

FAIR OPERATING PRACTICES

The entire company is built upon ethical and honest business practices. To conduct sustainable and stable business activities in the future, it is crucial that we be committed to thorough compliance, but also to sustainable procurement that is both environment friendly and considerate of human rights.

Policy on Procurement

Established on April 18, 2018

We conduct fair, impartial, and transparent procurement with high ethical standards to provide safe, high-quality products and services based on the LOTTE Group Philosophy and promote procurement to fulfill our social responsibilities with our business partners.

1. Ensuring compliance

We conduct fair and transparent procurement while respecting the social norms of all countries concerned and complying with purchasing-related laws and regulations.

2. Securing high quality and safety

We conduct procurement that secures high quality and safety so that our products and services are trusted and our customers feel safe and secure.

3. Evaluating and selecting our business partners in a fair manner

We always provide fair business opportunities and comprehensively evaluate quality, price, delivery time, stable supply, technology, and management stability when we select our business partners.

4. Consideration for human rights and work environment

We respect human rights and promote procurement considering the work environment while avoiding any complicity in the violation of human rights in the supply chain.

5. Consideration for environmental issues

We ascertain the environmental impact of our business operations and promote procurement considering.

Sustainable Procurement

Primary Ingredients

The company determines which of the ingredients it utilizes in their products are "primary ingredients" after a comprehensive assessment based on amounts used, dependence, potential for substitutions, and environmental and social factors. The list is regularly reviewed and updated to reflect changes in business and natural environments as well as the changing demands of society.

Primary Ingredients

Cacao beans: Primary ingredient in chocolate products

Palm oil: Oil used in a wide range of products; food additive

Paper: Packaging for a wide range of products

Primary Ingredients #1: Cacao Beans

Medium-Term Targets

We have set a target for FY2023 of a 20% or higher usage rate of Fair Cacao out of total cacao beans procured, with the target of increasing this ratio to 50% or higher by FY2028.

2023 Target



20%
or higher

2028 Target



50%
or higher

Fair Cacao Project

Many of the cacao beans produced come from subsistence farmers working in regions below the equator. Cacao beans are the primary ingredient in chocolate, which is one of our main products, meaning that stable procurement of cacao beans in the future is an important issue for the company. Therefore, we have been working to establish ties with cacao bean-producing regions and conducting procurement activities under the Fair Cacao Project, which contributes to economic and social development of these areas. Based on these activities, we will increase our ratio of cocoa beans procured as Fair Cacao, where production areas are clear and supported by a portion of procurement costs.



Results Related to Cacao Bean Procurement

In FY2018, the Company procured 6,353 tons of cacao beans, 7.9% of which was Fair Cacao. Going forward, we will work to increase this ratio in our efforts toward sustainable cacao bean procurement.

Amount of Cacao Beans Procured

FY2017	5,800 t, Fair Cacao 8.6%
FY2018	6,353 t, Fair Cacao 7.9%

Included in total: LOTTE CO., LTD.

Connecting with Society

Efforts to support farmers, promote economic development of producing areas, and help raise the education level of farmers' children, who will bear the responsibility of farming in the future, are tied to the stable procurement of cacao beans in the future. To that end, we are working with NPOs and NGOs to engage in these support efforts.

World Cocoa Foundation

The World Cocoa Foundation is an international NPO established in the United States in 2000 with the aim of supporting cacao farmers. Activities are directed at providing technical support to farmers in cacao cultivation regions below the equator and to realize a society free of child labor.



Japanese Organization for International Cooperation in Family Planning (JOICFP)

JOICFP is an international NGO established in Japan in 1968 that is engaged in activities to promote women's health and well-being.



Through JOICFP, we have been supporting donations of reconditioned bicycles and other items to the Republic of Ghana since 2008. These bicycles are sent to villages that do not have sufficient medical facilities and are used by health promotion workers and midwives to provide health education via home visits.



JOICFP Activities

UN World Food Programme (WFP)

UN World Food Programme (WFP) is an organization dedicated to providing food assistance and is working toward a hunger-free world. One of its pillars in this mission is its school feeding programme.



We participate in the "Red Cup Campaign," designed to help deliver school meals and supports the WFP school feeding programme in the Republic of Ghana.

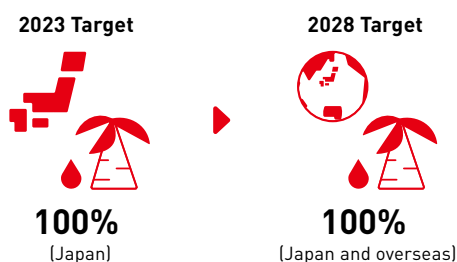


School feeding programme
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Primary Ingredients #2: Palm Oil

Medium-Term Targets

We have set a target for FY2023 to have 100% of palm oil procured for use by Japanese Group companies be certified by the Roundtable on Sustainable Palm Oil (RSPO) and other third parties, with the additional target of extending certification to palm oil for use by overseas companies by FY2028.



Results Related to Palm Oil Procurement

In FY2018, the Company procured 15.9 thousand tons of palm oil for use in Japan, an increase of 0.6 thousand tons compared to the previous fiscal year.

