and safe goods. We made MOUs with outstanding local bodies in Gochang and Wando to introduce various local specialties while also trying to develop local products by actively sourcing specialties in Pohang such as Guamegi and red snow crab. We also made an MOU with Changnyeong-gun government in 2012 to develop a rice brand.

**Local Specialties Counter** • Lotte Mart has committed to win-win prosperity with SMEs by developing new products with superior local businesses. The company has also been enhancing customer satisfaction by providing differentiated goods that are not sold in other distributors. For example, we are operating a local-specialties counter at Wonju branch which opened December 2011. It sells around 200 products such as Cho-eom sweet potatoes and Seorak calamari-soondae, posting monthly sales of KRW 50 million on average. Going forward, we will expand the sales of products from local businesses for shared growth.

## Lotte Department Store's Contract with Farms



## Agricultural Product Contract Status

(Unit: KRW 100 million)

Products	Major goods	No. of product items	2010	2011	2012
Fruits / vegetables	Apple, potato, etc.	122	2,053	2,402	2,450

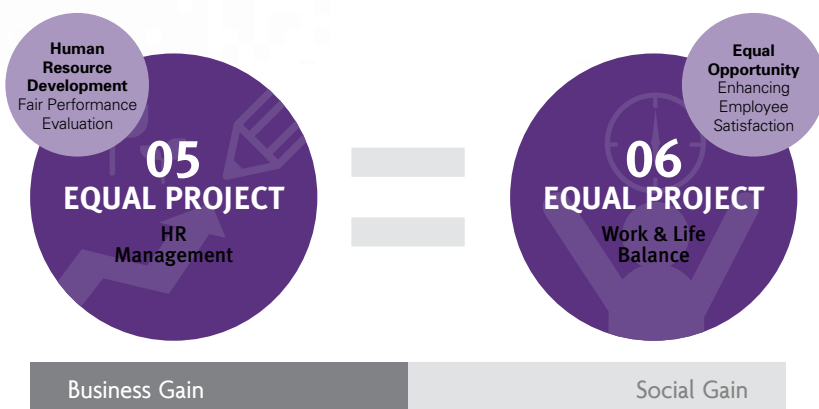
## Direct Transactions with Producers

(unit : KRW 100 million)

Category		Sales		%YoY
Region	Item	2010	2011	
All over the country	Fruits	140,834	154,037	9.4
	Vegetables	108,337	102,264	-5.6
	Marine products	9,359	13,407	43.3
	Livestock products	175,012	251,140	43.5
	Total	433,542	520,848	20.1



# Work & Life Balance Workplace

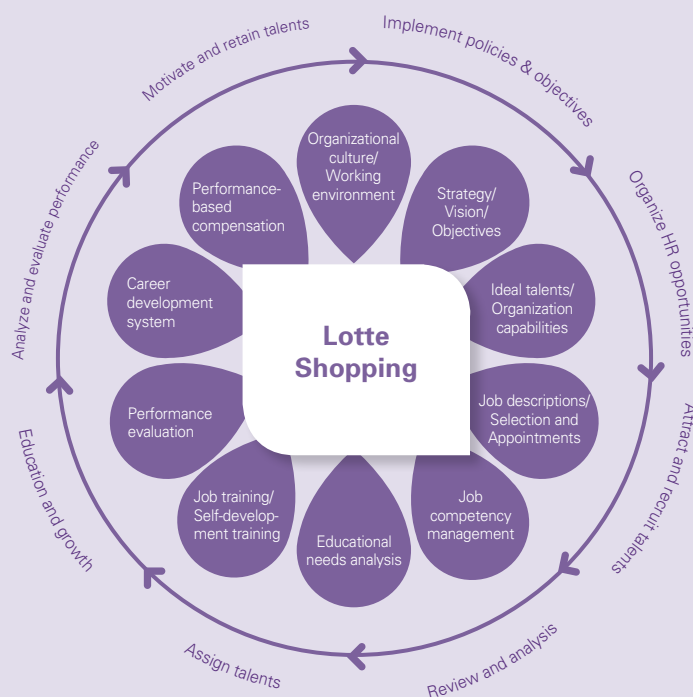


# 05 HR Management

Human Resource Development<sup>1</sup> Nurturing Professionals<sup>1</sup> Nurturing Global Employees<sup>1</sup>  
Fair Performance Evaluation

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

## Lotte Shopping Talent Management Map



## Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Total training expenditure	KRW million	Department Store	4,125	4,799	6,515
		Mart	2,601	3,025	3,421
Training hours per employee	Hours	Department Store	163	163	180
		Mart	107	103	123
Retirement ratio	%	Department Store	0.4	0.5	0.7
		Mart	0.7	1.0	0.9

# Human Resource Development

Recognizing the importance of developing employee competencies and nurturing talents to achieve its vision of becoming a world-class distribution company, Lotte Shopping has defined the attributes of an ideal employee, established processes for competency development, and provided training programs to employees.

**Employee Education Course** ● Lotte Shopping offers a variety of training programs tailored to employees' needs. Our staff education focuses on hands-on job training to develop retail professionals. Moreover, in light of our active entrance into overseas countries, we train experts for each country of our presence. Courses that include self-development course, job capability course and management policy course are also offered through reading programs or online programs, giving employees easier ways of education. In 2011, employees received trainings of 1.61 million hours by joining 1,546 courses.

**Lifelong Learning** ● Lotte Department Store offers a 4-year internal university program to holders of degrees from a 2-year junior college. The company also provides all its employees with a 4-year cyber university program. An undergraduate course has been jointly run with Kyung Hee University since 2006. Totally 125 individuals have completed the program and the current enrollment is 75. In addition to the existing cyber program with Seoul Digital University, four more cyber programs were opened in 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, we give benefits of tuition fee cut by 30% to 50%.

**Distance Learning Course** ● Lotte Department Store helps employees develop themselves actively with no bounds on

time and place through reading programs and online programs. More than 400 courses are offered a month on average that include not only leadership course and foreign language course aiming at developing employees with global perspectives and capabilities but also management-related knowledge course, job function course, and computer education course focusing on elevating work capabilities. In 2011, a total of 14,387 employees participated in these distance learning courses. We are introducing more courses at our employees' requests.

**"With Book" Program** ● Instead of the existing passive reading/communication education framework, we introduced the "With Book" program to promote creative innovation and self-improvement culture in February 2011. Under the previous framework, employees could apply for a two-month reading program only once a month. However, the "With Book" program enables employees to voluntarily select books based on personal preference 365 days a year. Moreover, by encouraging employees to write book reviews, we boost their motivation for reading and strengthen their professional competencies.

**Operation of the "With Book" on Internet** (Unit: No. of copies)

Category	2010	2011 (introduction of "With Book")	Year-on-year increase	Remark
Total reading	6,670	22,007	230%	Operating status: 4,546 members as of January 2012
Reading per employee	1.3	4.4	3.1	

## Education System

	Basic course			Professional course						
	For the newly hired and promoted	Position	2S-3C	Core talents	Global		Job duty course			
Executive	Promotion/New executive course	Branch head/division head communications course	Sponsor course	AMP	External top management course	Resident employee candidates training	Education for the locally-hired employees	Visiting overseas branches	In-house and external language course	Senior EMBA
Team head	Grade Mandatory course	Team head qualification course	Coaching and leadership	MBA External MBA						Distribution section EMBA
Manager			Behavioral principle course	Distribution Academy	2S-3C dissemination				MD marketing test	Group School (excl. HR, Planning Section)
SA	S Capacity upgrade course	Self-leadership		Distribution College						Qualification test for promotion to the executive level
Staff	A Grade new employee course		2S-3C dissemination							Qualification test for promotion to the SA, A
JA	JA Grade new employee course	Changing duty								



# Nurturing Professionals

In order to nurture distribution professionals and all-round expertise, Lotte Shopping is operating distribution professional education system. We offer systematic development courses for female workers alone to secure high-caliber female talents. In addition, we eliminate sexual discrimination and run a fair compensation system based on evaluation of ability and performance.

**Distribution Professional Course** ● Lotte Department Store operates the “Lotte Distribution College” in a bid to foster retail professionals through the education courses that include basic business management program and business practice program. The one-year college course offers the participants with the blended learning scheme that comprises cyber education, classroom education, on-site research, overseas training and theme study. The evaluation for the course involves written tests on theories, regular foreign language exams, presentations on researches by each trainee, and team projects. The results are reflected on each person’s performance evaluation on completion of the college. Launched in 1994, the Lotte Distribution College has produced a total of 569 retail professionals for 18 years. Another 35 employees are due to enter the college in 2012.

No. of Lotte Distribution College Graduates <small>(Unit: Persons)</small>	
Year	No. of graduates
2010	44
2011	34
2012	35
Cumulative total (1994~2012)	604

**Merchandise Training Course** ● Lotte Department Store runs a fashion academy to strengthen the capabilities of its merchandisers and better understand the fashion business. Total 209 merchandisers have so far completed the academy including 28 merchandisers (MDs) in 2011 (including 10 chief merchandisers). In April 2012, a total of 28 merchandisers (4 CMDs, 19 MDs and 5 workers from administration department) joined the course.



19th Lotte Distribution College's Theme Study Workshop

**Training Programs for Management Professionals** ● At Lotte Shopping, two different outside education programs, an MBA program and an AMP program, are offered to nurture quality talents. To encourage employees to complete such courses as marketing, personnel management and accounting which are essential to core workforce, the company provides financial assistance including the admission and registration fees to the participants in the MBA program. Trainees can choose an MBA course either available at weekday nights or on weekends. Six talents completed the course in 2011 while another six employees are currently taking the course. In addition, an AMP course for top management is offered. Two executives are currently attending the AMP course at Seoul National University.

**Programs for Female Employees** ● In a bid to improve awareness of female workers’ capabilities and help female leaders understand and conduct the company’s vision and core values, Lotte Department Store carries out various programs. Launched in 2011, detailed networking program for female leaders served as a strong base for future growth while a workshop identifying strength of female workers contributed to disseminating our will towards female leaders across the company. In 2012, Lotte Department Store will introduce various female programs such as a workshop for female workers above managerial post and a forum for female talents. In addition, a special lecture under the title “Encouraging female workers” is expected to give us a chance to study deep into the female leadership.



Fashion Academy



# 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 every year. These candidates for resident employees then undergo systematic training. Any staff can sign up for the candidacy. They are evaluated against job performance, career length, and foreign language skills in addition to reasons why they apply, and then a pool of candidates is selected. 142 candidates were selected in 2011 while 103 were included in the candidate list in 2012. 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.

## Resident Employee Candidates Training by Region

Year	China	Russia	Vietnam	Indonesia	Total
2011	52	16	36	38	142
2012	41	17	20	25	103

**Globally Talented Executives** ● Lotte Department Store is developing executives with global perspectives and capabilities. Six executives were sent to China to learn Chinese and obtain industry information through a year-long scheme in 2011. All of them got the HSK Grade 5 while four of them are now working in China.

## Education Courses for the Locally-Hired Employees

Lotte Shopping offers several training courses for the locally-hired employees aiming for enhancing their understanding

on Korean culture as well as the company, Lotte Shopping.

-Inviting local workers: One-week education program visiting Lotte Department Store is offered to the well-qualified local employees invited from China, Vietnam, Russia and Indonesia. On returning to their native countries, they disseminate Lotte Department Store and Korea to their own countries as the in-company lecturers.

-Visiting overseas branches: We visit overseas stores and branches once a year to implement trainings for local managers and co-workers. Lotte Department Store’s vision, management principles and business strategies and directions are shared through the education program, thus generating positive effects such as understanding the organization and feeling sense of belonging.

**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 (U.S. and Australia, etc.), China, and Vietnam. Upon return, they are assigned to overseas business divisions as a priority to leverage and continue their overseas exposures. Up to now, a total of 13 employees – eight in English-speaking countries, four in China, and one in Vietnam – got the opportunities to strengthen global capabilities through the language break scheme.



Regional Expert Program



Lotte Global Manager Course

# 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 non-discriminatory rank and salary system, performance-based compensation, and fair performance management process.

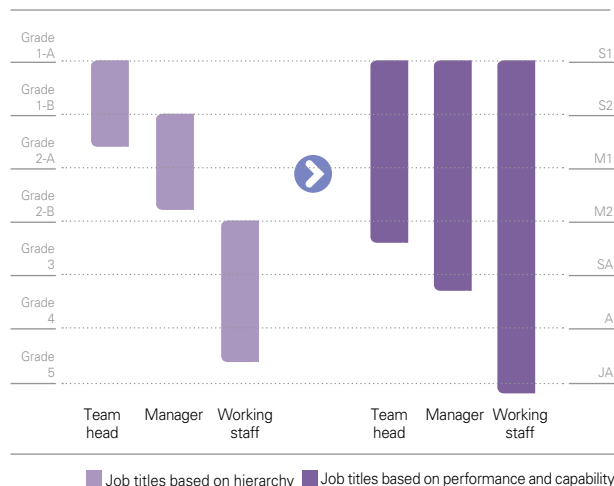
**Performance-oriented Compensation** ● Lotte Shopping has an annual salary system based on ability and performance. In addition to basic pay and bonus, employees receive incentive pay depending on individual performance and special incentive pay based on the company's annual operating results. Evaluations of individual performance are used to determine an employee's annual salary grade, which in turn determines his/her salary. Differential incentive pay is given to provide greater motivation to improve performance levels. The differential pay scheme including annual salary and incentive pay was strengthened in 2011 in order that employees may be rewarded in a more appropriate manner based on their individual performance.

**Performance Evaluation Process** ● To ensure objectivity, evaluations are carried out based on targets and criteria mutually agreed on between the company and each individual. Compensations are set according to evaluations reflecting target achievement rate and individual performance level. 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's performance targets.

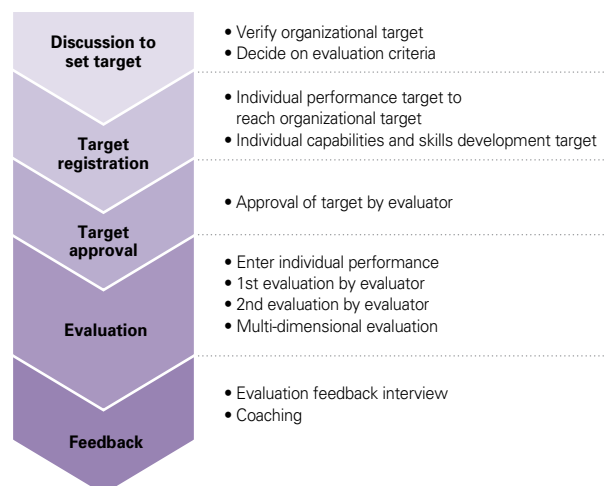
**Performance-driven Organization Culture** ● In April 2011, we adopted a New Grade Scheme that replaced the existing rank hierarchy scheme. Under the new paradigm, only those with full capability are given job qualifications and only those qualified with high performance are given actual job titles, 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.).

**Non-discriminative Performance Evaluation against Female Workers** ● To secure and nurture female employees above managerial position, Lotte Department Store eliminates sexual discrimination in personnel management. Promotion is implemented only through evaluation of ability and performance. A total of 26 female employees in managerial posts were promoted this year, almost doubling the number of 14 in the previous year. Of particular, all of three female executives belonging to S Grade (top managerial post) got promoted during the same period.

New Grade Scheme



Performance Evaluation Process

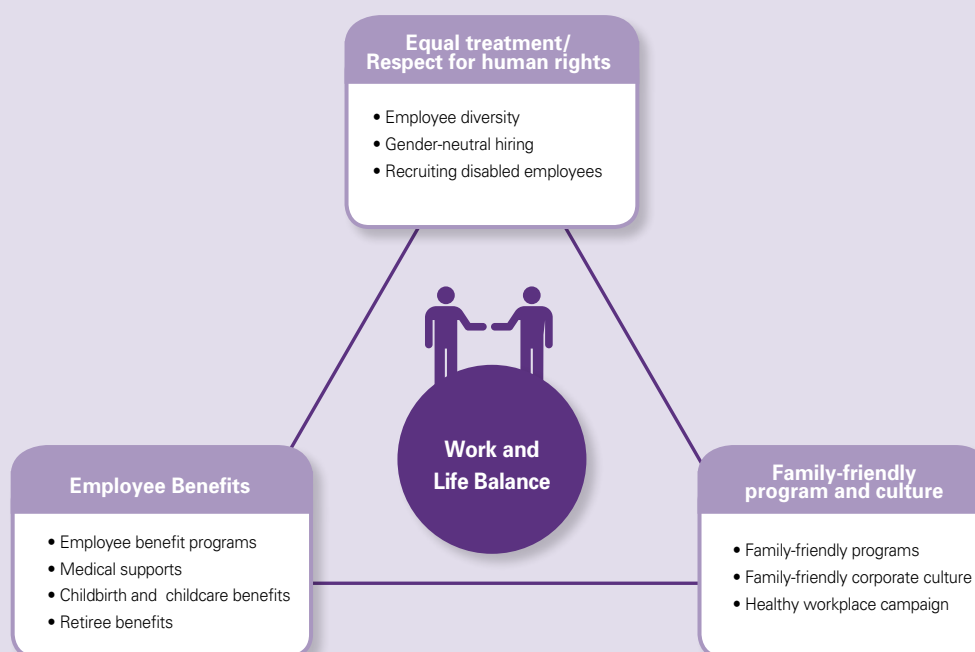


# 06 Work & Life Balance

Providing Equal Opportunity<sup>1</sup> Employee Benefits<sup>1</sup> Family-friendly Management

Lotte Shopping is committed to achieving work-life balance for employees and ensuring they realize their best potentials. “Equal Project 06” 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 gain.

