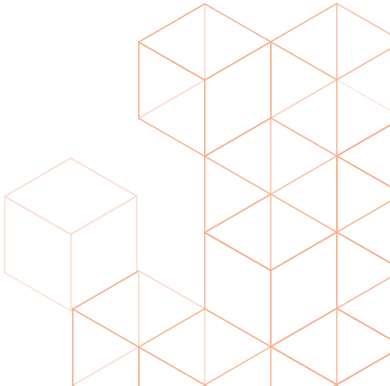
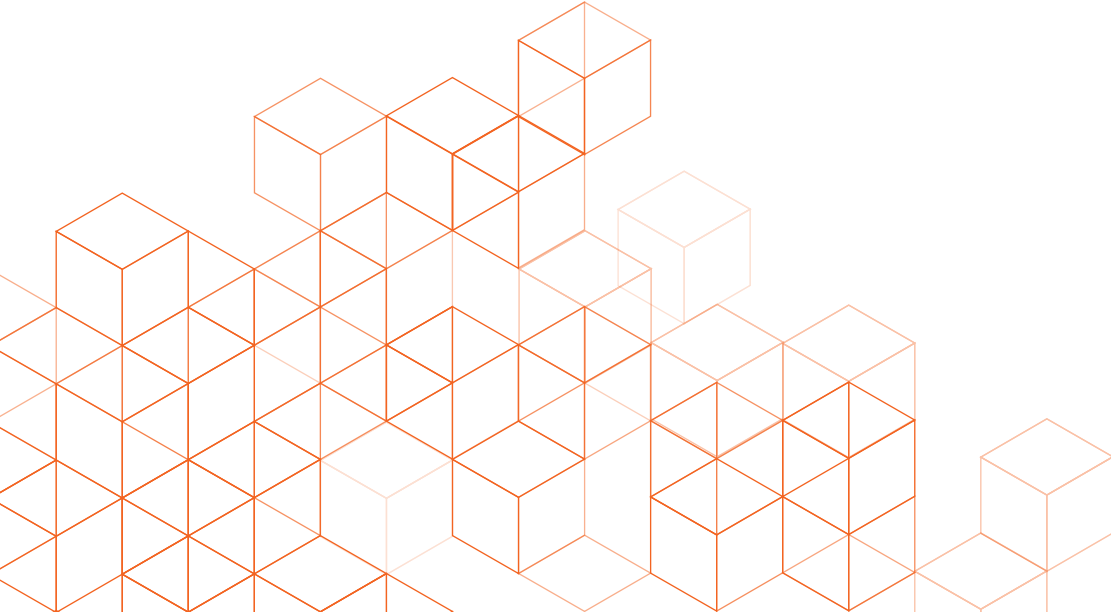
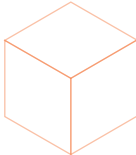
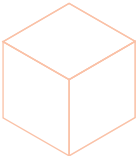




SK innovation
Sustainability Report 2014



SK Innovation History

1960's

- 1962. 10. Establishment of Korea Oil Corporation
- 1964. 04. Started operation of the No.1 Atmospheric Distillation Unit
- 1967. 05. Expanded the No.1 Atmospheric Distillation Unit
- 1968. 04. Started operation of the No.2 Atmospheric Distillation Unit
- 1968. 12. Started operation of the Lubricant Blending Plant

1970's

- 1970. 05. Started operation of the Aromatics Manufacturing Plant
- 1972. 09. Completion of an oil pipeline connecting Ulsan refinery with Daegu
- 1972. 10. Started operation of the No.3 Atmospheric Distillation Unit
- 1973. 03. Started operation of the Naphtha Cracking Center
- 1974. 06. Expanded the No.2 Atmospheric Distillation Unit
- 1977. 03. Expanded the Naphtha Cracking Center

1980's

- 1980. 03. Expanded the Lubricant Blending Plant
- 1980. 12. Sunkyung Group acquired Korea Oil Corporation
- 1985. 12. Started operation of the new Aromatics Manufacturing Plant
- 1987. 05. Started operation of the Grease Manufacturing Plant
- 1988. 01. Imported crude oil developed from Yemen's Marib's block
- 1989. 12. Started operation of the No.2 Naphtha Cracking Center

