

**Creating Happiness**  
thru our energy



## About this Report

For SK Energy, sustainable management is a tool and vehicle for enhancing corporate value, creating happiness for people and enriching the society. This report was prepared to share with the stakeholders our sustainable management performance and includes information on its corporate sustainability endeavors in social, environmental, and economic arenas, based on the company values and strategies for sustainable development.

This report covers our sustainable management activities in domestic business sites from January to December 2007. We have been publishing sustainability reports every year since the first edition in December 2005. Our latest report, "2006 Sustainability Report", was published in July 2007.

This report complies with the G3 Guidelines of Global Reporting Initiative (GRI). For objective verification of the report contents and GRI compliance, we sought independent assurance service from LRQA (Lloyd's Register Quality Assurance), the result of which is included in the report.

For further information other than what is included in the report, please refer to the Business Report available at Financial Supervisory Service (FSS) Electronic Disclosure System (<http://dart.fss.or.kr>) or to the Investor Relations, Sustainability, and Press sections in our website ([www.skenergy.com](http://www.skenergy.com)).

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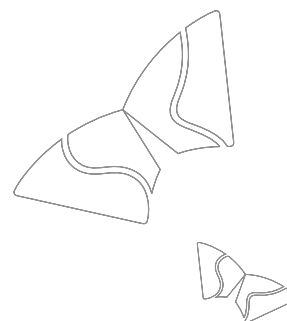
### ※ GRI G3 Guideline Application Level

This report complies with GRI G3 Guidelines with the application level of B<sup>+</sup>. The self-declared application level has been verified by the third party assurance organization.



#### Voice Icon

This report carries voice icons on upper right part of each page to help the visually challenged read the contents via voice.



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## Transparency and Accountability toward Global Leadership

Since its first conception around 20 years ago, the idea of sustainable development has been widely adopted, in the 21st century business world, as a fundamental management philosophy.

SKMS (SK Management System), which embodies our management philosophies, clearly states that our objectives are to create values for stakeholders and to contribute to social, economic development and happiness of the humankind. The philosophy has been one of the key drivers for our sustainability programs in environmental, social, and economic aspects.

We joined UN Global Compact in October 2007, fully committed to achieving a global level of sustainability, guided by its four pillars: human rights, environment, labor, and anti-corruption.

Meanwhile, the year 2007 marked an important milestone for SK Energy in terms of transparent and accountable management. In July 2007, former SK Corporation was split into a holding company (SK Corporation) and a business company (SK Energy). The transition is aimed at enhancing transparency of corporate governance, to ensure independent management of the subsidiaries, and to ultimately improve management efficiency and shareholder values. We also adopted CIC (Company in Company) scheme at the end of 2007 to ensure more system-based management, higher accountability and independence. Indeed, the measures led to stronger fundamentals for global competitiveness.

We believe it is our obligation, as a corporate citizen, to minimize environmental impact of our production and business activities. Our environmental management programs in 2007 cover wide ranging areas from energy saving to greenhouse gas reduction and pollution control. We are especially proud of the internal emission trading system established this year. Our commitment to a low carbon management system will remain strong for the many years ahead.



CEO and Chairman **Chey, Tae-Won**

A handwritten signature in black ink, appearing to read 'Tae-Won Chey', written in a cursive style.



## Sustainability through Stakeholder Happiness

We have always recognized that our sustainable success would not have been possible without support and trust from the society. In 2007, setting the framework of our social contribution as "parallel pursuit of charity and engagement" we put together various programs including warm winter campaigns, charity marathons, volunteer cleanup of oil spillover along Taean coastline, and other volunteer activities. Our employees' volunteer hours hit the record level of 53,000 hours this year.

Meanwhile, we recorded remarkable business performance, despite cost pressures from international oil price spikes. Our 2007 revenues stand at KRW 27.7884 trillion and the fact that 52.4% of the revenues (KRW 14.5665 trillion) come from exports is an evidence of our strong global presence. We are also taking part in exploration and production projects in 27 concessions in 15 countries, with a reserve of total 500 million barrels as of the end of 2007.

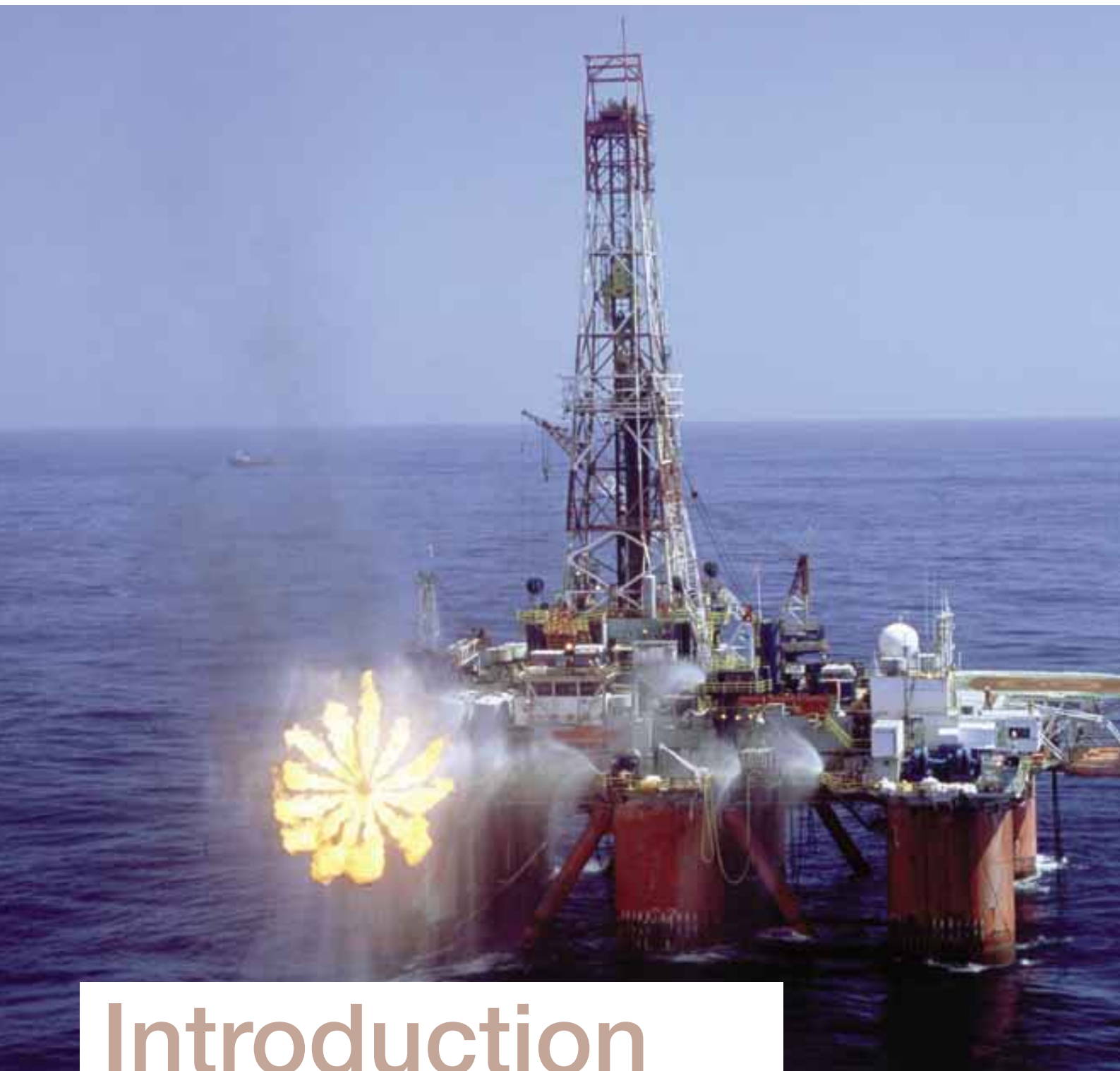
However, we will not be complacent over these impressive achievements. We are focused on sharing the benefits with all stakeholders and the community. While improving overall capacity for core tasks identified for the third to-be period (2008~2010), we will make sure to meet specific targets, i.e. acquiring SK Incheon Oil and introducing a new FCC system for 2008.

We recognize that survival and sustainable growth of a company depends heavily on environment protection and social responsibility, in addition to economic performance. With the spirit of corporate citizenship, we will share value with the stakeholders and create sustainable future for the world. We humbly ask for your continuous trust and advice.

July 2008

CEO and Vice Chairman **Shin, Heon-Cheol**





# Introduction

**We Share**

**Happy Energy**

We take a big leap forward to the global stage  
with Customer Happiness as our top priority.  
We will fly strong to a happy world for all stakeholders.



# Corporate Profile

Since its first launch in 1962 as Korea's first refinery, SK Energy has established itself as a leader of energy and chemical industry. Building on creative ideas and spirit of challenge, we are now taking off to be a global player.

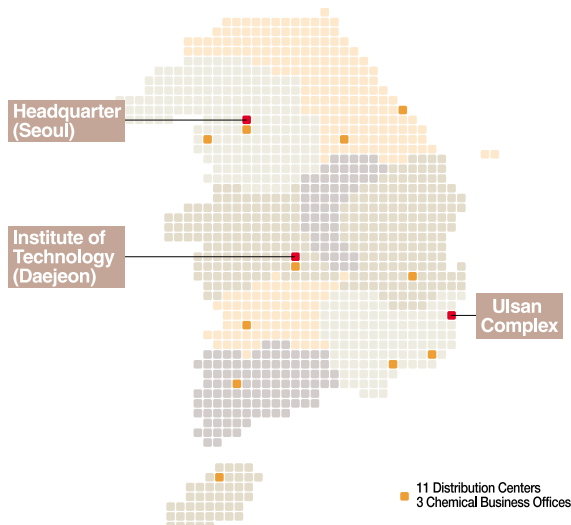
## Company Overview

<b>Company Name<sup>(1)</sup></b>	SK Energy Co., Ltd.
<b>Date of Foundation</b>	1962.10.13.
<b>Headquarter</b>	99 Seorin-dong Jongro-gu, Seoul, Korea
<b>Ulsan Complex</b>	110 Gosa-dong Nam-gu Ulsan, Korea
<b>Institute of Technology</b>	140-1 Wonchon-dong Yuseong-gu Daejeon, Korea
<b>Jincheon Plant<sup>(2)</sup></b>	690 Gwanghaewon-ri Gwanghaewon-myun Jincheon-gun Choongcheongbuk-do, Korea
<b>Scale</b> (As of 2007, KRW)	Sales: 27.7884 trillion
	Operating income: 1.4795 trillion
	Total assets: 15.6994 trillion
	Total liabilities: 9.5139 trillion
	Majority shareholder (stake): SK Corp. (30.76%)
	Number of Employees: 5,090
<b>Business Units</b>	Petroleum sales: 249.61 million barrels
	Chemical sales: 7.62 million tons
	Total reserves: 500 million BOE(Barrels of Equivalent)
	Petroleum, Chemical, Lubricant, Asphalt, Coal, Resource Development, OK Cashbag, Car Life, Production Technology, R&D

(1) As of July 1 2007, SK Corp. was split into SK Holdings Co. Ltd. (holding company) and SK Energy Co. Ltd. (business company). On October 31 2007, SK Energy decided to acquire SK Incheon Oil and the merger was executed on February 1 2008. Though SK Energy officially started off on July 1 2007, it has taken over business from the former SK Corp. In this regard, for comparison purposes, this report includes financial information of the former SK Corp.

(2) Special polymer business including Jincheon Plant was transferred to Hyundai EP in June 2007.

## Domestic Network



## Overseas Network



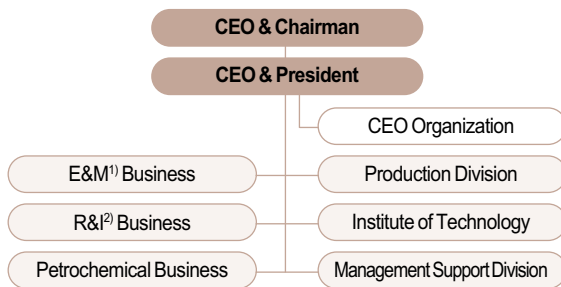
<b>North America</b>	
<b>New Jersey</b>	SK USA, Inc
<b>Houston</b>	SK E&P Company
<b>South America</b>	
<b>Lima</b>	SK Energy Sucursal Peruana
<b>Asia</b>	
<b>Singapore</b>	SK International
<b>Beijing</b>	SK Energy Beijing Representative Office SK Lubricants (China) Co., Ltd. SK (China) Holding Company Limiteda SK (Beijing) Road Science & Technology Co., Ltd.
<b>Shanghai</b>	SK Energy Shanghai Representative Office SK International Trading (Shanghai) Co., Ltd. Shanghai Gaoqiao-SK Solvents Co., Ltd.
<b>Guangdong</b>	Guangdong SK Advanced Polymer Co., Ltd. SK Energy Guangzhou Office
<b>Hanoi</b>	SK Hanoi Representative Office
<b>Tokyo</b>	SK Energy Tokyo Branch
<b>Almaty</b>	Representative Office of SK Energy in Kazakhstan
<b>Moscow</b>	SK Energy Moscow Representative Office
<b>Jakarta</b>	Representative Office of SK Energy in Indonesia
<b>Europe, Middle East, Oceania</b>	
<b>London</b>	SK Energy Europe Limited
<b>Sydney</b>	SK Australia Pty. Ltd.
<b>Dubai</b>	SK Energy Middle East Office
<b>Kuwait</b>	SK Energy Kuwait Office





## Organization Chart

(As of December 2007)

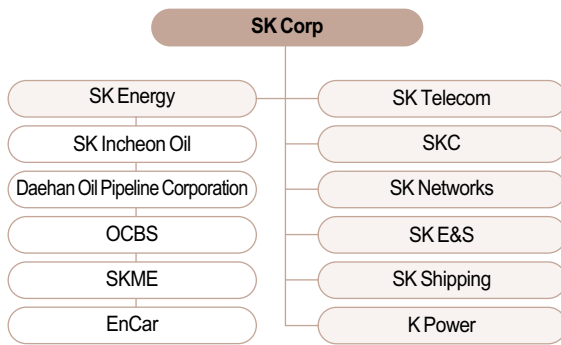


1) Energy and Marketing  
2) Resources and International

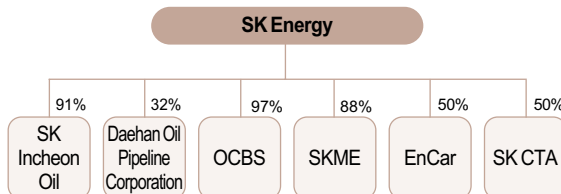
※ SK Energy was reorganized into four CICs (Company in Company) in January 2008 for higher independence, accountability, and global competitiveness.

## Key Subsidiaries

(As of December 2007)



⋮



## Company History

1960s	<b>Establishment as the first refinery in Korea</b>
	1962.10 Established SK Energy (then named as Korea Oil Corp)
	1964.04 Released first petroleum product from Refinery #1
	1968.12 Set up a lubricant oil blending unit
1970s	<b>Critical Contribution to Korean economic growth</b>
	1970.05 Set up aromatics plant
	1970.06 Management right was taken over by Gulf Oil Corp (50%)
	1973.03 Set up naphtha cracking center
1980s	<b>Consolidation as an energy/chemical group</b>
	1980.12 Management right was taken over by SunKyoung Corp. as part of privatization policy
	1982.07 Changed company name to Yukong Corp
	1988.01 Started crude oil import from Malibu concession (Yemen)
1990s	<b>Takeoff as a 21<sup>st</sup> century world leader in energy/chemical industry</b>
	1994.11 Started crude oil import from North Zaafarana concession (Egypt)
	1996.07 Started commercial production at 8 concession (Peru)
	1997.06 Established SK E&P Company in the U.S. for oil field development
	1997.10 Changed company name to SK Corp
	1999.03 Launched Korea's first integrated mileage service (OK Cashbag)
	1999.07 Sold anti-epileptic technology (YKP509) to Johnson & Johnson
2000s	<b>Growth into a global innovative marketing company</b>
	2000.07 Sold anti-depressant (YKP10A) to Johnson & Johnson
	2001.12 Started telematics business with pilot service (Entrac)
	2003.11 Started commercial production at Su Tu Den, 15-1 concession (Vietnam)
	2004.08 Launched production at oil/gas field in Camisea (Peru)
	2004.10 Established SK (China) Holdings Co. Ltd.
	2006.03 Acquired Incheon Oil and set up SK Incheon Oil
	2007.07 Changed to a holding company structure (SK Energy launched)

# Value & Strategy

SK Energy pursues sustainable corporate development within the framework of SKMS, a group-wide management system born from employees' consensus. We value and reflect the expectations of and requirements from the stakeholders.

## SKMS (SK Management System)

SKMS consists of Management Perspective, Management Implementation Principles, and Business Management Factors.

### »» Management Perspective

Management Perspective describes the key management philosophies of SK and further breaks down into Mission, Our Value, and SK-Way to achieve Our Value.



| **Mission** ■■■ | This describes the roles and raison d'être of the company. SK Energy Mission reads as follows: "The corporate enterprise should achieve its ultimate goal of sustained progress by maintaining stability and growth. Furthermore, it should create value for its customers, people and shareholders, thereby contributing to social and economic development and human well-being"

| **Our Value** ■■■ | This summarizes the values we pursue for our stakeholders as well as our relationship with them.

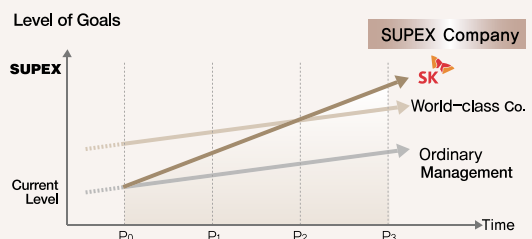


| **SK-Way to achieve Our Value** ■■■ | This is a set of SK-specific methods adopted to achieve its Mission and Our Value. SK-Way boils down to "Pursuing SUPEX via Human-Oriented Management".

### "Pursuing SUPEX via Human-Oriented Management"



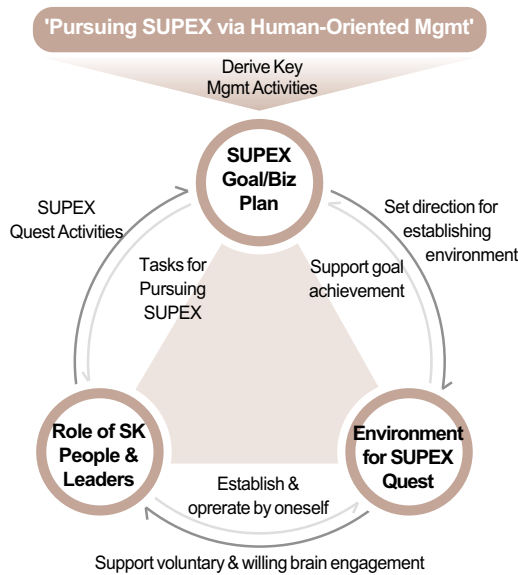
• **SUPEX** SUPEX stands for super-excellent level, which means the highest performance level attainable with human capabilities. Aiming for the super-excellent level(SUPEX), the company designates and pursues Better Company goal level which is a super-excellent level within the given time and using the resources available and then repeats such a process over the time.





### Management Implementation Principles

Management Implementation Principles depict three core activities for implementing "Pursuing SUPEX via Human-Oriented Management": Setting up SUPEX goal and business plans; defining role of SK people and leaders; and establishing an internal environment for the SUPEX quest.



### Business Management Factors

Business Management Factors are levers to be managed for effective and efficient business management. They are also guidelines needed to implement and utilize for the sake of establishing an environment for the SUPEX Quest.

<b>Static Factors</b>	<p><b>Suggest implementation methodology and techniques in major management function/field</b></p> <ul style="list-style-type: none"> <li>• Corporate planning</li> <li>• Organization</li> <li>• Marketing</li> <li>• R&amp;D</li> <li>• Safety</li> <li>• Information</li> <li>• Human Resource</li> <li>• Accounting&amp;Financial</li> <li>• Production</li> <li>• Purchase</li> <li>• PR</li> </ul>
<b>Dynamic Factors</b>	<p><b>Factors affecting intellectual involvement of People voluntarily&amp;willingly</b></p> <ul style="list-style-type: none"> <li>• Ui-yok Management</li> <li>• Managerial Capacity</li> <li>• Coordination</li> <li>• Communication</li> <li>• SK-Manship</li> </ul>

### Sustainable Development Strategy

Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs. As a refinery and chemical leader in Korea, SK Energy places its management priority on long-term stability and growth, cares about its impact on the stakeholders, and is fully committed to sustainable development in environmental, social, and economic arenas.

We defined expectations of and key messages for different stakeholder groups.

<b>Employees</b>	<ul style="list-style-type: none"> <li>• Grow into a global leader</li> <li>• Pursue happiness</li> </ul>	<p><b>Key Message</b></p> <ul style="list-style-type: none"> <li>• Focus on energy business</li> <li>• Pursue stakeholder happiness</li> <li>• Grow into a global major</li> <li>• Secure core competency</li> <li>• Ensure stable profit generation and distribution</li> <li>• Corporate social responsibility</li> <li>• Be eco-friendly company</li> </ul>
<b>Creditors</b>	<ul style="list-style-type: none"> <li>• Create stable cash flow</li> </ul>	
<b>Shareholders (Holding Company)</b>	<ul style="list-style-type: none"> <li>• Expand corporate value</li> <li>• Focus on energy business</li> <li>• Grow into a global player</li> </ul>	
<b>Customers</b>	<ul style="list-style-type: none"> <li>• Supply energy economically</li> <li>• Enhance service quality</li> </ul>	
<b>Strategic partners</b>	<ul style="list-style-type: none"> <li>• Build global leadership image</li> <li>• Grow together</li> <li>• Secure core technology/capacity</li> </ul>	
<b>Others (Government, public)</b>	<ul style="list-style-type: none"> <li>• Ensure energy security</li> <li>• Protect environment and make social contribution</li> <li>• Fair trade</li> <li>• Pursue happiness of stakeholders</li> </ul>	

The following are the key sustainability issues that we have defined based on the key stakeholders' messages and the evaluation of our business impact on the stakeholders in social and economic aspects.

- Ethical management
- Socially responsible management (compliance and corporate governance)
- Safety/Health/Environmental management
- Stakeholder happiness
- Sustainable financial performance

We have been taking actions on the following key aspects in response to the key sustainability issues.

- Enhancing compliance with laws and regulations
- Enhancing transparency of BOD-centered management
- Improving corporate ethics
- Participating in as well as financially sponsoring social contribution programs
- Strengthening win-win alliance with partner companies
- Stepping up efforts to reduce greenhouse gas emission
- Implementing SHE management
- Establishing an internal environment for the SUPEX quest
- Growing into a global leader by securing core competitiveness

Successful implementation of the above tasks will help us improve the corporate sustainability. This report describes our endeavors and performance.