## Work & Life at Lotte Shopping



## Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Female hiring ratio	%	Department Store	54.6	52.7	<b>51.7</b>
		Mart	63.4	64.1	<b>65.8</b>
Female manager ratio	%	Department Store	3.3	3.9	<b>4.3</b>
		Mart	4.1	4.9	<b>6.4</b>
Disability hiring ratio	%	Department Store	2.6	3.1	<b>3.4</b>
		Mart	2.0	2.3	<b>2.5</b>

# Providing Equal Opportunity

At Lotte Shopping, all employees are entitled to enjoy equal opportunities and fair treatment. Any discrimination based on gender or disability is banned while discriminatory elements are excluded when recruiting, transfer, and promotion are determined. 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 2011, the total number of employees stood at 6,513 for Lotte Department Store and 11,831 for Lotte Mart. Female workers as a percentage of total regular workforce was 51.7% for Lotte Department Store and 65.8% for Lotte Mart, well exceeding 50% level. Female employees above managerial position account for 4.3% of all employees above managerial posts but this figure is on a rising trend. At Lotte Shopping, gender is not a factor in hierarchy system. Male and female staffs come under a single organization hierarchy and receive equal salary defined by their ranks or job experience.

**Recruiting Disabled Employees ●** The disabled employee ratios stood at 3.4% for Lotte Department Store and 2.5% for Lotte Mart, exceeding the legal requirement of 2.3%. Lotte Shopping received an award ('True Company' Grand Prize given by the Korea Employment Promotion Agency for the Disabled in 2010) in recognition of its active hiring of disabled persons and developing jobs for the persons with disabilities.

**Recruiting Female Officers ●** The Lotte Group became the first conglomerate in Korea to launch a special recruitment of retired female military officers in March 2011. Currently, they are responsible for the jobs such as sale management and store management at the Group's subsidiary companies such as Lotte Department Store and Lotte Mart. Utilizing tender and soft leadership acquired during the military service period, they generate synergy effects in the distribution industry.

**Nurturing Female Workforce ●** Recognizing its special features of higher representation of female customers and female-intensive jobs, Lotte Department is committed to further efforts to secure excellent female workers. We scouted a female designer as an executive in December 2010 while drafting a female employee to branch head position in September in 2011, the first case in the industry. Moreover, in 2011, we scouted female employees from outside for the head positions of six major teams in the headquarters including MD team, service team, CRM team, financial team and legal team. In 2012, we are actively engaging in securing female workforce. As part of these efforts, we already hired female lawyers and accountants.

## Female and Disabled Employees

	Lotte Department Store			Lotte Mart		
	2009	2010	2011	2009	2010	2011
Total employees (persons)	5,911	6,555	6,513	9,114	11,548	11,831
Percentage of female employees (%)	54.6	52.7	51.7	63.4	64.1	65.8
Percentage of female employees above managerial position (%)	3.3	3.9	4.3	4.1	4.9	8.6
Disabled employees (persons)	159	197	227	177	247	283
Disabled employee ratio (%)	2.6	3.1	3.4	2.0	2.1	2.5

# Employee Benefits

Lotte Shopping offers a wide range of welfare benefits to help employees work in a more productive and healthier manner. Key employee benefits include financial loans, tuition subsidies and assistance programs for retirees.

**Employee Benefit Programs** ● 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. In addition to casualty insurance, employees are entitled to support for medical expenses and health checkups. We also emphasize safety training in the workplace to minimize the number of accidents on the job. 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. Lotte Shopping also operates and offers financial assistance for condominiums and club activities.

**Childbirth and Childcare Benefits** ● Lotte Shopping is expanding benefits related to childbirth and childcare for employees and co-workers (vendors' employees) in an effort to ease the burden of raising children. We also pay a childbirth grant to encourage childbirth and expands support for children's schooling expenses, helping working mothers meet their responsibilities to their children as well as work commitments.

**Eco-friendly Childcare Center** ● Lotte Department Store built its first in-house childcare center to better support its em-

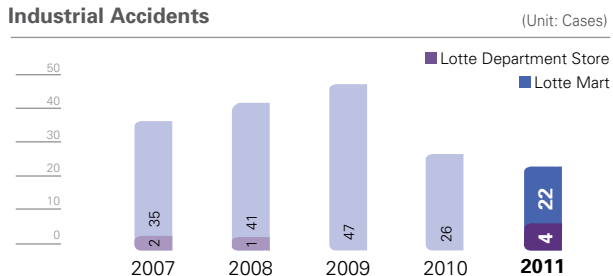
ployees and co-workers in child rearing and to improve the quality of life of female staff. It has also been touted as a best practice addressing the concern of low fertility. To meet employee needs, the center operates extended hours and even on holidays while providing free dinners. Lotte Department Store provides financial support to help employees pay fees lower than those charged by conventional childcare centers and a shuttle bus service is available. In 2011, we joined hands with regional childcare centers for the employees in Busan and Daegu. Operation begins at 8 o'clock in the morning and ends at 9 o'clock in the evening, with no holiday.

**Assistance for Retirees** ● Lotte Shopping carries out assistance programs for retirees. A memorial plaque is handed to retiring personnel in recognition of their service to the company. In addition, the company sends out various documents requested by retirees by mail free of charge. For the retired executives, our MVG benefits are given along with various benefits such as condominium use, expenses for congratulations and condolences, and regular health checkups. In 2008, an out-placement program was introduced to provide systematic support to retirees. Employees due for retirement are encouraged to participate in a new business school organized by the Small and Medium Business Administration from June 2012.

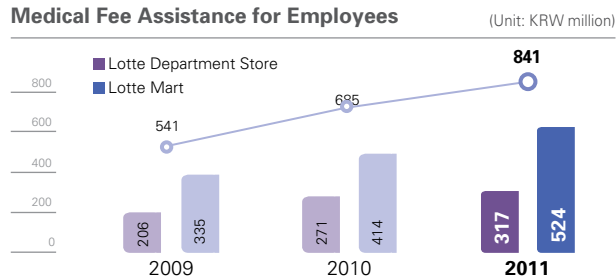
## Childbirth and Childcare Benefits

Category	Sub-category	Beneficiaries	Details
Childbirth	Congratulatory pay	Employees upon childbirth	- <b>Lotte Department Store</b> : KRW 100,000 for the first child and second child each, KRW 1 million for the third child, KRW 3 million for the fourth child and after - <b>Lotte Mart</b> : KRW 500,000 for the first child, KRW 1 million for the second child, KRW 2 million for the third child and after
Childcare	Support for schooling fees	Employees' children attending kindergarten, middle and high school, university (excluding elementary school)	Covers actual educational cost
	Medical fee assistance	Spouse and children registered in an employee's medical insurance card	KRW 5 million ~ KRW 10 million per year according to years of employment
	In-house childcare facilities	Employees of Lotte Shopping and vendors	Operates childcare centers and ties up with regional childcare centers

## Industrial Accidents



## Medical Fee Assistance for Employees



# Family-friendly Management

At Lotte Shopping, employees are encouraged to achieve a balance between work and their personal lives amidst favorable work environment through family-friendly programs. Supporting programs and systems for childbirth and childcare are helping increase employee satisfaction and work efficiency.

**Family-friendly Programs** ● Lotte Shopping has implemented various family-friendly programs considerate to its employees and their families. Among others, an invitational event for employees' children was introduced in 2009. Up to now, a total of 817 children have been invited by Lotte Department Store. In 2011, a ski camp for children of employees was held, and gained good responses from their families. Lotte Mart has held various events where employees' children were invited to visit logistics centers, plants, and main farmers for picking crops.

**Family-friendly Corporate Culture** ● Lotte Shopping has been promoting family-friendly corporate culture. To this end, the company launched a variety of programs such as loving-family holidays and family anniversary holidays. At Lotte Department Store, we introduced a refresh holiday program for employees above managerial level and a filial duty holiday program in 2011 to help them have time to recharge themselves and respect their parents. Lotte Mart designates the third Friday of each month as Family Day. On Family Day, employees can leave work an hour earlier than usual so they can spend quality time with their families.

**Family-friendly Company Certification** ● Lotte Shopping became the first company in the distribution industry to be certified as a family-friendly 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.

**Healthy Workplace Campaign** ● Healthy Workplace Campaign of Lotte Department Store stretches across the entire year, targeting work and life balance. Team dinners are advised against running late while unhealthy and inappropriate drinking episodes are encouraged to be reported. In 2011, signing and education were conducted for promoting corporate culture against smoking and drinking. Lotte Mart launched a healthy workplace campaign to enhance employees' physical wellbeing. Programs like the medical benefit mall, exercise benefit mall, smoking cessation fund, and cultural gatherings are boosting employees' satisfaction and wellbeing. KRW 500,000 is given to employee who joins the smoking cessation fund and then quits smoking. Three stages of smoking cessation campaign have been successfully implemented, recording abstinence rate of 38%.

**Great Work Place Award** ● Lotte Department Store received an award ("Great Work Place 100" Grand Prize in the distribution category) in 2011 in recognition of its contribution to forming a great corporate culture through transparent management. The company earned high ratings in the category of "confidence in top management" and "pride in work and organization," verifying it gains trust from the internal customers



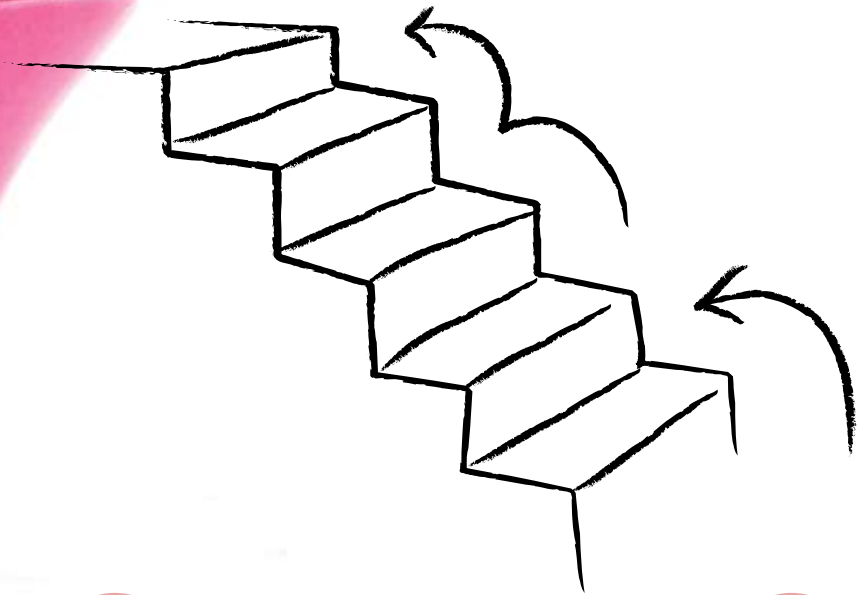
Ski Camp for Children of Employees



One Day Experience at the Company



*We think about Supplier*  
**Supplier**



Communication  
Fair Trade

**07**  
**EQUAL PROJECT**  
Supplier  
Management



Mutual Growth  
Service  
Management

**08**  
**EQUAL PROJECT**  
Supplier  
Support

Business Gain

Socio-Environmental Gain



# 07 Supplier Management

Supplier Communication<sup>1</sup> Fair Trade Compliance<sup>1</sup> Nurturing Suppliers' Employees

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 07" 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



## Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Supplier participation in supplier convention	No. of suppliers	Department Store	233	272	484
		Mart	-	-	42
Supplier participation in SME fairs	No. of suppliers	Mart	-	-	187
Co-workers who received education	Persons	Department Store	75,678	83,461	119,586

# Supplier Communication

Lotte Shopping is sharing its vision with suppliers, while pursuing sustainable mutual prosperity through diverse channels of communications. Internal system is being refined in the process of collecting suppliers' opinions and suggestions regularly.

**Supplier Convention** ● Lotte Department Store has held "Supplier Convention" every year since 2007. The convention helps us reconfirm win-win partnership based on mutual trust and achieve mutual prosperity through communications. During the 5th supplier convention in 2011 where 484 suppliers attended, Lotte Department Store adopted and announced the "Sliding Margin" reduction policy in which the suppliers' sales margin is reduced by 5% maximum. Issues including expansion of financial aid for suppliers were also shared at the convention. As for Lotte Mart, the company held "Tongkeun Sonkeun (broad-minded and unsparing) Convention," where 42 suppliers were invited. Going forward, Lotte Mart will hold the convention in the first half every year to interact with suppliers.

**Supplier CEO Roundtable and Supplier Visit Day** ● "Supplier CEO Roundtable," one of the Lotte Department Store's communication channels, has been held on a regular basis. Since 2009, a total of five roundtables have been held to collect opinions from suppliers. The latest one was convened in October 2011, where 48 CEOs from the supply companies participated. Lotte Mart also established the "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. Up to now, we have visited nine suppliers to help them extend marketing channels both in Korea and abroad and provide financial aid.

**Holding Supplier Invitational Fairs** ● Lotte Mart held a supplier invitational fair to search and foster outstanding small & medium enterprises (SMEs). A total of 37 suppliers among 187 firms that passed the 1st round of consultations, were selected through a sales test and are entitled to supply goods to us. Deulbit Food Company, among others, has shown great results, recording monthly sales of KRW 160 million (a 50% growth after being enrolled).

**Mutual Growth Website** ● Lotte Mart created a website handling mutual growth issues in June 2011, in a bid to pursue win-win partnership through continued communications with all of its SME suppliers. Various support programs in the area of finance, education and sales promotion are introduced, so that

mutual growth may be achieved in a more practical manner. As for Lotte Department Store, the Product Headquarters website serves as a key communication channel for mutual growth, helping suppliers apply for financial and educational supports and consult about location in our stores.

**Supplier Invitational Seminar** ● Lotte Department Store and its suppliers convened seminars where various subjects were dealt with. The "Mutual Growth CEO Seminar" where 295 CEOs from partner firms were invited was held in July 2011. At the seminar, the participants shared Lotte Department Store's main policies while having the opportunity to listen to the lecture of a guest speaker. In addition, we convened a marketing seminar together with 100 marketing staffs from suppliers to share win-win marketing strategies. Once again in November 2011, we convened a workshop for 100 CEOs of partner firms to share our policies on new store opening and key merchandisers.



Supplier Invitational Fairs



Lotte Mart Mutual Growth Website

# Fair Trade Compliance

In 2001, Lotte Shopping set an industry precedent by publicly announcing its Fair Trade Compliance Program (CP) in order to establish a fair and equal partnership with its suppliers. The company takes steps to minimize law violations and is committed to efforts to pursue mutual growth through an integrated process from education/audit, sanction/evaluation to feedback.

**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. CP Handbook (Volume 10) was distributed to all employees in 2011. In addition, our standard contract form has been refined and distributed reflecting the Large Scale Retail Law which was enacted on January 1st 2012. Going forward, we will establish an integrated electronic document system and promote the electronic contracts to keep official documents more systematic and streamline the contract processes.

**Fair Trade Supervision System** ● Lotte Shopping conducts reviews of items at least two times a year that are particularly susceptible to fair trade violations due to the nature of the department store business. Through the reviews, the company sizes up the possibility of legal violations and takes preventive measures to block the potential illegalities. 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. When any violations are discovered, relevant employees face reprimands and measures are taken to resolve the damages incurred by suppliers. Additionally, our ombudsman enables suppliers to submit complaints which are then investigated by us and reflected in improvements.

## Fair Trade Activities

Category	Details
Training and prevention activities	Distribution of CP Handbook (volume 10 in 2011) and new Work Manual
	Regular training for all employees, training for MDs and CMDs of product headquarters on need-be basis
	CP manager appointment, workshops (three times in 2011, 163 participated)
Surveillance and supervision	Abiding by the Large Scale Retail Law in relation to MD reshuffle
	Unfair levying of costs related to sales promotions, unfair dispatching of co-workers
	Unfair labeling and advertising
	Forced participation in sales promotion and discount events
Evaluation and improvement	Punishment against violators
	Sharing of violation across the company, taking measures for correction

## Supplier Mutual Prosperity Agreement Ceremony

Lotte Department Store held a mutual prosperity agreement ceremony with the Fair Trade Commission and suppliers in April 2011, to establish a joint partnership for coexistence and self-regulated fair trade compliance. With 120 CEOs of suppliers attending, the agreement ceremony was held to declare agreements on fair trade and mutual prosperity. In addition, both parties agreed to observe fair trade acts related to the distribution industry.

**Fair Trade Training** ● All employees at Lotte Department Store participate in fair trade training programs such as in-house trainings, trainings from invited experts, and online trainings. To evaluate employees' understanding of the Fair Trade Law, tests are conducted. Ninety times trainings were offered to 6,016 employees in 2011 while a law professor was invited to carry out a special lecture for the heads of the Product Headquarters and the Sales Headquarters in February same year. Once again in January 2012, we invited a lawyer to help staffs of the Product Headquarters and the Sales Headquarters understand the Large Scale Retail Law enacted in January 2012. Lotte Mart also holds mandatory training for its employees focused on fair trade practices. Likewise, internal tests are carried out twice a year to make sure fair trade practices are applied to the employees' daily work. Fair trade practice related training is a compulsory course for new employee introductory training.

## Lotte Shopping Fair Trade Training System

### Internal training



- Field training for employees of product headquarters and sales headquarters
- Fair trade workshop for CP staffs of product headquarters and sales headquarters
- Fair trade workshop for CP heads (executives and sales heads)
- Fair trade training for new employee

### External training

- Fair Trade Commission Civil Servant External Training

### Cyber training

- Lotte Cyber Campus

### Test

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

# Fostering Supplier Human Resources

Recognizing that Lotte Shopping's co-workers play a significant role in delivering our customer-centered values to customers, we help enhance their work competencies through systematic specialized training programs.

**Co-worker Training System by Phase** ● Lotte Department Store provides a step-by-step customized training program for all co-workers, including new co-workers. Specialized training programs are being initiated for all co-workers 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. We have also selected experienced professionals for four core sections of each product category and have initiated the Sales Master Qualification Certificate system to strengthen the professionalism of each duty. In 2011, we arranged a course for nurturing the employees' mindset in order to communicate with customers more sincerely. In addition, diverse courses including field case study and specialized sensitivity course such as humanities were offered.