1990's

- 1990. 08. Started operation of the No.1 Synthetic Resin Manufacturing Plant
- 1991. 05. Started operation of the No.4 Atmospheric Distillation Unit
- 1992. 11. Started operation of No.1 HOU (Heavy Oil Upgrading) Unit
- 1994. 11. Imported crude oil developed from Egypt Northern Zaafarana's block
- 1996. 10. Started operation of the No.5 Atmospheric Distillation Unit
- 1997. 01. Started operation of No.1 FCC (Fluidized Catalytic Cracking) Unit
- 1997. 03. Started operation of the No.2 Synthetic Resin Manufacturing Plant
- 1997. 03. Establishment of SK Corp.

1990's

- 1990. 08. Started operation of the No.1 Synthetic Resin Manufacturing Plant
- 1991. 05. Started operation of the No.4 Atmospheric Distillation Unit
- 1992. 11. Started operation of No.1 HOU (Heavy Oil Upgrading) Unit
- 1994. 11. Imported crude oil developed from Egypt Northern Zaafarana's block
- 1996. 10. Started operation of the No.5 Atmospheric Distillation Unit
- 1997. 01. Started operation of No.1 FCC (Fluidized Catalytic Cracking) Unit
- 1997. 03. Started operation of the No.2 Synthetic Resin Manufacturing Plant
- 1997. 03. Establishment of SK Corp.

2000's

- 2003. 11. Commencement of oil production at Vietnam's 15-1 block
- 2004. 07. Launched the SK Angels (1004) Volunteer Group
- 2004. 09. Completion of the No. 2 Lubricant Base Oil Plant
- 2004. 10. Establishment of SK China Holding Co., Ltd.
- 2006. 03. Launch of SK Incheon Oil
- 2006. 04. Completion of Ulsan Grand Park
- 2007. 07. Launch of SK Holdings Co., Ltd. and SK Energy
- 2008. 02. Merged with SK Incheon Oil
- 2008. 07. Completed the construction of the Lube Base Oil Plant in Indonesia
- 2008. 09. Completion of No.2 FCC (Fluidized Catalytic Cracking) Unit
- 2009. 10. Launch of SK Lubricants

2000's

- 2003. 11. Commencement of oil production at Vietnam's 15-1 block
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- 2008. 02. Merged with SK Incheon Oil
- 2008. 07. Completed the construction of the Lube Base Oil Plant in Indonesia
- 2008. 09. Completion of No.2 FCC (Fluidized Catalytic Cracking) Unit
- 2009. 10. Launch of SK Lubricants

2010's

- 2010. 10. Completion of the LIBS No. 4 and 5 production lines
- 2011. 01. Reorganized as a four-subsiary governance (SK Innovation, SK Energy, SK Global Chemical, SK Lubricants)
- 2012. 03. Completed the construction of No.3 Lubricant Base Oil Plant
- 2012. 09. Completion of the SK Battery Plant in Seosan
- 2012. 10. Completed the construction of LIBS No.6 and No.7 production lines and the FCCL/TAC production lines
- 2013. 07. Spin off of SK Incheon Petrochem and SK Trading International
- 2013. 12. Completed the construction of LIBS No.8 and No.9 production lines
- 2014. 01. Established a joint venture BESK with Beijing Electronics Holding and Beijing Automotive Industry Holding
- 2014. 01. Expanded the Seosan Battery Plant
- 2014. 04. Purchased a block for oil production in Texas and Oklahoma, US
- 2014. 05. Established a joint venture Nexlene with SABIC
- 2014. 06. Completed the construction of the FCCL No.2 production line
- 2014. 06. Completed the construction of SK Incheon Petrochem's PX plant
- 2014. 10. Completed the construction of a joint venture 'Ulsan Aromatic Corporation' Plant in Ulsan with JX Energy

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About this Report

Since the first SK Innovation sustainability report was published in 2005, we have published this report annually to share our plans and performance results with our stakeholders. Also, this report has been published after being reviewed and approved by the CSR Committee.

Reporting Period

January 2014 ~ December 2014

(Some performance results include data from 2015)

Reporting Scope

SK Innovation's Head Office and its domestic operations, as well as the domestic operations of its five subsidiaries: SK Energy, SK Global Chemical, SK Lubricants, SK Incheon Petrochem and SK Trading International.