## Stakeholder Engagement

SK Energy has set up communication channels with various stakeholder groups, i.e. customers, employees, shareholders, and community citizens, in order to listen to diverse ideas and expectations as well as actively respond to key issues.

### »» Customer Communications

We directly hear and reflect customers' voices via online and offline channels. Customers can receive customized services, through e-mails and business unit (BU) websites (EnClean, OK Cashbag, etc.). Our company-wide hotline "Happy Customer Center (☎1588-0051)" takes VOC (Voice of Customer) directly from the market and sends it to the relevant departments. We also conduct regular customer surveys for each business units.

#### ⊙ Customer Communication Activities (2007)

Activities	Volume
VOC experience for employees	4 programs
Happy Customer Center (hotline)	1,530,835 calls
e-mail inquiries	170,444 inquiries
Customer satisfaction survey	4 surveys

### »» Employee Communications

We have official communication channels between the management and the workers including Management Consultative Committee and Labor-Management Committee. There are Open Management Space, HR/Sexual Harassment Counseling Channel, Ethics Consultation Center, and Harmonia available on the company intranet for collection of employees' ideas and complaints. We also have company newsletters, broadcasting service, and Can Meetings for active communication among the employees.

### »» Shareholder Communications

SK Energy provides shareholders with information on key management issues and decisions in shareholders meetings. We also receive proposals from the shareholders to encourage their participation in the BOD decision-making process. Shareholders can access, on a real-time basis, management information, share prices, financial information, disclosures, and key IR events at our website.

For domestic and foreign institutional investors and analysts, we offer IRs, 1:1 meetings, conference calls, e-mails, and telephone consultations. Important management issues related to shareholders are immediately disclosed on the company and Korea Exchange websites pursuant to the Korean Securities Transaction Act. The company's Business Report and Audit Report are also posted on the electronic disclosure system.

#### ⊙ IR Communication Activities (2007)

Activities	Volume
Financial Briefings	4
Overseas IR	5
Conference participation	5
IR for Korean institutions	13
1:1 Meetings	182



### >>> Community Communications

We operate communication channels with diverse stakeholder group including the government, NGOs, community residents, and business partners. Particularly in Ulsan, where our refinery and chemical plants are located, we are fully committed to making positive relationship with the community and to contributing to community development. We seek to link community and corporate interests in the following direction.

- Build positive, cooperative relationship with the residents and work for co-prosperity.
- Respect the community politics, economy, culture and social values.
- Fully realize the company's knowledge, experience, technology, and high-quality human/physical resources.
- Stay within the context of corporate culture and make it easy for other organizations/companies should be able to join.

As the industry leader in Korea, we are also committed to sustainable development of the petrochemical industry and thus actively take part in the public policy-making process. We are a member of Korea Petroleum Association, Korea Petrochemical Industry Association, and Korea Fair Competition Federation, through which we communicate ideas and positions to the government and takes part in policy making.

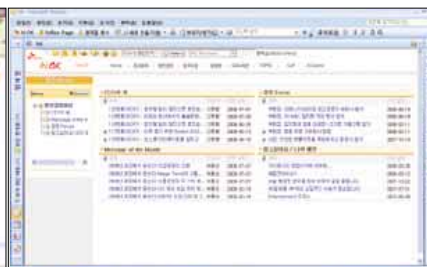
### ◉ Stakeholder Communication Activities

Stakeholder	Communication Tool	Key Issues
Customers	Happy Customer Center, BU websites, customer satisfaction surveys	Product/service complaints, convenience, privacy
Employees	Management Consultative Committee, Labor-Management Committee, intranet, Open Management Space, Ethics Center, company newsletter, Can Meetings	Staff welfare, empowerment, profit sharing, ethical management
Shareholders	Shareholders meeting, disclosures, shareholders proposals, IR, investor sessions, conference calls, telephone consultation, IR website	Dividend, corporate governance, growth engine development
Government	Industry associations, public hearings	Compliance, fair competition
NGO & Citizens	Community hearings, social contributions, website, press releases	Environment preservation, social contribution
Partners	Win-win meetings, partner training & events	Information disclosure, training support, competitiveness

Customer Feedback System



Open Management Space



IR Website



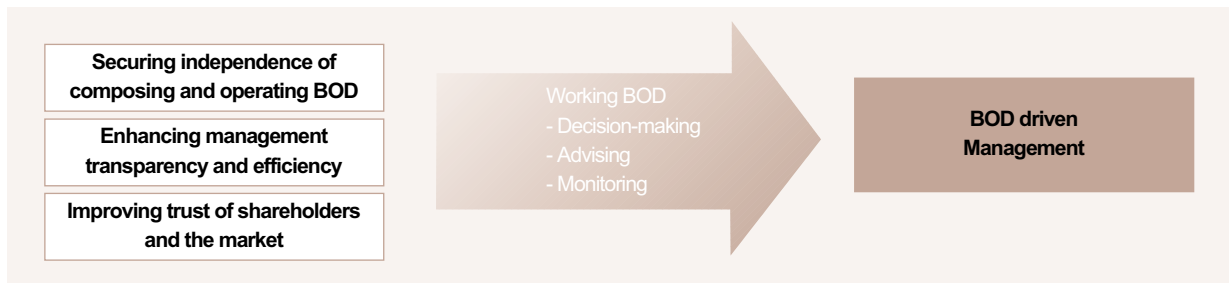
# Governance

Meeting global standards for management efficiency and transparency has been our priority objective since the declaration of "BOD-centered Management" in 2004. We introduced a holding company structure in July 2007 for higher transparency and efficiency of corporate governance

## Working BOD

Key roles of the Board of Directors are strategic decision-making and monitoring. Our BOD strives to be a Working BOD - appointing CEO and advising the management.

### ◉ Working BOD (Board of Directors)



## BOD Composition

Our Board of Directors consists of three inside directors and six outside directors. The proportion of outside directors (67%) is the highest level in the Korean private companies. It means that there are enough outside directors to pass special BOD resolutions(\*) and exercise control on management.

We meet the legal requirement (Securities Transaction Act) by setting up Audit Committee and Nomination Committee under the BOD. And we have established Strategic Planning Committee, Transparent Management Committee, Corporate Governance Committee, and Human Resource Management Committee to

assist specialized. The Strategic Planning Committee sets up management objectives and major investment plans; Human Resource Management Committee deals with employees' human rights and labor issues; and Transparent Management Committee handles transparent transactions with subsidiaries, as well as environmental activities and social contributions. To ensure full independence of the committees, all are chaired by the outside directors. Outside directors represent 100% for Audit Committee and 2/3 for the other five committees.

※ Special BOD resolution requires votes of 2/3 or more directors on the board for issues of importance, such as revision of the Articles of Incorporation, M&A, liquidation, business transfer, capital reduction, or dismissal of directors.

### ◉ New Organization Chart of BOD and Committees (after split)

SK Corporation		split	SK Corp	SK Energy
<b>BOD members</b>	10			5
<b>Outside Directors (%)</b>	7 (70%)		3 (60%)	6 (67%)
<b>Committees</b>	Audit Committee Nomination Committee Strategic Planning Committee Corporate Governance Committee Human Resource Management Committee Transparent Management Committee (total 6 committees)		Audit Committee Nomination Committee Transparent Management Committee (total 3 committees)	Audit Committee Nomination Committee Strategic Planning Committee Corporate Governance Committee Human Resource Management Committee Transparent Management Committee (total 6 committees)

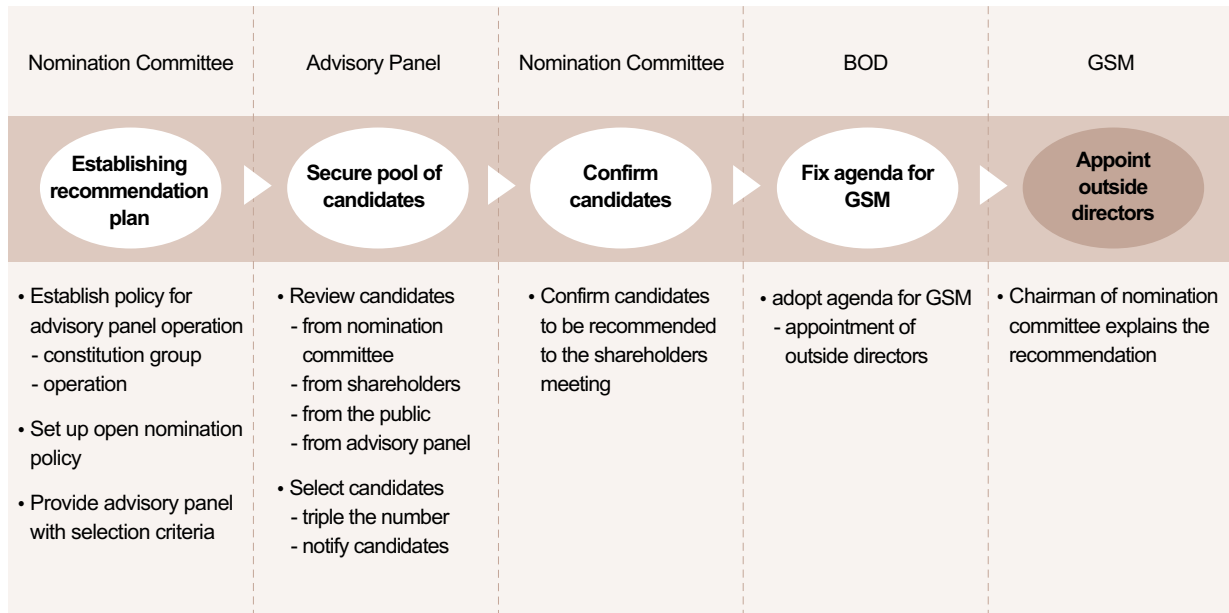
※ On April 29, 2008, SK Energy BOD resolved to replace Corporate Governance Committee with Corporate Social Responsibility Committee for in-depth discussion of and support for CSR (Corporate Social Responsibility) activities. CSR functions including ethical management and social contribution will be transferred from the Transparent Management Committee to CSR Committee.



We also ensure objectivity and fairness in appointment of its inside directors. First, Human Resource Management Committee reviews candidates' qualifications and then the BOD finalizes one candidate for the shareholders' meeting. For outside directors,

"Outside Director Nomination Advisory Panel" is set up, comprised of five respectful figures, for objective process. General shareholders can also make open nomination via company website.

◉ Outside Director Appointment Process





## BOD Activities

In 2007, total 16 BOD meetings were held and total 95 agenda were handled (57 agenda for resolution, 36 for report, and 2 for consultation). Directors' participation rate was 96.1% (95.2% for outside directors). The six committees had total 45 meetings, reviewing 34 agenda in advance and delivering on 44 agenda.

### ◉ BOD Statistics

BOD Activities	2005	2006	2007
BOD Meetings	15	14	16
Committee Meetings	31	34	45
Internal/External Activities	68	55	54
Total	114	103	115

### ◉ Committee Activities (2007)

Classification	Meetings	Agenda (review)	Key Agenda
Audit Committee	13	20	2006 business performance and external audits Internal audit on consolidated financials
Nomination Committee	5	8(1)	Nominate candidates for outside directors Review the above nomination process
Strategic Planning Committee	8	18 (14)	Acquisition/sell-off of stake and major assets Major investments including E&P
HR Management Committee	8	13 (8)	Appointment of executive officers Defining roles and responsibilities Management of total labor cost
Transparent Management Committee	8	13 (8)	Transaction/investment in subsidiaries Fair transactions
Corporate Governance Committee	3	6 (3)	Improve information service for directors Improve BOD/committees practices & bylaws
Total	45	78 (34)	-

## Internal Activities

### 》》》 Special Lectures by Outside Directors

The outside directors pulled on their rich knowledge and experience in special lectures for the employees. This contributes to enhancing the employees' knowledge on given subjects, improving their understanding of the BOD, and reflecting their ideas and opinions.

### 》》》 Visitation to BU Sites and Major Company Events

To deepen their understanding of the business, the outside directors visited work sites in Korea and overseas - Ulsan CLX, SK E&C, Shanghai Branch, and petrochemical JV in China (SGSK) - , while attending various company events, i.e. company anniversary celebration, for building familiarity and consensus with the employees.

## External Activities

### 》》》 Education and Seminars

The directors of SK Energy are active participants in international conferences related to corporate governance. In 2007, some of them attended ICGN (Int'l Corporate Governance Network) Annual Conference and NACD (National Association of Corporate Directors) Annual Conference. Outside experts were also invited for special seminars on economic trend, energy industry, etc. In 2007, seminar topics include "Management of SK Corporation as a holding company" and "The Chinese Economy".

### 》》》 Interview with Media, Foreign Credit Rating Agencies, and Financial Institutions

By responding to interview requests from the media, foreign credit rating agencies, and financial institutions, the outside directors help the stakeholders better understand the BOD activities and corporate governance improvements. Such interviews also serve as an opportunity for them to answer questions from market participants and investors.



## BOD Composition and Operation

<b>Type and Size</b>	BOD / 9 persons
<b>Executive/ Non-executive directors</b>	3 persons / 6 persons
<b>Outside directors</b>	6 persons
<b>BOD Chairman</b>	<ul style="list-style-type: none"> <li>BOD Chairman is appointed by the BOD (AOI #29-(1), BOD Bylaws #3-(1))</li> </ul>
<b>Communication to BOD</b>	<ul style="list-style-type: none"> <li>"BOD NEWS" in hi-OK (intranet) updates the employees on the BOD activities and enables them to communicate ideas to the BOD</li> <li>Detailed BOD activities are also posted on "Corporate Governance" on the company website for shareholders and the general public. Readers can send feedback to the BOD via the company website.</li> </ul>
<b>Directors Compensation</b>	<ul style="list-style-type: none"> <li>Directors' compensation is the highest level in Korea. HR Management Committee determines appropriate level of compensation according to performance.</li> <li>The company runs stock option system (AOI #8-(2)) but no stocks were granted to the directors in 2007.</li> </ul>
<b>Conflict of Interest In BOD</b>	<ul style="list-style-type: none"> <li>Under BOD Bylaws #14, directors shall not conduct transactions, for their own account or for the account of a third person in, which fall into the categories of the company business, without prior approval of the BOD, and shall not be staffs of unlimited liability or directors of another company targeting the same business category as the company. Furthermore, directors shall not be engaged in transactions with the company for his own account or for the account of a third party.</li> </ul>
<b>Director Qualification</b>	<ul style="list-style-type: none"> <li>To ensure the independence of outside directors, SK energy strictly complies with the law of Korea which bans family member including relatives of the majority shareholder as well as a person(s) who has been employed in the company or its sister company including subsidiaries during last 2 years from being an outside director. To become an outside director, he or she should show expertise, commitment as well as business oriented mindset to help managing the company. We also consider social acceptability(self independence, social reputation and personal image) and year-specific conditions in choosing outside directors.</li> </ul>
<b>BOD Evaluation</b>	<ul style="list-style-type: none"> <li>BOD evaluation is conducted on an annual basis in the areas of BOD activities &amp; operation, committee activities &amp; operation, and assistance to the directors. All directors take part and the result is reported to the BOD, to be included in the Business Report.</li> </ul>
<b>Communication between CEO and Outside Directors</b>	<ul style="list-style-type: none"> <li>CEO directly informs the outside directors of major strategic directions and management issues of the company.</li> </ul>
<b>Outside Directors Meeting</b>	<ul style="list-style-type: none"> <li>Outside directors have their own meetings for ensuring independence of BOD operation and active communication among themselves.</li> </ul>

Board of Directors Meeting



Holding Company Launching Ceremony



Visit to Chinese Partner (SGSK)





Sharing

**We Share** As a corporate citizen,  
we share happiness with all our neighbors.

# Happiness with Neighbors





# Corporate Ethics

We recognize ethical management as an essential element for long-term survival and growth. We have been committed to creating an environment where the employees fully understand and implement the concept.

## Ethical Corporate Culture

Honoring the SKMS management philosophy of “creating values for all stakeholders and contributing to the happiness of the humankind,” we have been fully committed to ethical management as a responsible corporate citizen. Our basic direction is to encourage and motivate employees’ voluntary commitment, through which ethical corporate culture can be established. This is important for building stakeholders’ trust and enabling long-term growth of the company.

We have, in this regard, prepared corporate ethics infrastructure, designed to help the employees recognize and embrace “ethical values” as a top priority in all management activities.

## Corporate Ethics Infrastructure and Practices

### »»» Code of Conduct

At SK Energy, all employees share a code of conduct for fair and transparent management activities. The Code of Conduct and Implementation Guidelines prohibit offering cash, gifts, or entertainment to stakeholders for undue or unfair privileges as well as receiving cash, entertainment, or any personal conveniences from business partners.

SK Energy Ethical Management Guidebook, published in December 2006, helps the employees make ethical decisions in their daily business activities, by providing definitions, criteria, and practical examples.

### »»» Ethical Management Training

We have been providing ethical management training with a mind to enhance awareness of and compliance with ethical management principles. In 2007, 806 out of total 5,090 employees (16%) took part in the training.

### »»» Ethics Consultation Center

SK Energy Ethics Consultation Center is open to the employees, customers, shareholders, and partners to directly consult and report on ethical issues. We seek to detect and prevent ethical issues early on. All cases are processed in full confidentiality and reporters are protected with strict anonymity.

In 2007, the office received 8 reports, 8 consultations, 29 customer complaints, and 9 miscellaneous cases, totaling 54 cases.

Violators of the code of conduct are brought subject to the relevant corporate regulations on reward and punishment. We had two violations and subsequent sanctions in 2005, but none since then.

We also value transparency and fairness in transactions with the partner companies. For any discoveries of irregularities or corruptions, they are subjected to relevant sanctions. We did not have cancellation or suspension of partner contracts in 2007 in the ethical context.

### »»» Programs for Ethical Environment

We conducted a company-wide online live poll to accurately understand the level of employee awareness and practice of corporate ethics and to reflect it in the corporate policy.

KM Quiz is another program designed to help the employees understand and remember the corporate code of conduct. GBS, a company broadcasting, also airs ethics-related feature stories to encourage voluntary compliance.

- Online live poll (total eight times, 9,357 man-days participation)
- KM quiz (3,577 man-days participation)

### »»» Ethical Management Website

Ethical management website (<http://ethics.skenergy.com>) was launched to share, in open communication, the company’s commitment and progress of ethical management to various stakeholders.



# Compliance

Legal compliance is the minimum requirement for fulfilling corporate social responsibility. In addition to the corporate-wide compliance system, we have in place sector-specific programs for monitoring compliance.

## Legal Compliance

The organization reshuffle in July 2007 (transition to a holding company structure) left SK Energy as a business subsidiary. This led to higher level of expectation by the stakeholders in terms of business performance and corporate value. To meet the expectations, we have been working hard to more systemically conduct compliance activities.

We believe "compliance" is a means for enhancing business efficiency, ensuring credibility of financial reports, and complying with laws in managing business. We seek to manage business risks in integrated and corporate-wide manner and to ultimately ensure reliability of corporate management.

In January 2008, we set up a dedicated organization for compliance function, under Ethical Management Office, to enhance efficiency as well as to build corporate-wide compliance process. In 2007, we did not have a single financial or non-financial penalties levied related to non-compliance.

## Fair Trade

We have long recognized "fair competition" as a factor of corporate competitiveness and adopted a voluntary compliance program for fair trade. (CP: Compliance Program).

Our voluntary compliance program covers seven aspects: CEO commitment, voluntary compliance officer, compliance handbook, compliance training, internal supervision, employee sanctions, and document control. Two cases were raised in 2007, related to unfair competition and monopoly. Lawsuit is underway.

### SK Energy Voluntary Compliance Program (CP) for Fair Trade

7 Areas	Details
<b>CEO Commitment</b>	<ul style="list-style-type: none"> <li>Fair trade compliance declaration and voluntary compliance code were adopted</li> <li>CEO re-declared commitment to compliance for fair transaction</li> </ul>
<b>Chief Compliance Officer</b>	<ul style="list-style-type: none"> <li>Head of Ethical Management Office was appointed as a Chief Compliance Officer</li> </ul>
<b>Compliance Handbook</b>	<ul style="list-style-type: none"> <li>Compliance handbook was published</li> </ul>
<b>Compliance Training</b>	<ul style="list-style-type: none"> <li>On-line: WBT (Web Based Training) for all employees</li> <li>Off-line: courses by job position</li> </ul>
<b>Internal Supervision</b>	<ul style="list-style-type: none"> <li>Fair Trade Compliance Committee and Regulations</li> <li>Dedicated organization (Fair Trade Team)</li> </ul>
<b>Employee Sanctions</b>	<ul style="list-style-type: none"> <li>Sanctions based on company regulation and procedures</li> </ul>
<b>Document Control</b>	<ul style="list-style-type: none"> <li>Systematic control of documents related to compliance activities</li> </ul>

Ethics Consultation Center



Ethical Management Website



Web-based Training Course on Fair Trade



## Internal Accounting Control

We operate Internal Accounting Control System to ensure transparency and credibility of its financial information, while meeting the legal requirements specified in Act on External Audit of Stock Companies, Exemplary Standard for Internal Accounting Control System.

We established Internal Accounting Control Scheme. It involves

all parts of the company including the BOD, Audit Committee, and the management, as validity evaluation is made on a regular basis. The result is reported to the BOD and Audit Committee. We also review and improve control matrix to improve the internal control design. For verification, the self-evaluation results of the field units are reviewed by an independent department.

The following table summarizes major activities of Internal Accounting Control in 2007.

