

LOTTE Shopping's Approaches to Sustainable Procurement

Since its establishment in 1979, LOTTE Shopping has grown into Korea's representative retail company. Under the vision to become 'customers' first shopping destination,' we strive for our customers to live sustainable lives. LOTTE Shopping is committed to procuring raw materials that are trackable and sustainable, supplying healthy and safe products, and providing the best values to our customers.

LOTTE Shopping is aware of how important it is to mitigate environmental impacts from product production and distribution processes and establish a safe and sustainable supply chain: It is an essential task to move forward to a sustainable future.

The forest plays a role in carbon storage, soil erosion prevention, and habitat for various animals and plants. At the same time, it also provides the livelihood for 1.6 billion people around the world. Although the forest is an essential element of the earth's ecosystem, it is easy to destroy the woods while procuring raw materials such as livestock products, timbers, palm oil, soybeans, etc. Reckless forest destruction from the raw material production process causes destructive impacts on agriculture, climate change, ecology, and human beings. Against this backdrop, LOTTE Shopping understands our business activities may have damaging implications for the forest and exert efforts to eradicate such activities.

Agriculture and livestock industries are related to food security, environmental conservation, and animal welfare. LOTTE Shopping is committed to making efforts for the sustainability of the agriculture and livestock industry as a global retail company. We want to strengthen our adaptability to extreme weather events such as climate change and droughts and contribute to a sustainable food production system. We will cooperate with our partner companies to address problems in ecosystem preservation and reduction of greenhouse gas emissions.

To this end, LOTTE Shopping has established a sustainable raw material procurement policy. Not only in the forest, agriculture, and livestock industry but also in all areas where LOTTE Shopping distributes products, we have identified core raw materials based on their potential positive and negative impacts (including purchase amounts and environmental impacts).

This document explains the backgrounds of each raw material's sustainable procurement policy, including livestock products, seafood products, palm oil, soybeans, mineral, timbers, cotton fabrics, etc. Furthermore, we want to provide ways to maximize sustainability in the product distribution processes by protecting animal welfare and biodiversity. This policy applies to LOTTE Shopping and our partner suppliers, and we will gradually expand its applicability scope. LOTTE Shopping will introduce the sustainable raw material procurement policy to all its business activities in 2022 and plans to upgrade the policy consistently.

Raw Material Procurement Policy

1. Livestock (Scope: Domestically-grown fresh livestock products – chicken, pork, beef and eggs)

LOTTE Shopping has set out a sustainable livestock procurement policy to establish sound livestock product distribution practices and protect consumers' health. We believe this policy will contribute to distributing livestock products that meet social demands for animal welfare.

LOTTE Shopping is aware that factory farming without considering animal welfare can negatively impact our society regarding food safety, infectious diseases, environmental pollution, etc. We have established our livestock procurement policy based on an in-depth understanding of the international trends in animal welfare and domestic animal welfare legislation.

LOTTE Shopping strives to comply with the “Five Guiding Principles of Farm Animals” by the World Organization for Animal Health.

LOTTE Shopping's Five Principles for Farm Animal Welfare

1. Farm animals live their normal lives, maintaining the habits and physical shape of the animal's own kind.
2. Farm animals have freedom from thirst, hunger and malnutrition.
3. Farm animals have freedom to express normal patterns of behavior and freedom from physical discomfort.
4. Farm animals have freedom from pain, injury and disease.
5. Farm animals have freedom from unnecessary fear and distress.

With the growing consumer interest in healthy food, the animal welfare product market is gradually expanding. According to the domestic animal welfare system, LOTTE Shopping distributes products made of livestock raised humanely at government-accredited animal welfare farms. Our animal welfare livestock products are safe and healthy food produced with humane treatment for animals in the raising, transport, and slaughter processes.

LOTTE Shopping manages places of origin thoroughly using the livestock traceability system. With the eco-friendly certification system (using unique ID numbers), it is easy for consumers to check out information on eco-friendly products. We became the first retail company to launch animal welfare chicken meat in October 2015 and introduced animal welfare pork meat in April 2020, which is being sold at all our branches.