Reporting Principle

GRI (Global Reporting Initiative) G4

Verification

Independent Assurance Report (DNV GL)

CEO's Message



Dear Stakeholders,

I would like to sincerely thank you all for the continued support you have shown to our company, SK Innovation. Companies faced many difficulties in 2014 due to the business environment being aggravated by oil prices and exchange rates and increasing uncertainties. SK Innovation has taken these situations as an opportunity to take a leap forward by striving to achieve sustainable growth and to bring happiness to our stakeholders. This report sheds light on SK Innovation's major activities and performances aimed at implementing sustainability management, while also introducing the future plans for our stakeholders.

Strengthening Fundamental Competitiveness and Accelerating Global Growth

In order to secure fundamental competitiveness, SK Innovation strengthens its core competencies differently for each business area. SK Innovation operated a new plant of high-performance polyethylene brand Nexlene, which was developed for the first time in Korea with its original technology, and also expanded the high value-added chemicals PX plant. Furthermore, we continuously developed technologies to reinforce our position, by ranking first in the global premium lube base oil production volume, ranking first in the most favored domestic brand for lubricant complete products, and ranking first for 16 consecutive years in the brand power survey.

Also, we are tapping into overseas markets by investing abroad and strengthening partnership with global companies. The commercial production of our major overseas worksites began in full scale, including the Lube Base Oil plant in Cartagena, Spain and the Naptha Cracking Center in Wuhan City, China. Besides these, we are establishing the foundation for successfully entering into the overseas markets by participating in North America's unconventional resources development project consisting mainly of American oil development companies, while also setting up a joint venture EV battery plant in Beijing to tap into the Chinese market as it emerges as the world's largest EV market.

Securing SHE Competitiveness at the Global Level

In order to respond to global climate change, it has become more important for companies to take strategic approaches to address energy consumption and GHG emissions. Before the implementation of the Emissions Trading Scheme (ETS) in 2015, SK Innovation has made multilateral analysis of the impacts from the ETS and set up an implementation system to be prepared. Also, we strive to take the lead as an eco-friendly company by actively implementing energy-saving campaigns and activities to improve energy efficiency.

Recently, the social demand for being quick in addressing SHE (Safety, Health, Environment) accidents has increased because of the recent accidents at home and abroad. Therefore, SK Innovation analyzed the best practices of leading global companies to enhance its emergency response system to meet global standards. In addition to reinforcing the execution on the site, we re-assigned the responsibilities in emergency response and improved the emergency response system, so that our competencies were enhanced through periodic emergency response trainings held.

Establishing a Win-Win Partnership Culture

SK Innovation thinks of its suppliers as partners in company management. Going beyond the framework of providing support, we establish the framework required to achieve sustainable growth for our suppliers. To achieve this, we set up a division to be in charge of mutual growth, which provides programs on education, safety and funding to strengthen the suppliers' competitiveness, as well as establishing a win-win partnership culture by conducting evaluations on suppliers fairly and sharing the results transparently.