Improving Internal Control Process	<ul style="list-style-type: none"> <li>• Improve efficacy of internal control design</li> </ul>	<ul style="list-style-type: none"> <li>- Review small-scale BU (Cashbag/Carlife)</li> <li>- Check purchase/ tangible assets control procedure</li> <li>- Review/improve documentation of control matrix</li> </ul>
	<ul style="list-style-type: none"> <li>• Review local business sites</li> </ul>	<ul style="list-style-type: none"> <li>- Visit Ulsan CLX and conduct track investigations on-site</li> </ul>
	<ul style="list-style-type: none"> <li>• Review overseas branches</li> </ul>	<ul style="list-style-type: none"> <li>- Improve internal control procedures for branches in China, Europe, Singapore, and the US</li> <li>- Design internal control for Australian branch</li> </ul>
Evaluating Validity of Internal Control	<ul style="list-style-type: none"> <li>• Evaluate validity for Q3, Q4 and review evaluation result</li> </ul>	<ul style="list-style-type: none"> <li>- Self-evaluation of result by field units (two times)</li> <li>- Verification by independent department and correction of errors</li> </ul>
Strengthening Training and Infrastructure	<ul style="list-style-type: none"> <li>• Internal control training</li> </ul>	<ul style="list-style-type: none"> <li>- Enhance IC awareness in field units and improve efficiency</li> </ul>
	<ul style="list-style-type: none"> <li>• Training for accounting control personnel</li> </ul>	<ul style="list-style-type: none"> <li>- Train accounting staff in overseas branches and headquarters</li> </ul>
	<ul style="list-style-type: none"> <li>• Establish ERP in overseas branches</li> </ul>	<ul style="list-style-type: none"> <li>- Build ERP linking 8 major overseas branches with headquarters</li> </ul>
	<ul style="list-style-type: none"> <li>• Realize paperless accounting</li> </ul>	<ul style="list-style-type: none"> <li>- Improve transparency of expenditure and business efficiency</li> <li>- Computerize and improve security of purchase documents and Cashbag slips</li> </ul>

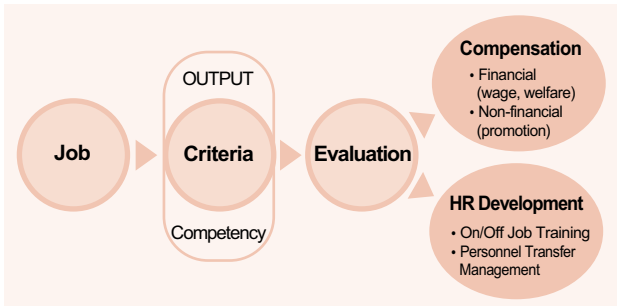




# HR Development

Growth of the employees and development of their global competency are on the top of our agenda as the company itself grows. We offer various trainings throughout the entire employee lifecycle – from employment to retirement.

As part of our management philosophy of “Pursuing SUPEX via Human-Oriented Management” we strive to create fully motivating environment for employees. Our vision is to equip employees with international perspectives, global competency, and a spirit of challenge so they can win the global competition. Together with our productivity objectives, we have two-pronged goals: enhance the value of individual workers and to improve corporate competitiveness.

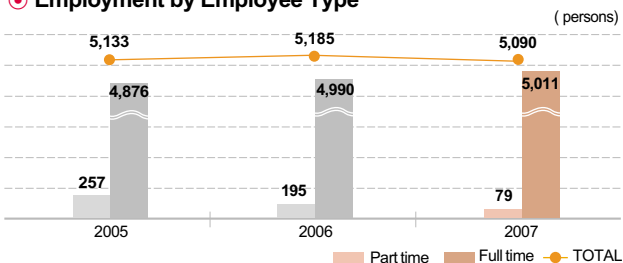


Our Human Resources Committee sets up policies and direction for workforce management. We improved HR management by placing more focus on individual employees' performance. Communication and training sessions were arranged, by job position, to enhance employees' understanding of the changes. Performance will continue to be the key focus in our workforce management.

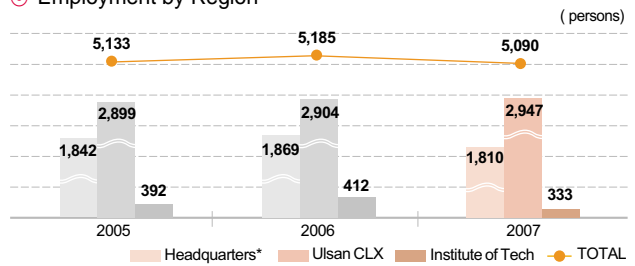
## Employment and Labor Relations

We recruit and employ workforce in a fair and non-discriminatory process, pursuant to the Korean labor laws, i.e. Labor Standard Act and Act on Gender Neutral Employment. Working conditions are negotiated between the labor and the management, on equal footing, in the forms of collective bargaining, job disciplines, and employment contract. Continuous improvements have been made for the benefit of the entire workforce.

### Employment by Employee Type



### Employment by Region



※ Headquarters include overseas and Korea regional branches.

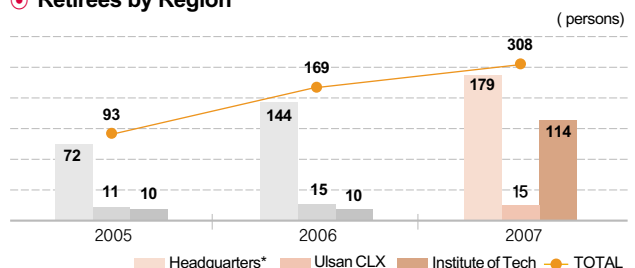
Our labor-management committee, comprised of the same number of either party, is engaged in active discussions for higher productivity and workers' benefits. We also have a labor union, protected by the relevant labor laws.

Collective agreements, set by the labor and the management, shall apply, in principle, to the employees below junior manager position (57% of total workforce), but the company endeavors to most of the agreements to all employees so as to enhance the employees welfare and to improve the labor-management relationship.

## Retirement Policy

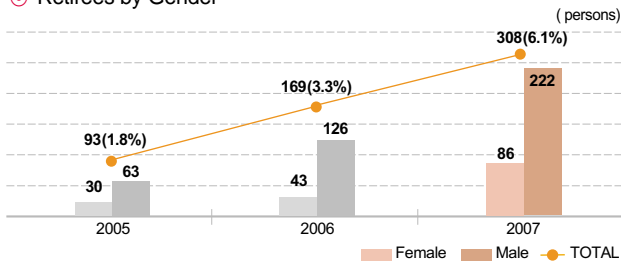
Employees leaving the company after working for its stability and growth receive direct and indirect compensation according to their level of contribution. We also care to maintain good relationship with them afterwards. For the current staffs, the company has a retirement management system, calculated according to their contribution at work, so as to ensure their comfortable retirement years later. For those retiring from reasons such as death, accident-inflicted disabilities, or occupational injuries, the company provides additional compensation for support.

### Retirees by Region



※ Retirement increased in 2007 due to the company split.

Retirees by Gender



## Performance Evaluation

By conducting a regular, open, and fair evaluation of all the employees' competency and performance, we seek to further develop its human resources. The evaluation results are used for decision-making in promotions, transfers, training, and compensation in a fair and efficient HR management scheme.

The employees are evaluated on aspects including SK Values, competency, and performance. Evaluation procedures and items differ by job position.

First, executives and team leaders (6.6% of total workforce) are evaluated against comprehensive criteria, i.e. SK Values, competency, and performance. For higher reliability, the evaluation is complemented by inputs from their supervisors, peers, and subordinates.

Second, annual salary employees (32.6% of total workforce) are also assessed against SK Values, competency, and performance. Job categories and role level system were adopted at the end of 2007 for job-oriented workforce management. With the new changes, these employees will be more fairly evaluated against a benchmark group with standardized competency and contribution for each category.

Third, merit-based employees (57.1% of total workforce) are evaluated against SK Values and performance. Job description sheets are used to evaluate both quantity and quality of the performance.

Performance evaluation looks at all activities from January 1 to December 31 and the results are fed back to the employees, who can raise objections. Objectors communicate with assessors to determine whether to conduct re-evaluation.

## Compensation

We, through annual salary contract and special incentive schemes, provide fair compensation to employees with excellent competency and performance.

Type	Annual Salary System	Merit Based System
Job Family	Business, Engineers, R&D, Management supports	Supervisors, Technicians, Administration supports
Compensation Adjustment	Based on performance	Based on working years
Adjustment Date	March 1 Every Year	

We set compensation amount based on its EVA (Economic Value Added) and KPI (Key Performance Indicator) calculations, ensuring that the compensation scheme fully motivates the employees toward fulfilling their targets.

## Promotion

We ensure fair and reasonable promotion scheme as we take into consideration competency, qualifications, and performance of employees. This is designed to encourage voluntary and willing commitment of intellectual resources on the part of the employees as they climb up the ladder.

We, for instance, assign responsibility, authority, and tasks that are one notch higher and heavier than the current level, based on its evaluation of the given employee's potentials. While promotion means higher responsibilities and expectations, it also translates into higher salary and welfare benefits and thus is a motivator for employee's self-development.



## Employee Welfare Benefits

We offer rational and competitive welfare benefit regime, from a life cycle perspective, so that the employees can feel secure at home and motivated to work. For instance, we support asset formation, health management, vacations, and retirement management in each career and life cycle stage. These programs are designed at enhancing the life quality of the employees on a continuous basis.

### Welfare Benefits by Career and Life Cycle Stage

Type	Programs(*)
Asset formation	Credit cooperative union Housing loan, housing subsidy, subsistence loan
Health management	Medical check-up, medical fees Insurance (occupational injury, health, collective time deposit) Cafeteria
Holidays, Vacations, Hobbies	Resorts, hobby clubs, support for family occasions Fitness facilities
Retirement management	Retirement payment, national pension fund (external reserve 73.8% as of 2007) Reward for full-age retirees, help club for retirees

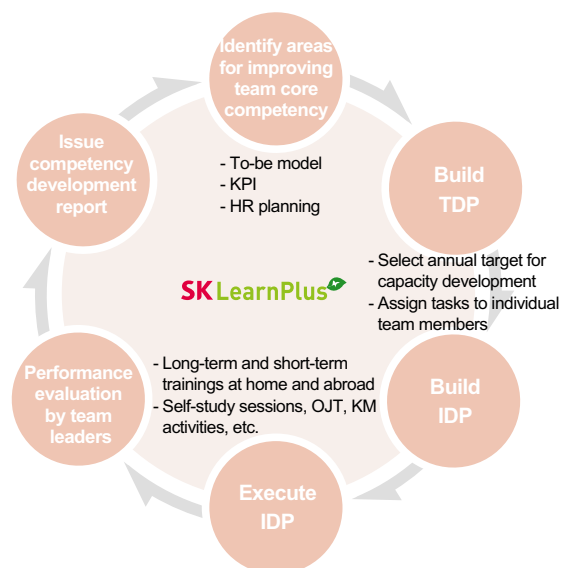
\* Welfare benefits are provided equally to fulltime and part-time workers, except few that require long-term employment, i.e. housing loans

## Training

Our training programs break down into the following four areas for systematic development of SUPEX leader, equipped with capability to actively respond to business management environment of the future.



We also provide job skill trainings according to the predefined curriculum for different job positions. For team-specific skills and capabilities, relevant team members set up IDP (Individual Development Plan) under TDP (Team Development Plan).



## 》》》 SK Values

We offer continuous training on SKMS and SUPEX to make sure all employees share our core values. New recruits as well as existing workforce in all ladders of the organization are trained to understand and implement SK Values. In 2007, SKMS trainings were provided to the global staffs in China. In SK Spirit courses, we invite high-performing employees in overseas sites (global staffs) for training in Korea.

## 》》》 Leadership

We provide SUPEX leadership programs to train business perspectives, strategic thinking, and initiating organizational changes.

## 》》》 Job-Specific Expertise

We also provide various job-specific skills trainings, i.e. planning, finance, marketing, production, research and development, and safety environment.

**| Short-term External Training Program |** For systematic training of team/division-specific job skills, the employees set up TDP/IDP and participate in external trainings or overseas seminars and conferences.

**| Overseas Training Program |** Every year, we select employees for MBA, fellowship programs, or masters/ doctorate courses in job-specific disciplines at overseas institutions. All expenses are covered by the company.

**| Graduate School Program |** Every year, we select employees for masters/doctorate courses in domestic institutions. Likewise, all expenses are covered by the company.

## 》》》 Global Competency

For improvement of global businesses, we focus on developing region experts (China and Southeast Asia) as well as global leaders with international perspectives.

**| Globalization training program |** We dispatch employees to foreign countries, for six months to a year, to learn local languages, social practices, culture, and economy.

**| Foreign language training program |** We offer in-house classes, intensive courses, online training, and telephone classes for English and Chinese training. In December 2007, GCC (Global Communication Center) was set up to improve the in-house classes. In addition, English Clinic, Soft Drink Debates, and other programs are held regularly to create a bilingual environment.

## 》》》 Other Training Programs

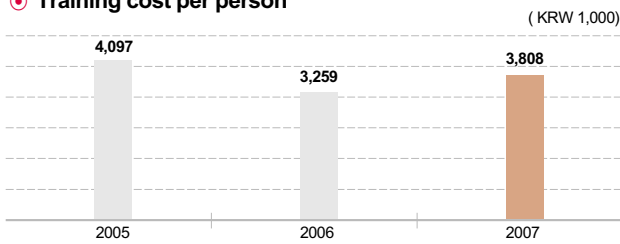
**| On-line programs |** We provide a wide range of customized online training for the digital-savvy employees. Currently approximately 20 web-based trainings are offered including SK Academy courses.

**| Industry-university collaboration programs |** SK MBA is an annual program, where high-profile figures from universities and consulting firms are invited for business administration training. We have also set a best practice in industry-university collaboration by establishing Energy Management Course, jointly by refineries and relevant university departments.

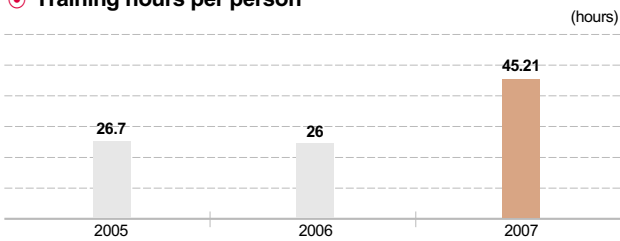
**| Other Programs |** We also offer various programs including post-doc courses, follow-up trainings, and in-house study groups, while providing assistance to employees resigning for academic purposes.



Training cost per person



Training hours per person

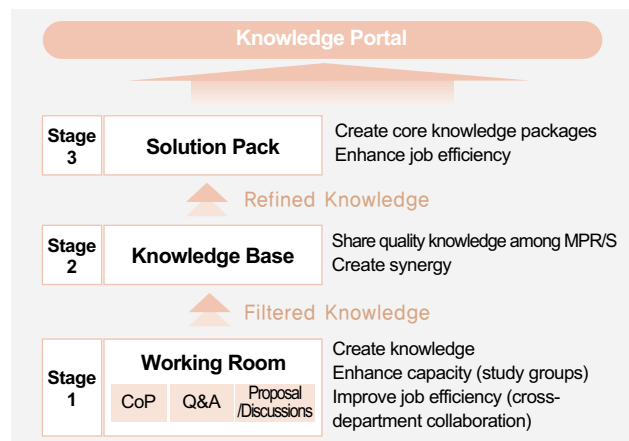


## Knowledge Management

We believe that employees' knowledge is the most important asset for sustainable growth of the company. Our definition of Knowledge Management is "to enhance problem-solving capabilities of individuals and organization so that they are able to collect wide-ranging information, acquire accurate knowledge, and utilize it for management to maximize performance".

Our Knowledge Management follows a three-stage model: working room → knowledge base → solution pack. As of the end of 2007, 1,815 CoP (Communities of Practice) have been created by the employees and consequently 120 solution packs developed, used mostly for overseas technology support, technical services, consulting, and internal efficiency improvement.

SK Energy Knowledge Management Model



## Proposal System

Our proposal system dates back to 1982. It is for encouraging the employees to "voluntarily and willingly commit intellectual resources" (as stated in SKMS) in their daily work.

For SK Energy, a proposal is defined as "everything that an employee wants to improve for the good of the company." In other words, proposals should not only cover productivity solutions, but deal with everything designed to create free and stimulating workspace (SUPEX environment).

At SK Energy, proposal system is two-pronged: management proposals (corporate-wide) and site improvement proposals (Ulsan CLX and distribution center). Ulsan CLX, in particular, has been the first local case, receiving Presidential Gold Award for 12 consecutive years in the National Quality Improvement Team Contest.

Our proposal system is operated in intranet for ready access by all employees anywhere, anytime.

Foreign Language Training



SK Learn Plus



On-line Proposal System



# Human Rights

Human-oriented management is the core value of SK Management System. Human rights of individual employees are fully respected in all our business sites, home and abroad. In addition, we strictly comply with the local labor laws and offer a wide variety of human rights programs.

## Child Labor and Forced Labor

We, in all our business sites across the world, strictly ban employment of workers below the minimum working age, as specified by laws of each country, for cost saving purposes. We also make sure that all employees are hired on their free will, subject to appropriate compensation and promotion based on their work performance, competency, and qualifications. Our businesses do not involve high risks of child labor or forced labor and we strictly ban illegal activities.

## Freedom of Association and Collective Bargaining

We fully comply with relevant labor regulations including Labor Standard Act, Labor Union Act, Collective Bargaining, as well as negotiation results. All members of our labor union, therefore, are protected of their freedom of association. We believe our business units do not include areas with risks of severe infringement of the freedom of association and collective bargaining. Our employees can, without prior approval, make their own choice, form, or join any organization, as guaranteed by the relevant laws.

### ◉ Labor Union Status

Type	Details
Members	2,570 persons
Fulltime members	5 persons
Umbrella Organization	KFTU Chemical Labor Union Division

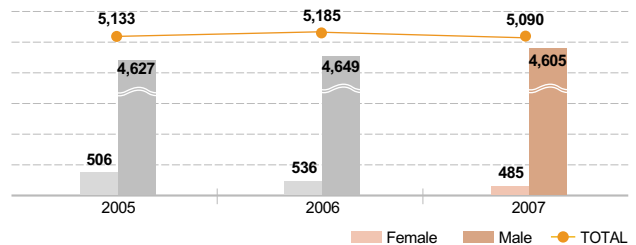
※ KFTU: Korean Federation of Trade Unions

## Equal Opportunities and Diversity

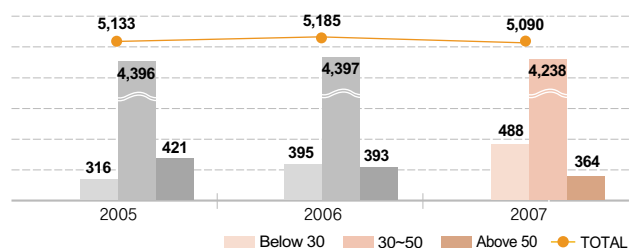
At SK Energy, all type of discrimination based on religion, age, gender, education is strictly prohibited. For recruitment, job assignment, promotion, compensation, and training, fair and performance/competency-based opportunities are granted to all employees.

For female employees (9.5% of the total workforce), we comply with Act on Gender Neutral Employment and Act on Ban on Gender Discrimination and Relief. The company also provides sexual harassment prevention education every year. We are committed to ensuring adequate gender balance and equal opportunities. For a given job category, basic wage is the same for male and female staffs. Regarding disabled persons, under our agreement with KEPAD (Korea Employment Promotion Agency for the Disabled), we have achieved 1.4% disabled employment rate (as of 2007) and are working toward a legal mandatory level of 2%.

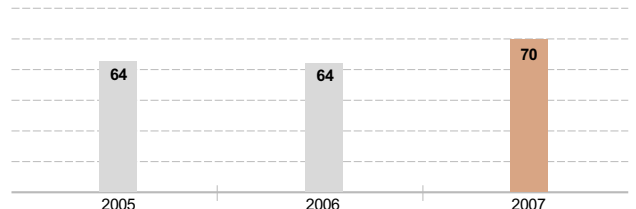
### ◉ Employee Composition by gender



### ◉ Employee Composition by Age group



### ◉ Number of Minority(Disabled) Employee



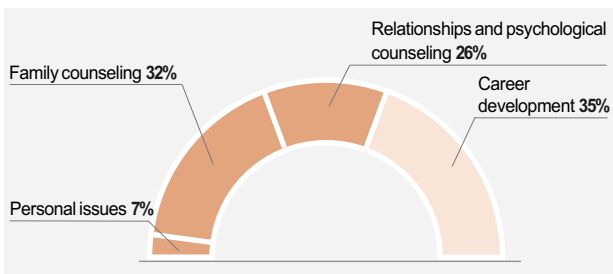


## Employee Assistance Program

**| Harmonia |** Our head office and Ulsan CLX operate Harmonia, a professional counseling service that provides substantial assistance to various employee problems. Since its launch in 2005, total 1,200 employees benefited from the program. Harmonia not only offers tips for successful career/skill development, but solutions for psychological issues at work, as well as advices for family life, health, child education, etc. Many small workshops are organized around themes of the employees' choice, while online counseling services are provided to staffs in regions other than Seoul or Ulsan.

**| Grievances Committee |** Ulsan CLX has Grievances Committee comprised of three corporate representatives and three labor representatives (recommended by the labor union). The committee receives grievances from individual employees, via written/ oral/ online media, regarding working environment and conditions and makes efforts to resolve them.

⊙ Breakdown of Harmonia Services (%)



Harmonia Room



Employee Counseling



Harmonia Website





# Socially Responsible Management

Based on the belief that our success has come from community support and trust, we have been devoted to meeting the social expectations and to sharing happiness with the community.

Recognizing its growth based on customer support and trust, we continue to make progress towards a sound company, a trusted company, and a happiness-sharing company.

In 2007, as part of our commitment to creating sustainable happiness for all, we organized job creation and youth training projects for the less fortunate class. In particular, our Ulsan Grand Park has become a joy for the Ulsan citizens.

SK Energy joined UN Global Compact on October 31 2007 and has been working hard to realize sustainable management in line with the UN values of human rights protection, environment preservation, compliance with international labor standards, and proliferation of anti-corruption activities.

## Community Development

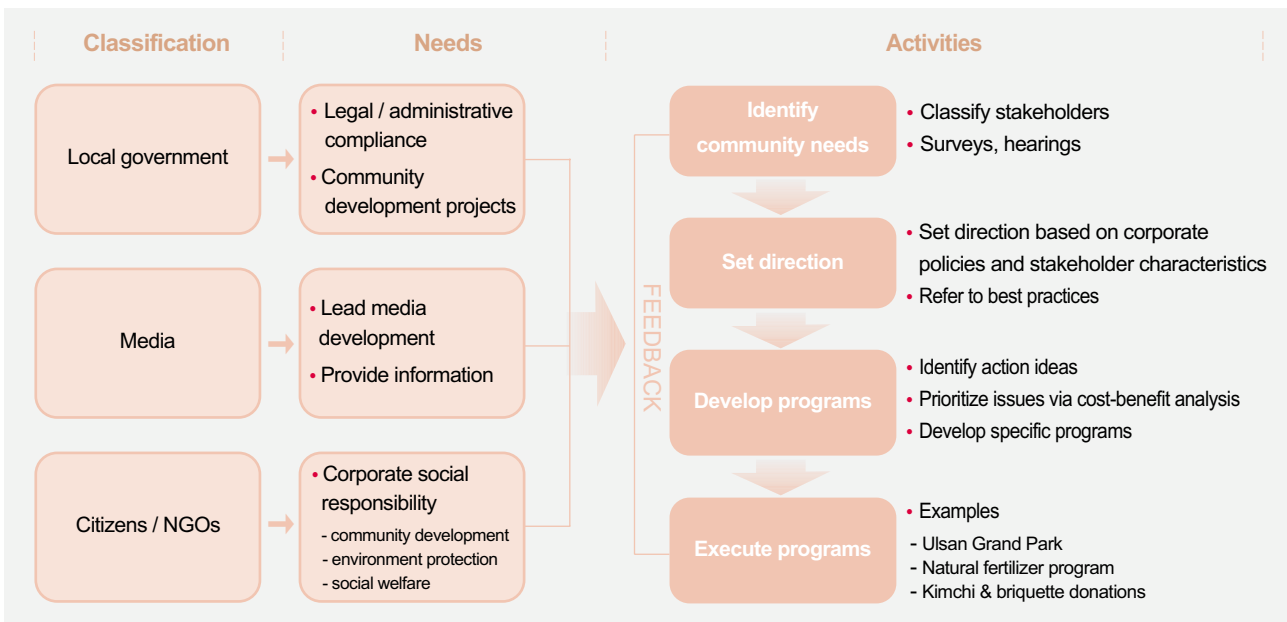
At its headquarters, Ulsan CLX, Institute of Technology, and distribution center, we have been actively engaged in communication with the communities for community development. We have been particularly committed to

development of Ulsan, as the city's production base has served as a growth engine for the company since the very beginning. Ulsan is the largest industrial city of Korea with a population of 1.1 million and we are proud to be one of the key corporate citizens in the community. Based on the SKMS Management Philosophy, we have built positive and win-win relationship with the community for the regional development.