Also, we are distributing animal welfare-oriented egg products such as eggs from animal welfare certified farms, non-antibiotic eggs, HACCP and LOHAS-compliant eggs, and eggs from healthy chickens grown in pleasant environments without stress. The animal welfare principle applies to several egg products for now and is expected to apply to more products gradually.

LOTTE Shopping strives to meet consumers' expectations on animal welfare and provide healthy and safe food. In the future, we plan to introduce more products certified as non-antibiotics and animal welfare to meet the consumers' expectations on ethical livestock products and environmental issues.

2. Seafood (Scope: Domestic/imported fresh seafood – Pollack roe, salmon, shrimp, abalone, and flounder)

Seafood is a primary raw material for food products distributed by LOTTE Shopping and an affluent natural resource from the sea. As food production utilizing various seafood is increasing to meet customers' needs, the amount of seafood procurement is rising.

Across the value chain of seafood, LOTTE Shopping makes efforts for sustainable seafood procurement by responding to overfishing and resource depletion. As a part of such efforts, we have introduced seafood traceability products by recording and managing seafood trace information to allow consumers to view the product's production, processing, and distribution history. This system helps consumers to feel relieved about their seafood products, knowing what they consume. Also, we plan to increase the ratio of MSC/ASC-certified products to maintain a sustainable amount of catch and minimize environmental impact.

3. Palm oil (Scope: PL products – palm oil for food stores, chocolate, and biscuits)

Palm oil is a primary raw ingredient of various food and non-food products, including cookies, ramen, bread, cosmetics, detergents, and bioenergy materials. Palm oil is vegetable oil with high profitability and efficiency in land use and yield. However, many palm oil farms have built their farms by burning up tropical forests, resulting in many negative environmental impacts, such as forest devastation, climate change, biodiversity loss, etc.

Understanding climate change and biodiversity risks that may arise from palm oil production and supply processes, LOTTE Shopping will make efforts for sustainable production and supply of palm oil. To increase the capability to supply palm oil products certified by the roundtable on Sustainable Palm Oil (RSPO), we will benchmark global companies with sustainable platforms and continue establishing a sustainable palm oil procurement policy.

4. Soybeans (Scope: PL products – Soybean milk for food stores, soy milk, and tofu)

Soybeans are one of the primary raw ingredients for food, such as soybean milk, pastes, tofu, and bio-products supplied by LOTTE Shopping. As the market demand for vegetable protein is rising with growing attention to the vegan diet, the use of soybeans is expected to grow.

Soybeans are plants to restore soil fertility and enrich the soil. It is a source of major vegetable protein as one of the globally-important raw materials. However, the reckless harvest of soybeans can cause devastation to the Amazon forest vegetation and acceleration of climate change.

To protect biodiversity and respond to climate change, LOTTE Shopping plans to develop sustainable methods for soybeans procurement. We plan to expand the purchase of soybeans certified by Pro-Terra, an initiative to prevent deforestation of Brazilian forests, and the Round Table on Responsible Soy Association (RTRS), an international scheme for sustainable soy cultivation and social responsibilities of the soy industry.

We will continue to benchmark global companies with sustainable soybean procurement platforms. We will also find suppliers that consider environmental impacts across all the processes of soybean products to establish LOTTE Shopping's sustainable soybean supply chain.

5. Mineral (Scope: PL products – Electronics and jewelry)

LOTTE Shopping is aware that tungsten, tantalum, tin, and gold are the 3TG conflict minerals related to human rights infringements and environmental destruction in the disputed area around the Democratic Republic of the Congo and neighboring countries. We especially recognize the seriousness of the child labor issue at the cobalt mine in the Democratic Republic of the Congo. Therefore, we ban the distribution of products made with these minerals.

Based on the retail industry's characteristics, LOTTE Shopping will prohibit the distribution of products made with conflict minerals in advance. To establish a distribution network that fulfills our social responsibility, we will continue to investigate products that have minerals responsible for human rights infringement and environmental degradation during the mining process.

6. Timber (Scope: PL products – Toilet paper, paper, paper towels, and facial tissues)

LOTTE Shopping supplies various timber products, such as roll paper, paper, and paper towels. The timber production process that considers sustainability can contribute to the ecosystem and land biodiversity protection. As raw materials are related to various environmental and social issues during their production processes, we understand it is essential to consider sustainability in the raw material procurement process to fulfill our social responsibilities.