## Trainings for Co-workers

(Lotte Department Store)

Year	Introductory course		Overseas training course	Training course run by each store	Total
	Short-term	Long-term			
2009	21,531	4,420	-	49,727	75,678
2010	42,223	10,775	100	30,363	83,461
2011	45,184	21,897	150	52,355	19,586
	108,938	37,092	250	132,445	278,725

**Internal Corporate Lecturer and Overseas Training Program** ● 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 newly hired co-workers. According to this policy, a step-by-step training course was carried out to transfer knowledge and experience to fellow on-site co-workers. In addition, the company selected the "Service Masters," helping them experience new trends in the industry through overseas training program. A total of 100 co-workers were selected for overseas service training conducted in Tokyo, Japan in 2010 while another 150 co-workers were sent to Shanghai, China in 2011. Overseas training program provided the opportunity for the service masters to gain greater know-how and experience greater pride in Lotte Department Store.

**Mutual Growth Academy** ● To help suppliers secure sustainable growth engine, Lotte Shopping launched the "Lotte Mutual Growth Academy" in February 2011. Along with educational support by the Lotte Group, an online education website (partner.lotteacademy.co.kr) is under operation to encourage suppliers to participate in the academy. In addition, various training courses such as policy course (ethics management, fair trade law), work course (accounting, marketing, IT) and leadership course are offered. For the eleven months from February to December in 2011, a total of 729 co-workers from 518 suppliers of Lotte Department Store and 514 employees from 368 suppliers of Lotte Mart participated in online and classroom training programs.



5th Charlotte Academy



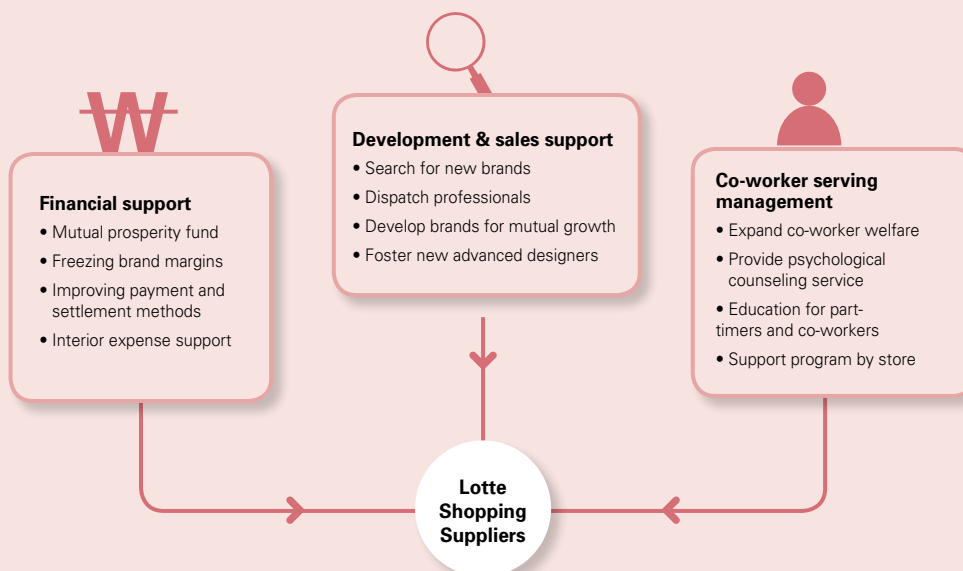
Overseas Training for Outstanding Shop Manager

# 08 Supplier Support

Financial Support for Suppliers<sup>1</sup> Product Development & Human Resources Support<sup>1</sup>  
Serving Co-workers<sup>1</sup> Supply Chain Management

Acknowledging that suppliers are companions for mutual growth, Lotte Shopping develops and operates systematic support programs to enhance their actual sustainability levels. “Equal Project 08” 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.

## Scope of Lotte Shopping’s Support to Suppliers



## Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Short-term financial support	KRW 100 million	Department Store	45	41	112
Percentage of cash settlement out of total purchasing expenses	%	Department Store	51.1	59.1	95.1
Win-win funds	KRW 100 million	Department Store	-	56	486
		Mart	-	154	515

# 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.

**Expanding Mutual Prosperity Fund** ● Lotte Department Store operates two funds – mutual prosperity fund and coexistent cooperation fund – to provide financial support to suppliers. Raised internally, the mutual prosperity fund was expanded to KRW 100 billion in March 2011 from KRW 15 billion in 2010. A total of KRW 11.2 billion was used for suppliers in 2011. Coexistent cooperation fund helps the Lotte Department Store suppliers get loans at favorable interest rates through operating our deposits at banks and other financial companies. We increased the fund from KRW 40 billion in 2010 to KRW 50 billion in 2011. In the year 2011, a total of KRW48.6 billion (53 cases) was supported to suppliers.

**Diverse Financial Support for Suppliers** ● 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, and coexistent cooperation funds. In 2011, electronic credit sales receivables guaranteed loans were added in the list and advanced payment scheme was introduced for direct financial support, thus providing a total of KRW 419 billion. In addition, through a regular financial support policy survey, we gather suggestions from suppliers, which are then used to improve our financial support to the suppliers. By directly consulting with suppliers in financial difficulty, we provide financial support catered towards the needs of the supplier.

**Improving Settlement Scheme** ● Starting in 2010, Lotte Shopping launched a new settlement scheme that allowed us to provide cash settlements for deliverance by suppliers and by doing so, contributed to improving their cash flow. Once again in 2011, the company took a measure to curtail the payment period. Since April 2011, settlement date for purchasing goods has been brought forward from 20th in the next month to 10th next month. Likewise, for special purchasing from suppliers who concluded a win-win prosperity contract with us, settlement date has been advanced by 20 days (from 30th next month to 10th next month). In case of rental fees, the settlement scheme is same as that for purchasing goods. These efforts have promoted the financial stability of SMEs while bolstering trust-based transactions between Lotte Shopping and its suppliers.

**Two-year Compensation for Interior Decoration** ● Since April 2011, Lotte Department Store has implemented a scheme to compensate for interior decoration for two years, the first of its kind in the industry. Aiming at building a rational compensation structure for interior decoration expenses, we support a 100% of the interior design cost when moving within 1 year of the renewal and the remaining costs when moving within 2 years. In 2011, we compensated around KRW 60 million.

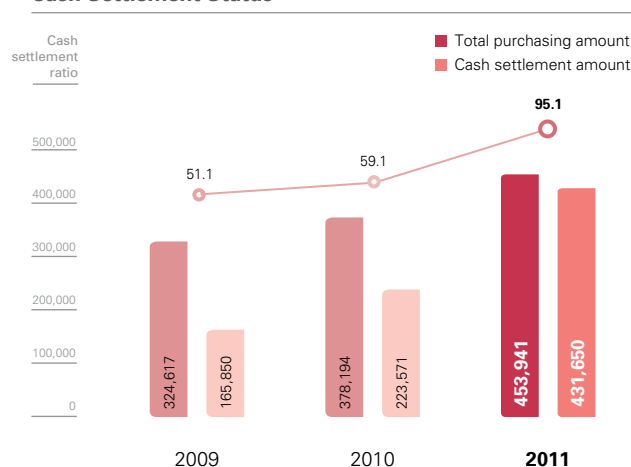
**Financial Support in 2011**

(Unit: KRW million)

Division	Financial support program	2011
Lotte Department Store	Mutual prosperity fund	Provide no interest short-term liquid money loans
		11,200
	Coexistent cooperation fund	Provide favorable interest rates to suppliers through cooperation with commercial banks
		48,600
	Purchasing card	Purchasing only
		65,463
	Family loan	80% of payment for goods received is supported as supplier's working capital
		167,705
Lotte Mart	Advanced payment	Provide funds for development of innovative products and agro-fishery products with no interest
		20,384
	Damoa loan	Provide signature loan at favorable interest
		420
	Electronic credit sales receivables guaranteed loan	Provide working capital based on delivery amount
		113,646
	Coexistent cooperation fund	Provide favorable interest rates through cooperation with commercial banks
		51,520
Total		478,938

**Total Purchasing Amount and Cash Settlement Status**

(Unit: KRW million, %)





# Product Development & Human Resources Support

Lotte Shopping established and operates diverse support policies to help small & medium suppliers market their products and develop brand products. A policy is being initiated to help foster promising designers and enhance their brand power through diverse support programs in the areas of product brand, overall business management and product strategy.

**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 2011, there were 620 MPB products generating KRW 63.5 billion in sales. In 2012, 700 new products are planned with projected revenues of KRW 85 billion.

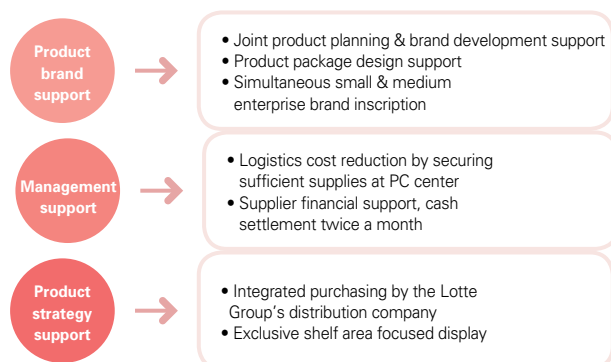
**Sending Experts to Suppliers** ● Lotte Shopping conducts a program to help suppliers severely troubled by expert manpower shortage. To this end, the company dispatches its professional staffs to suppliers. In 2011, Lotte Department Store sent out its experts on fire and electricity to three suppliers to check their facilities and safety status while a professional lecturer of the service academy visited seven suppliers and gave lectures on several subjects including business manners. In addition, Lotte Mart in cooperation with external consulting agency dispatched experts on safety and environment to eight small and medium enterprises to provide consulting on safety, environment and energy.

**Development of "Sonkeun" Brand for Mutual Growth** ● In 2010, Lotte Mart initiated the Sonkeun brand in cooperation with SMEs, and has since developed diverse Sonkeun prod-

ucts. The Sonkeun brand is being developed by combining our advanced system (sales data, product test and research center, distribution center etc.) and excellent competencies of SMEs with potential. As of May 2012, a total of 12 Sonkeun products are on sale. The Sonkeun tofu that was developed with Samyoung Food in April 2011 first penetrated into the tofu market which had been dominated by large companies, recording weekly sales of more than 30,000 blocks. Going forward, Lotte Mart will continue to develop SMEs that secure outstanding skills and technologies but face difficulties in finding a market.

**Support for Fostering New Advanced Designers** ● In April 2010, Lotte Department Store became the first company in the industry in Korea to conclude a working agreement with the Seoul Industrial Communications Promotion Agency to help foster new advanced designers by providing information, operating shops and marketing jointly. Through this, in August 2010, Lotte Department Store's Jamsil branch opened the "Style Field," a specialized select shop selling products directly produced by new advanced designers in suppliers. Style field is positively evaluated as having provided expanded support in a relatively weak existing distribution phase for suppliers. The shop posted sales of approximately KRW 400 million in 2011. Lotte Department Store plans to expand the scheme gradually through regular assessment and additional judging contests so that the specialized select shop may assume a role as a "fashion incubator" to vitalize the fashion market.

## MPB Support Program



"Style Field," a Specialized Select Shop



# Serving Co-workers

The co-workers at Lotte Shopping deliver our values to customers at the direct point-of-contact. That is why building a strong partnership through continuous communications and support is vital. Lotte Shopping provides various welfare benefits and carries out programs to address their difficulties in a more active manner.

**Expansion of Co-worker Welfare** ● Lotte Department Store provides diverse benefits to its co-workers in order to boost loyalty to the company. From April 2010, we expanded the welfare support for our long-serving co-workers to similar standards as our full-time employees. 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 enhance their satisfaction, 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. Every year, outstanding co-workers & service employees are selected and provided with an award and prize money which increased from KRW 100,000 to KRW 200,000 per person in 2011. A total of 286 co-workers & service employees were provided awards during the year.

**Psychological Counseling Service** ● Lotte Department Store 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.

**Education for Part-timers and Co-workers** ● At Lotte Mart, we prepared a pilot education program for the part-timers and co-workers working in our stores to help boost morale and relieve stress in 2011. The education program was designed to promote their sense of belonging and spirit of comradeship. A total of 241 workers participated in the program held in the six representative

stores across the country. We will continue to run this program to provide better places to work to them.

**Co-worker Support Program by Store** ● To help its co-workers retain the sense of belonging and spirit of comradeship, diverse programs are under implementation at each store of Lotte Department Store. A special meal is prepared at its staff cafeteria on a special day such as "Co-Workers' Day," and "Special Meal Day" for co-workers. And they can enjoy movie on "Cinema Day" or "Culture Day." These co-worker support programs serve as good stages for communication between Lotte Department Store's managers and its co-workers. In addition, we've been committed to efforts to improve work environment for co-workers. As part of these efforts, we renewed canteens and began to operate an integrated service lounge.

**Improving Convenient Facilities** ● Lotte Shopping carries out regular checks for improvements of its convenient facilities in order to relieve co-workers' fatigues and create a comfortable work environment. In January 2012, staff lounge clinic was conducted where a total of 90 facilities of nine branch stores in Seoul underwent safety and cleanliness checks.



Education for Part-timers and Co-workers

## Benefit Programs for Co-workers

Program	Target	Details
Provide '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 loss
Provide birthday gifts	Long tenure co-workers	Provide gift voucher for cake
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	Long tenure 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.)

## Supply Chain Management

Good relations with suppliers are of mighty importance to grow into a respected global distribution company. In this sense, Lotte Shopping carries out its ethical and social responsibilities for partner companies to the fullest while sparing no efforts to help them understand its sustainability management policies and participate in its corporate sustainability management activities.

**Building Partnership with Suppliers for Sustainable Growth** | Lotte Shopping introduced the “Supplier Sustainability Management Guideline” in a bid to strengthen the foundation for sustainable growth with its suppliers. Based on ten principles of the UN Global Compact, the Universal Declaration of Human Rights, and the International Labor Organization Convention, the guideline includes basic requirements of global standards on human rights, labor, environment, health and ethics that should be observed for sustainable prosperity of both Lotte Shopping and its suppliers. To attract attention of suppliers and encourage them to implement sustainability management in a more practical manner, the company inserted a clause on “Sustainability Management Agreement” in its contract form. We will help our suppliers observe this guideline.

**Supply Chain Risk Analysis** | At Lotte Shopping, we analyzed the supply chain risks of 564 major suppliers of Lotte Department Store and Lotte Mart in the category of economy, environment and society, the triple bottom lines of sustainability management, and then classified them into six groups ranging from no-risk to high-risk. Analysis showed that no supplier belonged to high risk group but risks in the environmental scope were relatively high compared to those in the economic and social scopes. This was mainly due to our appraisal method. That is, stricter global standards were applied to the appraisal of environmental risks such as the ISO 14001 certification, the greenhouse gas emission management certification, and the HACCP certification. Based on these results, we will do our best to take preventive and improvement measures through continued appraisal and control of supply chain risks.

### Supply Chain Risk Analysis



# Citizenship Equal Project

# Society



Connecting to  
Business  
Strategies  
Improving  
Sustainability  
Management

**09**  
**EQUAL PROJECT**  
Citizenship  
Input Management



Social  
Responsibility  
Social  
Contribution

**10**  
**EQUAL PROJECT**  
Citizenship  
Output Monitoring

Business Gain

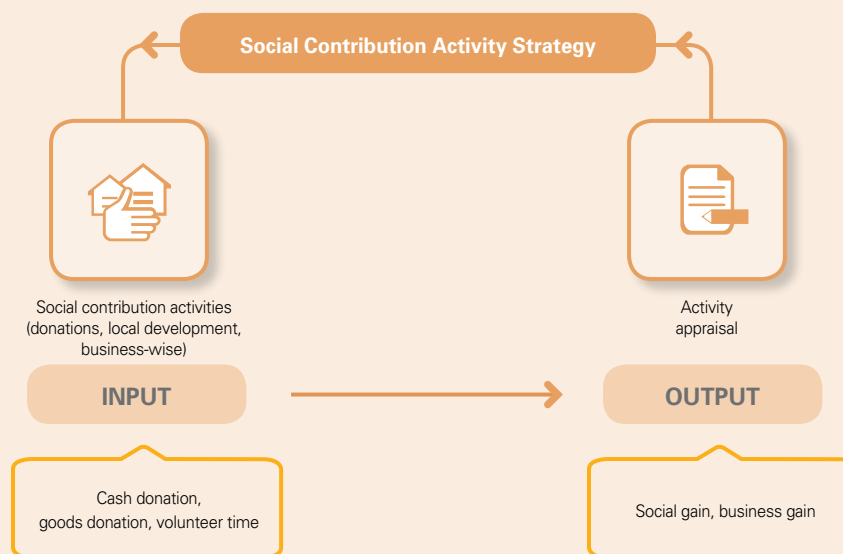
Social Gain

# 09 Citizenship Input Management

## Social Contribution Strategy<sup>1</sup> Social Contribution Input Management

The 'Citizenship Input Management' aims at enhancing efficiencies of our social contribution activities by quantitatively managing personnel and material elements of social contribution donations, volunteer activities and social contribution programs. It is a strategy to maximize performances by efficiently managing key elements of social contribution, delivering actual benefits to social contribution beneficiaries and helping us enjoy sustainable growth.

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



### Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Social contribution spending	KRW 100 million	Department Store / Mart	123	152	157
Number of volunteer groups	No. of groups	Department Store / Mart	76	100	139
Number of employee volunteers	Persons	Department Store / Mart	6,006	6,644	10,636
Volunteer hours of employees	Hours	Department Store / Mart	19,403	25,167	51,718

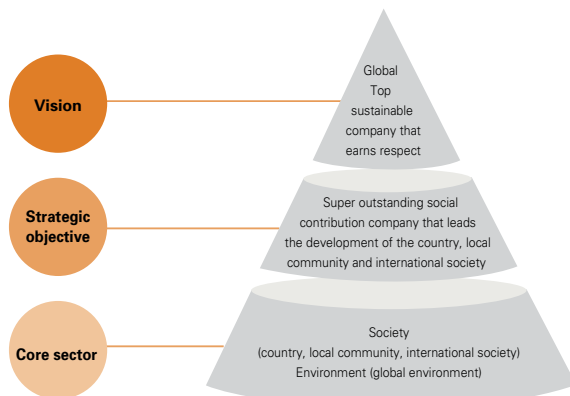
# Social Contribution Strategy

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 connected to the company's corporate strategy to go beyond 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.