## Response to the Community Needs

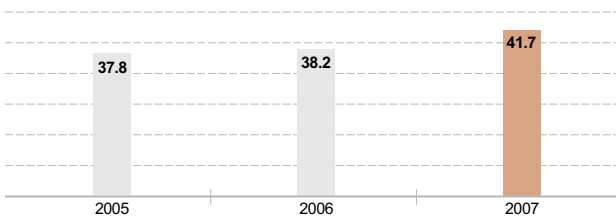
We use community surveys and stakeholder discussions in Ulsan to analyze the social and economic impact of our business in Ulsan and to identify the needs of the community. In the community sentiment survey conducted on 1,000 residents in Ulsan in November 2007, we ranked the most friendly company in the community. In addition, Ulsan residents' needs for us were prioritized in the order of social contribution, environment improvement, and job creation.

### Community Needs Fulfillment Process





- Community Survey Result (Reputation)
  - Rate of respondents who ranked SK Energy No.1 in terms of reputation



In 2007 alone, we organized total 568 communication sessions (participated by 3,052 man days) for various stakeholders in Ulsan community - residents, media, local governments - in various formats. We have been fully committed to analyzing the impact of Ulsan CLX and designing programs for Ulsan based on the real needs of the stakeholders.

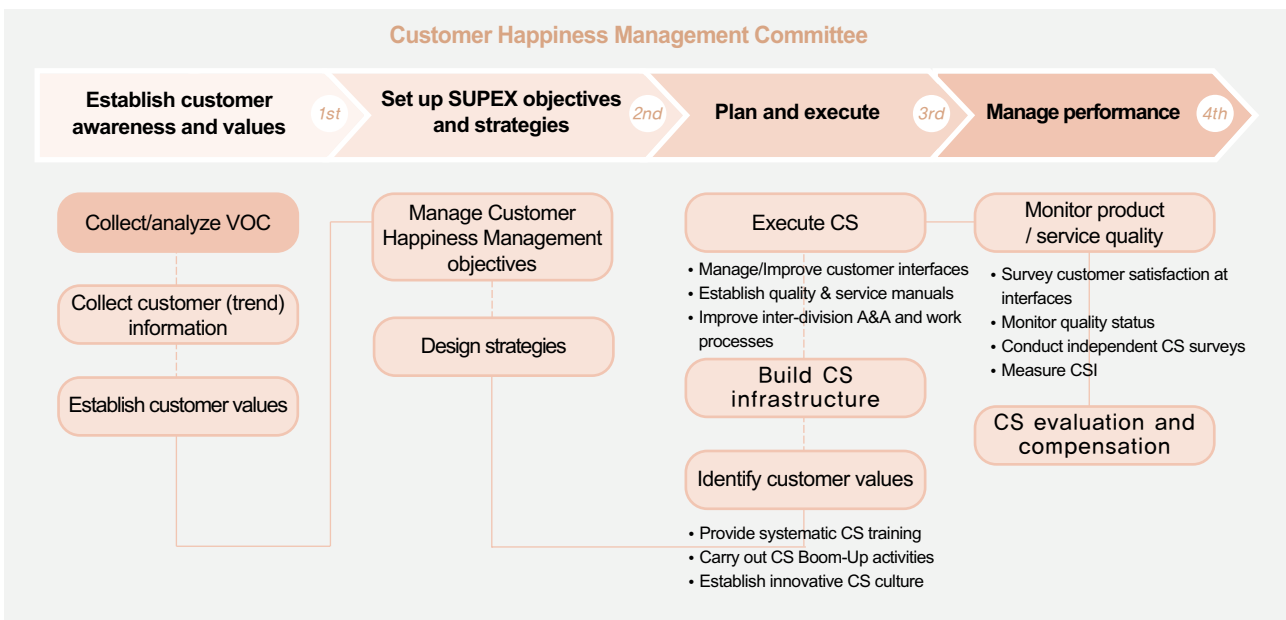
## Customer Satisfaction

### Customer Happiness Management

We embrace Customer Happiness Management, which is about earning love and trust from customers. Thanks to various customer satisfaction activities, we were able to successfully establish Customer Happiness Management system by 2007. Starting from 2008, we plan to enhance action capabilities and create tangible results.

### CS System

The following describes work process and roles under Customer Happiness Management.



## 》》》 Customer Satisfaction Driver Organizations

Customer Happiness Management Committee is the highest consultative body, providing Lead, Help, and Check functions for all activities related to Customer Happiness Management. CR (Customer Relations) Community is a virtual team of customer interface staffs, resolving major customer complaints in efficient and prompt manner. CR Community workshops are held annually for petroleum division and Car Life division.



## 》》》 Customer-Oriented System: VOC (Voice of Customer) Feedback Process

VOC feedback process is designed to ensure that customer complaints are communicated, on a real-time basis, to the relevant divisions and staffs. VOC and solutions are shared in the relevant divisions in the form of weekly and quarterly analysis reports. In 2007, we developed a VOC feedback process for our promotions in gas stations as well as an in-depth discussion program by VOC issue. These measures helped us improve the existing ARS system and free gift system in a more customer-friendly way.

In July 2007, we upgraded Happy Customer Center (hotline) into a web-based service for higher efficiency and speed, while enabling video conferencing.

## 》》》 Standardized Services

**| Customer Happiness Charter |** With objectives of realizing Customer Happiness Management and enhancing staffs' commitment to customer satisfaction, we built Customer Happiness Charter for each business unit. We start from our brand spirit of "Customer Happiness" and arrive at shared values of customer-orientation, innovation, trust, and pride, which, in turn, serve as a mantra for corporate slogan. Combining the corporate slogan with voices of the customers, we come to a set of principles for attitudes and behavior in interacting with the customers. These principles are proposed to and shared with all employees as part of a code of conduct.

**| Tricolor Happy Gas Station Campaign |** Our Tricolor Happy Gas Station Campaign is about enhancing customer satisfaction at gas stations and improving the corporate image by "looking smart, being friendly, and offering speedy services".

## 》》》 Action-Oriented Customer Satisfaction

**| Enhancing CS Awareness and CS Focus |** We offer various "field experience programs" for leaders of each business unit to strengthen their CS awareness and marketing capabilities. For instance, they visit gas stations and Cashbag partners as customers or as staffs. Employees are also encouraged to visit Happy Customer Center (hotline) to directly listen to VOC and to think about solutions. By linking loyal customers meetings with VOC experience sessions, we were able to improve CS mindset in employees. Furthermore, we organized CS seminars twice in 2007.

## 》》》 Immediate Compensation for Customer Losses

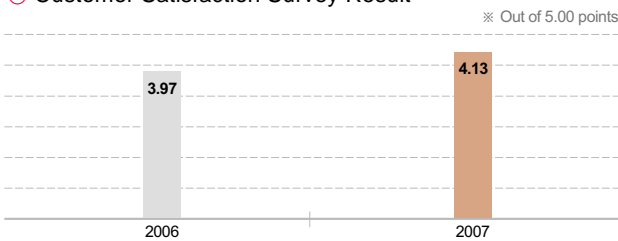
We offer immediate compensation for small-scale customer losses by delegating relevant decision-making power to the customer interface areas. This contributes to prompt handling of customer complaints and improved customer satisfaction.



### 》》》 Evaluation System

**| Customer Satisfaction Survey |** We have conducted annual customer satisfaction surveys since 2006. We make telephone interviews with customers on a quarterly basis and the results are communicated back to the relevant divisions for improvement. Thanks to the efforts, we enhanced internal CS activities and improved Customer Satisfaction Index by 0.16 points in 2007. We also received high evaluation in the surveys conducted by external organizations.

⊙ Customer Satisfaction Survey Result



**| Customer Satisfaction Survey by External Institutions (2007) |**

- NCSI Survey by Korea Productivity Center: Best Award, Innovation Award
- Customer Satisfaction Management Award by Korea Economic Daily
- KCSI Survey by Korea Management Association Consulting: Best Gas Station Award

**| ACE (Appearance & Cleanliness Evaluation) Program |**

Committed to ensuring quality services, we have been conducting six ACE assessments every year for SK gas stations since 1998. It is about regularly assessing customer satisfaction level at the gas stations and making improvements.

**| Customer OK Thanks |**

Customers are encouraged to recommend best staffs, via website ([www.skcs.co.kr](http://www.skcs.co.kr)), in B2C service units (petroleum, gas, Cashbag, Car life). The recommended staffs are duly awarded and customer satisfaction is ultimately enhanced.

### 》》》 Customer Information Protection

We established company regulation to protect personal information in 2006 pursuant to the relevant laws. In 2007, we revised and upgraded them in line with the strengthening government regulations.

Employees of the company and the partners receive annual training on personal information protection. To ensure stringent compliance of the regulations, we perform annual check into their handling of personal information at the company and the partners' level. We also monitor access to personal information and operate security system for transmission and storage. In 2007, we did not have a single case of leakage, theft, or loss of personal customer information.

### 》》》 Product / Service Liability

Customer health & safety is one of our top priorities and we are fully committed to providing the best quality of petroleum products and services.

Our petroleum products boast quality higher than the legal requirement. However, problems can occur due to abnormalities of customers' vehicles, faults in the use process, or unhealthy distribution practices. Our Quality Service Centers are located in six spots across the country (Seoul, Incheon, Honam, Younghan, Chungcheong, Gangwon) for speedy trouble-shooting.

In May 2007, for instance, we adopted Quality Guarantee Program. Under the program, we sign agreements with gas stations, where we offer 100% compensation to quality complaints in speedy and accurate manner, provided that they sell 100% authentic SK products only. This program served to enhance customer reliability in our products.

Owing to its unique nature of having diverse business units, SK Energy does not have voluntary corporate standard applied uniformly to every marketing communication. However, advertisements in each business unit are developed and executed in compliance with the relevant laws and regulations per media. All promotional activities also follow related regulations including Consumer Protection Act. Each marketing communication program goes through internal compliance reviews before execution. In 2007, we did not have a single case of violation of laws or regulations related to products and services.

## Social Contribution: Direction and Areas

At the heart of our sustainable social contribution lies the vision for higher life quality and happiness for people in Korea and the world. We are especially focusing on parallel pursuit of charity and participation. We make efforts to move away from one-off events or window-dressing activities toward more fundamental solutions, i.e. job creation and assistance to the less fortunate class.

To ensure parallel pursuit of charity (donation) and participation (volunteer activities), we focus on welfare programs for the disabled and the elderly, educational programs for the youth, and environmental programs related to the company businesses.

Regarding issue of unemployment, in particular, we have been working together with the government and NGOs since 2005, while endeavoring to build an image of warmth, befitting an energy company, via annual events such as kimchi and briquette sharing programs since 2004.

In addition, our marathoners club, headed by the CEO himself, has led fundraising and matching fund efforts to "share happiness" with our community neighbors.

## Volunteer Corp: System and Status

We have set up two full-time dedicated organizations for social contribution activities in headquarters and Ulsan CLX, respectively. "SK Energy Angels" were launched in July 2004 as a corporate-wide volunteer corp. The angels are headed by the CEO himself, inspiring voluntary and active participation from the employees.

The corp. has grown from 39 teams and 1,234 volunteers in 2004 to 52 teams and 3,665 volunteers by the end of 2007. The number of volunteer hours also significantly increased from 18,400 hours to 53,000 hours.

## Volunteer Corp Status

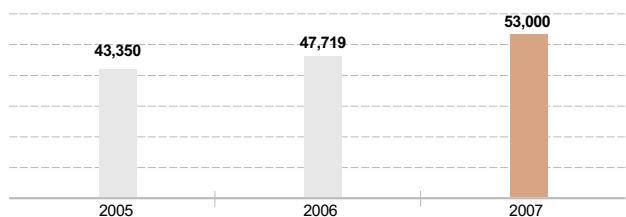
(As of December 2007)

**SK Energy Volunteer Corp**  
Leader: CEO

Organization	Head quarter	Ulsan CLX	IOT	Distribution Center	Total
No. of teams	15	20	6	11	52
Volunteers	1,282	1,715	350	318	3,665
Hours	17,000	21,300	5,300	9,400	53,000
Region	Seoul / Kyonggi	Ulsan / Kyongnam	Daejeon / Chungnam	Nation wide	Nation wide

## Volunteer Activities

(hours)



We provide 1-2 trainings to volunteer team leaders every year for more systematic activities, while organizing case presentations every six months. A dedicated website was launched to share experiences and to systematically manage activities at individual and team levels.



## Social Contribution Activities

Our social contribution is many folds: social welfare, education & scholarship, environment preservation, culture, art & sports, global program, and volunteer activities.

### 》》》 Social Welfare

#### | Job Creation Program |

- **Sending teachers to Community Children Centers (Happy Job Creation Program)**

We have been partaking in "Happy Job Creation Program" since 2005. Under the program, SK Energy, Ministry for Health, Welfare, and Family Affairs, and Busrugy (Leftovers Love Sharing Community) work together to select and send academic teachers, physical education teachers, and health & hygiene instructors to daycare centers across the country. Total 1,305 teachers were sent to total 1,001 daycare centers in 2007 alone.

- **Supporting infant care facilities (Baby Village, Agaya)**

We partner with Ministry of Labor and YMCA in 'Baby Village and Agaya' projects. The former is a 24-hour daycare center for low income class and the latter is Korea's first hour-based childcare service. These two projects created total 201 jobs in 2007.

**| Making warm winter |** Every year, we designate the late October-early February period as a "Season for Sharing Happiness" and Sharing Kimchi of Love and Briquette Sharing Programs to make winters warm for the less fortunate neighbors. In 2007, we organized Sharing Kimchi of Love program in 47 community welfare institutions across the country. Total 6,000 people including SK Energy employees, Korea YMCA volunteers, OK Cashbag customers and EnClean customers were united in these meaningful events for sharing happiness.

Our briquette sharing program entered its third year in 2007. We have been partnering with Briquettes of Love for Warmer Korean Peninsula since 2005 and this annual program has been a substantial help to the underprivileged neighbors depending solely on briquettes for heating in the winter. In 2007, approximately 1 million briquettes were delivered to 4,000 households.

**| Sponsoring through marathons |** Since 2004, our marathon club, led by the CEO, has been setting a unique example of helping the neighbors in need through running marathons. They raise funds for running the full distance and the company doubles the fund via matching fund donation.

Since the first Chuncheon Marathon in 2004, we have participated in total seven marathons until the end of 2007, raising around KRW 700 million "Marathon Donation" for the teenage breadwinners, organizations for the disabled, and others in need. In addition, our 2,000 employees took part in "One to One Sponsorship Campaign" - saving and donating KRW 5,000 for the less fortunate people in the community.

**| Offering emergency aid |** We launched emergency aid volunteers group on July 19 2007. Its objective is to provide immediate relief services in disaster areas to improve efficiency of restoration and to minimize damages. In 2007, the group worked in Jeju Island and Jeonnam Provinces, hit by typhoon Nari, in addition to the financial and aid kit donations from the company.

### 》》》 Education & Scholarship

Our education & scholarship programs are designed to help the youth dream big dreams and to have hope for the future.

**| Raising fund for leprosy patients and their families on Sorok Island |** We provide SK Happy Wings Fund to leprosy patients and their families on Sorok Island. Although the disease can be fully cured today, most of the patients and their families face barriers of poverty, discrimination, and prejudice. We have been working with Cham Gil Bokji (welfare foundation) in supporting renovation of National Sorok Hospital and providing scholarships, for two years, to the patients' children with limited opportunities for education.

**| Scholarship program "Share Knowledge Share Love" |** In another matching fund donation, we double the knowledge credits accumulated by the employees to help economically challenged students. In addition to the financial support, our employees build and maintain one-on-one mentor relationship with the students for moral support.



**| Sponsoring winners' schools of Jang Hak Quiz |** Jang Hak Quiz is one of the most well-known academic sponsorships of SK Group. The quiz program, solely sponsored by SK Group, was first aired via MBC in 1973 and via EBS since 1997. We provide funds to the winners' schools.

**| Scholarships for children of criminal victims |** In partnership with National Police Agency and Good Neighbors, we launched "Happy Wings Scholarships" in 2006, providing scholarships and living expenses to children of the criminal case victims. We also help them recover from post-traumatic stress disorder (PTSD).

## 》》》 Environment Preservation

We are obliged to pass down clean environment to our next generation and have been engaged in various endeavors to preserve greenery and to purify the environment.

**| Creating beautiful culture and environment |** For ten years now, the company has been at the forefront of building refreshing culture & environment including Ulsan Grand Park (completed in 2006), recognized for its environment-friendliness. The park is now a pride of Ulsan citizens, attracting over 5 million visitors in 2007 alone.

**| Volunteering for cleaning the oil spill-over in the Taeon coast |** 740 employees performed volunteer cleanup activities, from December 13 to 28, helping residents stricken with the spillover accident in Mohang, Taeon. Our top management and employees of our partner companies also took part in the restoration efforts.

## 》》》 Culture, Art & Sports

**| SK Happy Cultural Festival in Ulsan |** SK Energy Ulsan CLX organized a three-day event, titled SK Happy Cultural Festival, at South Gate of Ulsan Grand Park, from October 19 to 21, 2007. The festival marked its second year and served as a refreshing occasion for the employees, their families, and the Ulsan citizens.

## 》》》 Global

We seek to be a responsible corporate citizen in the international community going beyond business activities to become a true partner in problem solving activities.

**| Social Contribution in China |** In support of Korea-China Future Forest, an afforestation project for yellow dust prevention, we built SK Friendship Forest of 2.7km<sup>2</sup> in a desert area in China. This was part of the "Korea-China Friendship Project for Green Great Wall" taking place in Kubuchi Desert in Neimenggu, known as the source of yellow dust. We worked together with Korea Forest Service to plant total 200,000 trees in the area.

We also support the Hope Process, helping the impoverished children in China continue their basic schooling. Since 2005, we have offered scholarships, built schools and sent teachers in farming villages in Urumuqi, Shenyang, and Yunnan. In 2007, we built Hope Elementary School in Hubeixing.

**| Social Contribution in Peru |** To be a more responsible corporate citizen and member of Camisia Concession consortium in Peru, we started, in 2007, to invest in improving education, medical service, and housing for the less fortunate neighbors in Peru. In 2007, we expensed total KRW 390 million including support for the earthquake victims in August 2007.

Volunteer Cleanup after Spillover Accident in Taeon Coast

Afforestation in Kubuchi Desert in Neimenggu for Yellow Dust Prevention

Support for Earthquake Recovery in Peru

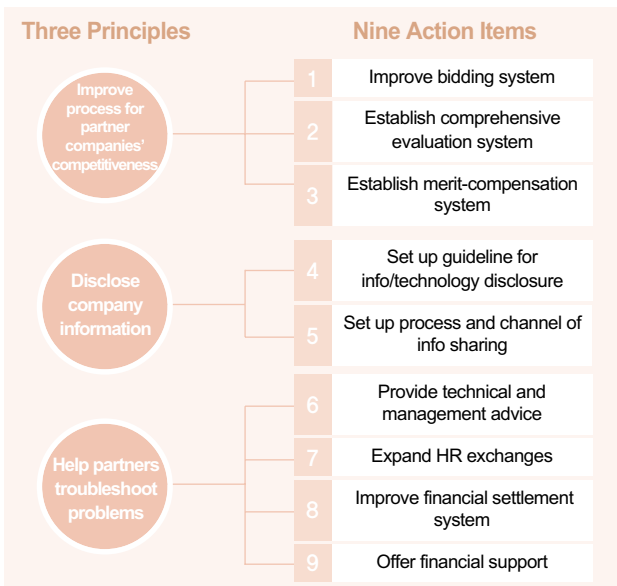






## Win-win Cooperation

We are committed to uncovering/developing suppliers with high quality and technologies and thus offer various training and support programs for them. We pursue mutual growth. The company has also established three principles and nine action items for win-win cooperation with its suppliers and partners.



**| Online Purchasing |** We have set up a web-based purchase system for transparent bidding process. Online purchasing system computerizes construction and service contract documentation, invoice issuance, and electronic authorization signatures. The system contributes to higher convenience and efficiency for our partners and suppliers.

### | Joint Technology Development and Overseas Marketing |

Joint development of technologies leads to higher competitiveness of the partners. We co-worked with the partners in development of modified asphalt for higher driving safety and durability for domestic and Chinese markets. This joint endeavor earned us 2007 Best Partnership Award (Large Companies & Small-and-Medium Sized Enterprises) from the Ministry of Commerce, Industry, and Energy. Our co-marketing efforts overseas include exporting HOSC service facilities to Kyushu Oil Company in Japan, which brought KRW 4 billion revenue increase to the partner company in 2007 alone.

### | Supporting HR development for partner companies |

SK Win-Win Academy is yet another vehicle for offering systematic assistance to partner companies in their workforce development. We organized four seminars for their CEOs for enhancing management perspective and networking among themselves. We have developed business management courses for their employees covering strategy, accounting/financial, marketing, and organization/personnel areas. In addition, total 100 free online training programs are offered to the partners' employees in management strategy, technology/IT, marketing, etc. In 2007, we provided the business management courses, online courses and e-learning classes to total 652 employees of the partner companies.

### | Providing financial assistance |

We have been expanding assistance to the partner companies for effective financing. In 2007, in addition to the existing A/R (Account Receivable) collateral loans based on actual delivery (arrangement with Industrial Bank of Korea), we introduced a new vehicle, A/R collateral loan based on purchase order agreements, with Hana Bank, providing total KRW 11 billion.

Online Purchasing System



Management Training Courses for Partners



Win-Win Academy Website





Preserving





## Health Brings Happiness

We make clean and healthy world, a harmony between human and nature.