LOTTE Shopping is fully aware of how vital biodiversity protection is, as declared by the UN Sustainable Development Goals. We will strive for sustainable timber procurement by keeping an eye on domestic and global trends in the laws and certification for timber procurement and supply, including laws about timber's sustainable utilization, the Korea Forest Certification Council (KFCC), and Forest Stewardship Council (FSC).

7. Cotton fabrics (Scope: PL products – Blankets, clothes, curtains, etc.)

As Korea's representative retail company, LOTTE Shopping handles products made of cotton. Recently, the textile industry, based on cotton and clothing, views sustainability as a future growth engine of the industry, making efforts to expand products made of eco-friendly materials such as regenerated fiber.

In line with this, LOTTE Shopping plans to expand products made of sustainable textiles and cotton gradually. We plan to research sustainability-certified products during raw material production and processing, such as products certified by Recycled Claim Standard (RCS) and Global Recycled Standard (GRS). We expect this will help to expand the supply of certified textiles as commercialized and complete products, enabling more consumers to join sustainable consumption.

8. Leather (Scope: PL products – Bags and shoes)

LOTTE Shopping understands the seriousness of environmental degradation issues from leather production and processing and biodiversity destruction due to reckless animal hunting and overuse of leather. Recently, the clothing industry started the development of vegan leather for the sustainability of leather products and biodiversity protection.

We are searching for ways to resolve biodiversity issues from leather production and environmental problems arising from product consumption and discarding waste. We plan to develop methods to procure leather products that comply with the Convention on International Trade in Endangered Species of wild Fauna and Flora (CITES).

Sustainable Packaging Policy

As Korea's most significant retail company, LOTTE Shopping focuses on managing waste generated from distribution processes or private brand product production. We have established a sustainable packaging policy to reduce waste and consider the environment and society. We are now expanding the use of eco-friendly packages and reducing unrecyclable package materials to save resources and realize a circular economy.

1) Eco-friendly packages

LOTTE Shopping uses forms of packaging that consume the minimum amount of packaging materials from the product design stage. According to the newly-created domestic packaging standards, we strive to reduce waste from the packaging process and prevent excessive packaging, ensuring that the products we distribute comply with the product type's packaging space ratio and the number of packaging layers.

Also, we have upgraded our container structures into eco-friendly ones, removing unnecessary plastic wraps or lids and developing no-label packages. We are searching for various ways to expand eco-friendly packaging methods.

2) Recyclable materials

LOTTE Shopping uses packaging materials of the same kind for various components for easy recycling afterward. We also design packages made of different materials to make it easy to separate and recycle them.

LOTTE Mart pursues a resource circulation project titled 'Let's do together! Environment 5RE' according to LOTTE Shopping's 5RE* strategy. In the e-commerce area, we have established an eco-friendly last-mile packaging manual to contribute to resource recycling. By designing product packages for their material recycling, all stores now use ice packs using water and eco-

friendly paper bags. We also encourage customers to use their cooler bags and shopping baskets to promote resource recycling.

* 5RE: Reduce, Replace, Redesign, Reuse and Recycle

3) Eco-friendly raw materials

LOTTE Shopping works to expand green packaging materials, using recyclable or recycled materials. We prioritize packaging materials with eco-friendly certifications on their raw materials, manufacturing methods, design, functions, etc. We also encourage our green packaging material suppliers to obtain environmental certificates.

We also have replaced synthetic resins and plastic packaging with paper, pulp trays, recycled PP, and biodegradable PLA materials. Biodegradable PLA packages can be decomposed by the action of microbes in the landfill's soil, minimizing soil pollution. LOTTE Mart has replaced Styrofoam packages for livestock products with biodegradable materials. To improve the recyclability of gift set packages for traditional holidays, we started using eco-friendly containers for gift sets in January 2022, using recyclable cooler bags, paper materials, and water-based ice packs.

LOTTE Shopping will continue to use and introduce eco-friendly packaging materials to contribute to the health of the earth and our customers.