**Management of Social Contribution Funds** ● Lotte Shopping manages KRW15.7 billion in social contribution funds annually. To effectively manage the social contribution 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 by monitoring the effectiveness of the output through the measurement of the effectiveness of social contribution fund utilization and social contribution programs. In addition, a fund execution guideline has been established so that the social contribution funds can be executed in a fair and transparent manner.

## Social Contribution Strategy



### Core Implementation Direction

- "Birth Encouragement Campaign" to help solve the low birth rate
- Expand employee participation in volunteer activities & strengthen "local community partnership"
- "Overseas social contribution" to establish a global standing
- Strengthen the "Green Campaign" to improve eco-friendly awareness & spread of the green life

### Core Implementation Tasks

- Strengthen internal & external birth encouragement activities / Lead the family-friendly management
- 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 million)



■ Culture, arts, sports 39.4%	■ Others 8.0%
6,165	1,245
■ Environment (ecology) preservation 7.1%	
1,106	Total 100%
■ Social welfare 27.3%	15,654
4,267	
■ Scholarship, academy 10.0%	
1,562	
■ International exchange and relief 8.4%	
1,310	

# Social Contribution Input Management

Voluntary groups of Lotte Shopping carry out social contribution activities across the country. Of particular, a fund-raising system that is linked to consumer purchase has been implemented. The funds raised by this scheme are used for various social contribution activities and local communities which, in turn, benefits consumers again, creating a virtuous cycle of sharing.

**Volunteer Activity Management System** ● 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 (KNCSW). Lotte Department Store, as a certified company, is responsible for appointing the Nanum Jari (Place for Sharing) counselors at each store, 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.

## Volunteer Club Activities in 2011

Division	No. of clubs	No. of participants	Total volunteer hours
Lotte Department Store	37	5,836	22,198
Lotte Mart	102	4,800	29,520
Total	139	10,636	51,718

**Environmental Gift Card Fund** ● Since Lotte Department Store declared its commitment to green value management in 2004, it has been operating the environmental gift card fund program in which a portion of sales from gift cards are reverted to an environmental fund. The program 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, thus returning the results of consumption back to a healthier natural environment. For the past eight years, Lotte Department Store accumulated KRW 5.7 billion for the environmental gift card fund and donated the money for various environmental preservation activities including the prevention of climate change.

**Toys R Us Fund** ● Lotte Mart's Toys R Us team donates 0.5% of sales under its own brand – 0.3% to the Korea Childhood Leukemia Foundation and 0.2% to the Hong Myungbo Scholarship Foundation. Since its inception in December 2007, the Toys R Us team has supported children suffering from children's cancer and soccer hopefuls. The team maps out a plan to use the fund for the self-reliance of children in connection with the "Happiness Sharing N Campaign" from 2012.

**Happiness Sharing N Campaign** ● Since 2010, Lotte Mart has carried out the "Happiness Sharing N Campaign" in which a portion of proceeds of "N" mark products is used for public purpose. In 2011, the number of the N mark products increased to 25 from six in the previous year. A total of KRW 130 million was donated to help the emotional development of children in childcare facilities.

**Matching Grant** ● Lotte Shopping voluntarily operates a social contribution fund through a matching grant scheme in which the company deducts a certain amount from employees' wages and matches that amount to add the fund. Utilizing the fund which is raised by the matching grant scheme, Lotte Department Store improves housing of alienated people while Lotte Mart supports children of low-income families in cooperation with the We Start. In addition, through one-to-one sponsorship and matching program in which the company matches the donations raised by employees, we help employees support poverty-stricken children abroad.



Volunteer Group of Lotte Department Store's Centum City Branch

# 10 Citizenship Output Monitoring

## Childbirth Promotion' Social Contribution for Local Communities' Global Social Contribution' Social Contribution through Cultural Activities

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.

### Lotte Shopping's Major Social Contribution Programs



#### Childbirth promotion

- Family-planning encouragement bus, a "Room for Loving Mothers"
- Camp with dads
- Cultural lectures for expectant mothers and fathers



#### Activities for local communities

- Activities of the Happy Dream Volunteers
- Treatment support for children with atopic dermatitis
- Deco market
- Mentoring
- Improvement of housing environment
- Gift donation on Children's Day
- Love-sharing campaign



#### Global social contribution

- Green China project
- Volunteer medical service – "Delivering Health & Happiness" in China
- Lotte School in Vietnam
- Warung, a start-up assistance program for low-income people in Indonesia
- One-to-one overseas child sponsorship



#### Social contribution through cultural activities

- Running cultural centers
- Sponsoring the Orsay Museum Art Exhibition
- Opening the "Lotte Department Store Kid's Lounge" at the Opera House of the Seoul Arts Center
- Holding art contest

### Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
Amount of Love Sharing Fund executed	KRW million	Mart	-	29	125
Number of children helped by one-to-one overseas child sponsorship program	Persons	Department Store	440	600	600
Membership for cultural centers	Persons	Department Store	401,122	558,547	650,000
		Mart	382,966	412,738	524,381



# Childbirth Promotion

Recognizing the seriousness of low birthrate in Korea, Lotte Shopping became the industry first to sign an agreement to “create a childbirth-friendly world” with the Ministry of Health and Welfare in September 2009. Under the agreement, the two parties are conducting various joint projects.

## Family-planning Encouragement Bus, a Room for Loving Mothers

● In cooperation with the Ministry of Health and Welfare in May 2011, Lotte Department Store started running a special bus called “room for loving mothers” to encourage working moms. A room for loving mothers is an on-wheel service that visits core office hubs in the capital metropolitan area to provide services related to pregnancy and childbirth. The service provides diverse contents good for prenatal education such as music, pictures and books, and even organic snacks and foot massage services. It offers practical assistance for working mothers who involve in both work and housekeeping, thus are difficult to attend prenatal classes and acquire information. In addition, the bus contributes to creating childbirth-friendly environment across the country.

● **Overnight Camp with Dads** Lotte Department Store held a family camp aiming for promoting childcare culture by dads while lightening the burden of moms. “Overnight Camp with Dad” where a total of 456 dads and children of 181 families participated, was held at theme places in five suburbs near the large cities such as Seoul, Busan and Gwangju for five weeks from June 2011 under the subject of “Experiencing Nature with Dads.” Through diverse activities such as rail-biking, visiting cul-

tural sites, playing games and doorplate-making, dads and children had opportunities to enhance intimacy.

## Lectures on Pregnancy and Childbirth for to-be Mothers and Fathers

● Lotte Department Store offered a lecture on the pregnancy and childbirth for expectant mothers and fathers at the Culture Hall of the company. Held twice on weekends in November 2011, the lecture focused on responsibilities of expectant fathers and appealed much to the participants. Apart from a concert good for prenatal education, essential information on childbirth was delivered to the to-be parents through a lecture of “Husband’s role by pregnancy phase” by an outside expert.

● **Awarded the Order of Civil Merit** Lotte Department Store received the Order of Civil Merit, Camellia Medal at the “2nd competition to create a childbirth-friendly world” held by the Ministry of Health and Welfare in August 2011, in recognition of its nationwide pro-natal campaign to disseminate positive awareness on pregnancy and childbirth across the nation and its leading role in establishing a corporate culture with optimal work-family balance.



Bus, “Room for Loving Mothers”



Camp with Dads

# Social Contribution for Local Communities

Lotte Shopping carries out a variety of social contribution activities with a view to growing together with the underprivileged in the local communities.

## Volunteer Activities Tailored to Needs of Childcare Centers

● Based on the one-to-one connection with over 100 regional childcare facilities across the nation in 2011, the Happy Dream Volunteers of Lotte Mart engages in supportive activities tailored to children in each age group from infancy, adolescence to to-be grown-ups. Through the stage-by-stage programs, children in the childcare centers are offered the optimal supports. Emotional development program, cultural program and experience-based program are under implementation for infants while educational program, talent-development program and mentoring program are offered to adolescents. Additionally, job search program and scholarship program meet the requirements of to-be grown-ups.

**Improving Housing Environment** ● Utilizing the social contribution fund which is raised by a 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. The company initiated the project as part of efforts to return its profits to local communities in 2010, and has since donated KRW 100 million to improve housing environment of 30 underprivileged families.

For greater employee involvement, Lotte Department Store awards in-house point to volunteering activity participants. Currently, one point is awarded for every eight-hour volunteer hours.

**Gift Donation on Children's Day** ● In 2011, we introduced the "Gift Donation" program under which the Children's Day gifts that were distributed on the 5th of May every year to our employees and co-workers are voluntarily donated. We gather gifts from employees and deliver them to children at social welfare facilities while issuing donation receipts to the gift donors.

**Mentoring Program** ● Since May 2010, Lotte Department Store has been actively involved in the Human Network project to carry out social contribution activities through a one-to-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 emotional well-being and character-building. With approximately 60 members comprising all of the executives and branch heads at Lotte Department Store voluntarily participating in the



Volunteer Activities to Improve Housing Environment



Gift Donation on Children's Day

mentoring activities, true sharing activities, some things that a human network can provide, are conducted successfully.

### Treatment Support for Children with Atopic Dermatitis

● Lotte Department Store operates an atopic dermatitis support program that helps children of low-income bracket. In 2011, a total of 100 children in Seoul, Incheon, Busan and Woolsan were benefitted from the program. Five-month medical expenses and drug costs were supported for the children with atopic dermatitis. The company also conducted picnic programs for atopic children who face difficulty staying outside due to their skin, by organizing trips to forests and ecological destinations effective for atopic treatment and convening public lectures on atopic dermatitis, helping the children live healthy and bright lives.

**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, preserving the environment. The gains from the bazaar are then donated to the needy neighbors. In February 2012, 4,000 items

exhibited during the Christmas events were sold through the Deco Market at each branch of Lotte Department Store. KRW 7.6 million of proceeds from the sales was used to treat children with diabetes. Leftover items from the bazaar were then resold through the “Happy Sharing” stores of the Korea Food for the Hungary International, an NGO group. The proceeds were used for domestic & overseas relief development projects.

**“Love Sharing” Campaign** ● Lotte Mart’s matching grant fund has helped the underprivileged in local communities since 2005. Starting in 2008, the company 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 systematic donation programs by installing happy moneyboxes at its stores nationwide and joining the angel campaign which donates KRW 1004 every month to one account while cooperating with civic groups.



Trip to Forest, a Picnic Program for Atopic Children



Love Sharing “N” Campaign



# Global Social Contribution

Lotte Shopping, befitting its status as a leading distribution company, is actively fulfilling corporate social responsibility across the world, particularly focused on countries where it has a presence.

## China

**Green China Project**<sup>1</sup> As part of the Lotte Department Store's 'Green China Project' campaign, a forestation project was initiated in Nankai Province, Tianjin in May 2011, just before the opening of its Tianjin branch, our second store in China. To contribute to the clearing up of the skies above Tianjin affected by yellow dust and pollution, the forestation project was jointly initiated with the citizens of Tianjin and various NGO groups in consideration of the local vegetation.

## Volunteer Medical Service "Delivering Health & Happiness"

<sup>1</sup> Lotte Mart in concert with Kyung Hee University Hospital at Gangdong offered volunteer medical services to ethnic Korean living in China at the second People's Hospital located in Yanji City of Yanbian Korean Autonomous Prefecture in Jilin Province. The four-day volunteer activities in August 2011 helped a total of 1,000 ethnic Korean in Yanbian receive medical benefits at nine clinics including orthopedics, internal medicine, and dental surgery.

## Vietnam

**2nd Lotte School**<sup>1</sup> Lotte Department Store is committed to efforts to contribute to overseas local communities through the education projects. As part of these efforts, Lotte Department Store opened Tam Di Elementary School in the Bac Giang Province near Hanoi, Vietnam in February 2011. In a newly opened

two-story building, classrooms were expanded from three to eight, playground was renovated, and a fence built. By donating diverse facilities and materials, Lotte Department Store was able to provide the children with a safe and pleasant place to study. This school project was the company's 2nd global educational support activity after Son Ky Middle School, the 1st Lotte School, was opened in Quang Ngai Province in central Vietnam in 2009. Going forward, Lotte Department Store will fulfill its responsibility through diverse social contribution activities.

**Support for Sports and Education**<sup>1</sup> Through offering support in sports and education field, Lotte Mart is getting close to the Vietnamese people. Starting in 2010, Lotte Mart has been providing support to help foster young soccer hopefuls in Vietnam while sponsoring 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 3 universities including Ho Chi Minh University and Foreign Trade University every year. Lotte Mart also handed out lunchboxes to the test-taking students on the college entrance examination day. Through these support programs, the Vietnamese young are naturally familiarizing themselves with Lotte Mart.

## Indonesia

**Start-up Assistance for Low-income People**<sup>1</sup> Starting November 2011, Lotte Mart's Indonesia subsidiary has been running a



Green China Forestation Project



Supporting Warung Business in Indonesia

start-up assistance program, helping low-income bracket start the “warung (market stall)” business. In cooperation with local welfare facilities, the subsidiary selects the candidates, and then provides them with initial start-up expenses. Additionally, discounts are offered to the founders when they buy goods to sell. In 2012, we will provide same benefits to four newly started warung operators and gradually expand the candidate pool and regions.

### Other Global Contribution Activities

**One-to-One Overseas Child Sponsorship**<sup>1</sup> Since 2009, Lotte Department Store employees have been helping overseas children through the one-to-one sponsorship program. A total of 600 employees including 100 co-workers (vendors’ 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. As of now, children in Vietnam, Indonesia and Cambodia are encouraged by the program.

**Bazaar for Earthquake Victims in Japan**<sup>1</sup> To encourage the victims severely damaged by the earthquake occurred in March 2011, Lotte Department Store held a “Love & Hope” charity bazaar for three weeks in March. Additionally, the company put collection boxes in each store so that its customers could relieve the

pain of the earthquake. Through the charity bazaar and collection boxes, a total of KRW 12 million was collected, and then donated to the Korea National Red Cross.

**Dream Center in Ethiopia**<sup>1</sup> In June 2010, celebrating the 60th anniversary of the Korean War, Lotte Department Store started constructing the “Lotte Dream Center” in Ethiopia, one of the nations that participated in the Korean War. After going through 15 months of construction, the company held an opening ceremony of the Center in September 2011. Comprising of three buildings - the educational, living and boarding facilities, the Lotte Dream Center is not only used for educational purposes, but also providing local citizens with educational opportunities and medical support after school.

**Solar Clock Tower in East Timor**<sup>1</sup> Since most of the families in East Timor do not have clocks at home, students tend to be tardy or absent from school. Even, they don’t know when they were born exactly. To help address this situation, Lotte Department Store initiated a “used clock collection campaign.” Through this campaign conducted in each store, a total of 30,000 clocks were collected while a nine-meter solar clock tower was erected in Dili, East Timor in commemoration of the campaign.



Dream Center in Ethiopia



Solar Clock Tower in East Timor

# Social Contribution through Cultural Activities

Based on good accessibility combined with advanced infrastructure, Lotte Shopping is providing self-development opportunities to local communities and supporting cultural activities. In addition, the company is playing a pivotal role in creating more bountiful and convenient cultural lives through sponsoring the cultural and art organizations.

## Lotte Department Store Cultural Center - "Edutainment"

- The cultural center at Lotte Department Store runs various programs that combine fun and learning for both children and adults. We are operating new classes such as the family play, experience with parents, and joint classes with external institutions. We also invite well-known personnel for special lectures such as professor Yoo Hong-Joon, writer Eun Hee-Kyung, traditional samulnori performer Kim Duk-Soo to share their knowledge and lives with our customers. Our cultural center is building its way to being a place of fun and learning for all ages.

## Lotte Mart Cultural Center - "Love, Sharing, Practice"

- The Lotte Mart cultural center shares concerns of society and spreads hope based on its lifelong learning programs. To this end, we are committed to efforts focusing on environment issues, philanthropic activities, and childbirth encouragement campaign. We at our 50 branch stores across the nation also provide our cultural center members with opportunities to meet with nature and experience various things through the localized programs tailored to each region. Additionally, we help them make precious memories and communicate with family members through special lectures on happy family for parents and events for intergenerational understanding.

## Cultural Center Status

	Lotte Department Store			Lotte Mart		
	No. of cultural centers	Total no. of classes	Total no. of members	No. of cultural centers	Total no. of classes	Total no. of members
2009	25	46,944	401,122	39	53,592	382,966
2010	29	60,702	558,547	48	66,469	412,738
2011	30	69,200	650,000	50	74,661	524,381

## Sponsoring the Orsay Museum Art Exhibition

- Lotte Department Store solidifies its status as a cultural department store by consistently sponsoring the art and culture events such as the British modern painting exhibition and French Versailles special exhibition in 2010. In June 2011, during the Orsay Museum Art Exhibition period, each of our five branch stores hosted an exhibition to display the highlight artworks of the Orsay Museum utilizing large transparent monitors, the first of its kind in the world. We plan to offer more cultural benefits to our customers by sponsoring art and culture programs such as the Louvre Museum exhibition.



Sponsoring the Orsay Museum Art Exhibition



Cultural Center



**Opening the Seoul Arts Center Kid's Lounge** ● Lotte Department Store opened the “Lotte Department Store Kid's Lounge” 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, implying that the company tries to enhance customer satisfaction and cultural welfare as a whole. Starting in 2011, refreshments and beverages have been offered to the users of the Kid's Lounge for their convenience.

**Creation of the Seoul Arts Center “Green Lotte Grass Park”** ● Lotte Department Store created and opened the Grass Park in the plaza in front of the Art Center's music fountain in May 2011. Seoul Arts Center's music fountain is a cultural attraction of Seoul and a place of rest within the city, and with the formation of the Grass Park it has become a space to give more relaxation to the visitors. Figures of our environmentally friendly characters “Saeromi” and “Haemi” established in the park has gained popularity among customers accompanying children. The Park was renovated in April 2012 through further donations.