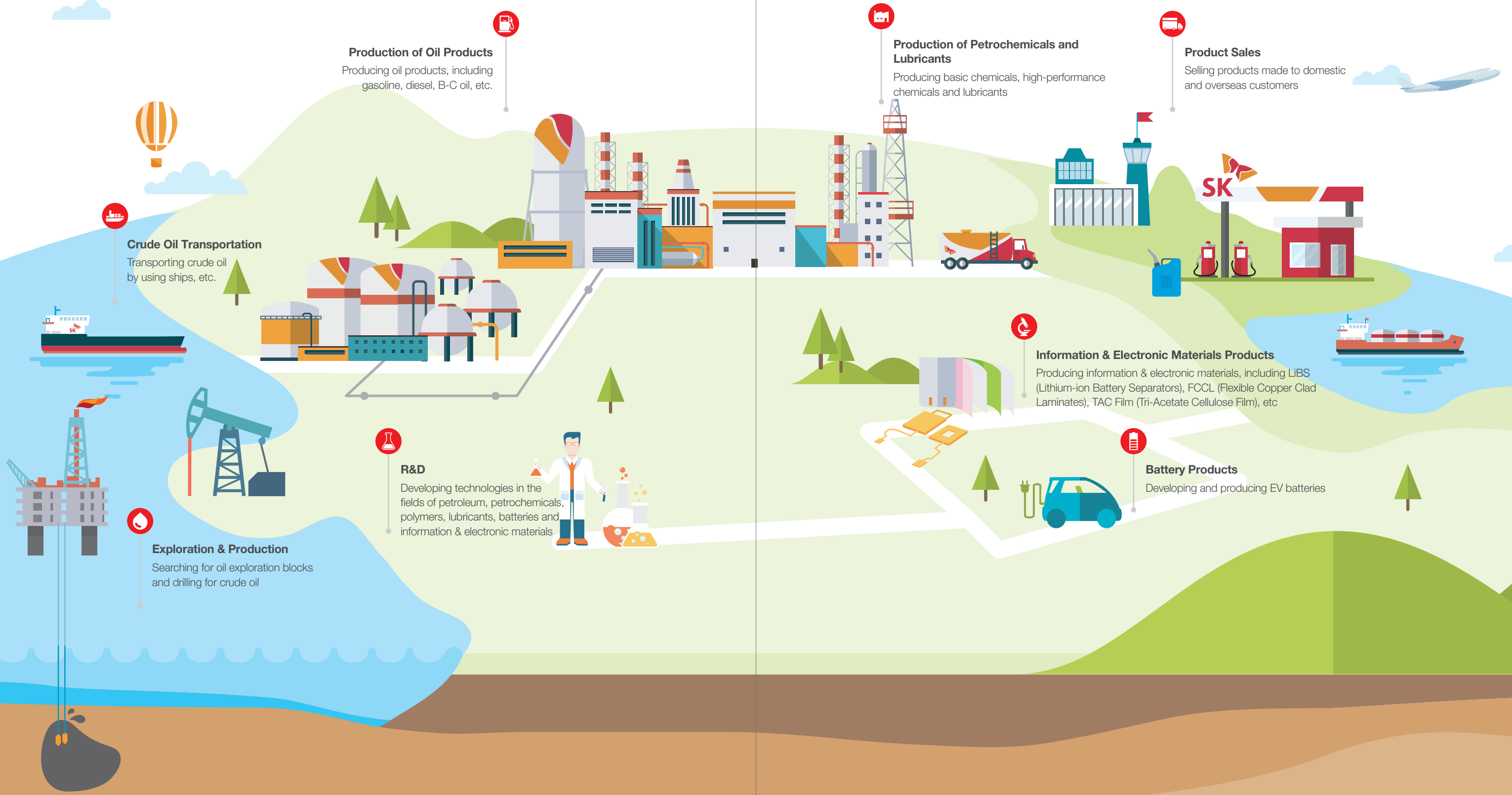
Meanwhile, we implemented CSR activities that create sustainable social value with more significance than just making donations. We strive to support the independence of social enterprises and to stimulate the social economy, while also establishing a reliable relationship with local residents by carrying out CSR activities that meet the conditions of local communities. We expanded the scope of these CSR activities to be implemented not only in Korea, but also at overseas worksites. An outstanding example is our CSR program Yachaywasi implemented in Peru, which supports advanced agricultural skills and techniques to farming villages so that they become more independent, with plans to open the third farm in Peru by receiving good responses from the Peruvian government, academia and farmers.

Dear Stakeholders,

SK Innovation will make every effort to attain its goal as a company respected by the society in embracing change and innovation in pursuit of higher stakeholder value. To that end, we will maintain open communication with our stakeholders and pay close attention to your opinions. I ask for your continuous support and encouragement as we move forward.