# SHE Management System

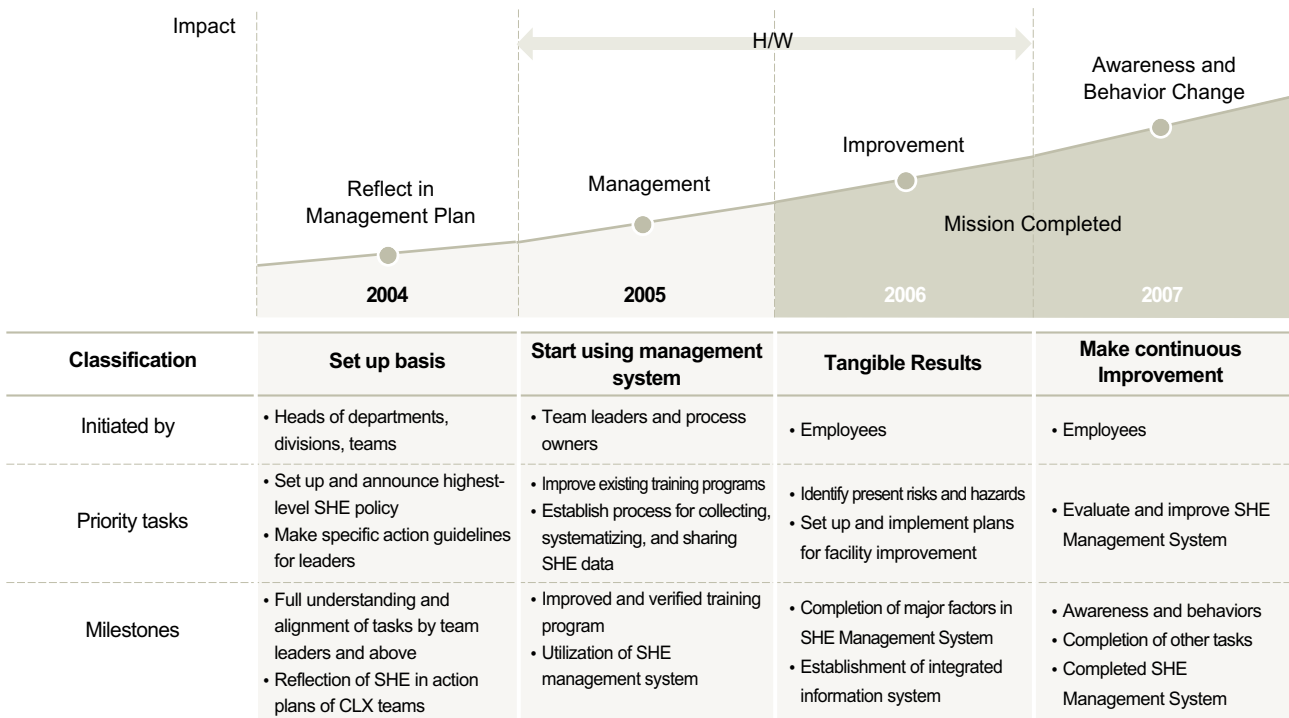
(Safety, Health & Environment)

Being in the refinery and chemical industry, safety, health, and environment issues are at the heart of our values, to be addressed at all costs. For efficient implementation, we introduced integrated system for safety, health, and environment management.

Amid the growing public interest in safety, environment, and health, we introduced integrated SHE system in 2004 for enhancing business efficiency and maximizing SHE performance. The system includes elements of PSM (Process

Safety Management) and EMS (Environmental Management System), while motivating voluntary commitment of the employees to SHE issues.

## Strategy



※ SHE Management System was completed in 2007. New plans will be set up and implemented in stages after 2008 (2008-2010).

## SHE Policies

Based on the recognition that Occupational Safety, Health, and Environment Management is key to all management activities, we established a policy objective of “achieving sustainable development via accident-free and environment-friendly management.” The following four guidelines have been proposed to all our employees.

**| Proactive Compliance |** Complying with laws, regulations, conventions, etc. in all regions of our business presence, while setting/executing safety, health, and environmental targets.

**| Continuous Improvement |** Making continuous improvements throughout the entire cycle of business management to minimize environmental impact, create quality workplace, and prevent accidents.

**| Company-wide Participation |** Fully recognizing corporate social responsibility to the stakeholders, continuing training, and fulfilling individual responsibilities for safety, health, and environment protection.

**| Social Responsibility |** Actively reflecting stakeholders' requirements in the management, disclosing business performance in transparent manner, and fulfilling corporate social responsibility.



## System Overview

Our Integrated SHE Management System consists of eleven control factors and an operating process. It is focused on flexibly responding to changes of the management environment while making continuous improvements in SHE performance. The system fulfills requirements of PSM and EMS.

To ensure voluntary and proactive execution of SHE objectives by all employees, we added SHE performance to the existing performance evaluation matrix.

### ⊙ Integrated SHE Management System



## Control Factors

We manage the following eleven control factors for higher SHE performance and continuous improvement.

Category	Control factor	Task details
Fundamental Factors	Leadership	<ul style="list-style-type: none"> <li>• Policies and objectives</li> <li>• Execution</li> </ul>
	Awareness, Action	<ul style="list-style-type: none"> <li>• Awareness, participation, pride, visible management</li> </ul>
	Risk assessment & Management	<ul style="list-style-type: none"> <li>• Facility design/construction, risk/hazard control</li> <li>• Facility maintenance, change management</li> <li>• Pre-operative safety check and emergency response</li> <li>• Environmental impact assessment</li> </ul>
	Information & communication	<ul style="list-style-type: none"> <li>• Manage information &amp; communication</li> </ul>
	Capacity management	<ul style="list-style-type: none"> <li>• Conduct training</li> <li>• Acquire/share knowledge</li> </ul>
Operational Factors	Process organization	<ul style="list-style-type: none"> <li>• Make timely development/improvement organization</li> <li>• Ensure practicality</li> </ul>
	Performance management	<ul style="list-style-type: none"> <li>• Set roles &amp; responsibilities, KPI, targets</li> </ul>
	Evaluation & improvement	<ul style="list-style-type: none"> <li>• Conduct audit and accident investigation</li> <li>• Make continuous improvement</li> </ul>
	Publicity	<ul style="list-style-type: none"> <li>• Conduct community survey and reflect it in SHE management</li> <li>• Conduct PR and environment facility tours</li> </ul>
Tasks	Compliance	<ul style="list-style-type: none"> <li>• Identify requirements, set procedures for reflecting the requirements</li> <li>• Include compliance in performance evaluation, rationalize regulations</li> </ul>
	Partner management	<ul style="list-style-type: none"> <li>• Leadership/awareness and behavior</li> <li>• Assess and manage risks</li> <li>• Information, communication, capacity management, process organization</li> <li>• Manage, evaluate, and improve performance</li> </ul>

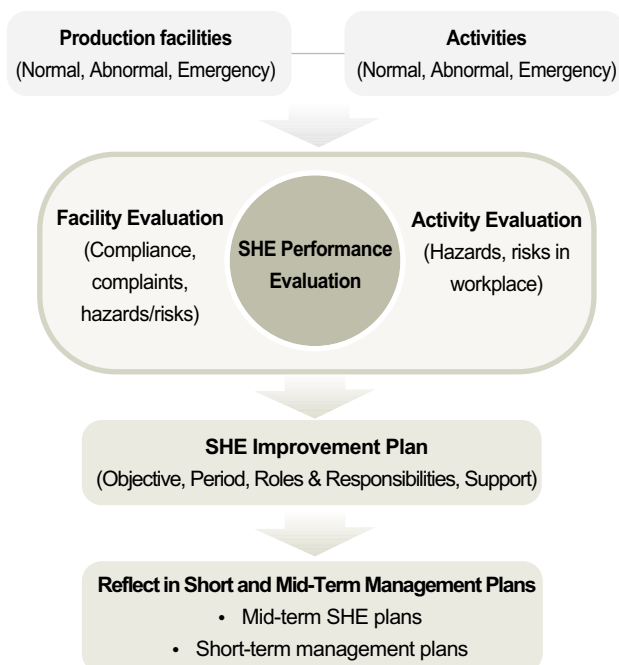
## Operating Process

The operating process is a system-wide methodology for continuous improvement of SHE performance, strategically linked with the corporate business plan. Different indices have also been developed for different sites for regular measurement. The result is reflected in the management decision-making.

### »» Plan

Action plans for SHE improvement are established for each business site in the forms of short-term and mid-term plans, linked with site management plans. The plans are set up through a priority-selection process, which includes gap analysis and internal/external SHE risk assessments. They include, for each site, SHE mission, targets, roles & responsibilities, resource allocation, improvement plans, and action timetable. The plans are annually adjusted to reflect SHE performance as well as internal/external management issues. The following describes the company's process for establishing SHE action plans.

#### ◎ SHE Planning Process



### »» Do

SHE activities are not reactive, follow-up processes of fulfilling legal requirements. Rather, we focus on proactive and continuous improvement in SHE areas based on the above 11 control factors. By shifting from top-down to bottom-up approach and building action guidelines for each site, we have been able to ensure concrete activities and responsibilities. In addition to the independent audit and local autonomous government inspections, we conduct employee evaluations and community surveys.

Category	Current SHE Management System
Process	<ul style="list-style-type: none"> <li>• Make continuous improvement based on the 11-factor system</li> <li>• Reflect best practices and lessons learned in action plans</li> </ul>
Direction	<ul style="list-style-type: none"> <li>• System decides WHAT and site decides HOW</li> </ul>
Role & Responsibility	<ul style="list-style-type: none"> <li>• Site-centered, specific, and clear roles and responsibility</li> </ul>
Focus	<ul style="list-style-type: none"> <li>• Focus on people and process</li> </ul>
Evaluation	<ul style="list-style-type: none"> <li>• Independent audit and local government inspection</li> <li>• Employee evaluation and community survey</li> </ul>
Performance	<ul style="list-style-type: none"> <li>• Manage performance and process</li> </ul>





»» Check

Contrast to the use of lagging indicators, i.e. accident rate and environmental incidents, as KPI, we increased the proportion of leading indicators in the new integrated SHE System, as part of

our commitment to continuous improvement. Such change is expected to raise awareness of the importance of preventive measures and to build basis for more scientific performance analysis.

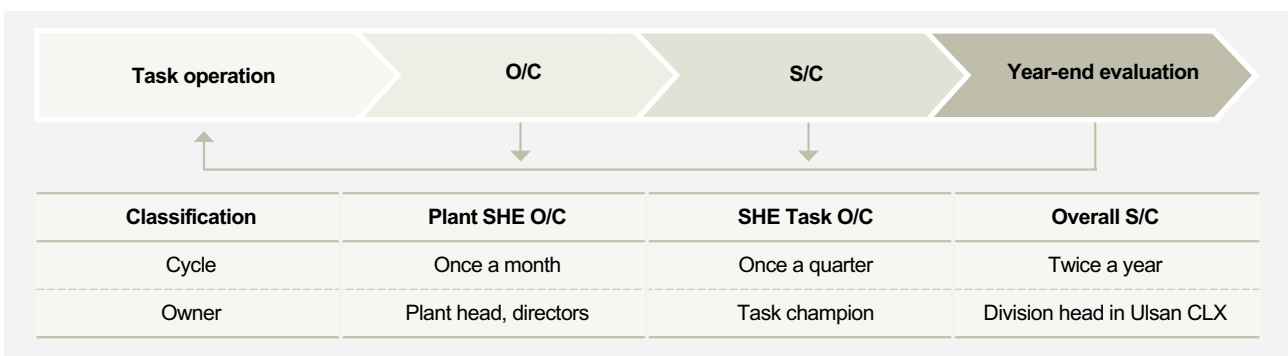
Indicator Type	Examples
Lagging (Reactive)	Accident and injury statistics, environmental incidents, operational accidents, work day losses, leakages, equipment failures, RI
Leading (Proactive)	SHE training rate, SHE conference participation, SHE inspection, risk elimination rate, hazard elimination rate, SHE observation, near-misses, emergency drills

»» Adjust

All SHE activities are reviewed (in terms of efficacy and efficiency) and consequently adjusted by various operating

committees (O/C) and steering committees (S/C). Targets and action plans are flexible to unexpected issues and changes in the management environment.

⊙ SHE System Adjustment Process



# Resources and Climate Change

Climate change and its impact are emerging as key global concerns. As a player in the refinery and chemical industry, we recognize importance of the issue and are involved in various programs in response to the climate change.

International efforts for greenhouse gas reduction and climate change alleviation have been accelerating since the Kyoto Protocol. Adoption of the Bali Roadmap is one example. Although Korea is not currently in the Annex 1 group of nations, it is expected to come under enormous pressure in the post-Kyoto discussion in the future, as its emission growth rate has been

significant. In this regard, we plan to establish its own strategy for climate change and to make voluntary efforts for emission reduction. For instance, since signing of MOU with the Korean government, in February 2006, for joint response to climate change, we have been selecting and implementing mid-to-long-term strategic tasks.

## ◉ Climate Change Strategies

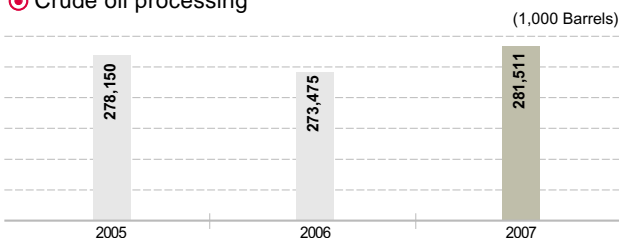
Expected government policy	International negotiation	National policies	Voluntary actions
Phase	Phase I Preparations	Phase II Voluntary target setting	Phase III Voluntary reduction
Operation	<ul style="list-style-type: none"> <li>Analyze potential reduction amount and cost</li> <li>Build reduction registry</li> <li>Continue energy saving</li> </ul>	<ul style="list-style-type: none"> <li>Set up reduction portfolio</li> <li>Utilize Kyoto mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Build and execute investment plans</li> <li>Take part in emission trading</li> </ul>
Energy Biz	<ul style="list-style-type: none"> <li>Analyze impact of energy industry</li> <li>Set up mid-long-term energy strategy</li> </ul>	<ul style="list-style-type: none"> <li>Review and improve business portfolio</li> <li>Expand renewable resources and reduction technology</li> </ul>	
Customer Communication	<ul style="list-style-type: none"> <li>Report to stakeholders and communication with them</li> </ul>	<ul style="list-style-type: none"> <li>Support customers' reduction of CO<sub>2</sub></li> <li>Develop fuel-efficient technology</li> </ul>	

※ SK Energy is currently in Phase 1.

## Resource Use

We have been engaged in enhancing energy efficiency of all processes by saving as much electricity, fuels, and industrial water. Building on our 40-year experience of energy facility operation, we are developing best practices and establishing accident database. Our specific efforts include improvement of equipment efficiency (steam recycling), minimization of energy loss in the grids, and optimization of power-generating facility operation.

### ◉ Crude oil processing



## Energy Saving Activities and Performance

**| Energy Saving Taskforce |** In 2007, we set up Energy Saving Taskforce to enhance staff awareness and to save energy on the sites. Major activities include re-establishing criteria for indoor air conditioning and outdoor lighting, investing pipeline insulation and energy losses, and improving energy management in general. We also plan to build Energy Management Committee, headed by Head of Production Division of Ulsan CLX, in charge of setting short-term and mid-term plans for energy management and setting energy saving targets on an annual basis.



**| Computerization of Energy Management |** We have energy computerization programs, such as OIS (Operation Information System), plant-specific APC (Advanced Process Control), power optimization program, FMS (Flare Monitoring System), and PMS (Process Monitoring System), in order to optimize fuel consumption and reduce energy losses.

**| External Energy Saving Activities |** We are committed to saving energy outside the company.

External activities for energy saving

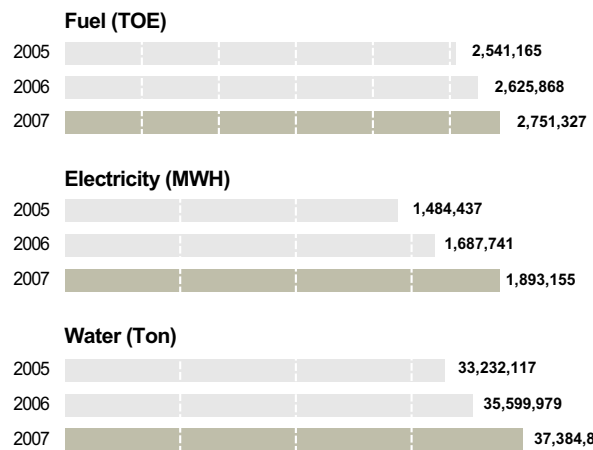
Type	Activities
Cheap and stable supply of steam to companies around Ulsan CLX (Group Energy Project)	<ul style="list-style-type: none"> <li>Ensure cheap and stable supply of steam to companies in the neighborhood, based on our cogeneration experiences, technologies, and facilities idled by energy saving</li> </ul>
Conversion of gas from landfill site in Ulsan	<ul style="list-style-type: none"> <li>Collect CO<sub>2</sub> and CH<sub>4</sub> from landfill site in Seongam, Ulsan for use as LNG alternative. Currently we are providing the recycled fuel to Kumho Petrochemical and Ulsan City Incinerator.</li> </ul>

Voluntary Commitment to Energy Saving: 2<sup>nd</sup> Round (2005-2009)

Type	2005	2006	2007	Accumulated	Target ('05-'09)	Achieved
Energy saved (TOE <sup>(1)</sup> )	17,385	66,317	4,970	88,672	75,773	117%
Amount saved (KRW 100 million)	49	267	18	335	201	166%
Saving rate(% <sup>(2)</sup> )	0.7%	2.7%	0.2%	3.6%	3.1%	117%
CO <sub>2</sub> reduction <sup>(3,4)</sup> (tC)	15,189	57,972	5,038	78,198	141,208	55%

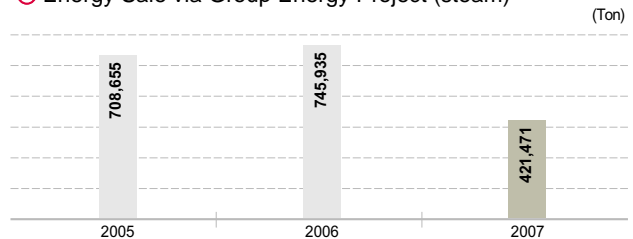
(1) TOE (Ton of Oil Equivalent)  
 (2) Reference level of energy consumption: 2,430,561 toe  
 (3) Fuel consumption and CO<sub>2</sub> emission coefficient were calculated  
 - FO (0.8753tC/toe), electricity (0.1319tC/MWH), FG (0.568tC/toe)  
 (4) Energy consumption increase due to new installation was excluded

Energy Consumption (Ulsan CLX)



※ We understand that GRI Guidelines recommend reporting of energy consumption in J or GJ, but the above unit was adopted to ensure consistency with the previous sustainability reports and to help the readers understanding.

Energy Sale via Group Energy Project (steam)



Water source

Source	Amount(Ton)	Impact on source
Wondong Station at Nakdong River	37,834,860	None

※ We are supplied by Korea Water Resources Corp.

## Greenhouse Gas Control

### 》》 Greenhouse Gas Reduction Project

As a leading refinery company in Korea, we have built climate change strategies and made voluntary efforts for reduction. For instance, we established internal guidelines for estimation & report of greenhouse gases emission and completed verification in 2007. This will be the basis of the internal emission trading system, being built currently. We plan to complete internal emission trading system for five plants in Ulsan CLX and to include Incheon CLX in a more comprehensive greenhouse gas management system.

As an early mover, we registered total three reduction cases with Greenhouse Gas Registry under the Ministry of Knowledge and Economy. Our plan is to reduce 230,000 tons of CO<sub>2</sub> over 5 years. In addition to investing in Korea's first carbon fund, we are exploring various CDM (Clean Development Mechanism) projects at home and abroad.

By establishing and fully utilizing the internal emission trading system, we wish to increase staff awareness and capacity of carbon management. This will lead to carbon-conscious decisions in business strategies and investments, ultimately enabling low-carbon management system across the company.

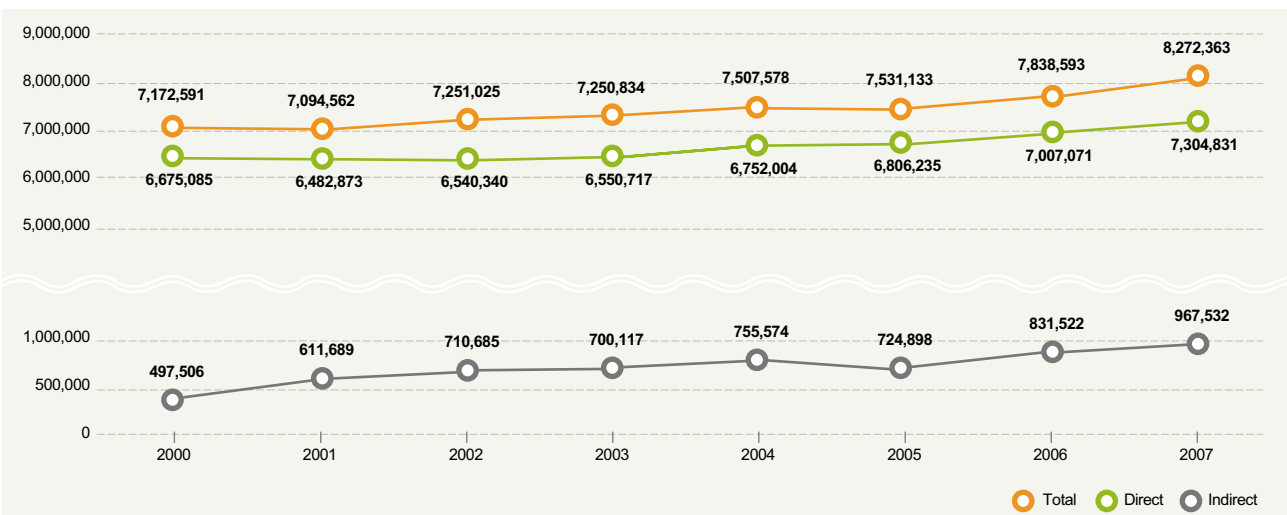
Amid the increasing possibility of national regulations for emission reduction and the growth of a global carbon market, we expect to see an increasing importance of carbon credits. We, in this regard, plan to actively take part in Korea emission reduction registration and CDM projects, to secure carbon credits at home and abroad, and to control future risks of regulation. Overseas projects may also strengthen our presence as a global company and our commitment to sustainable management.

### 》》 Greenhouse Gas Emission

We calculated greenhouse gas emissions in accordance with our Guidelines for Estimation and Report of Greenhouse Gases emission and received third-party verification of the results by Lloyd's Register Quality Assurance pursuant to ISO 14064. The verified statistics are included in this report for the stakeholders. Greenhouse gas emission is measured via the internal control system for each business site and the result is monitored by internal verification division in each site.