Green Lotte Grass Park

**“Family Love” Art Contest** ● Lotte Mart and Chosun Education C-Art held an art contest under the theme of “Family Love” for the children who dream of becoming world leaders through artistic expressions. The contest was arranged to enhance children's emotions and creativity, to identify the healthy and harmonious family love and to relight family relationships in our busy lives. Children from 36 months to 6th graders participated in this contest and got the opportunity to think the meaning of family love. Lotte Mart cultural center will continue to sponsor and support the enhancement of children's creativity and emotions.



“Family Love” Art Contest

WE THINK ABOUT **CUSTOMER**

# Customer

Customer Satisfaction<sup>1</sup> Customer Communication<sup>1</sup> Reinforcing Online Channels<sup>1</sup>  
Customer Relationship Management<sup>1</sup> Customer Information Protection<sup>1</sup> Safe Shopping Environment

Based on its customer-first management philosophy, Lotte Shopping identifies customer needs from their perspectives and provides high quality services to maximize their satisfaction.

## Lotte Shopping's Customer Management Strategies



## Key Performance Indicators

Key Performance Indicators	Unit	Division	2009	2010	2011
[External survey] Customer satisfaction index	Points	Department Store	72	73	75
		Mart	72	72	73
[Internal survey] Customer satisfaction index	Points	Department Store	76.5	80.1	*77.2
		Mart	61.8	90.4	94.3
No. of customer grievances received	Cases	Department Store	25,829	21,976	18,173
		Mart	13,429	16,805	16,455

\*Deterioration due to stricter evaluation standard

# Customer Satisfaction

By adopting and implementing various policies and programs such as establishing the Customer Service Charter and conducting regular customer satisfaction surveys, Lotte Shopping spares no effort to enhance customer satisfaction and service level.

**Lotte Shopping's Customer Service Charter** ● Lotte Shopping is dedicated to enhancing customer service quality by declaring its commitment to quality service to internal and external stakeholders that all the employees at Lotte Shopping should observe. 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. In addition, new service slogan is created every year.

**Enhancing Customer Satisfaction on Services** ● Lotte Shopping regularly checks customer satisfaction levels through various service monitoring programs in a bid to explore strategic measures to enhance customer satisfaction. In addition, service clinic is conducted at each store to improve service attitude and address customer complaints. Thanks to these efforts, Lotte Department Store ranked no.1 for nine consecutive years in the National Customer Satisfaction Index (NCSI) survey in the department store category while Lotte Mart was newly included in the index as no. 1 in the large-scale discount store category in 2011.

## Lotte Mart's Service Satisfaction Monitoring Programs

Program	Survey period	Details
Homemaker monitoring	Monthly	Select at-home mothers for each branch as agents for service quality evaluation
Customer survey	Monthly	Conduct direct customer satisfaction survey led by CS managers
VOC evaluation	Monthly	Select key customer complaints and conduct follow-up evaluation



Lotte Department Store's 2012 Service Slogan

## Lotte Department Store's Service Satisfaction Monitoring Programs

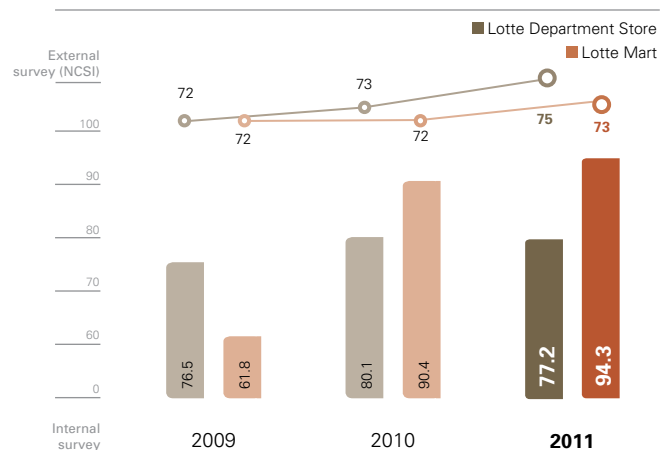
Program	Survey period	Details
Customer satisfaction survey	Quarterly	Use the survey to identify customers' needs and make improvements
Monitoring at the point of contact	Quarterly	Use mystery shoppers to evaluate current status and identify room for improvement
Monitoring employees' phone call manner	Quarterly	Monitor and improve staffs' ability to handle calls from customers
Service clinic	Quarterly	Select service-related topics and troubleshoot on site

## Consumer Centered Management (CCM) Re-certification

Lotte Department Store became the first department store in Korea to obtain the CCM certification from the Korea Fair Trade Commission in July 2009 in recognition of its efforts such as establishment of a companywide preventative internal control system and autonomous management system for customer complaints. CCM is an autonomous management system designed to prevent customer complaints in advance and offer prompt relief for any complaints that do arise from the customer perspective. The company was re-certified in July 2011, receiving a favorable evaluation in that it achieved a remarkable development in many aspects including autonomous management system and relevant educations for the past two years after the initial certification.

\* CCM = Consumer Centered Management

## Customer Satisfaction Index



\*Lotte Department Store's result by internal survey in 2011 (77.2) was deteriorated due to stricter standards.

# Customer Communication

Recognizing that reflection of customer opinions leads to the best service, Lotte Shopping is keeping its ears open to various customer comments through diverse communication channels.

**Voice of Customer (VOC) System** ● Lotte Shopping's online VOC system helps handle customer voice in a faster and more accurate manner, enabling us to analyze the feedbacks from customers and enhance customer service level. Since May 2011, a mobile customer center has been operated to go along with the fast trend changes in the wake of a sharp increase in smart phone users. The center, in particular, serves as an optimal channel to collect various views from the young customers. In addition, Lotte Shopping operates a "VOC Headline" system in order for every employee across the company to recognize the importance of VOC and pay more attention to customer complaints. VOC Headline, which shows main VOCs of each store in the form of VOC clipping on the groupware, helps employees identify VOCs and take due measures for improvements.

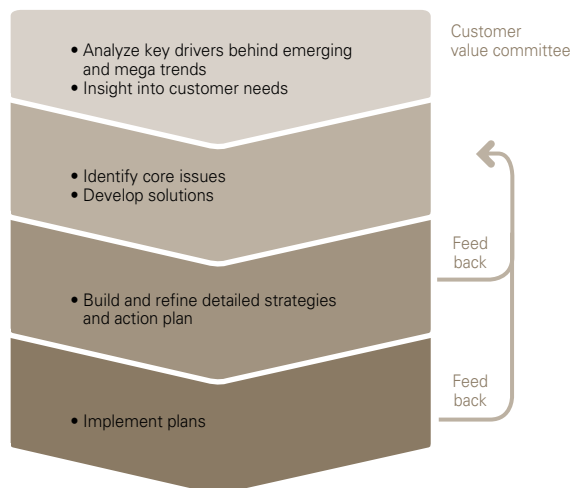
**Customer Research Center** ● Customer research center of Lotte Mart is strengthening analysis on customer needs and market trends to generate customer-oriented values and propose more proactive services in advance rather than reactive after-sales services in the midst of fast trend changes in the market. The customer research team organized a consumer/trend counseling body and a multi-tiered consumer research toolkit in an effort to conduct more in-depth research and collect diverse customer needs. In addition, "Trend Forum" led by

the CEO has been held every month since March 2011 to share research findings on customers, review proposed solutions and reflect them into the relevant works.

**Smart Consumer Application** ● In March 2012, Lotte Department Store began operating an SMS-based communication channel to evaluate customer satisfaction level and collect their opinions. This new channel was design to help the users access Lotte Department Store more conveniently than the existing VOC system, enabling us to enhance service quality. Customers who have downloaded the "smart consumer" application are informed of their purchase records when they buy with Lotte Credit Card, and therefore can post their satisfaction level and comments real-time. Customer complaints are delivered to the customer center immediately for follow-up measures.

**VOC-MS Certification** ● Lotte Department Store received the VOC-MS (Voice of Customer – Management System) certification (AAA rating) from the Korea Management Association Consulting in recognition of its commitment to communication channel diversification through establishing a liquid crystal display voice of customer (LCD VOC) system and developing mobile VOC applications.

## "Customer Research Center" Process



## Online VOC Appeals

	Lotte Department Store			Lotte Mart		
Type of appeal	2009	2010	2011	2009	2010	2011
Inquiry	14,895	9,186	7,095	4,586	5,616	5,079
Satisfaction	1,375	1,929	1,994	1,055	1,636	1,631
Dissatisfaction	9,559	10,861	9,084	7,788	9,553	9,745
Total	25,829	21,976	18,173	13,429	16,805	16,455

## Smart Consumer Operation Process



# Reinforcing Online Channels

We at Lotte Shopping 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.

**elLotte, Premium Online Mall** ● Lotte Department Store opened a premium online mall “elLotte” (www.ellotte.com) in March 2012. Unlike other online malls selling low-price goods, elLotte presents not only low-to-medium price products but also high-end and high-price goods that include international luxury brands, over 1,000 brands produced by new advanced designers, and even rare items such as yachts and works of art. Customer service call center offers multilingual service (Korean, English, Japanese and Chinese) all the year round while applications for mobile devices and tablet PCs help users access the mall more conveniently. In addition, the mall offers a special function through “Smart Finder,” recommending the products well suited to customers based on analysis of each customer’s purchasing history. We plan to operate the elLotte malls in the countries where our branches are doing businesses such as China and Indonesia by 2015, with a view to providing more convenient shopping environment.

**Access Location Based Homepage System** ● The Lotte Department Store website is our key communication channel with 1.8 million members, offering diverse information on shopping and events. In March 2012, the company became the first in the industry to redesign the company website and introduce the access location based homepage system. The new system helps every customer across the country easily access the individual website tailored to each location of our stores. Rather

than the main branch focused homepage system, the individual store centered website system allows us to enhance service quality particularly on fashion and offer unique service by store.

**Launching of Lotte Department Store Integrated Application** ● With the increase of mobile device users, we have built an integrated application that enhances customer accessibility and supports a smart shopping life. By providing flyer viewer function and information on stores, shopping, events, and DM coupons in one packet, we have received good responses from mobile device using customers.

**Diverse SNS Communication** ● Fast expanding social media helps provide more diversified communication channels. At Lotte Department Store, we communicate with customers on a real time basis using this new media. As of now, our twitter account has over 200,000 followers while a total of 18,000 customers have joined our facebook account since opening in January 2011. In addition, Lotte Department Store became the first in the industry to deliver diverse shopping information to 1.35 million customers using “Kakao Talk,” a local messaging service. Additionally, the “Shopperholic” blog and five “Shopperholic” online supporters enable us to strengthen interactive communications by sharing customer-creating contents and providing latest trends.



elLotte, Premium Online Mall



Lotte Department Store's Kakao Talk Messaging Service

# 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.

**Integrated Membership Program** ● Using the integrated Lotte Group membership program based on the Lotte Members Card, Lotte Shopping has analyzed each customer's purchase history and is accumulating the lifestyle-based CRM information. With the gathered information, we provide customers with information and customized services such as sending DMs, handling returned DMs, invitation to various events and promotions, selecting VIP clients and giving benefits. In order to increase customer loyalty we offer differentiated services that include special resting lounge area, designated parking space, and valet parking service and anniversary gifts.

**Customer Segmentation** ● Lotte Department Store, the first builder of customer data warehouse in the industry in 1999, segments customers for a variety of purposes utilizing the Customer Relationship Management (CRM) system. The 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. The CRM system, therefore, makes it easier to provide differentiated value tailored to customer traits and manage customers according to their purchasing features. Lotte Department Store's mar-

keting and sales support activities based on the CRM system 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.

**Business District Management System** ● Combining data of the Lotte Members with the Geographic Information System (GIS) technology and external data, Lotte Mart analyzes sales by region and manages customer relations in the business district of each store. Initially, we relied on the concentric circle business area management method but the need for a scientific analysis of regional sales has increased in the wake of fierce competition and rapid increase of the number of large discount store branches. We have combined external data and the state-of-the-art GIS technology with our internal data of ten million customers to build a system that enables us to analyze sales by administrative district. Currently, the system is used to inquire business area information, manage flyer distribution areas, develop business districts and manage DMs & SMS.

## Customer Management Based on the CRM System

Category	Details
Deviation warning system	- Prediction of deviation by analyzing personal purchase cycle history - Prevention of deviation through differentiated management according to the level of deviation
Kids club system	- Analysis of purchasing patterns using family and kids information of members, differentiated marketing for kids - Securing future customers, establishing basis for kids marketing
Wedding member management system	Analysis of wedding D-Day purchasing products and purchasing cycle - Targeting customers based on expected purchasing day, recommending goods that customers are expected to buy
House-move customer management system	Analysis of moving customer by checking residential address and targeting - Specialized DMs on products such as electric goods/furniture
MVG hobby information system	Systematic management based on detailed hobby information on MVGs - Provision of customized benefits based on analysis of hobby related purchasing pattern, sending DMs on related goods
Returned DM notification system	Immediate SMS notice on address change when DM is returned - Securing target customers through immediate update of changed information



# 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 System** ● 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." Even in the case of customer information leakage by hacking, an automatic encryption system begins to work to block the possibilities of information misuse. Lotte Mart also holds quarterly committee meetings on information security, led by a dedicated team newly organized in 2011. Issues and countermeasures on information security are discussed in the meetings. Information Strategy Team of Management Strategy Division is in charge of

the follow-up measures such as reporting meeting outcomes, monitoring and feedback.

**ISO27001 Certification** ● Lotte Department Store became the first company in the industry in Korea to receive the ISO27001 certification, an international standard for information security management system in February 2011. A security system which handles member care on the company's homepage and e-mail account had been intensively checked and taken complementary measures before passing a strict examination by BSI Korea. The certification served to reaffirm the sophisticated level of information security at Lotte Department Store.

**Information Security Training and Campaigns** ● Employees 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. The first Friday of every month is celebrated as Information Protection Day, when trainings for promoting the information protection mindsets and self-inspections through checklists are conducted.



ISO 27001 Certification



Information Protection Day Poster

# Safe Shopping Environment

Safety is a top priority for retail facilities that are visited by many people. Lotte Shopping is committed to promoting a pleasant indoor environment through safety management and air quality control in a bid to ensure that customers can enjoy shopping in a safe and secure environment.

**Safety Management at Stores** ● 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. The company 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. As a result of these efforts, Incheon branch received the Korea Safety Grand Prize (The Ministry of Public Administration and Security Award) in 2011.

**Air Quality at Stores** ● Lotte Shopping is employing an autonomous indoor air quality control standard stricter than the legal requirements so as to ensure the health and well-being of its customers and employees. Key air quality elements in stores and indoor parking facilities are regularly measured for each store once a year during the period between February and June based on both "Indoor Air Quality Fair Testing Method" published by the Ministry of Environment and our internal standard for air quality measurement.

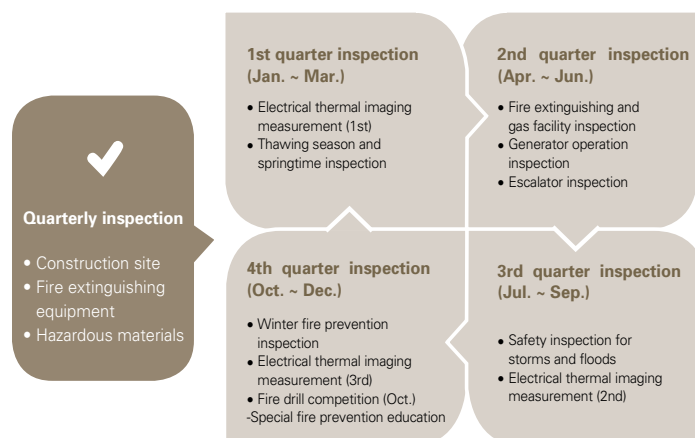
**Indoor Air Quality Certification** ● Lotte Shopping became the first in the industry to receive an indoor air quality certification, in recognition of its efforts to improve air quality in the

store through establishing an air quality management system and facilities. Its commitment to the relevant regulations such as the Restriction of the Hazardous Substances (RoHS) Directive was another reason for the company to be certified. Utilizing a carbon dioxide sensor in an air conditioner which sounds a warning call when air with carbon dioxide over 1000 ppm flows into the store, the company controls air quality, blocking the inflow automatically. In the meanwhile, our indoor air quality has improved significantly. Measurement results in all of the ten categories including particulate matter, carbon dioxide and asbestos were far below those required by the legal standards. Currently, 13 stores of Lotte Department Store and six stores of Lotte Mart have the certification.

## Air Quality Measurement Results

Category	Measured item	Lotte Department Store		Lotte Mart		Legal standards
		Results (avg.)	vs. legal standards	Results (avg.)	vs. legal standards	
Store	Particulate matter	55.8	39.9%	43.1	30.8%	140 $\mu\text{g}/\text{m}^3$
	Carbon dioxide	487.3	48.7%	611.4	61.1%	1,000 ppm
	Formaldehyde	18.9	18.9%	23.3	23.3%	100 $\mu\text{g}/\text{m}^3$
	Carbon monoxide	1.3	14.4%	1.2	13.3%	9 ppm
Indoor parking lot	Particulate matter	73.3	40.7%	63.5	35.3%	180 $\mu\text{g}/\text{m}^3$
	Carbon dioxide	511.4	51.1%	550.0	55.0%	1,000 ppm
	Formaldehyde	10.9	10.9%	22.4	22.4%	100 $\mu\text{g}/\text{m}^3$
	Carbon monoxide	2.9	14.5%	3.6	18.0%	20 ppm

## Seasonal Safety Inspections by Theme



Indoor Air Quality Certification

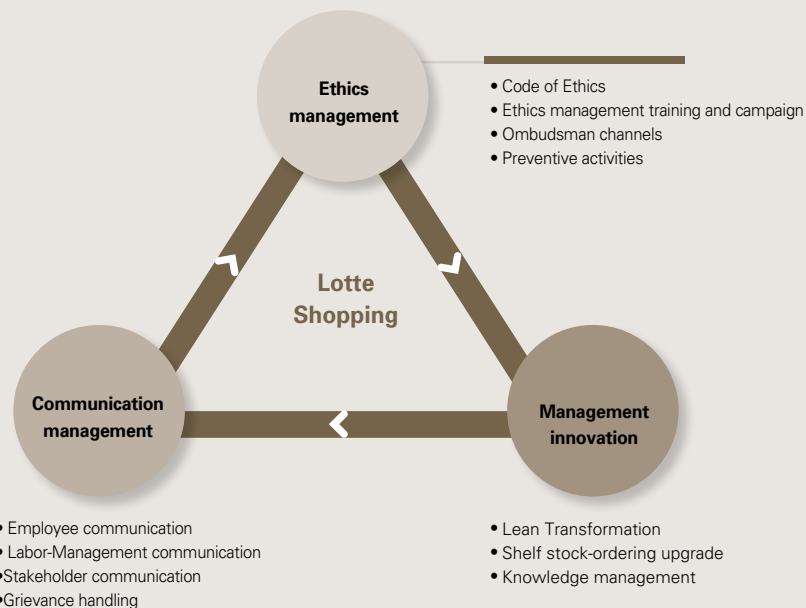
WE THINK ABOUT

# Our Culture

**Ethics Management' Management Innovation' Communication Management'**  
**Labor-Management Relations' Stakeholder Communication**

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

Key Performance Indicators	Unit	Division	2009	2010	2011
No. of employees participating in ethics training	Persons	Department Store	-	373	407
No. of violations	Cases	Department Store	20	17	17
		Mart	-	37	42
Cost savings by Lean Transformation	KRW million	Department Store	16,315	20,914	20,500

# 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** ● As a way of promoting ethical values across the company, Lotte Shopping declared the "Lotte Shopping Code of Ethical Conduct" and drew up the "Code of Ethical Conduct Bylaws," a detailed guideline on ethical behaviors to be observed by all employees in 2001. 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, thus taking the lead in creating Lotte Shopping's ethics management.