SK Innovation CEO & President **Chung, Chul Khil**

Sustainable Value Chain



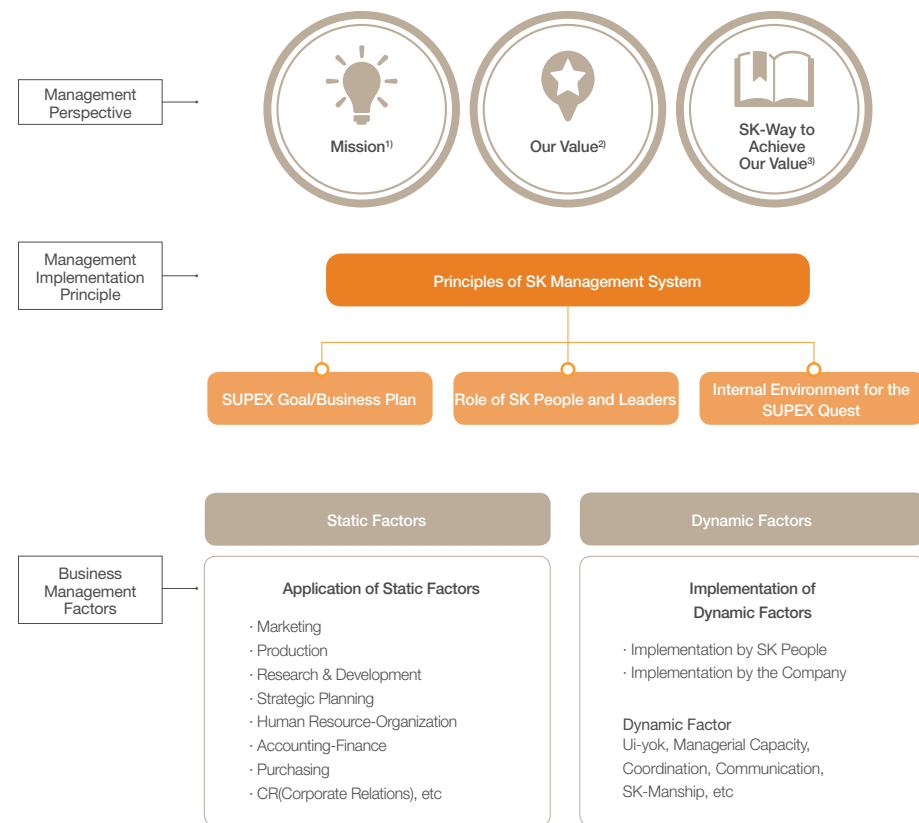
SKMS

SK Innovation strives to achieve sustainable growth while pursuing stakeholders' happiness. In this regard, SK Innovation establishes an advanced management system and creates a sound corporate culture through transparent and accountable management practices based on the SK Management System (SKMS).

SKMS (SK Management System)

The SK Management System (SKMS) is SK Group's fundamental framework for sustainability management efforts that is agreed upon and shared by all employees, consisting of SK Group's unique corporate culture, management philosophy and management techniques. It was first established in 1979 so that all employees can be aware of the essence of management through the SKMS and enhance the level of business management by utilizing it in their decision-making process. Through these efforts, we will secure the competitiveness required to become a leading global company in the global environment. Currently, all of the employees belonging to SK Group apply the SKMS in their management practices, while also striving to upgrade and improve the SKMS to adapt to the changing business environment.

SKMS Framework



1) Mission: 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.

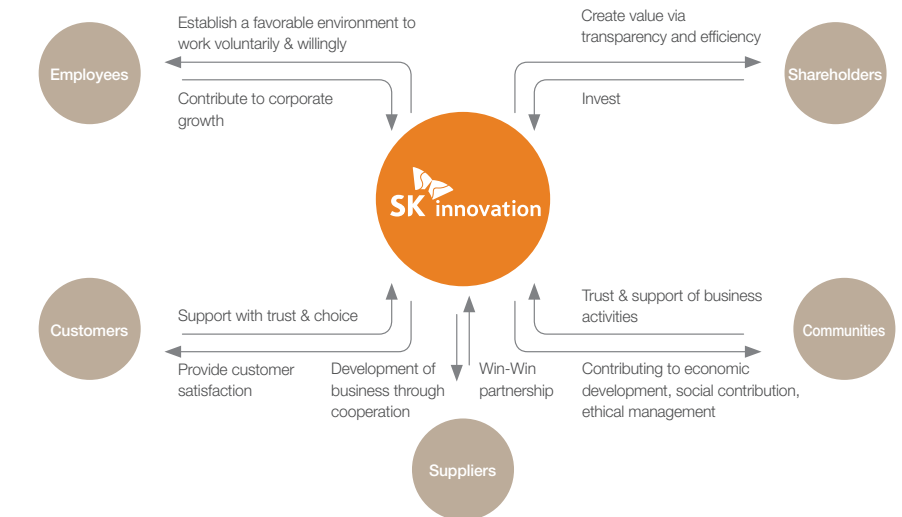
2) Our Value: The ultimate goal of Our Value is the happiness of stakeholder.