### ○ Greenhouse Gas Emission

(tCO<sub>2</sub>-e)



※ The figures on page 35 of the previous verified report (emissions from 2000-2005) are revised as above according to the new calculation method applied to the refinery industry.

※ Direct and indirect emissions from Ulsan CLX were measured and, given the nature of refinery business, six types of gas (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFC, PFC, SF<sub>6</sub>) were converted to CO<sub>2</sub> values.

※ Statistics for Incheon CLX, merged in February 2008, will be included in the next year's report after emission calculation and third party assurance.



# Environmental Management

We continue with environmental management activities by implementing programs by pollution type, based on SHE Management System, such as air, water, soil, and wastes management.

## Air Pollution Control

Our in-house standards are stricter than the legal requirement. Major emitter facilities are monitored around-the-clock through TMS (Tele-Metering System), regular supervision, and inspections. Other efforts to reduce pollution at the source include using low-sulfur fuels, installing SCR, WGS equipments, adopting low-NOx burners, and introducing VOC (Volatile Organic Compound)/odor-free facilities.

### Concentration of Air Pollutants Emitted (ppm, mg/m<sup>3</sup>)

Pollutant	Legal threshold	In-house threshold	Average emission concentration		
			2005(*)	2006(*)	2007
SO <sub>2</sub>	180 ppm	160 ppm	82.1	55.1	55.9
NO <sub>x</sub>	250 ppm	230 ppm	119.2	112.1	108.6
Dust	50 mg/m <sup>3</sup>	40 mg/m <sup>3</sup>	9.4	7.2	7.8

(\*) SO<sub>2</sub>, NO<sub>x</sub> are terms of heating furnace, while dust in terms of boiler

### Emission of Air Pollutants (ton / year)

Pollutant	Emission volume (ton/year)		
	2005(*)	2006(*)	2007
SO <sub>2</sub>	9,216	6,514	6,735
NO <sub>x</sub>	9,601	9,644	9,441
Dust	368	314	335

(\*) 'Average emission concentration' and 'emission volume' figures include facilities excluded from TMS data transmission to the authority and thus may be different from the 2006 report.

**Ozone Destruction Control** | We do not produce, sell, or use ozone disruptors, designated in the Montreal Protocol. We are replacing halon in fire extinguishers with alternative materials, mainly in new renovated facilities.

- Extinguishers: HCFC
- Fixed types: FS125

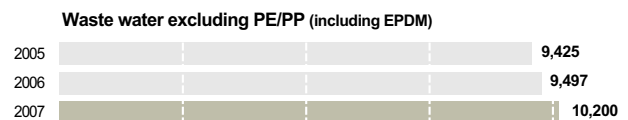
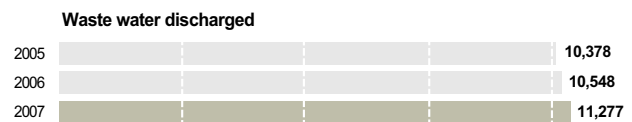
**Barometer Plants** | We are a committed partner in Air Pollution Barometer Tree Planting Campaign by Ulsan City. Together with the local authorities, we observe the trees and thus indirectly control the level of air pollution.

**VOC and Odor Prevention** | We introduced RTO (Regenerative Thermal Oxidizer) incinerators and VOC collectors to prevent VOC and odor in waste water processors, shipment facilities, storage facilities, and process areas in Ulsan CLX. The efforts have contributed to minimizing VOC/odor generation and to creating quality workplace.

## Water Pollution Control

We control concentration of discharged water at 10-25% of the legal requirement.

### Waste Water Discharge (1,000 ton)



### Average Concentration of Water Pollutant (ppm)

Pollutant	Legal threshold	In-house threshold	Average emission concentration		
			2005	2006	2007
COD	40 ppm	20 ppm	8.58	8.73	8.24
SS	20 ppm	10 ppm	5.08	5.07	4.87
Oil	5 ppm	1 ppm	0.46	0.56	0.52

※ PE/PP (including EPDM) discharges were excluded (different threshold)

### Concentration of Water Pollutants in PE/PP Discharges (ppm)

Pollutant	Legal threshold	In-house threshold	Average emission concentration		
			2005	2006	2007
COD	90 ppm	70 ppm	7.74	12.30	9.4
SS	80 ppm	60 ppm	22.19	25.80	21.4
Oil	5 ppm	1 ppm	0.09	0.10	0.09

## Waste Control

Here again, we apply stricter in-house threshold than legal requirement for wastes generated in our sites. Our focus is on minimizing wastes and maximizing recycling.

For waste disposal contractors, we perform due diligence on them to verify their competency before going into contracts, as well as making regular supervision to prevent illegal disposal. We provide regular training and communication to the employees to make sure the wastes are duly processed and disposed.

Regarding trans-national transfer of wastes defined in Annex to the Basel Convention, in 2007, we exported waste 14 tons of alkali (HS. No 3825-69-0000) to the United States for testing of a water quality control facility.

### ◎ Trend of waste disposal (ton/year, %)

Types	Discharge volume and percentage		
	2005	2006	2007
Legal waste	28,874	41,858	31,194
Non-legal waste	43,527	52,561	38,254
Total waste	72,401	94,419	69,448
Total recycle rate(%)	67	70.3	65.5
Legal waste recycle rate(%)	80.5	75.7	80.8

※ Introduction of three-phase separation technology in tank sludge disposal contributed to waste reduction.

※ We are committed to increasing recycle rate of legal wastes, which pose higher hazard than non-legal wastes.

**| Waste Management System |** Our waste management system focuses on enhancing disposal efficiency in the sites and the relevant divisions and sharing information on waste generation and disposal. All employees can access waste information and are motivated to reduce waste voluntarily.

## Hazardous Chemicals Control

We utilize mechanisms, such as MSDS (Material Safety Data Sheet), information sharing, training, and site supervision, to prevent chemical accidents and risks at both employee and customer levels. For Ulsan CLX, we signed voluntary commitment with the Ministry of Environment and Ulsan City to reduce chemical discharge by 30% of the 2001 level by 2007 and by 50% by 2009.

### 》》》 On-Site Control of Hazardous Chemicals

We use e-MSDS to provide employees with an easy access to information on the hazardous chemicals on the sites. The information is available in 16 categories (manufacturer, hazard, first aid, etc.). All employees receive regular training on MSDS usage, while separate training is provided for new recruits, for transferees, for new chemicals, and for change of work.

We also established a chemicals management system in 2007 to better control the import, manufacture, sale, and use of the chemical substances.

### 》》》 Product MSDS Information for Customers

All our product MSDS information is readily available at our website. Customers can access petroleum products information at [www.e-SK.com](http://www.e-SK.com), chemical products information at [www.SKchem.com](http://www.SKchem.com), lubricant products information at [www.SKzic.com](http://www.SKzic.com), and lube based oil products information at [www.yubase.com](http://www.yubase.com).

Waste Water Treatment



Waste Management System



MSDS







## Soil and Groundwater Control

We have adopted a soil control process for systematic and efficient management of soil and groundwater resources in all its sites including Ulsan CLX, logistics centers, and gas stations. The process includes preventing soil pollution, minimizing potential accidents, surveying and diagnosing soil pollution.

We have also set up organization, responsibilities, and procedures for emergency scenarios, while training the staffs for immediate actions and purification in the event of any accidents. In addition, we are part of the Korean government's Voluntary Agreement for Investigation and Restoration of Soil Pollution.

During the 2007 Industrial Survey for Soil Pollution by the Ministry of Environment, 82 SK Energy sites were surveyed for soil and groundwater pollution and all the samples were under the legal threshold.

## Environmental Management System

We have maintained the ISO 14001:1996 certification since 1996 through annual surveillance audits and three-year renewal audits. In 2005, we transferred to the ISO14001:2004. We are subject to annual internal and external audits on adequacy and efficiency of the ISO 14001 (EMS) operation.

## Environmental Impact Assessment

Committed to preserving the environment around the Ulsan CLX, we mandate environmental impact assessment, in compliance with EMS, for new, expanded, or renovated processes as well as for all activities with potential environmental impact on the Ulsan site. For newly installed processes, raw material procurement activities come under the assessment. Changed processes and work methods are subject to random assessment, while all production processes are assessed every two years.

## Compliance

We have in-house control criteria, stricter than the legal requirement, regarding air and water pollutants, hazardous materials, and wastes generated from the production processes. We have not been subject to any type of administrative penalties for environmental violations during the past four years. No pollution cases were reported in Ulsan CLX in 2007. We received total ten environment-related complaints in 2007. The complaints were registered in June-August period, when regular maintenance took place, and successfully resolved with the relevant authority. We will remain committed to minimizing complaints in the future through active communication with the community stakeholder.

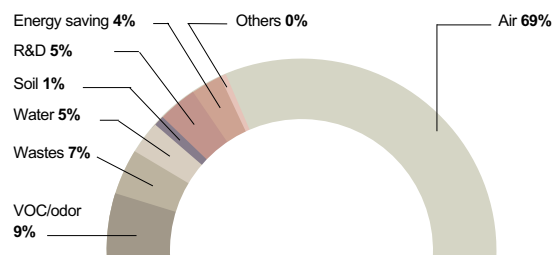
## Environment Investment

With an objective of minimizing pollutants in Ulsan CLX and producing environment-friendly products and services, we have been making continuous investments in the environment.

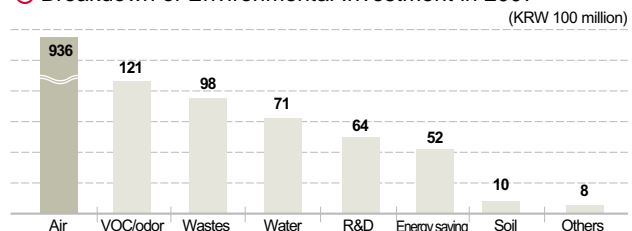
### Annual Environmental Investment (KRW 100 million)

Year	2005	2006	2007
Amount	1,354	1,311	1,360

### Breakdown of Environmental Investment in 2007



### Breakdown of Environmental Investment in 2007 (KRW 100 million)



# Safety and Health Management

Based on the SHE Management System, we offer various programs to ensure safe and healthy workplace for employees.

## Safety Management

**| Leadership Examples |** We believe that leaders and managers must set safety examples to encourage the employees to voluntarily prevent accidents. To bring about changes in the leaders' mindset, they are provided with Leadership Example Guidelines, asked to observe the workers in the field, and make dialogues with workers of insufficient safety awareness.

**| OSH (Occupational Safety and Health) Training |** We organize regular preventive training to the field workers pursuant to the Act on Occupational Safety and Health. Workers are trained in different job categories for higher efficiency. Our training system ensures prompt and effective sharing of information as well as evaluation of training sessions. Each division can register their training materials (video clips, PPT, etc.) and receive training feedback.

### OSH Training

	2005	2006	2007
Number of training	75	67	72
Man days	18,681	19,368	20,836

**| Safety Awareness and Behavior |** SHE evaluation, OSH mandates, risk prediction, employee participation programs, and OSH visual programs are some of the field action plans and guidelines established for heightened safety awareness and behavior.

**| PSM (Process Safety Management) |** PSM, a preventive measure, required by law, for sites that manufacture or handle hazardous/risk materials, is applied separately to seven plants in Ulsan CLX. We also set up separate control system for the 11 PSM factors for full prevention of process accidents. In 2008, we will be granted P Level Certification by the Ministry of Labor, the highest level of PSM.

**| Safety of Partners |** We have been improving OSH procedures, providing guidance and supervision, preventing accidents, and enhancing safety awareness at the partner companies of Ulsan CLX. As equal partners, we hold joint meetings, offer training and training materials, rent safety gears, and provide guidelines.

**| Safety Management Performance |** Thanks to our SHE Management, we were able to manage safety systematically, build safety culture, and reduce process accidents and injuries across the company. In 2007, we recorded 99.8% plant availability (days of process operation excluding regular maintenance), which is one of the highest in the world. We had three injury accidents and three injured employees in 2007 across the company, which is a dramatic improvement.

• **Accident Rate** Accident rate refers to the percentage of employees who are injured in occupational accidents (as recognized by the Korea Workers' Compensation and Welfare Services) and are undergoing medical leave for treatment or recuperation. This statistics are part of the Ministry of Labor Occupational Injury Analysis.

○ Accident rate by site<sup>(1)</sup> (%)

Classification	2005	2006	2007
Headquarters <sup>(2)</sup>	0.05	0.00	0.00
Ulsan CLX	0.38	0.24	0.10
Institute of Technology	0.00	0.97	0.00
Corporate-Wide	0.23	0.21	0.06

1) Injured employees/ total employees × 100

2) Includes distribution centers and overseas branches

In addition, we make regular evaluation of division-level OSH activities (safety meetings, safety checks, emergency drills) and include them in the division KPI (Key Performance Indicators).

**| Safety of Visitors |** Our Ulsan CLX houses Korea's largest refinery and petrochemical processes and is thus categorized as Class A National Security Facility. All visitors are asked to receive safety education at the entrance and carry safety cards on the site.

### Visitor Safety Education (persons)

Participation	2005	2006	2007
Visitors	3,335	3,134	4,803

**| OSH Committee |** We have OSH Committee, pursuant to the Act on Occupational Safety and Health, comprised of nine corporate representatives and nine trade union members. The committee approves accident prevention plans, OSH training, workplace inspection and improvement issues. Organization, operation, limitations, and actions of the committee are specified in the collective agreement.



## Health Management

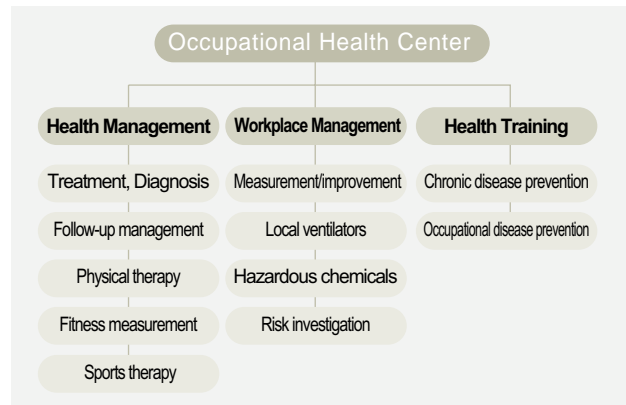
We have various health policies in place to ensure healthy and equality working environment for all employees. For instance, in Ulsan CLX, we built Occupational Health Center (gross floor area of 1,155m<sup>2</sup>), equipped with professionals and advanced equipments, to promote health of the workers.

Our health programs include providing comprehensive medical check-ups, special check-ups, and general check-ups for the employees.

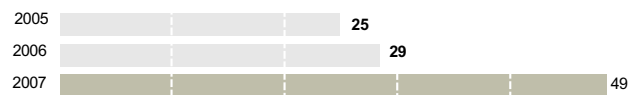
We also conduct regular workplace inspections and in the 2007 inspection, no process recorded higher-than-threshold levels for all types of hazardous substances. In fact, most of the harmful substances were not found.

**| Fitness Center |** We have built a fitness center (gross floor area of 11,550m<sup>2</sup>). The 12-story building (three basements and nine on the ground) offers various sports facilities ranging from oriental fencing, bowling, and swimming to golfing, as well as multiple gym equipments.

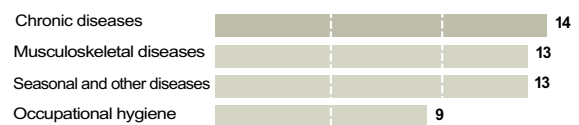
**| Occupational Health Center |** SK Energy Occupational Health Center, located in Ulsan CLX, includes most advanced medical clinics, physical therapy center, fitness/sports therapy center, and health education center. Total 9 medical professionals offer services.



### Health Trainings Status



### Training Status by Agenda (2007)



**| Community Health Programs |** The Occupational Health Center offers electrocardiogram, blood pressure & diabetes tests, and X-ray imaging services, free of charge, to the low-income elderly citizens in the community. Medicines are prescribed and dispensed according to symptoms. The center also makes monthly visits to community institutions for the visually impaired.

Occupational Health Center



Pro Bono Medical Examination for Community Residents



Fitness Center



# Eco-Friendly Products and Services

We continue to innovate eco-friendly products and services to minimize our environmental footprint. While improving quality of our flagship products, i.e. gasoline, diesel, kerosene, and lubricants, we continue to invest in development of eco-friendly technologies.

## Improving Quality and Eco-Friendliness of Petroleum Products

Petroleum products, while essential for the daily lives of people, produce pollutants. Thus it is important to improve the fuel efficiency of devices and to minimize pollutants discharged during combustion. SK Energy is continuously pursuing innovative results in the production of eco-friendly petroleum products. Well beyond complying with domestic laws and regulations, we are producing some of the world's most eco-friendly gasoline and diesel products.

### Gasoline Quality

Our gasoline product, EnClean, is a clean product. By using quality additive, we maximize fuel efficiency of vehicles, prevent engine residues and the knocking effect, and reduce NOx emissions.

**| Clean |** Our additive reduces carbon residue in intake valves of vehicles, keeps the engine interior clean, removes the existing residues, improves engine output and fuel efficiency, reduces hazardous emissions, and enhances drivability.

**| Fuel efficiency |** In the combustion process with regular gasoline, only 15% of the energy is used for vehicle operation and up to 35% is lost in friction. Our friction modifier reduces the friction losses between the engine cylinder walls and the piston to improve fuel efficiency.

**| Environment protection |** Gasoline combustion produces various air pollutants such as NOx that increase ozone concentration and create smog. EnClean uses an additive to keep the engine clean and reduce air pollutants, such as NOx and CO.

Sulfur content in gasoline has the largest impact on emissions of hazardous gases. The Korean government revised the threshold in 2006 from 130ppm to 50 ppm and we have completed desulfurization facilities to reduce the sulfur content far below the legal threshold.

The Ministry of Environment (MOE) measured the sulfur content in EnClean at 14ppm and 15ppm in the 2007 first-half and second-half surveys, respectively. We are proud to achieve a level of eco-friendliness well beyond the minimum legal requirement of 50 ppm.

### Result of MOE Survey of Gasoline Sulfur Content

	2006		2007	
	1H	2H	1H	2H
Sulfur content (ppm)	17 ppm	13 ppm	14 ppm	15 ppm
Quality grade	★★★★	★★★★★	★★★★★	★★★★★

※ ★★★★★ is equivalent to the world's best level and ★★★★ is one notch down

**| Premium gasoline (Solux) |** Amid the increasing market preference of larger and higher-output cars and growing consumer demand for high quality gasoline, we launched Solux, a premium gasoline that ensures improved acceleration, longer car lifespan, and higher fuel efficiency. Solux boasts an octane value of 100, a higher level of clean additive, and significantly lower levels of sulfur, benzene, and olefin. It is a quality contributor to both vehicle performance and the environment.



### >>> Diesel Quality

We established a low temperature performance management standard to ensure consistent diesel vehicle performance during the winter. We also focus on enhancing the eco-friendliness of our diesel products.

**| Environment protection |** Diesel products offer high fuel efficiency and low CO<sub>2</sub> emissions, but emit large quantities of exhaust gases. Because high sulfur content can increase the amount of particulate matters (PM) and undermine the performance of exhaust gas treatment devices, controlling sulfur content is a key factor of our eco-friendliness efforts.

To dramatically lower the sulfur content in diesel products, we invested a total of KRW 40 billion to renovate our existing desulfurization facilities. In response to tighter sulfur regulations and an increasing demand for diesel, an additional KRW 180 billion was invested for a new desulfurization facility, which opened in July 2007.

In the 2007 MOE survey of sulfur content, our ultra-low-sulfur diesel product recorded lower than 8ppm and 10ppm in the 1H and 2H, respectively, well below the legal threshold of 30ppm.

⊙ Result of MOE Survey of Diesel Sulfur Content

	2006		2007	
	1H	2H	1H	2H
Sulfur content (ppm)	12 ppm	7 ppm	8 ppm	10 ppm
Quality grade	★★★★	★★★★★	★★★★★	★★★★★

※ ★★★★★ is equivalent to the world's best level and ★★★★ is one notch down

**| Premium diesel (Solux Diesel) |** Since the introduction of diesel sedans in Korea in 2006, consumers have been demanding higher diesel quality. With the objectives of improving both vehicle performance and eco-friendliness, we launched a premium diesel product, Solux Diesel. It uses clean additives and boasts higher fuel efficiency, engine output, and acceleration than the conventional diesel. It is almost sulfur-free and produces less exhaust gases than ordinary diesel products.

**| Bio-diesel |** The Korean government has encouraged the use of bio-diesel so as to reduce oil dependency and preserve the environment. In response to new policies, we signed a voluntary agreement with the government to supply regular diesel mixed with bio-diesel from July 2006 to December 2007. Under the agreement, we offered diesel with 0.5% bio-diesel content. From January 2008, we have been voluntarily supplying diesel with 1% bio-diesel content.

### >>> SK 100 Kerosene Gold

Our indoor kerosene product, SK100 Kerosene Gold, boasts dramatically low sulfur content. We perform in-house quality inspections at shipments to ensure a consistent level of top quality. This product also earned the Eco Label certification from the Ministry of Environment.

### >>> SK ZIC A & ZIC XQ 5000

Our engine oils for gasoline vehicles and diesel vehicles, ZIC A and ZIC XQ 5000, respectively, use YUBASE – a super-viscosity synthetic oil with low volatility and high low-temperature performance. By improving friction performance, we enhance fuel efficiency, eco-friendliness, engine oil lifespan, and ultimately reduce waste oil generation. This product was also certified with Eco Label.

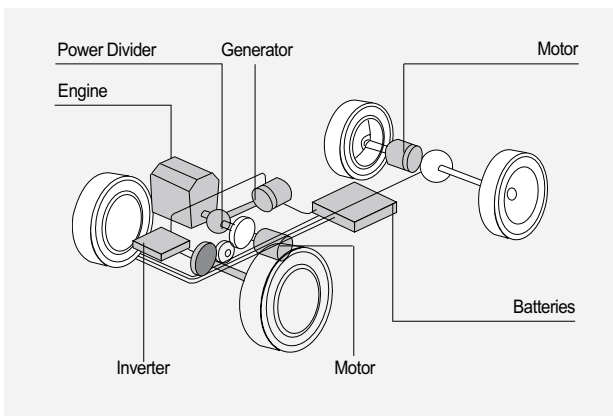
## Environment-Friendly Technologies

### Commercialization of ACO technology

We developed ACO (Advanced Catalytic Olefin) technology as part of the CO<sub>2</sub> Reduction & Processing Technology Project under the "21st Century Frontier R&D Scheme" sponsored by the Ministry of Education, Science and Technology. ACO technology is about producing olefin via catalyst. It offers not only high productivity and energy efficiency, but also low CO<sub>2</sub> emission. This can be an excellent tool for securing carbon credits.