**Declaring Ethics Management** ● Lotte Department Store's employees above managerial level participated in a declaration ceremony held in March 2012 where strong intent on voluntary implementation of ethics management was pledged. Four implementation principles as basic behavior directions was announced there – true to the basic, work improvement, speedy work, and strict & strong measures.

**Ethics Management Training and Campaign** ● Every year, Lotte Shopping conducts training on ethics management for new recruits and newly promoted managerial staffs. In 2011, a total of 407 employees - 216 newly promoted manag-

ers and 191 new recruits - were trained. On-the-spot training programs are also offered for certain positions and teams while all employees and co-workers are encouraged to participate in a special education program during the national holidays. In addition, the company carries out campaigns by sending text messages and e-mails to all employees to boost ethical awareness. Target stakeholders are currently expanding.

**Ethics Management Reporting Channels** ● Lotte Shopping gathers information related to corporate ethical conflicts through diverse channels offline and online such as Internet, phones and mails. The company has diversified the reporting channels by opening ethical hot-line on company messenger, establishing in-company e-mail account and newly operating in-house main number exclusively for ethical reporting. Any stakeholder with relations to Lotte Shopping can easily access this reporting system. In addition to violation reports, suggestions to policy improvements such as the cases of inefficiency and irrationality are also collected, and then reflected in an appropriate manner. In addition, a strict whistle blower protection system is arranged to ensure strict confidentiality of informants. Average reporting per month totaled 30 in 2011, which were broken down to 10 to 15 through Lotte Shopping's Ethics Secretariat, ten on phones and five by mail.

## Lotte Shopping Code of Ethical Conduct

Promise to customers	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, safety and accident prevention

## Declaration for Ethics Management at Workplace

### Practicing Ethical Management at Workplace

I, as the executive employee of Lotte Department Store, will conduct my duties based on 2S-3C Action Guidelines, and lead by example to practice ethics management.

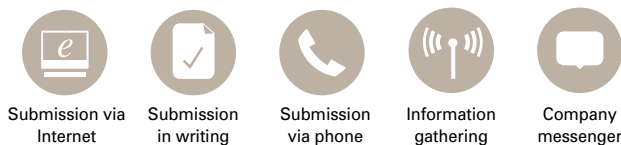
- I will uphold trust as the highest value and always stay honest to my work.
- I will lead to eliminate inefficient, unethical and unreasonable practices from work.
- I will perform my job in a clear and transparent manner based on impartial judgment.
- I will not accept any gifts, bribes or entertainment offers from suppliers.
- I will keep my dignity as a Lotte family and treat my colleagues with respect.

**Preventive Activities for Ethics Management** ● Lotte Shopping has prepared and distributed an ethics management manual that enables each department or team to carry out preventive activities voluntarily. Based on the guidelines, self-inspection is conducted. Results are reviewed to find out potential risks and measures are taken quickly. In addition, the company conducts surveys targeting suppliers twice a year 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.



Ethics Management Declaration Ceremony

#### Ethics Management Reporting Channels



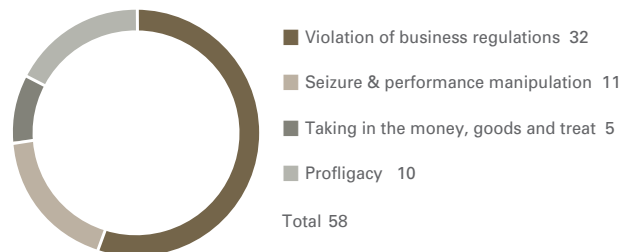
- Submission via Internet: Ethics Secretariat homepage, Lotte Group ombudsman, Product Headquarters homepage, EDI homepage (Bitter/Sweet Comments), ERP cyber-audit, e-mail account (ethics@lotteshopping.com)
- Submission in writing: Regular or registered mail sent on an anonymous or identified basis
- Submission via phone: Call the company's main number (voice recording, caller ID, local call)
- Information gathering: Information obtained by Ethics Secretariat investigators from employees in stores and headquarters and co-workers
- Company messenger: Ethics Management Department's ethics hot-line

#### 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 by the decision made by the HR committee based on Ethics Secretariat's thorough inspection results. The level of disciplinary action and reprimand is carried out in accordance with the company's reprimand related regulations. In 2011, our efforts to enhance the management transparency and efficiency brought about a financial gain. KRW 470 million was saved or redeemed through various work improvements and strict examination on unethical practices. A total of 17 ethical violations were uncovered. Depending on the severity of the breach, six individuals were dismissed and 18 were subject to disciplinary action.

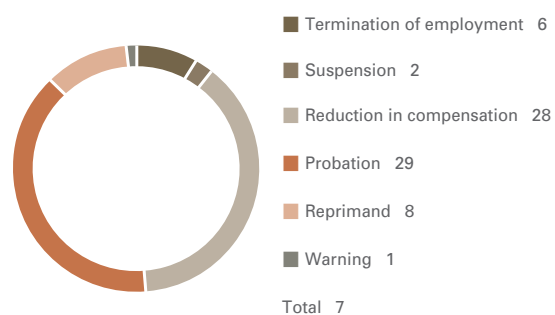
#### Ethics Management Status

(Unit: Cases)



#### Ethical Violations

(Unit: Cases)



# Management Innovation

Lotte Shopping operates a knowledge-based system that enables the sharing of accumulated knowledge company-wide by vitalizing 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** ● Starting June 2009, Lotte Shopping introduced an “Idea Popcorn” program, allowing all employees to freely present their ideas. Proposed ideas are reviewed by the pertinent departments and viable ideas are implemented. In 2011, a total of 2,742 ideas were registered and 148 of them have been implemented. Idea Popcorn connected with the Knowledge Mileage and the IDEA system is contributable to realizing creative culture.

**Shopping from a Customer’s Perspective** ● Lotte Mart operates a program in which employees directly shop in stores to experience shopping from a customer’s perspective, discover any discomforts, and identify any areas for improvements. After making the necessary improvements, best practices are shared among stores. Additionally, the company introduced a “proposal on my own work” program in May 2011, aiming at continuous improvement and innovation in each employee’s own work. These two programs - “shopping from a customer’s perspective” program, a customer-focused work improvement program and “proposal on my own work” program for work improvement from the inside - help us establish a balanced and integrated innovative culture across the company.

**Lotte Jisik-in** ● Lotte Shopping adopted the “Lotte Jisik-

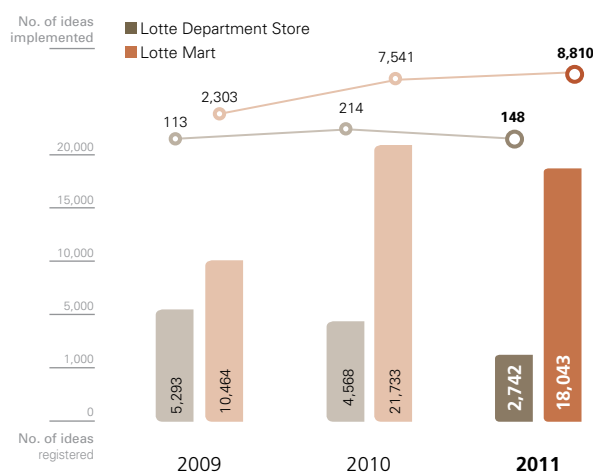
in (Knowledge-in)” system to be able to effectively utilize in management innovation, the group intellect of the employees equipped with knowledge from diverse areas. Anyone can submit questions through the system and internal experts provide prompt and accurate answers. On the back of active engagement by staffs, approximately 3,000 questions and answers on departmental work procedures and major company issues have been registered.

**Innovative Management Award** ● Lotte Department Store was presented the Presidential Award at the “18th Business Innovation Award” in November 2011, in recognition of management innovation through active communication with employees. The Business Innovation Award is given to businesses that have achieved management innovation through continued change and challenge. Lotte Mart was also awarded the grand prize at the “Korean Idea Management Award” in 2011 for three consecutive years while simultaneously received the Best Manager Award for its contribution to creating outstanding results and generating employee’s interest in the CEO’s idea proposals.

**2S-3C Research Group** ● “2S-3C” that stands for Simple, Speed, Clean, Communication and re-Check is Lotte Depart-

## Results of Idea Popcorn and Shopping from a Customer’s Perspective

(Unit: Cases)



## Performance Management Process

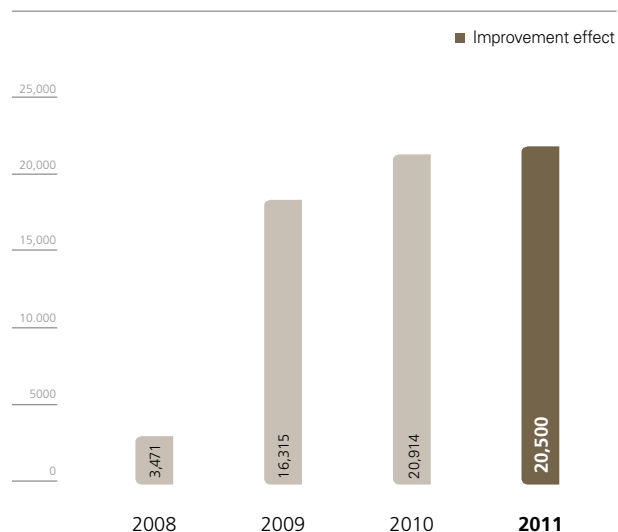
	Activities per stage	Reporting form
<b>Preparation</b>	<ul style="list-style-type: none"> <li>• Topic selection</li> <li>• Inviting applicants, role determination</li> <li>-Sponsor (department head), coach (team head), leader (manager), researcher</li> </ul>	<ul style="list-style-type: none"> <li>•Research group operation plan</li> <li>-Initial report</li> <li>-Reporting the name of research group, number of researchers and objectives of improvement</li> </ul>
<b>Kick-off meeting</b>	<ul style="list-style-type: none"> <li>• Dealing with research topic in detail (sponsor should attend)</li> <li>• Identifying problems and determining research topic</li> </ul>	<ul style="list-style-type: none"> <li>• Weekly report</li> <li>- Reporting activities during the week</li> </ul>
<b>Main research</b>	<ul style="list-style-type: none"> <li>• Analysis of the cause and drawing a solution</li> <li>• Planning and executing detailed ideas</li> <li>• Feedback and modification</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly report</li> <li>-Reporting performances during the month</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Evaluation and feedback by sponsor and coach</li> <li>• Reporting final report</li> </ul>	<ul style="list-style-type: none"> <li>• Final report</li> <li>-Reporting activities and performances during the period</li> </ul>



ment Store's new behavioral guideline to help pursue change and innovation through the simplification and standardization of duty as well as the prevention of errors and accidents. To heighten the 2S-3C mindset, booklets were made and distributed to all executives and employees while research groups by department and branch store were created in March 2012. With various employees regardless of position in participation, each research group selects topics among the list of its pending issues for improvements. Furthermore, it works to find detailed solutions for work process improvement through multi-dimensional and creative research. To vitalize the research culture, we plan to hold the "2S-3C Dream Award" ceremony where excellent research cases are presented and shared.

**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. 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. As of the end of April 2012, a total of 75 stores operate the system. Lotte Mart

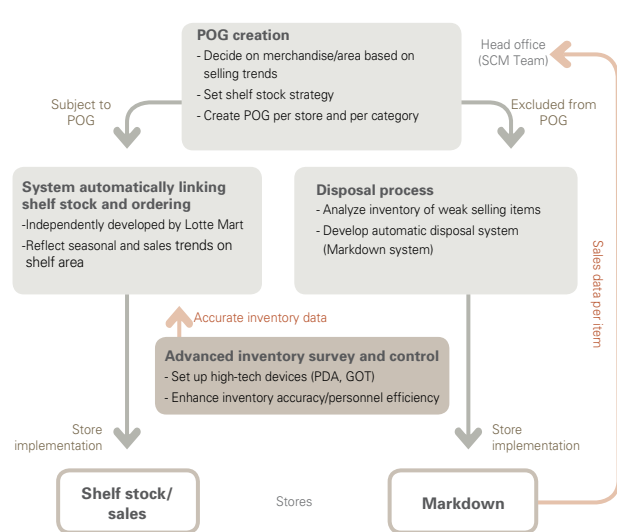
**Financial Performance by Lean Transformation** (Unit: KRW million)



has fostered 132 change facilitators including on-site facilitators to go on implementing the management innovation activities through Lean Transformation. We set a goal of KRW 36 billion of financial gains through the innovation activities in 2012.

**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 producers to customers, in order to minimize sales opportunity loss and maximize customer satisfaction. The POG system enabling an optimal product display through the analysis of the characteristics and sales of each region helps reduce the time it takes to display products at each store and upgrades the portfolio & display standards. Currently, all 95 stores in Korea are using the system. In addition, Lotte Mart has adopted a third generation ordering method through the New CAO system that automatically links ordering to sales volume and shelf stock. The integrated shelf stock-ordering-inventory control solution (POG-New CAO system) has led to a gradual decrease in inventory and continued improvement in inventory days. Compared to the performances in 2007 when the POG-New CAO system was not introduced, inventory fell by 5.7% while inventory days dropped by 1.7 days to 18.4 days in 2011.

**POG-New CAO System**



# Communication Management

To enable free communications between employees and management, Lotte Shopping is creating an open corporate culture. In addition, various grievance handling program are being adopted to enhance employee satisfaction and strengthen corporate competitive edges.

**Communications Clinic** ● Starting in May 2009, Lotte Department Store adopted the “Communications Clinic” to enable efficient communications between headquarters & branches and between branches themselves. The communications training personnel visits shops to share corporate policies and issues, while collecting suggestions. Since 2009 and as of 2011, there were a total of 11,687 employees participating in nine communications clinics. Through the communications clinics, employees had opportunities to freely express their opinions.

**Measuring the Temperature of Employees** ● Employee temperatures are measured once every month to form a consensus through on-site voice listening and discussions with head of branches. This contributes to improving internal communications and promoting morale within the company by enabling fast processing of employee grievances.

**Dreams Come True Project** ● Lotte Mart runs a project that selects feasible dreams of our staff members and helps make it real. All employees are entitled to hand in their dreams once a quarter. All dreams undergo review by each store while a “Dreams come true” coupon is given to the winner. The Dreams Come True Project boasts high participation rate and receives a positive employee response since it is widely recognized as a communication tool for employees.

**Grievance Handling Center** ● Lotte Shopping is willing to listen to any voices of employees and improve various irrationalities by operating a grievance handling center. Lotte Department Store operates Nanum Jari (Place for Sharing) to give counsel to employees on matters such as the work environment, sexual harassment, employee treatment and psychological problems. Nanum Jari of each store is supported by 37 professional counselors to handle over 10,000 cases annually. Lotte Mart holds a store grievance processing committee bi-monthly. Comprising of the store head, support manager and committee members, the committee meets each occupational group. Suggestions and grievances are collected by each part of the store and consulted & solved by the committee. The committee serves as a communication channel to offer practical

feedbacks to employees. Additionally, Lotte Mart operates the Happy Counseling Center that allows employees to submit their grievances through diverse channels such as email.

**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 2011, 55,085 Lotte Department Store employees and 11,624 Lotte Mart employees participated in the sexual harassment preventive training. With the subject, “Get to correctly understand sexual harassment within the company,” the training conveys information on how to prevent and deal with sexual harassment. The training also includes analysis of real life examples and other social issues.

**Stress Diagnosis** ● Lotte Department became the first in the industry to implement a stress diagnosis program in May 2011, in order to eliminate stressors through mental health management and establish a sound organizational culture. The Minnesota Multiphasic Inventory (MMPI) test was implemented for all 885 employees above managerial post to identify the stress level, psychological status and fatigability. Along with this test, mental health counseling was provided.

## Grievance Processing Status

Category	Work environment	HR/system	Human relations	Others	Total
2009	20	1	65	15	101
2010	16	10	36	13	75
2011	21	17	59	9	106



Dreams Come True Project

# Labor-Management Relations

The employees and executives 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 parties.

**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. In 2011, the company established a chapter at each store to hold more practical labor-management council meetings tailored to each store's status. Lotte Mart is also 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 other year, the joint labor-management delegations of Lotte Mart visit overseas businesses in order to strengthen the relationship between labor and management. The overseas training session helps us share the company's vision and gives us a sense of pride that we are working at a global enterprise. After a visit to Indonesia in February 2010, we visited our stores as well as local shopping malls in Shanghai in March 2012. Going forward, we will introduce more overseas training programs to enhance global operational competencies of both management and labor. Lotte Department Store also visited advanced companies in Europe to introduce good examples of labor-management cooperation. In the coming years, we plan to send more delegates to reinforce global capabilities.