Amount of Palm Oil Procured

FY2017	15.3 thousand t
FY2018	15.9 thousand t

Included in total: Weight of palm oil utilized by LOTTE CO., LTD. and Mary Chocolate Co., Ltd., including oil and oils contained in processed goods

Connecting with Society

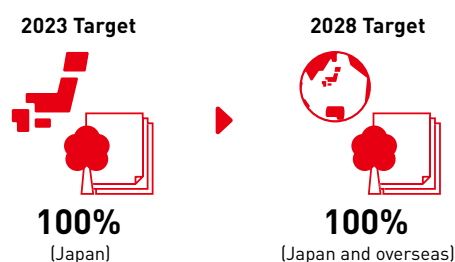
To promote the sustainable procurement of palm oil, we joined the RSPO. Through our association with the RSPO, we will work with palm-oil oriented companies and organizations and contribute to the sustainable development of the entire palm oil industry.



Primary Ingredients #3: Paper

Medium-Term Targets

We have set a target to expand our use of recycled paper and paper that has been certified by the Forest Stewardship Council (FSC) to 100% in Japan by FY2023 and to 100% in Japan and overseas by FY2028.



Results Related to Paper Procurement

In FY2018, 45.5 thousand tons of paper was procured as packaging materials for Japanese products, of which 92.0% was environment friendly—a 0.5% increase from the previous fiscal year. We will continue our work to increase this ratio in our efforts toward sustainable paper procurement.

Amount of Paper Procured (for Product Packaging)

FY2017	44.0 thousand t, environment-friendly paper 91.5%
FY2018	45.5 thousand t, environment-friendly paper 92.0%

Included in total: LOTTE CO., LTD. and Mary Chocolate Co., Ltd.

Supplier-Related Initiatives

Sharing Our Values

We advocate for sustainable procurement based on our procurement policy, which promotes consideration for the environment and society throughout the supply chain in addition to ethical transactions, quality, and safety. However, as our supply chain becomes more globalized, it is more difficult to control every aspect and therefore difficult to control its environmental and social impact on our own. In that light, it is essential that we work alongside our suppliers and formulated the LOTTE Supplier Guidelines in April 2019 to this end. These guidelines allow us to share our fundamental value system with suppliers and, coupled with more effective relationships built through dialogue, are helping achieve our goal of realizing a sustainable society.

We also hold orientations to further understanding of our guidelines. We intend to hold more of these orientations in the future and are encouraging dialogues through questionnaires and other means to deepen understanding and further strengthen supplier relationships.

Quality-Related Initiatives

We ask that suppliers provide self-assessments on quality. Based on these assessments, we provide feedback and conduct sanitation inspections. In this way, we are promoting continuous improvement over food safety and quality in general. Sanitation inspections confirm a comprehensive checklist of criteria and requests for improvement are made when necessary, which are then followed up upon.

Compliance

Our Behavior Charter, the LOTTE Group Way

The LOTTE Group Way, established in 2008, is the policy that informs all work that takes place in the Group, and is understood by all directors and employees at LOTTE CO., LTD. and its subsidiaries. The LOTTE Group Way is published on our corporate website, and serves as our promise to society to engage in ethical and honest business practices. Its seven points make up the behavioral guidelines necessary to achieve the LOTTE Group Mission and embody the LOTTE Values.

In addition to our corporate website, the LOTTE Group Way is also included in the LOTTE Group Philosophy online book and our multilingual booklet to disseminate the behavior charter among employees and directors and to promote understanding.



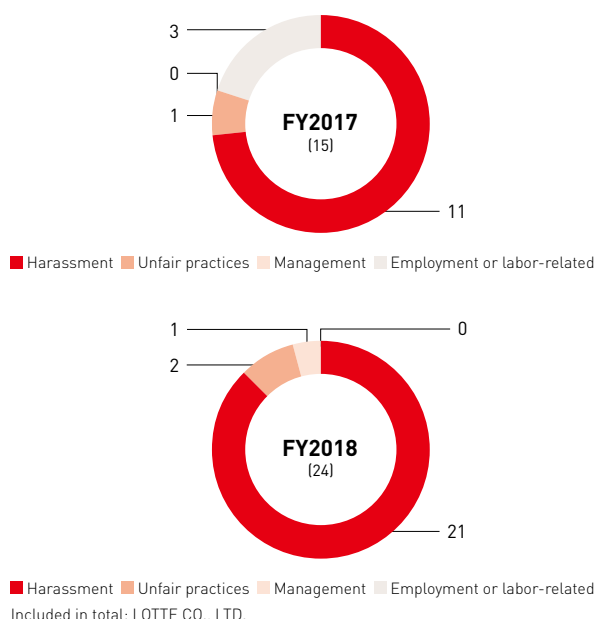
Compliance Training

As another means to communicate our behavior charter and encourage ethical and honest business practices, we provide compliance training to our employees. In Fiscal 2017 and 2018, this training was given to all new employees, and we will continue to deliver this training systematically in the future.

Whistleblowing System

LOTTE CO., LTD. established the "Clean Line," its internal whistleblowing system for matters within the company, in 2006, allowing employees to send whistleblowing reports or receive consultations by email, letter, etc. In response, we strive to protect the privacy of the whistleblower and take the utmost care to prevent any potential drawbacks and hindrances to filing a report. Beginning in 2018, we have started to roll out an external whistleblowing system for LOTTE CO., LTD. and subsidiaries in Japan and overseas, in addition to steps taken to improve our internal system.

Number of Consultations and Reports



Information Security

LOTTE CO., LTD. has established the Information Security Management Committee to protect and manage confidential information related to customers, employees, and technology. The committee also provides information security education. In addition to training new employees, the committee regularly raises alerts regarding targeted attack emails and implements practical training.