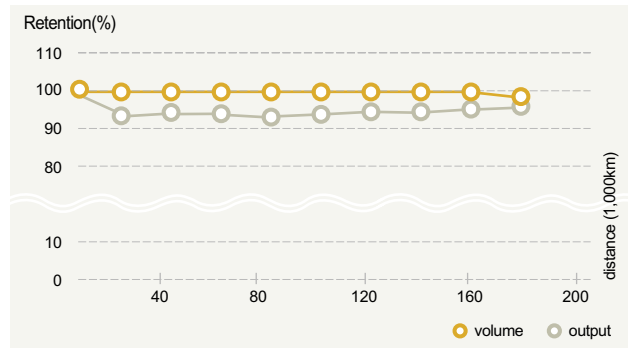
In 2007, we signed commercialization agreement with Kellogg Brown & Root (USA), a global leader in refinery and petrochemical plant engineering, under which the two parties will share technology ownership, accelerate commercialization, and enhance the brand of SK Energy as a technology leader. We plan to build a pilot plant in Ulsan CLX and full application of the ACO technology will start in 2010.

### Development of hybrid car battery



Building on our HEV (Hybrid Electric Vehicle) battery development research from 2005, we developed a lithium battery prototype in 2006 with high energy/output density. Its reliability improved in 2007 and we are closer to commercialization.

### Battery Performance Test



※ Simulation shows that the battery performance remained above 90%, in terms of volume and output, after 180,000 km.

We started research on safety of high-capacity batteries, at the request of the Ministry of Land, Transportation, and Maritime Affairs, in 2006. In 2007, we produced analysis of battery safety specifications and contributed to legislation of laws and regulations for introduction of HEV in Korea. At the end of 2006, we were selected as a task group leader in one of the energy efficiency projects by the Ministry of Knowledge and Economy. We have been working with local car manufacturers, universities, and research institutions for development of HEV batteries.

We also plan to develop high-capacity Energy Storage System for next-generation vehicles including PHEV (Plug-In Hybrid Electric Vehicle) and EV (Electric Vehicle), building on our technology of mid-to-large-scale battery development. With these activities, we wish to ensure higher energy efficiency, cleaner environment, and happier world.





### »»» Development of hydrogen station

Amid fossil fuel depletion, environmental degradation, and energy security concerns, countries across the world are preparing for transition to hydrogen economy with a mind to advance the time of commercialization.

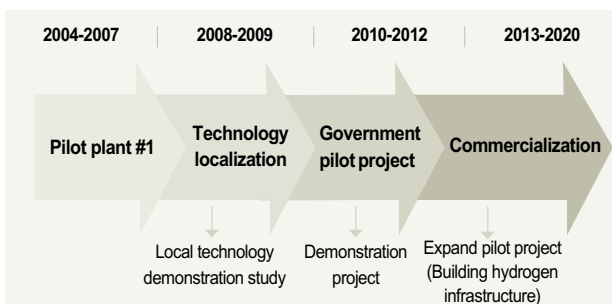
Korea, for its part, started technology development & commercialization projects in 2003, led by the government. Local companies are engaged in hydrogen and fuel cell researches.

We have been taking part in government projects, developing unique high-efficiency hydrogen generators.

We were designated, in 2004, as a leader of Hydrogen Station Technology Localization Project of the government and have been developing home-grown technology for hydrogen production and refinement.

We finally succeeded in developing a local hydrogen production facility, which has been a core technology owned by an advanced country, and opened the first home-grown hydrogen station in October 2007.

#### ⊙ Hydrogen station development plan



In addition, we are researching on hydrogen station operation, in partnership with local fuel cell vehicle monitoring project. We will continue to take leadership in establishing hydrogen infrastructure in Korea.

### »»» Development of bio-fuel technology

Despite the increasing global use of bio-fuel, there are concerns over vehicle performance and supply-demand of resources. In this regard, we are working on development of next-generation bio-fuel and non-crop bio-fuel.

**| Next-Generation Bio-Fuel |** We started development of bio-butanol and hydro bio-diesel in 2007. Unlike ethanol-mixed gasoline, butanol-mixed gasoline does not absorb water and thus can use the existing infrastructure such as long-distance pipes. Hydro bio-diesel, for its part, boasts high oxidative stability and higher quality than mineral oil-based diesel (at Cetane value 100).

**| Fuel Development from Non-Crop Biomass |** To ensure no impact on global food supply, we are working on development of bio-fuel based on non-edible biomass, i.e. red algae, bagasse, corn stover, and palm oil byproduct.

ACO Technology Collaboration Agreement



Hybrid Car



Hydrogen Station



A person wearing a white long-sleeved shirt is pulling a thick, light-colored rope. The background is a blurred green field. The text is overlaid on the left side of the image.

## We Dream Big Dreams about a Happy World

We dream achieving beyond domestic leadership,  
being a world leader.

# Developing



# Business Performance

We have been a key contributor to the national economy for over 40 years, while creating economic values to various stakeholders in the forms of revenues, taxes, dividends, employment, interests, and donations.

## Business Management

On July 1 2007, SK Corporation was split into SK Holdings Co. Ltd and SK Energy Co. Ltd. The new structure allows the latter to focus on business activities, improve business efficiency, and enhance shareholder values. International credit rating agencies upgraded the rating of SK Energy, as they recognized the impact of the new structure – reduced business risk and lower possibility of risk transfer from the affiliate companies. SK Energy also decided to acquire SK Incheon Oil on October 31 2007 and executed the merger on February 1 2008.

In 2007, SK Energy recorded revenue of KRW 27.7884 trillion, operating income of KRW 1.4795 trillion, and net income of KRW 1.2092 trillion. Thanks to our overseas expansion and cost cutting efforts, we managed to overcome challenges such as high oil prices (raw material and power supply) and increase competition in the domestic market and created economic values for customers, shareholders, creditors, and employees. We also provide values to various stakeholders via tax payment and community donations.

We successfully met our first to-be target (2004-2006): “EVA Plus”. Keyword of the second to-be period (2005-2007) was securing “Sustainability and Growth Engine” and we achieved pre-tax income of KRW 1.9 trillion (annual average), acquired Incheon Oil, and set up New FCC.

## Economic Impact

Korea’s petrochemical industry, initiated by Korea Oil Corporation in the early 1960s, has been a pivotal player in the national economic growth for the past 40 years. As an enabler of production and consumption activities, petroleum has indeed been a driving engine of the national economy.

The refinery industry has been a backbone of the national economy in the following aspects.

First, it has wide-ranging effects on other industries.

By providing naphtha, petroleum industry helps expansion of petrochemical industries, processing industries (fiber, rubber, plastics, etc.), electronics industries, automobile industries, communication industries, and medical/pharmaceutical industries.

Second, it contributes to national economy as a source of taxation. Petroleum tax accounts for high proportion of total taxes and is used to support the transportation, education, and local government sectors.

Third, self-sufficient oil supply has helped security of the national economy. Considering the risks of high dependency on oil import, securing stable supply of crude oil is very important. Korean refinery industry has made continuous investments in overseas oil exploration projects, increasing oil reserves. Such investments and consequently self-sufficient oil supply will certainly enhance national competitiveness.

In addition, the industry creates jobs in shipping and service industries (oil sales), while improving consumers’ convenience. In short, the industry is key to industries, governments, and households.



## Economic Value

In 2007, we recorded revenues KRW 27.7884 trillion, operating income KRW 1.4795 trillion, and net income KRW 1.2092 trillion.

### Revenues

(KRW 100 million)

Type	2005		2006		2007	
	Amount	%	Amount	%	Amount	%
Export	106,889	48.78%	114,542	48.43%	145,886	52.50%
Domestic	112,257	51.22%	121,973	51.57%	131,998	47.50%
Total	219,146	100.00%	236,515	100.00%	277,884	100.00%

### Stock/Dividends

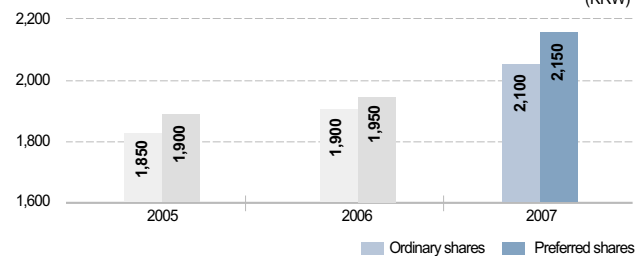
(KRW)

Classification	2005	2006	2007(*)
Face value per share	5,000	5,000	5,000
Earnings per share	13,026	11,680	3,740
Total cash dividend (million)	239,645	211,919	194,540

(\*) SK Energy Audit Report for 1st Period of 2007 (July 1 to December 31, 2007)

### Dividend per share

(KRW)



### Taxes

(KRW 100 million)

Classification	2005	2006	2007
Corporation tax	2,473	1,917	1,479
Transportation tax / Special excise tax	41,396	41,957	43,208
Total	43,869	43,874	44,687

### Interests Paid

(KRW 100 million)

Classification	2005	2006	2007
Interest paid	2,475	3,616	3,029

### Major Raw Material Purchases

(KRW 100 million)

Classification	2005	2006	2007
Crude oil	152,125	174,861	185,194
Others	20,607	23,827	30,658
Total	172,732	198,688	215,852

◉ List of Major Material Purchased

(KRW 100 million)

Classification	Item	Amount
Raw materials	Crude oil	185,194
	Others	5,035
Semi-finished goods	Naphtha	4,374
	Others	3,519
Products	Petroleum products	10,709
	Chemical products	6,189
	Others	833
Total		215,852

◉ Community Donations

(KRW 100 million)

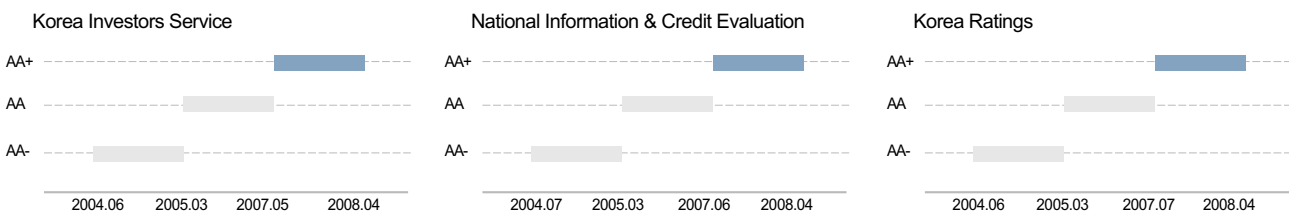
Year	2005	2006	2007
Amount	416	408	336

◉ Government Assistance

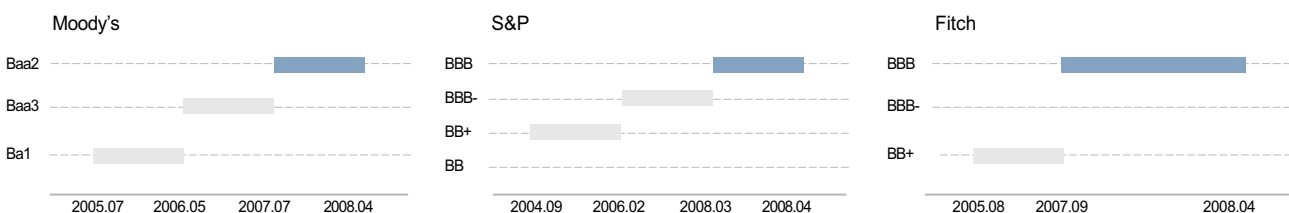
(KRW million)

Year	2005	2006	2007
Exploration	20,027	16,237	25,364
Coal/Mineral	0	97	909
Total	20,027	16,334	26,273

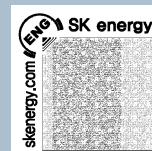
◉ Domestic Credit Ratings



◉ Overseas Credit Ratings







# Business Units Activities

We achieved historic business performance in 2007 despite market challenges. We will stay committed to growth by improving competitiveness, developing overseas markets including China, exploring resources, and pursuing new businesses.

## Petroleum Business

Despite adverse market conditions (high oil prices, shrinking demand) in 2007, we recorded 35% domestic market share and strong leadership, thanks to favorable refinery margin, innovative marketing model, and customer-oriented management. Furthermore, we improved facility equipment and increased production based on the risk management system, achieving total 250 million barrels sales at home and abroad.

In addition to the synergy effect from M&A with Incheon Oil, we plan to strengthen overseas market presence and become a leader in the Asia-Pacific region.

[www.enclean.com](http://www.enclean.com)



This website is for our driver customers, providing information on our petroleum products, membership / affiliated credit cards (i.e. EnClean Bonus Card) and vehicles in general.

[www.netruck.co.kr](http://www.netruck.co.kr)



We offer tailored services to our freight forwarder customers.

[www.e-SK.co.kr](http://www.e-SK.co.kr)

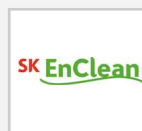


Our corporate clients can access information on their orders and shipments of our petroleum products, as well as on products and relevant regulations.

### Brands and Products



Korea's No.1 brand, offering a wide variety of quality and eco-friendly products and services at best convenience for customers



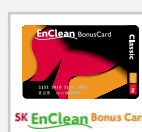
a brand for petroleum products. It stands for Engine Clean, Environment Clean and Energy Clean



a brand for premium gasoline products. It boasts higher engine protection and accelerator performance than conventional gasoline products.



a brand for premium diesel products. It enables dramatic improvement of exhaust gas emissions, noise, and vibration from the traditional diesel products.



a mileage card, with which users can accumulate credits at gas stations and OK Cashbag retailers. Accumulated points can be exchanged with free gifts.

## Gas Business

In 2007, our gas business recorded revenue KRW 979.2 billion, operating income KRW 32.5 billion, sales 1.4 million tons, and market share 21%. Meanwhile, with the new adjustment of price ratio among transportation fuel types (gasoline: diesel: LPG) to 100: 85: 50 in July 2007, we were able to improve price competitiveness and secure demand.

Going forward, we will complete smooth integration with SK Incheon Oil and actively develop new networks, capitalizing on the second energy tax reform. We will also work together with SK Gas to create synergy in sales and logistics and to consolidate leadership in domestic LPG industry.

## Special Products Business

In 2007, we enjoyed market share leadership in the imported asphalt market in China, thanks to its construction boom. We sold over 2 million tons (domestic and overseas combined) and particularly exported historic 1.72 million tons to China. We plan to build on our high quality product and services to explore China and Southeast Asian markets and win leadership in the Asia Pacific region.

## Petrochemical Business

As a key supplier to the automobile, electronics, communication, and cosmetics industries, we recorded revenue of KRW 7.4182 trillion in 2007, a 35% growth from the previous year.

### »» Olefins

As a producer of key petrochemical materials, i.e. ethylene, propylene, butadiene, and butene-1, we have been a key contributor to development of the national petrochemical industry. In 2007, despite market challenges, the company produced 980,000 tons for in-house and 1.1 million tons for external derivatives plants.

### »» Aromatics

Because of the liberalized trade, domestic aromatics prices are sensitive to international prices. In 2007, despite rapid market changes and oversupply, we achieved sale of 4.45 million tons in addition to the in-house sales. In 2008, we plan to continue to improve process efficiency, cut costs, ensure timely supply of high quality products, maximize profits, and consolidate market leadership.

### »» Performance Chemicals

As Korea's first solvent supplier, our performance chemicals business recorded sales of 1.13 million tons in 2007. Thanks to our efforts in development of environment-friendly solvents, our current portfolio includes around 90 varieties. Building on our experiences in Korea, we have also set up a joint venture in China for sales and production of solvents.

### »» Polymers

By establishing LLDPE · HDPE · PP specialized systems, we sold total 840,000 tons in 2007. Our efforts include development of new high value-added products and expansion of marketing network in China. In 2008, we plan to improve customer services with web-based information and technical assistance.

### »» Performance Rubber

We produce EPDM (high value-added synthetic rubber) as an automobile component. In 2007, we sold 16,000 tons, after re-launching of the operations in May 2006. Future plans include maximizing operation of the plant.

### »» I/E Material

We were the first in Korea to develop and produce separators, a core material for secondary battery. Since opening of the first production line in November 2005, we succeeded in process stabilization in 2007. We opened the second LiBS line in 2007 in response to the growing lithium ion battery market (due to increasing demand for cellular phones and laptops.) We plan to expand market share through technology development and aggressive marketing.

※ LiBS: Lithium ion Battery Separator

[www.skchem.com](http://www.skchem.com)



Customers can make online purchases of chemical products via our B2B website. Our one-stop service also helps them review their orders, shipments, test sheets, and payments. Product updates, technical documents, and expert consultations are also available.



## Resources Development Business

Overseas resources development is an important part for stable energy supply. As of the end of 2007, we are involved in projects in 27 E&P blocks in 15 countries, while maintaining a reserve of 500 million BOE (Barrels of Equivalent).

### »» Exploration

With efficient operation of the on-going production field, participation in high-potential new blocks, and construction of LNG plants, in 2007, we recorded revenues of KRW 323.2 billion and operating income of KRW 176.3 billion. As of the end of 2007, we are engaged in 27 blocks and 4 LNG projects in 15 countries, of which 8 blocks in 7 countries are producing. In 2007, we were entitled to daily production of 22,000 BOE.

Block BM-C-8 (Brazil), where we have 40% interest started production in July and we successfully joined 3 new projects including block 15-1/05 (Vietnam) and block Z-46 (Peru). In the block Z-46, we have 100% interest as an operator.

In 2008, with the production increase in BM-C-8 and the commencement of production in Peruvian block 56, we try to increase the daily production.

#### ⊙ Exploration Projects Status (2007)

Concession Type	Number of countries	Number of Blocks
Production	7	8
Development	1	1
Exploration	13	18
Total	15	27
LNG Project	4	4

#### ⊙ Production Blocks (2007)

Country	Block	Interest
Peru	88	17.60%
Vietnam	15-1	9.00%
Libya	NC-174	8.33%
Egypt	North Zaafarana	25.00%
Peru	8	8.33%
Cote d'voire	CI-11	12.96%
Indonesia	Bangko	25.00%
Brazil	BM-C-8	40.00%

### »» Coal and Mineral

In 2007, we imported 5.9 million tons of thermal coal from China, Australia, and Indonesia to supply customers like Korea Electric Power Corporation (KEPCO), independent power plants (IPPs), and cement manufacturers. We strengthened our market presence as a stable supplier by meeting 9.4% of coal demand of five KEPCO subsidiaries.

We have been an active player in the industry since our first launch in 1990. In the first half of 2007, we invested in one production mine in New South Wales, Australia, and another one in Shanxi, China, in the second half. As of the end of 2007, we possess interests in four production mines and four exploration projects in Australia and one production mine in China. Furthermore, we joined the Canadian uranium exploration project in October 2007 to expand our horizon in energy industry. We will continue to stay active in overseas market, such as China and Indonesia.

## Lubricant Business

ZIC enjoys leadership in the domestic lubricant market, while recording total 300,000 barrels of export in 2007 including to Russia, showing a 25% growth from the previous year. We are also setting up the third base oil plant in Dumai, Indonesia, jointly with PERTAMINA, a state-owned enterprise in Indonesia. The plant will start production in 2008. By strengthening presence in major markets (US and Europe) and developing new markets, we plan to consolidate global leadership in the Group 3 base oil category.

[www.SKZIC.com](http://www.SKZIC.com)



The lubricants website offers product information, contact numbers, basic knowledge, and terminology list.

[www.YUBASE.com](http://www.YUBASE.com)



The base oil website shares processes, product information, and distribution network of YUBASE in Korea, USA, Europe, and Japan.

## Technology Business

Our focus in 2007 was more about creating synergy across the global businesses than making financial profits. This will translate into execution of core projects and improvement of global capacity with a mid-to-long-term perspective. In 2008, we expect to see increase in potential overseas markets and growth of overseas businesses.

## Marketing Business

### »» OK Cashbag

OK Cashbag is a mileage program partnering with SK affiliates (SK Gas Stations, SK Telecom, SK Networks, Cyworld), on/offline operators (E-MART, CGV, Paris Baguette), manufacturers (Dong Suh Food), and financial institutions. We are offering integrated credit mileage service to around 28 million customers over 40,000 partnership networks as well as providing various joint-marketing benefits. Partner companies benefit from new customer acquisition, higher customer loyalty, and marketing tools.

In 2007, we introduced new partners (Amway Korea, Sizzlers, Auction, HSBC) and performed aggressive joint-marketing "Happy Week." Our annual mileage stood at KRW 350 billion and the number of active members surpassed 14.7 million per month.

### »» Car Life

The telematics and car rental business successfully launched many new businesses in 2007, including enNavi, a navigation software for vehicles, and TPEG, advanced traffic information service based on DMB (Digital Multimedia Broadcasting). We achieved 60% domestic market share. In 2008, capitalizing on Beijing Olympics, we plan to advance into overseas telematics markets.

### R&D

The Institute of Technology focuses on upgrading competitiveness of the existing businesses while developing next-generation technologies. In the former, we developed PX (Para-Xylene) process, next-generation olefin technology, and LiBS (Lithium Ion Battery Separator) high-speed production technology. We also made progress in opportunity crude processing technology, SSPE (Single Site Catalyst Based Polyethylene) production technology, SDA (Solvent De-asphalting)-based asphalt technology, and LCO deep desulfurization technology. In the latter, we are working on hydrogen technology, new energy technologies (XTL, Bio-fuel), hybrid vehicle battery system, lithium battery separator system, FCCL (Flexible Copper Clad Laminate) materials, and optical film for LCD polarizer. The DPF and SCR businesses are examples of bringing local technology to overseas markets.

### »» DPF Business

In the face of the aggravating air pollution across the world, we have been developing diesel exhaust gas reduction mechanism since the early 1990s, based on the 40-year history of our catalyst technology. We started DPF export to Japan in 2003 and in Korea in 2005. Currently we are expanding to other overseas markets including China.