**Training to Strengthen Personnel Management Capacity** ● From July 2011 to January 2012, Lotte Mart had conducted the Leadership School training for all employees above managerial position to enhance organization management and communication skills and to help them learn coaching methods customized to their mentees. We also provide a training program for all store managers on the manager's role, organization management, conflict handling and communication methods in the wake of changing business environment. This bimonthly training helps upgrade the personnel management mind and leadership of managerial staff. As for Lotte Department Store, personnel capacity evaluation was implemented in June 2011 while a training session was held to diagnose communication problems between managers and staff. In the future, we plan

to introduce an annual evaluation system to promote the right leadership of managerial employees.

**Organization for Labor-Management Cooperation** ● Along with continued efforts to maintain a rational and stable relation with the labor union, Lotte Shopping tries to listen to voices of employees and reflect them into corporate management. To this end, the company launched the Hanmaeum (One Mind) Council in 2011, the first of its kind in the industry. In addition, we held workshops twice a year to invigorate communications among employees.

**Organizational Culture Diagnosis** ● In 2011, a professional consulting firm was commissioned to diagnose Lotte Department Store's organizational culture and identify problems in personnel management. Necessary improvement measures have been taken to create a desirable corporate culture. Meanwhile, HR management education for suppliers got much applause from them, helping form a consensus on mutual prosperity.

## Labor Union Overview

Category	Lotte Department Store	Lotte Mart
Eligible union members	2,552 persons	1,230 persons
Union members	1,439 persons	690 persons
Full-time labor officials	5 persons (time-off scheme is applied)	3 persons (time-off scheme is applied)
Affiliated group	Federation of Korean Trade Unions, Federation of Korea United Worker's Unions	Federation of Korean Trade Unions, Federation of Korea United Worker's Unions



Hanmaeum (One Mind) Council  
Communication Course

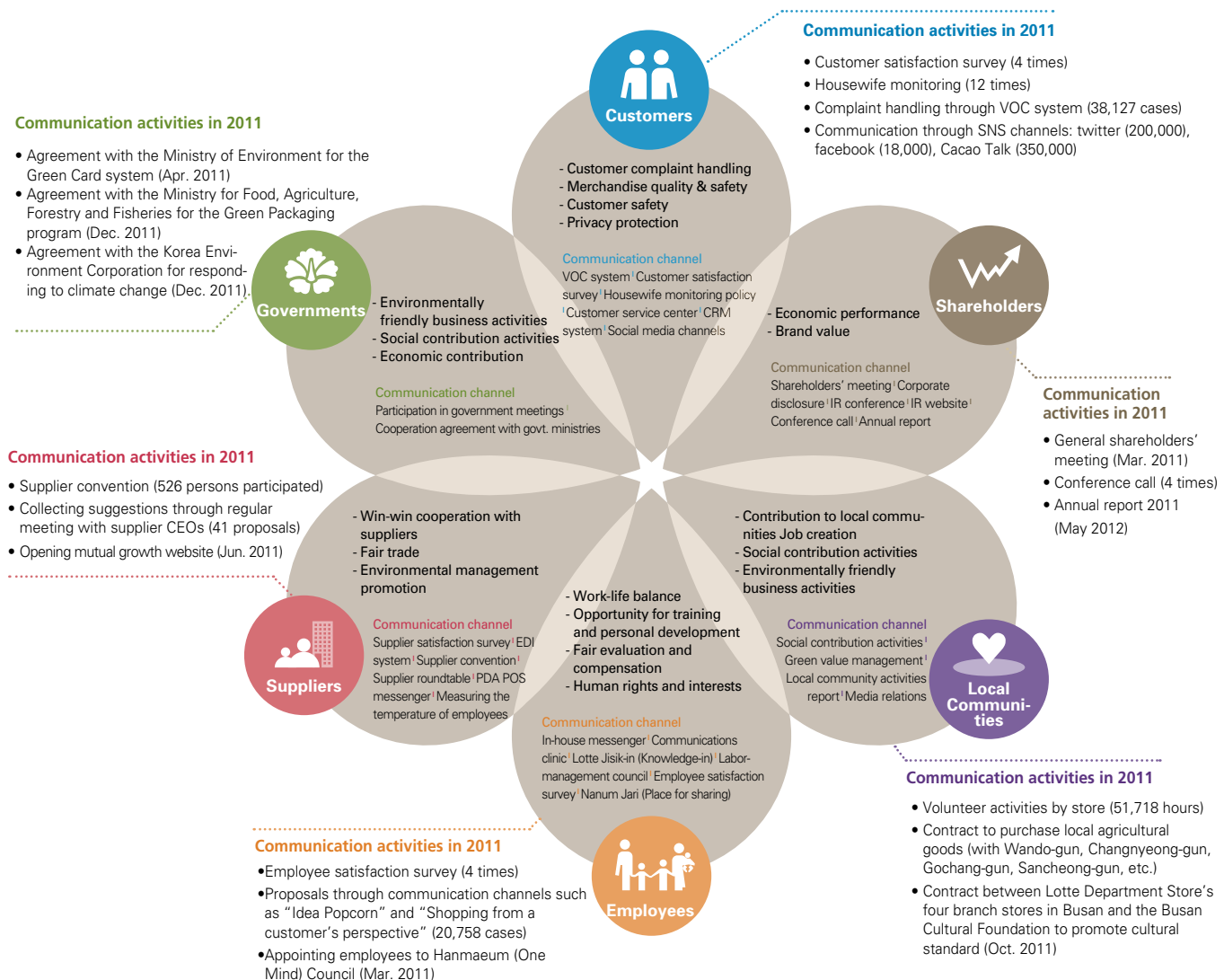
# Stakeholder Communication

Lotte Shopping defines shareholders, employees, customers, suppliers, 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 suppliers, and the survey results are used to identify stakehold-

ers' 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.

## Stakeholder Communication Channels



# Appendix

Economic Performance

Corporate Governance

Sustainability Management Issues

Environmental and Social Performance

Third Party Assurance

Assurance Statement for GHG & Energy

Target Management System

GRI G3.1 Index

UN Global Compact

# Economic Performance

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

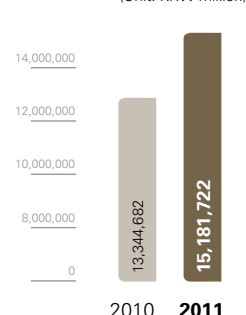
## Balance Sheet

(Unit: KRW million)

Amount	Amount
Assets	22,842,330
I. Current assets	3,732,746
Non-inventory	2,248,576
Inventory	1,484,170
II. Non-current assets	19,109,584
Investment assets	4,972,343
Tangible and intangible assets	12,006,449
Other non-current assets	2,130,792
<b>Total assets</b>	<b>22,842,330</b>
Liabilities	9,627,222
I. Current liabilities	5,273,987
II. Non-current liabilities	4,353,235
Stockholders' equity	13,215,108
I. Capital stock	145,217
II. Capital surplus	3,622,183
III. Retained earnings	9,405,868
V. Accumulated other comprehensive income	41,840
<b>Total liabilities and stockholders' equity</b>	<b>22,842,330</b>

## Sales

(Unit: KRW million)



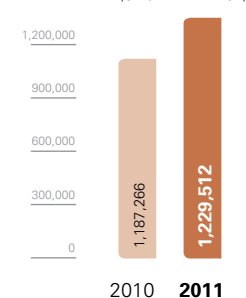
## Income Statement

(Unit: KRW million)

	2010	2011
Sales	13,344,682	<b>15,181,722</b>
Gross profit	3,971,627	<b>4,534,156</b>
Operating income	1,187,266	<b>1,229,512</b>
Net income before taxes	1,032,047	<b>1,121,980</b>
Net income	778,293	<b>742,937</b>

## Operating Income

(Unit: KRW million)



## Key Financial Indicators

	2009	2010	2011
Stability indicators	Current ratio	58.71%	<b>70.78%</b>
	Debt-to-equity ratio	55.28%	<b>72.85%</b>
	Borrowings dependency ratio	10.45%	<b>18.40%</b>
Activity & growth indicators	Sales growth	-	<b>13.77%</b>
	Operating profit growth	-	<b>3.56%</b>
	Net income growth	-	<b>-4.54%</b>
	Total asset growth	-	<b>9.36%</b>
Profitability indicators	Operating profit to sales ratio	-	<b>8.10%</b>
	Net income to sales ratio	-	<b>4.89%</b>
	Return on assets	-	<b>1.70%</b>
	Return on equity	-	<b>2.88%</b>

## Economic Value Generation & Distribution (EVG&D)

(Unit: KRW million)

GRI indicator	Remark	2010	2011
<b>Direct economic value generated</b>		<b>13,344,682</b>	<b>15,181,722</b>
a) Income	Net sales, income from financial investments and asset disposal	13,344,682	<b>15,181,722</b>
<b>Economic value distributed</b>		<b>10,742,848</b>	<b>12,131,889</b>
b) Operating expenses	Purchasing expense, non-strategic investments, royalty and operating expenses	9,373,055	<b>10,647,565</b>
c) Wages & benefits	Total amount paid to employees	752,836	<b>862,013</b>
d) Cost of capital	All expenses paid to providers of capital	141,846	<b>149,757</b>
e) Taxes	Total taxes paid	461,585	<b>461,585</b>
f) Investments in local communities	Voluntary contributions and investments (donations, etc.)	13,525	<b>10,969</b>
<b>Retained economic value</b>	Economic value generated – Economic value distributed	<b>2,601,834</b>	<b>3,049,833</b>

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  
e) Taxes: Income tax expense + additional payment of income taxes + taxes and dues f) Investments in local communities: Donations



# Corporate Governance

Lotte Shopping is committed to ensuring transparent and sound corporate governance that meets global standards. Continued improvement in corporate governance not only helps us gain trust from stakeholders including shareholders and investors but also 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 Shin Heon serves as chairman of the board. Min Sang-Kee (professor of Seoul National University), Kim Won-Hee (former managing director of Honam Petrochemical Corporation) and Kim Tae-Hyun (lawyer of Yulchon LLC) were appointed as an outside director at the 42nd general shareholders' meeting in March 2012, in succession to three outside directors whose terms had expired. The eligibility criteria for outside directors is based on article 382, paragraph 3 and article 542-8, paragraphs 2 the Commercial Law. The remuneration limit for directors is subject to approval at the general shareholders' meeting.

**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 13 meetings in 2011 to deliberate and decide on major management issues.

**BOD Committees** ● The Outside Director Recommendation Committee and the 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 a meeting in 2011. The Audit Committee is comprised of three members all of whom are outside directors. A total of five audit committee meetings were held in 2011.

**Remuneration for Directors** ● Remuneration for directors is subject to the directors' compensation ceiling approved at the general shareholders' meeting. The approved ceiling in 2011 was KRW 11.0 billion, the same as the previous year. The remuneration amount paid out was KRW 8,472 million. The remuneration for company executives totaled KRW 8,196 million (KRW 1,639 million per executive) in 2011. Average compensation paid to an outside director and an auditor was KRW 48 million and 44 million, respectively in 2011.

## BOD Meetings and Attendance Rate of Outside Directors

BOD meeting	Date of BOD meeting	Attendance
1	2011.01.27	6/6 (100%)
2	2011.02.22	
3	2011.03.18	
4	2011.04.14	
5	2011.05.24	
6	2011.06.15	
7	2011.06.27	
8	2011.07.21	
9	2011.08.25	
10	2011.09.22	
11	2011.10.21	
12	2011.11.18	
13	2011.12.15	

## BOD Resolutions

- Approval of financial statements and business report
- Audit Committee's internal accounting control evaluation report
- Results and plans of fair trade compliance program
- Establishment of Tianjin Culture Center branch in China
- Plan for investment in Lotte Songdo Shopping Town
- Store opening, etc.



# Sustainability Management Issues

In preparing the 2012 Sustainability Report, Lotte Shopping carried out a materiality analysis of major issues. A survey was conducted to identify the stakeholders' interest in various sustainability issues. Based on the results, we carried out an internal analysis to gauge the significance and impact of the issues, and then drew up a materiality matrix.

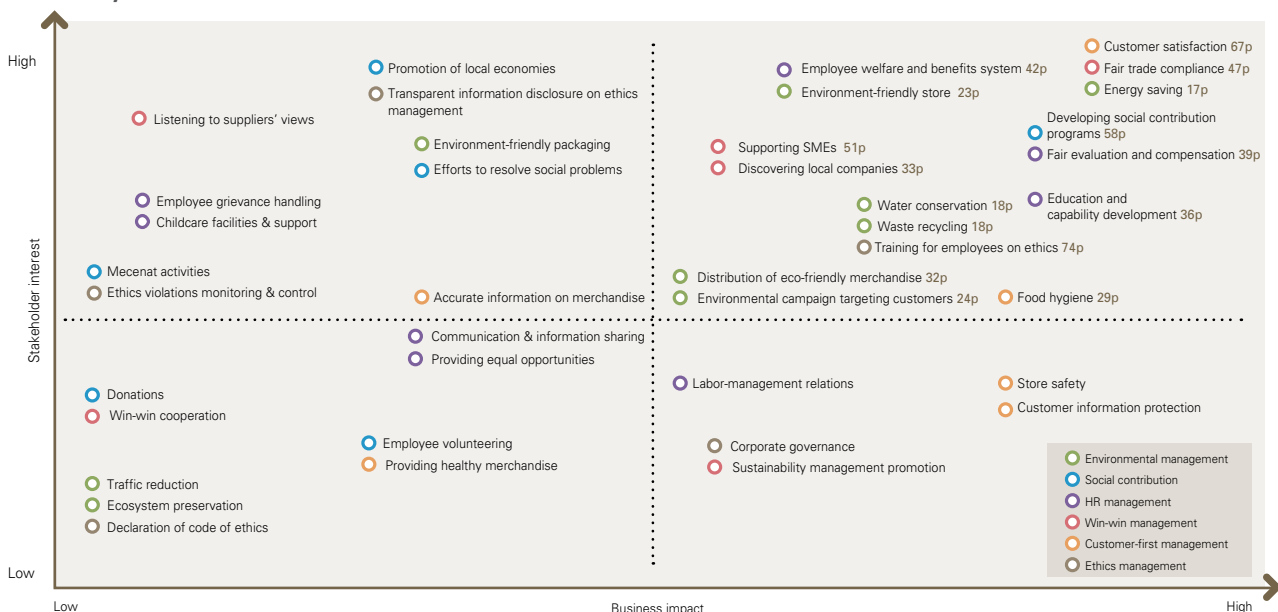
**Sustainability Management Stakeholder Survey** • Lotte Shopping carried out a survey to collect opinions from stakeholders on the company's sustainability management and to reflect the results in the sustainability report. In the online survey carried out for 2 weeks between February 16 and February 29, 2012, a total of 417 stakeholders and sustainability management experts participated. According to the results, most important and material issue was customer satisfaction service followed by social contribution activities and ethics management. Key issues of six major groups were summarized at the table below.

**Materiality Analysis** • In deciding on sustainability management tasks and goals, Lotte Shopping considers issues in which stakeholders have an interest and analyzes the materiality and impact of issues on our operations. We selected a total of 40 issues based on international standards on sustainability such as the GRI Guidelines and DJSI performance indicators, issues in the media, and internal issues such as the company's business strategy and major undertakings. We then prepared a survey to assess the level of interest per stakeholder group and impacts on our businesses. Major material issues drawn up by the materiality assessment were fully reflected in this report. To help our stakeholders find issues of their interest without difficulty, we put page numbers in the materiality matrix.

## Level of Satisfaction and Interest by Sustainability Management Issue



## Materiality Assessment Matrix



# Environmental and Social Performance

Material assessment at Lotte Shopping helps us create key issues for sustaining business operations. Special attention is being paid to the environmental and social scopes through systematic management and strategic operating activities in order to generate various business gains such as profit generation and cost saving.