3) SK-Way to Achieve Our Value: Pursuing SUPEX via-Human-Oriented Management.

Active Stakeholder Engagement

A company's sustainable growth is attained by establishing a reliable relationship with its stakeholders aimed at achieving mutual growth. Therefore, SK Innovation categorizes its shareholders, employees, suppliers, communities and customers as key stakeholders, and seeks ways to achieve mutual growth by establishing a consensus between the company and its stakeholders through various communication channels.

The relationships and roles of the company and its stakeholders



Stakeholder Communication

SK Innovation has various communication channels in place that are suitable for each particular stakeholder group. In recognition of the importance of two-way communication, we do our best to collect stakeholder opinions and incorporate them into the company's decision-making process and business activities.

Communication Channels and Key Issues by Stakeholder Group

| Key Stakeholders | Communication Channels | 2014 Key Issues |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Shareholders | <ul style="list-style-type: none"> General Shareholders' meetings, earnings releases Domestic/international NDRs (Non-Deal Roadshows) Domestic/International Conferences One-on-one meetings, e-mail/phone consulting Disclosures, Reports Medium and long-term Strategies Business Portfolio | <ul style="list-style-type: none"> Medium and long-term strategies Business portfolio |
| Employees | <ul style="list-style-type: none"> In-house Broadcasting (GBS) and Newsletter Intranet (tong tong) iCON (Change Agent) and a Management Council (M2M Board) Business Briefing session, etc. | <ul style="list-style-type: none"> Biz. Status and Issue Work-Life balance Implementation of innovative tasks |
| Suppliers | <ul style="list-style-type: none"> Regular meetings with suppliers Supplier-CEO seminars Periodic meetings on logistics, machinery, equipment and inspection, etc. | <ul style="list-style-type: none"> Win-win partnership/ mutual growth Fair Trade practices |
| Communities | <ul style="list-style-type: none"> Meetings with local organizations Attending the local community committees in neighboring areas and the patrol division safety councils Attending the operating committees of welfare facilities and groups in neighboring areas | <ul style="list-style-type: none"> Social Contribution (including social enterprises) Volunteerism |
| Customers | <ul style="list-style-type: none"> Customer Happiness Center (Call center service) Operation of Enclean.com and Enclean App Customer Satisfaction Survey on promotion, etc. Facebook, blog, etc. | <ul style="list-style-type: none"> Expanding customer communication channels and CRM (Customer Relationship Management) Enhancing Customer Satisfaction levels Uploading on official SNS channels, including Facebook and blog |

CORPORATE GOVERNANCE

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Corporate Governance

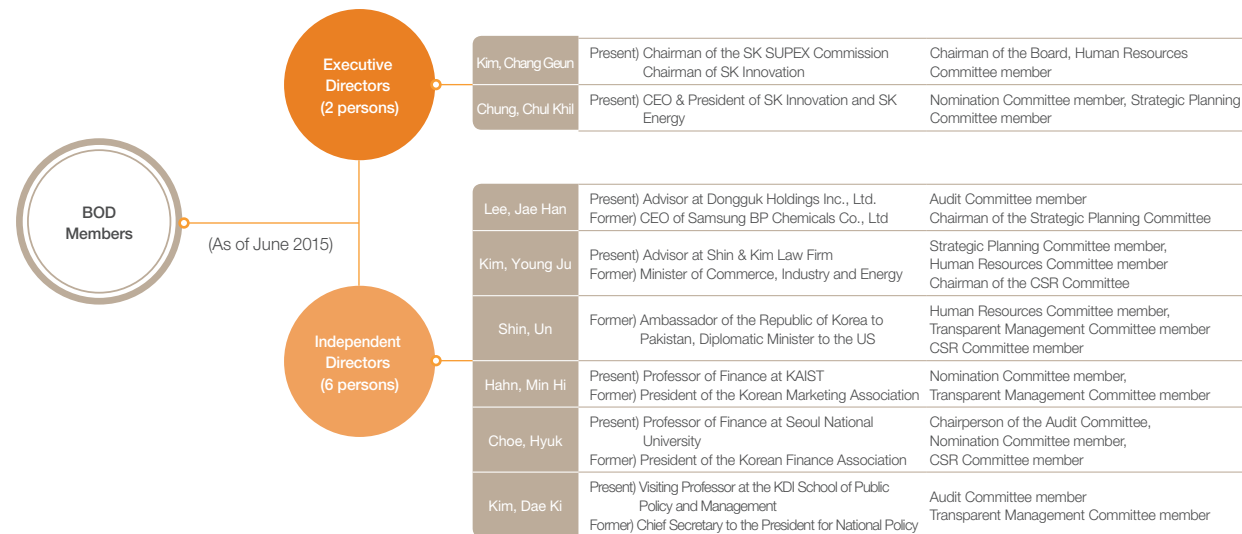
SK Innovation is doing its best to protect the rights of its stakeholders, including shareholders, customers, etc. We maximize corporate value by implementing transparent and accountable management practices through the BOD, to become a trusting company that creates and shares happiness with our stakeholders.