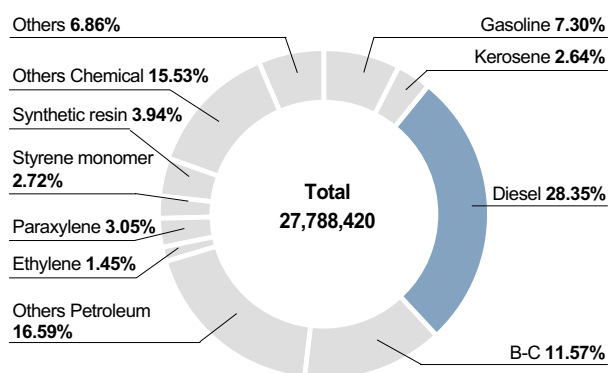
# Key Economic Indicators

## Key Products and Sales

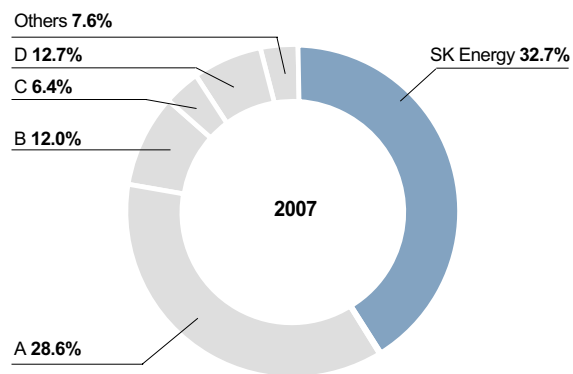
(KRW million)

Business	Product	Application	Revenue (2007)
Petroleum	Gasoline	Automobile	2,027,653
	Kerosene	Heating, cooking	733,925
	Diesel	Heating, automobile	7,876,859
	Bunker-c Oil	Fuel oil	3,215,605
	Others	Crude oil, etc.	4,609,115
Chemical	Ethylene	Synthetic resin, synthetic rubber	402,258
	Paraxylene	Synthetic fiber, solvent	848,405
	Styrene monomer	Synthetic resin, synthetic rubber	756,662
	Synthetic resin	Plastic, film, automobile parts	1,094,844
	Others	Solvents	4,316,022
Others	Others	Lubricant, base oil, OK Cashbag, etc.	1,907,072
	<b>Total</b>		<b>27,788,420</b>

## Major Product Sales Performance



## Domestic Petroleum Market Share



## Condensed Balance Sheet

(KRW billion)

	2005	2006	2007 1H	2007(*)
Total assets	17,509	19,602	19,043	15,699
Current assets	6,372	6,618	5,654	6,728
Fixed assets	11,137	12,983	13,389	8,972
Total liabilities	9,399	11,570	10,663	9,514
Current liabilities	5,279	6,700	4,887	6,608
Fixed liabilities	4,120	4,870	5,776	2,906
Debt ratio (%)	115	144	127	154
Total equity	8,110	8,031	8,380	6,186
Capital stock	653	653	653	463
Retained capital	3,975	3,976	3,993	5,446
Retained earnings	3,622	4,777	5,429	344
Capital adjustment	-140	-1,375	-1,431	-2

(\*) Data from 2007 1st Audit Report (2007. July 1 - December 31)

# Key Economic Indicators

## ◎ Condensed Income Statement

(KRW billion)

	2005	2006	2007 1H	2007(*)
Revenues	21,914	23,652	12,926	14,862
Cost of sales	19,589	21,277	11,411	13,515
Gross sales	2,325	2,374	1,515	1,347
Cost of sales and administration	1,120	1,209	639	743
Operating income	1,205	1,165	875	604
Non-operating income	1,005	655	277	-121
Ordinary income	2,210	1,820	1,153	483
Taxes	524	426	221	139
Net income	1,686	1,394	865	344
EPS (KRW)	13,206	11,680	2,056	3,740

(\*) Data from 2007 1<sup>st</sup> Audit Report (2007. July 1 - December 31)

## ◎ Stability Index

(KRW billion)

	2005	2006	2007
NOPLAT (KRW billion)	1,096	1,262	1,306
Net debt (KRW billion)	4,411	5,229	4,142
Net debt/equity	54%	65%	67%

## ◎ Profitability Index

	2005	2006	2007
Operating profitability	5.5%	4.9%	5.3%
Ordinary profitability	10.1%	7.7%	8.9%
Net profitability	7.7%	5.9%	6.7%
wacc	8.4%	8.4%	8.7%
ROE	22.8%	17.1%	16.5%
ROIC	13.2%	12.7%	13.1%
EVA (KRW billion)	395	430	437

## ◎ Growth and Dynamism Index

	2005	2006	2007
Revenue growth	25.9%	7.9%	17.5%
Operating income growth	-25.7%	-3.3%	27%
Ordinary income growth	-3.3%	-17.6%	3.1%
Net income growth	2.8%	-20.9%	-13.3%





## Major Awards

Date	Institution	Award
2007. 01.	Korea Economic Daily	Customer Satisfaction Management Award (Best Manufacturer Award)
2007. 03.	MOCIE	MOCIE Minister Award (for Development of Chemical Industry in Ulsan)
2007. 05	MOE	MOE Minister Award (for Excellent Management of Air TMS)
2007. 05	MOGAHA	MOGAHA Minister Award (for Contribution to Safety and Fire Prevention)
2007. 08.	Biz Cooperation Foundation Maeil Economic Daily	2 <sup>nd</sup> Beautiful Partnership Award by Prime Minister
2007. 08.	KASBA	Best Company Award (for Management Performance and Social Contribution)
2007. 09.	KMA R&A	6th Korea Green Management Award (Best Green Product – in Engine Oil Category)
2007. 10.	We First	MOHW Minister Award (for Caring for the Disabled and Social Contribution)
2007. 10	KMA	Korea Industry Customer Satisfaction Survey (Best Gas Station Award)
2007. 11.	MOCIE	Presidential Award in National Quality Contest (task force)
2007. 12.	Korea Productivity Center	National Customer Satisfaction (Best Prize in Gas Station Category)
2007. 12.	MPVA	Merit Reward Culture Award (for Expansion of Merit Reward Culture)

# Assurance Statement

## - Greenhouse Gas Data

### Scope

Lloyd's Register Quality Assurance Ltd (LRQA) was commissioned by SK Energy Co., Ltd. to verify the Ulsan Complex GHG data presented in the GHG Emissions Table of the Sustainability Report 2007 and summarised in Table 1 below for years 2000-2007. The data relates to direct GHG emissions and energy indirect GHG emissions only. The Ulsan Complex includes oil refinery, petrochemical, heavy oil upgrading (HOU), lubricant, polymer, and fluid catalytic cracking (FCC) plants, together with power generation and waste water treatment plants. This assurance statement has been prepared for SK Energy Co. Ltd., Korea, Ulsan Complex.

### Management Responsibility

The management of the Ulsan Complex is responsible for preparing the GHG data and for maintaining effective internal controls, including assuring the inputs into the GHG data in the GHG Emissions Table of the Sustainability Report. Our verification only extended to the internal controls associated with the Ulsan Complex, GHG data as presented in the summary table in the Sustainability report.

### LRQA's Approach

Our verification has been conducted in accordance with ISO14064-3: Specification with guidance for validation and verification of greenhouse gas assertions to provide limited assurance that the Ulsan Complex, GHG data as presented in the GHG Emissions Table of the Sustainability Report 2007 has been prepared in a manner consistent with ISO14064-1: Specification with guidance at the organizational level for quantification and reporting of greenhouse gas emissions and removals.

In order to form our conclusions we have:

- Conducted site tours of the facilities of the Ulsan Complex and reviewed processes related to the management of GHG emissions data and records; and
- Verified the historical data and information at an aggregated level for the calendar years 2000-2007.

### LRQA's Opinion

Based on LRQA's approach nothing has come to our attention that would cause us to believe that the GHG data as presented in the GHG Emissions Table of the Sustainability Report 2007 is not materially correct or has not been prepared in accordance with ISO 14064-1:2006, subject to the following qualifications:

- Emissions from the headquarters and the Institute of Technology premises, although under the operational control of SK Energy Co., Ltd, have not been included within the data. This omission is not considered to be material.
- The emissions from the direct sources associated with refrigerant gases, SF6 and flaring emissions have not been included within the data. These omissions are not considered to be material.
- Data for direct mobile emission sources was not available for 2000 and 2001 and has therefore not been included. This omission is not considered to be material.
- The quantification methodologies applied for emissions from direct stationary and mobile combustion sources have been taken from the IPCC Guidelines for National Inventories 1996, as opposed to the more current 2006 version of the IPCC Guidelines for National Inventories.
- The quantification methodologies for process emissions although in line with those within the API Compendium, have been amended for site specific conditions and have not been wholly derived from a recognised origin.



### LRQA's Recommendations

Ulsan Complex is recommended based on requirements in ISO 14064:1 to:

- Carry out routine and consistent checks to ensure the GHG data conforms to the principles of ISO 14064:1, including uncertainty analysis.
- GHG data related to emissions from the Incheon factory, acquired in 2008, should be reviewed for their required inclusion within the data as presented in the GHG Emissions Table of future Sustainability Reports and any resultant impacts on the baseline year.
- Mechanisms for the calculation of emissions from the commissioning of new plants should be established.
- Where measured values are available, these should be reviewed for their use within the GHG quantification methodologies as opposed to standard factors to enable improved accuracy.

Yoo Sang-Keun



For and on behalf of LRQA  
10th July 2008

#### Third party liability

LRQA, its affiliates and subsidiaries and their respective officers, employees or agents are, individually and collectively, referred to in this clause as the 'Lloyd's Register Group'. The Lloyd's Register Group assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this document or howsoever provided, unless that person has signed a contract with the relevant Lloyd's Register Group entity for the provision of this information or advice and in that case any responsibility or liability is exclusively on the terms and conditions set out in that contract.

**Table 1. Ulsan Complex GHG reported in the GHG Emissions Table of the Sustainability report 2007**

Scope <small>(as defined within ISO 14064:1)</small>	Year							
	2000	2001	2002	2003	2004	2005	2006	2007
Direct Emissions	6,675,085	6,482,873	6,540,340	6,550,717	6,752,004	6,806,235	7,007,071	7,304,831
Energy Indirect Emissions	497,506	611,689	710,685	700,117	755,574	724,898	831,522	967,532
Total	7,172,591	7,094,562	7,251,025	7,250,834	7,507,578	7,531,133	7,838,593	8,272,363

※ Data is presented in tonnes of CO<sub>2</sub> equivalent

# Assurance Statement

- Sustainability Report

## Scope and criteria of the assurance

Lloyd's Register Quality Assurance Ltd (LRQA) was commissioned by SK Energy Co., Ltd (SK Energy) to independently assure its 2007 Sustainability Report<sup>(1)</sup> for the financial year ending 31st December 2007 (Report) according to the terms and conditions of the Contract between the parties. It was agreed by the parties that LRQA's assurance was focused only on SK Energy's activities in Korea; petroleum, chemical, lubricants etc.

The assurance was undertaken against:

- Assurance Standard AA 1000 AS, 2003
- Global Reporting Initiative Sustainability Reporting Guidelines (GRI G3), 2006

Ultimately the Report, has been approved by, and remains the responsibility of SK Energy

## LRQA's approach

In order to form our conclusions we have obtained sufficient evidence that we consider necessary for us to give limited<sup>(2)</sup>, not absolute, assurance. Our assurance approach is risk-based, samples data and information at SK Energy's headquarter offices, Ulsan Complex and Institute of Technology, interviews personnel responsible for the collation of data and information disclosed and reviews SK Energy's:

- stakeholder engagement process
- understanding, response and reporting of material issues
- output on materiality against LRQA's own independent analysis of stakeholder issues
- data and information management systems
- use of sustainability performance data within their business decision-making processes
- processes for setting performance indicators and for monitoring progress
- self-declaration in that SK Energy has applied the GRI G3 guidelines at level B<sup>+</sup>.

## LRQA's Opinion

Based on our review, our conclusions on the Report in relation to the AA1000 Assurance Standard and the GRI Guidelines are summarised below:

For AA 1000 AS

- **Materiality** : the report includes data and information material to SK Energy's activities in Korea. These issues though need to be considered fully during strategic decision-making. Also SK Energy needs to determine whether auxiliary activities such as procurement and delivery of raw materials (e.g. crude oil) are material to its stakeholders.
- **Completeness** : the report is complete in coverage of material issues for the assurance scope undertaken. To ensure future sustainability reports cover material issues SK Energy needs to establish formal processes.
- **Responsiveness** : SK Energy responds to those material issues raised by stakeholders. However the clarity in reporting performance data for SK Energy's business units could be improved.

For GRI

SK Energy has met the conditions for application level B+. However the indicators need to be better aligned with GRI's compilation notes.

## LRQA's recommendations

LRQA's recommendations (as raised in SK Energy's 2006 Report) remain ongoing because of personnel changes in SK Energy's CSR reporting process. SK Energy should therefore continue to work on these recommendations which were to:

1) LRQA's assurance did not extend to:

- Sustainability performance of overseas businesses of SK Energy's
- Other available language version(s) of SK Energy's 2007 Sustainability Report due to translation introducing errors or changing the meaning of the data and information disclosed.

2) LRQA did not assess the validity of protocols used to measure the sustainability performance



- Establish a mechanism for evaluating stakeholder issues to ensure that the report addresses those identified as material and that will help SK Energy to put in context their sustainability impact and performance.
- Introduce an electronic data management system which includes verification evidence
- Conduct internal audits on all data and information to be disclosed to ensure its accuracy and reliability
- Review the mechanism for setting sustainability performance targets; especially the social metrics.
- Improve the awareness and commitment of sustainability reporting throughout the organisation
- Extend the completeness of the performance data reported to include all operating sites (not just Ulsan Complex) to other businesses within SK Energy.

Yoo Sang-Keun



For and on behalf of LRQA  
10th July 2008

#### Third party liability

LRQA, its affiliates and subsidiaries and their respective officers, employees or agents are, individually and collectively, referred to in this clause as the 'Lloyd's Register Group'. The Lloyd's Register Group assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this document or howsoever provided, unless that person has signed a contract with the relevant Lloyd's Register Group entity for the provision of this information or advice and in that case any responsibility or liability is exclusively on the terms and conditions set out in that contract.

#### LRQA's competence and independence

LRQA ensures the selection of appropriately qualified individuals based on a rigorous appraisal of their qualifications and experience. The team conducting the assurance of this report was multi-disciplinary and has been involved in assurance assessments from the outset of external verification of non-financial performance reports.

LRQA's internal systems have been designed to manage and review assurance and certification assessments. This involves a review by senior management of the outcome derived from the process applied to the assurance of corporate reports.

#### Independence of LRQA from SK Energy

LRQA is SK Energy's ISO 9001 certification body. We also provide SK Energy with a range of training services primarily related to Quality Management Systems. The assurance and certification assessment, together with the training are the only work undertaken by LRQA for SK Energy.

#### Conflict of interest

LRQA is part of the Lloyd's Register Group. Lloyd's Register Group recognises that potential conflicts of interest may exist which could impact on its independent verification activities. Lloyd's Register Group is committed to identifying and managing such conflicts so that they do not adversely impact its independence and impartiality.

In order to protect the integrity, neither LRQA nor any other Lloyd's Register Group company will provide services which create a conflict and compromise the independence and impartiality of third party certification. The Lloyd's Register Group will never verify its own solutions to a customer's problem.

# GRI Content Index

● Reported ● Partially reported ○ Unreported N/A None Available

GRI G3	Indicators	Reported	Page	UNGC
<b>1</b>	<b>Strategy and Analysis</b>			
1.1	Statement from the most senior decision-maker of the organization (CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy	●	4, 5	
1.2	Description of key impacts, risks, and opportunities	●	11, 12, 58	
<b>2</b>	<b>Organizational Profile</b>			
2.1	Name of the organization	●	8	
2.2	Primary brands, products, and/or services	●	61	
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	●	9	
2.4	Location of organization's headquarters	●	8	
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	●	8	
2.6	Nature of ownership and legal form	●	8, 9	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/ beneficiaries)	●	61-64	
2.8	Scale of the reporting organization	●	8	
2.9	Significant changes during the reporting period regarding size, structure, or ownership	●	8	
2.10	Awards received in the reporting period	●	67	
<b>3</b>	<b>Report parameters</b>			
3.1	Reporting period	●	2	
3.2	Date of most recent previous report	●	2	
3.3	Reporting cycle	●	2	
3.4	Contact point for questions regarding the report or its contents	●	77	
3.5	Process for defining report content	●	11, 12	
3.6	Boundary of the report	●	2	
3.7	Any limitations on the scope or boundary of the report	●	8	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	●	8	
3.9	Data measurement techniques and the bases of calculations	●	46	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	●	46, 47	





● Reported ● Partially reported ○ Unreported N/A None Available

GRI G3	Indicators	Reported	Page	UNGC
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	●	8	
3.12	Table identifying the location of the Standard Disclosures in the report	●	72	
3.13	Policy and current practice with regard to seeking external assurance for the report	●	2	
<b>4</b>	<b>Governance, Commitments, and Engagement</b>			
4.1	Governance structure of the organization	●	14	1-10
4.2	Statement whether Chair of the highest governance body is also an executive officer	●	17	1-10
4.3	Number of members of the highest governance body that are independent and/or non-executive members	●	17	1-10
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	●	17	1-10
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance	●	17	1-10
4.6	Process in place for the highest governance body to ensure conflicts of interest are avoided	●	17	1-10
4.7	Process for determining the qualification and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics	●	15, 17	1-10
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	●	10, 11	1-10
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance and adherence or compliance with internationally agreed standards, codes of conduct, and principles	●	16, 17	1-10
4.10	Process for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	●	17	1-10
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	●	48, 50	7
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	●	30	1-10
4.13	Memberships in associations and/or national/international advocacy organizations	●	13, 30	1-10
4.14	List of stakeholder groups engaged by the organization	●	13	
4.15	Basis for identification and selection of stakeholders with whom to engage	●	12, 13	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	12, 13	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded	●	11, 12	

# GRI Content Index

● Reported ● Partially reported ○ Unreported N/A None Available

GRI G3	Indicators		Reported	Page	UNGC
<b>Economy</b>	<b>Disclosure on Management Approach</b>			<b>58</b>	
Economic performance	EC1	Direct economic value generated and distributed	●	59, 60	
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	●	46	7
	EC3	Coverage of the organization's defined benefit plan obligations	●	25	
	EC4	Significant financial assistance received from government	●	60	
Market presence	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	○		
	EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	N/A		
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	N/A		
Indirect economic impacts	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	●	35, 36	
	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	●	58	
<b>Environment</b>	<b>Disclosure on Management Approach</b>			<b>40</b>	
Materials	EN1	Materials used by weight or volume	●	44	8
	EN2	Percentage of materials used that are recycled input materials	N/A		
Energy	EN3	Direct energy consumption by primary energy source	●	45	8
	EN4	Indirect energy consumption by primary energy source	●	45	8
	EN5	Energy saved due to conservation and efficiency improvements	●	45	8, 9
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	●	44, 45	8, 9
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved	●	44, 45	8, 9
Water	EN8	Total water withdrawal by source	●	45	8
	EN9	Water sources significantly affected by withdrawal of water	●	45	8
	EN10	Percentage and total volume of water recycled and reused	○		
Biodiversity	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A		
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	N/A		
	EN13	Habitats protected or restored	N/A		
	EN14	Strategic, current actions, and future plans for managing impacts on biodiversity	N/A		
	EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	N/A		
Air pollutants, waste water, and wastes	EN16	Total direct and indirect greenhouse gas emissions by weight	●	46	8
	EN17	Other relevant indirect greenhouse gas emissions by weight	●	46	8
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	●	46	7-9
	EN19	Emission of ozone-depleting substances by weight	●	47	8
	EN20	NO, SO, and other significant air emissions by type and weight	●	47	8
	EN21	Total water discharge by quality and destination	●	47	8



● Reported ○ Partially reported ○ Unreported N/A None Available

GRI G3		Indicators	Reported	Page	UNGC
Air pollutants, waste water, and wastes	EN22	Total weight of waste by type and disposal method	●	48	8
	EN23	Total number and volume of significant spills	●	49	8
	EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported wastes shipped internationally	●	48	8
	EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	○		
Products and services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	●	52, 53	7-9
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	N/A		
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	●	49	8
Transportation	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organizations' operations, and transporting members of the workforce	○		
General	EN30	Total environmental protection expenditures and investments by type	●	49	7-9
<b>Labor condition and practices</b>		<b>Disclosure on Management Approach</b>		<b>23</b>	
Employment	LA1	Total workforce by employment type, employment contract, and region	●	23	
	LA2	Total number and rate of employee turnover by age group, gender, and region	●	23, 24	6
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	●	25	
Labor/management relations	LA4	Percentage of employees covered by collective bargaining agreements	●	23	1, 3
	LA5	Minimum notice period(s) regarding operational changes	N/A		3
Occupational health and safety	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	●	50	1
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	●	50	1
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	●	51	1
	LA9	Health and safety topics covered in formal agreements with trade unions	●	50	1
Training and education	LA10	Average hours of training per year per employee by employee category	●	27	
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	●	23, 25	
	LA12	Percentage of employees receiving regular performance and career development reviews	●	24	
Diversity and equal opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	●	28	1, 6
	LA14	Ratio of basic salary of men to women by employee category	●	28	1, 6
<b>Human Rights</b>		<b>Disclosure on Management Approach</b>		<b>28</b>	
Investment and procurement practices	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	○		
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	○		
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations	●	20, 21	1-6
Non-discrimination	HR4	Total number of incidents of discrimination and actions taken	●	28	1, 2, 6

# GRI Content Index

● Reported ○ Partially reported ◯ Unreported N/A None Available

GRI G3	Indicators	Reported	Page	UNGC
Freedom of association and collective bargaining	HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	●	28	1-3
Child labor	HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	●	28	1, 2, 5
Forced and compulsory labor	HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	●	28	1, 2, 4
Security practices	HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	○		
Indigenous rights	HR9 Total number of incidents of violations involving rights of indigenous people and actions taken	N/A		
<b>Society</b>	<b>Disclosure on Management Approach</b>		<b>30</b>	
Community	SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	●	30, 31	
Corruption	SO2 Percentage and total number of business units analyzed for risks related to corruption	○		
	SO3 Percentage of employees trained in organization's anti-corruption policies and procedures	●	20	10
	SO4 Actions taken in response to incidents of corruption	●	20	10
Public policy	SO5 Public policy positions and participation in public policy development and lobbying	●	13	1-10
	SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	N/A		
Anti-competitive behavior	SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	●	21	
Compliance	SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	●	21	
<b>Product liability</b>	<b>Disclosure on Management Approach</b>		<b>33</b>	
Customer health and safety	PR1 Lifecycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	○		
	PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their lifecycle, by type of outcomes	○		
Product and service labeling	PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	◐	49	8
	PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	●	48	8
	PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	●	33	
Marketing communications	PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	●	33	
	PR7 Number of violation of regulations, standards, and voluntary programs related to marketing communication, i.e. advertising, promotion, and sponsorship	●	33	
Customer privacy	PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●	33	1
Compliance	PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	●	33	



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## NOTE

### Sources of Data

- Financial information in this report came from the company financial statements. Please visit the corporate website for the financial statements and related information.
- This report is published in Korean and English. However, in the case of discrepancy between the two, the Korean version shall rule.

### Contact Information

For any inquiries or comment on sustainable management or sustainability report of the company, please contact the following persons. You can access PDF files of our previous reports, SHE (Safety, Health & Environment) reports, and annual reports at our website.

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### List of Relevant Websites

- |  |   |  |
|--|---|--|
| • SK Energy : <a href="http://www.skenergy.com">www.skenergy.com</a>                     | • Ethics Management : <a href="http://ethics.skenergy.com">http://ethics.skenergy.com</a> | • Online procurement : <a href="http://www.skebid.com">www.skebid.com</a>          |
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