Scope	Category	Material issues	Activities	Major achievements	Page
Environment	Revenue Generation	Environment-friendly goods	Green card	<ul style="list-style-type: none"> <li>Department Store/Mart: Established POS system at all stores (Nov. 2011)</li> <li>- No. of eco-products that offer green card points: Department Store 63, Mart 220</li> <li>- Sales of green products increased 10.5% YoY as of March 2012. (KRW 2.8 million in March 2011 vs KRW 3.1 million in March 2012)</li> </ul>	34
			Eco-shop	<ul style="list-style-type: none"> <li>Department Store: Sales from environment-friendly multi-brand stores totaled KRW 900 million while profits went toward environmental fund</li> </ul>	
			Environment-friendly products	<ul style="list-style-type: none"> <li>Department Store: Operating eco-brand stores such as "Olga" and "Pureum" (sales of KRW 39.1 billion)</li> <li>Mart: Developing eco-friendly PB products (sales of KRW 33.0 billion)</li> </ul>	
			New and recyclable energy facilities	<ul style="list-style-type: none"> <li>Mart: Electricity from photovoltaic (PV) power generation facilities of 39 stores was sold to KEPCO (sales of KRW 2 billion)</li> </ul>	
	Cost Savings	Waste recycling	Standard garbage bags	<ul style="list-style-type: none"> <li>Mart: Selling reusable garbage disposal bags that can be used both as shopping bags and garbage bags (Sales of KRW 8.1 billion for 2.2 million bags)</li> </ul>	24
		Waste recycling	Environment-friendly packaging	<ul style="list-style-type: none"> <li>Mart: Purchasers of Green Mileage products (products with no secondary packaging and eco-products) were given green mileage points (sales of KRW 11 billion).</li> </ul>	22
		Environment-friendly store	LED lightings	<ul style="list-style-type: none"> <li>Department Store: Energy savings through 5,600 high efficiency LED lightings amounted to KRW 1.36 million. Energy savings through photovoltaic (PV) power generation facilities and street lamps totaled KRW 4 million</li> </ul>	20 ~ 21
		Environmental campaign targeting customers	Eco flyers	<ul style="list-style-type: none"> <li>Eco flyers: Cost savings of KRW 500 million by reducing the size of eco-flyers</li> <li>Online service users reached 2,103,816</li> </ul>	24 ~ 25
		Discovering local companies	Championing local products	<ul style="list-style-type: none"> <li>Department Store: Farms are ensured stable customers (sales of KRW 2.4 billion)</li> <li>Mart: products of direct transactions with producers and local specialties (sales of KRW 520.8 billion)</li> </ul>	33
Society	Revenue Generation	Supporting SMEs	Fostering new advanced designers	<ul style="list-style-type: none"> <li>Department Store: Operating the "Style Field," a specialized select shop selling products directly produced by new advanced designers (sales of KRW 380 million)</li> </ul>	51
			Developing brands for mutual growth	<ul style="list-style-type: none"> <li>Mart: Developing MPB products through developing and supporting new SMEs (sales of KRW 63.5 billion)</li> <li>Mart: Developing the "Tongkeun/Sonkeun (broad-minded and unsparing) brands for price stabilization and mutual prosperity (KRW 55 billion)</li> </ul>	51
	Cost Savings	Developing social contribution programs	Campaign for public transportation	<ul style="list-style-type: none"> <li>Department Store: Conducting public transportation campaign to reduce congestion charge (saving KRW 2.1 billion annually), eight stores in Seoul joined the campaign where traffic cards with KRW 5,000 recharging coupon were supported, employees were encouraged to participate in the campaign</li> </ul>	-
			Food bank	<ul style="list-style-type: none"> <li>Department Store: Donation of widow's cruse to local Food Bank</li> <li>- Three branches (Yeongdeungpo, Gwanak and Incheon) joined (donation of KRW 7 million)</li> </ul>	-

# Third Party Assurance

## **To the Management and the Stakeholders of LOTTE SHOPPING**

LOTTE SHOPPING (hereinafter called “LOTTE”) Sustainability Report 2012 (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 Assurance Provider”) was assigned by the management of LOTTE to conduct an independent third-party review of the Report. The objective of this review is to externally assure that statements and data presented in the Report are free from material errors or prejudice and based on accurate and appropriate data collection systems.

## **Assurance Methodology**

The Assurance Provider’s assurance work has been planned and performed in accordance with internal assurance guidelines that go beyond the requirements of international assurance standards (AA 1000, IEA 3000). The Report and its contents have been evaluated against the following criteria:

- Completeness: completeness of information in relation to LOTTE’s operations)
- Materiality: materiality of report contents in relation to LOTTE’s internal and external impacts
- Reliability: reliability and correctness of the data reported

In addition, the Report has also been assessed against the reporting criteria as outlined in the Global Reporting Initiative’s Sustainability Reporting Guidelines (GRI G3.1).

## **Scope of this assurance engagement**

The Assurance Provider’s assurance engagement covers the following:

- Review of whether financial data has been derived adequately and correctly 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 from material errors or prejudice

## **Assurance process and works undertaken**

In order to provide assurance to the stakeholders, the Assurance Provider undertook the following procedures 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 stakeholders
- Reviewed LOTTE’ processes for determining material issues to be included in the Report
- Performed a review of global sustainability reports of peer companies to benchmark disclosure levels
- Conducted LOTTE headquarter visits, interviewing high level management and operational managers of relevant business units
- 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
- Reviewed customer, employee, environmental, health and safety related data at store-level and verify the appropriateness of the data collection process from store-level to corporate-level
- Verified sample data to test the correctness of data collected from store-level to corporate-level

## **Limitations of this assurance engagement**

The scope of this assurance engagement was limited to LOTTE headquarter and a sample store visited in Korea. The Assurance Provider did not conduct any visits to overseas facilities or projects in which LOTTE holds interests. Our review of data processes and data reliability 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 at corporate and store level; however, not all data at all stores have been verified. Our review of the data processes at operations level was limited to the LOTTE-operated 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:

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 stakeholder engagement process, and consider that the information presented in the Report responds to most stakeholder information needs and requests
- We are not aware of any additional issues of stakeholder interest that are not currently included in the Report's scope and content.

### Materiality:

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

- LOTTE regularly conducts materiality test, by which LOTTE measures the materiality of its sustainability related issues.
- 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
- We are not aware of any material aspects concerning LOTTE's sustainability performance which have been excluded from the Report.
- 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 correct and free from material errors or 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 from material errors or 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, consolidated and reported from information reported at operations level.

### Issues for further consideration

The following issues do not affect our conclusions, but recommended for further consideration to improve LOTTE's reporting of sustainability performances.

- Identify mid/long-term targets for LOTTE's sustainability management and suggest yearly progress in the report
- Re-examine the list of KPIs and develop more direct and essential indicators to show LOTTE's sustainability performances
- Develop regional sustainability issues in relation to LOTTE's overseas business expansion, and include them in the report
- Develop corporate-level sustainability strategies through active communication between LOTTE department store and LOTTE mart.

### Our independence

The Assurance Provider 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 Assurance Provider under LOTTE' influence, therefore ruling out any possible conflicts of interest.



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

August 24, 2012

A handwritten signature in grey ink, appearing to read 'A. Gebhardt'.

Andy Gebhardt  
Director, SolAbility Ltd.

# Assurance Statement for GHG & Energy Target Management System

Korea Quality Assurance (KQA) conducted assurance engagement to verify greenhouse gas (GHG) emissions of Lotte Shopping for 2011 including but not limited to organizational boundary, sources of emission, emission activities, calculation methodology, uncertainty of measurement, monitoring plans and QA-QC, and hereby put forth our assurance opinions as follows.

## Reasonable Level of Assurance

The level of assurance was reasonable based on risk evaluations conducted on specifications as reported.

## Scope of Assurance

KQA was commissioned by Lotte Shopping to conduct a third-party assurance on its 2011 specifications. The scope of assurance is described as below.

## Scope of the Assurance Engagement and Time Period

Affiliates of Lotte Shopping including Lotte Department Store, Lotte Mart, Lotte Cinema and Lotte Super

**Time Period Covered: 2011**

- Coverage of greenhouse gases: Six greenhouse gases as defined in the Kyoto Protocol (CO, CH, N, O, HFCs, PFCs, SF6)
- Greenhouse gases emitted: CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>, O<sub>3</sub>
- In-process emissions, stationary combustion, mobile combustion and indirect emissions from the sites (electricity, steam)

## Assurance Criteria

This assurance report includes findings and recommendations that could help improve the reporting level of specifications (in terms of conformity, completeness, consistency, transparency and accuracy) for GHG & Energy Target Management System. The methodology applied for this assurance was based on principles and standards as defined in the Guidelines for the Operation of Greenhouse Gases & Energy Target Management (Notice 2011-29 of the Ministry of Environment), and in particular, Emission Factors, Net Calorific Value and Oxidation Factors as required by the Guidelines were used as well.

This assurance engagement used as reference the following: ISO 14064-1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals; ISO-14064-3 Greenhouse gases-Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions; IPCC Guidelines (2006) and WRI GHG Protocol Initiative.

## Limitations of Assurance

This is a third-party assurance for GHG target management system specifications of Lotte Shopping. Our assurance has taken into account the fact that Lotte Shopping had not gained an approval for its implementation plans from the relevant government ministry (Note that implementation plans for 2012 have been submitted for approval). The following describes practical limitations and difficulties encountered during this assurance engagement for Lotte Shopping.

Assurance was conducted taking into consideration the following circumstances. There were limitations involving site visits due to multiple sites Lotte Mart operates, which totals 532 sites. (Number of sites visited for the assurance is 44 with the minimum number of site visits is 23 as mandated by the Guidelines)

- Difficulties of reviewing the specifications due to the inability to print out the 5000-page-long specifications from NGMS
- Difficulties in maintaining consistency in specifications, due to differing site circumstances and principles for developing specifications across the affiliates

## Assurance Opinion

The materiality threshold for this assurance is  $\pm 2.5\%$ , and we present our assurance opinion as appropriate, as Lotte Shopping meets the key criteria as required by the guidelines in regard to organizational boundary, sources of emissions, emission factor, net calorific value and emission calculation, etc.

## Overall Conclusions

The specifications of Lotte Shopping provide clear identification on all activities and sources of emissions while providing precise explanation about all sources of emissions that are excluded. In addition, calculation methods for emissions are clearly defined, and excluded emission sources are fully explained in detail. Moreover, clear and sufficient justification and supporting evidence are presented to describe the methods used for emissions calculation, and the equation used and application of factors and tiers all fulfilled the criteria as required per the Guidelines. Therefore, we conclude that "Verification of 2011 Greenhouse Gases Emissions" of Lotte Shopping" is "appropriate."

March 31, 2012



A handwritten signature in blue ink, appearing to read 'Song Jong-Chul'.

Song Jong-Chul  
CEO & President, Korea Quality Assurance



# GRI G3.1 Index

Indicator	Content	Page	Reporting level
<b>Strategy &amp; Profile</b>			
<b>PROFILE</b>			
1.1	Declaration issued by CEO about reporting structure, strategy, and sustainability	2 - 5	●
1.2	Key impact, risk, description on opportunities	2 - 5	●
<b>ORGANIZATIONAL PROFILE</b>			
2.1	Organization title	2 - 5	●
2.2	Representative brand, product and/or service	2 - 5	●
2.3	Organizational operation structure	6 - 7	●
2.4	Head office/center location	6 - 7	●
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	8	●
2.6	Features of ownership structure and legal form	6, 83	●
2.7	Activity market form	6 - 8	●
2.8	Size of reporting structure	6 - 8	●
2.9	Key changes of size, structure, and ownership structure in reporting period	6 - 8	●
2.10	List of awards in reporting period	11	●
<b>REPORTING PARAMETER</b>			
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, 91	●
3.5	Processes for report's content definition and decision	84	●
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	-	○
3.11	Updated items of coverage, boundary, measurement method compared with previous reports	1	●
3.12	Chart showing locations of public notices in the report	89 - 90	●
3.13	Policy and current habitual about outside assurance of the report	86 - 87	●
<b>CORPORATE GOVERNANCE, COMMITTEE, PARTICIPATION</b>			
4.1	Organizational ownership structure	83	●
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	83	●
4.3	In case of unified structure in board of directors, the number of independent members or non-executive members	83	●
4.4	Mechanism proposing advice or direction to board of directors by shareholders and employees	83	●
4.5	Relationship between organizational achievements and incentives for members of board of directors, high-level managers, executives	83	●
4.6	Process of conflict prevention for interests inside board of directors	83	●
4.7	Process deciding expertise and quality of board of directors to support organizational strategy for economy, environment, and society	83	●
4.8	Statements, codes of conduct, and principles about mission and core value developed internally related to economic, environmental, social achievements and activities	9 - 10	●
4.9	Steps for management and understanding of economic, environmental, and social achievements of board of directors	-	○
4.10	Process of self-evaluation of achievements for board of directors	-	○
4.11	Prevention approaches or adoption of principles and adoption methods	-	○
4.12	Economic, environmental, social constitutions developed outside with support/join of organization, principles, or other initiatives	-	●
4.13	Major membership qualification of associations and domestic/overseas organizations	-	○
4.14	List of stakeholders' attendance	84	●
4.15	Recognition of stakeholders' attendance and selection criteria	84	●
4.16	Formation, attendance type of stakeholders including attendance rate of stakeholders in groups	80, 84	●
4.17	Main topics and interests suggested by stakeholders and counter measures	84	●

Indicator	Content	Page	Reporting level
<b>Management approach and performance indicators</b>			
<b>ECONOMY</b>			
EC1	Direct economic value creation and distribution	82	●
EC2	Financial effect for climate change and opportunities and risks about business activities	14 - 25	●
EC3	Organizational incentive coverage for pension benefit plan	42	●
EC4	Beneficial records of government subsidy	-	N/A
EC5	Wage rate of entry-level employee to consitional minimum wage of on-site major business unit	-	○
EC6	On-site purchase policy of major business unit, habitual and rate	33	●
EC7	Local employment process of major business unit and rate of high-level managers	8	●
EC8	Infrastructure investment and service support activities and effects for public interests	56 - 65	●
EC9	Understanding and describing significant indirect economic impacts	56 - 65	●
<b>ENVIRONMENT</b>			
EN1	The amount of raw materials used for weight or volume standards	-	N/A
EN2	Rate of recycling among raw materials used	-	N/A
EN3	Amount of direct energy consumption for primary energies	17	●
EN4	Amount of indirect energy consumption for primary energies	17	●
EN5	Total energy amount saved by saving and efficiency improvement	17, 20 - 21	●
EN6	Energy reduction rate as the results of these initiatives	19-25	●
EN7	Initiative and achievement to reduce indirect energy consumption	19-25	●
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
EN12	Key impacts caused by products, services, corporate activities near eco system regions	-	N/A
EN16	Total emission amount of direct/indirect greenhouse gas	16	●
EN17	Emission amount of other indirect greenhouse gas	16	●
EN19	Emission amount of destructive material of ozone layer	16	●
EN20	Emission amount of major air pollution materials like NOx, SOx, and others	-	N/A
EN21	Total amount of waste water and water quality for final discharge sources	-	○
EN22	Discharged amount of waste material for formation and process methods	18	●
EN23	Discharge rate and amount of critical contaminated materials	-	N/A
EN26	Initiatives for reducing the environmental effects of products and services, degree of impact reduction	24, 31 - 33	●
EN27	Recycling rate of sold products and packing materials for product categories	22	●
EN28	Penalty charged for violation of environmental regulations and non-expense restrictions	-	N/A
<b>SOCIETY: LABOR PRACTICES</b>			
LA1	Employment type, employment contract and regional HR status	8, 41	●
LA2	Transfer rate and amount for age, gender, region	35, 41	●
LA4	Employee ratio for adopting collective negotiation	79	●
LA5	Minimum notice period about key updates of organizational management, objection statement about collective agreement	79	●
LA7	Regional occurrence of Injury, occupational disease, missed workdays, absence, and occupational accidents	42	●
LA8	Education, training, counseling, prevention and risk management program to support employees, families, local communities about critical diseases	42	●
LA10	Annual education time period for per position-based employee	35	●
LA11	Continuing education program to support technical management and continuing employment availability and help retirement management	36, 42	●
LA12	Employee ratio for periodic evaluation about achievement and career development	39	●
LA13	Governance organization's structure and employment size for gender, age, small group membership, other diversity related index	39	●
LA14	Basic wage ratio in male/female employees in employment categories	-	○
<b>SOCIETY: HUMAN RIGHTS</b>			
HR1	The amount and rate of key investment agreement for human rights article or human rights inspection	-	○
HR2	Ratio of human rights inspection for major suppliers and contract firms	-	○
HR3	Total hours of employee training on policies and procedures concerning human rights including the percentage of employees trained	-	○
HR4	Car accidents and related handling for total automobiles	41, 52	●

Indicator	Content	Page	Reporting level
HR5	Management to support relevant rights and business units estimated for potential violation of freedom of associations and collective negotiations	79	●
HR6	Management to eradicate child labor and business units with high risk of child labor occurrence	74 - 75	●
HR7	Management to eradicate forced labor and business units with high risk of forced labor occurrence	74 - 75	●
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	74 - 75, 78	●
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	43,53	●
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	52	●
SOCIETY: 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	55 - 61	●
SO2	The amount and rate of business units analyzed for corruption risk	74 - 75	●
SO3	Employee ratio of education for anti-corruption policy and process	74	●
SO4	Management for corruption accidents	75	●

Indicator	Content	Page	Reporting level
SO5	Position for public policy, setup of public policy and attendance to lobbying	74 - 75	●
SO8	Penalty and non-expense restrictions charged for violation of law and regulations	-	○
SOCIETY: PRODUCT RESPONSIBILITY			
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	27 - 30	●
PR3	Information type of products and services with process-based request, ratio of major products and services applicable to such information requirements	30	●
PR5	Customer satisfaction related activities including results of customer satisfaction survey	67	●
PR6	Restrictions, standards, and self-motivated principle compliance program related to marketing communication such as advertisement, promotion, and sponsorship, etc.	-	N/A
PR9	The amount of penalty for violation of law and regulation about supply and use of products and services	-	N/A

● Reported   ● Partly reported   ○ Not reported   N/A Not available

# UN Global Compact

In January 2007, Lotte Shopping became the first in the industry to sign the United Nations Global Compact. We proclaimed our full support for the 10 principles of the Global Compact with respect to human rights, labor, environment and anti-corruption and our commitment to making the Global Compact and its principles part of the strategy, culture and operation of our company.



Category	Principle			Page
Human rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.	- Code of Ethical Conduct Chapter 4 Article 10 (Comply with the regulation) - Code of Ethical Conduct Chapter 6 Article 17 (Sound business activities)	42, 52, 78-79
	Principle 2	Businesses should make sure that they are not complicit in human rights abuses.	- Code of Ethical Conduct Chapter 4 Article 10 (Comply with the regulation)	74-75
Labor	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	- Code of Ethical Conduct Chapter 4 Article 10 (Comply with the regulation)	79
	Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labor.	- Code of Ethical Conduct Chapter 4 Article 10 (Comply with the regulation)	78-79
	Principle 5	Businesses should uphold effective abolition of child labor.	- Code of Ethical Conduct Chapter 4 Article 10 (Comply with the regulation)	74-75
	Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	- Company Regulations on Hiring Rules Chapter 1 Article 4 (Equal treatment)	37,41
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.	- Code of Ethical Conduct Chapter 6 Article 19 (Environmental friendliness)	15-18
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility	- Code of Ethical Conduct Chapter 6 Article 19 (Environmental friendliness)	19-25
	Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies	- Code of Ethical Conduct Chapter 6 Article 19 (Environmental friendliness)	32
Anti-corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	- Code of Ethical Conduct Chapter 4 Article 10 (Comply with the regulation) - Code of Ethical Conduct Chapter 6 Article 17 (Sound business activities)	47, 74-75

**Lotte Shopping Code of Ethical Conduct** » [http://store.lotteshopping.com/handler/SocialResponEng-Start1\\_2](http://store.lotteshopping.com/handler/SocialResponEng-Start1_2)

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