BOD-driven Management

SK Innovation has the BOD in place as the highest decision-making body of the SKMS (SK Management System), so that the BOD-driven management can be carried out. The BOD-driven management reflects the interests of shareholders evenly by running the BOD true as the BOD is meant to be, ensuring a corporate structure of ethical and transparent decision-making processes. To achieve this, the BOD and the CEO have to cooperate with each other and build a trusting relationship by sharing responsibilities.

Independence of the BOD

As of June 2015, SK Innovation's Board of Directors (BOD) had 8 members: two executive directors and six independent directors. The BOD's percentage of independent directors is the highest (75%) in the private sector of Korea. Thus, decisions made exclusively by independent directors can actually bring a conclusion of any major management-related agenda items, including changing to the Articles of Incorporation, mergers/separations and proposals for discharging directors. Also, the chairpersons of the committees under the BOD are all appointed as independent directors to ensure the independence and transparency of the BOD.



Composition of BOD Subcommittees

(As of June 2015)

| Committee | Ratio of independent directors | Main duties |
|------------------------|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit | 100% | Conducting audits on the job performance of directors and the accounting and management practices, as well as evaluations on internal accounting management system. |
| Nomination | 67% | Exploring and managing a pool of independent director candidates and recommending candidates. |
| Strategic Planning | 67% | Reviewing medium-and long-term business plans and strategies, including major investments and plans. |
| Human Resources | 67% | Reviewing major policies on HR management and recommending executive director candidates. |
| Transparent Management | 100% | Reviewing transactions between subsidiaries and reviewing the Fair Trade Compliance Program. |
| CSR | 100% | Reviewing CSR (Corporate Social Responsibility) activities and major CSR issues. |

Enhancing the Expertise of Independent Directors

In order to ensure effective and professional activities at the BOD, our independent directors participate in education programs on domestic and overseas corporate governance and businesses. We benchmarked the best practices of advanced countries by attending conferences held by the two most prestigious organizations for corporate governance in the world, including NACD¹⁾ and ICGN²⁾, while also using it as an opportunity to set up the HR network with the executives and directors of leading overseas companies. In addition, we enhanced the understanding of our company by holding orientations at the Head Office and local worksites for newly appointed independent directors.

1) NACD : National Association of Corporate Directors 2) ICGN : International Corporate Governance Network

Advanced and Systematic BOD Operation

Holding Periodic BOD Meetings

SK Innovation convenes the BOD meetings on a regular basis once every month (the fourth Thursday), with materials provided in advance (five days before the BOD meeting, two days before the subcommittee meeting) so that the BOD members are given sufficient time to review the agenda item beforehand. In addition, if it is necessary to make prompt decisions, we promote transparent management practices by holding the meeting on an ad hoc basis to make quick decisions.

Preliminary Review of Major Decision-Making Agenda

Regarding important matters of the company, including large-scale investments, separations and mergers, they have to go through a three-stage process of preliminary review, discuss and feedback at the BOD, with a separate BOD meeting held for voting afterwards. In 2014, when making a major investment decision on the exploration and production (E&P) of North America, we held an in-depth discussion not only on the purpose and profitability of the investment, but also on the credit rating agency and market evaluations which were taken into consideration.

Business Planning & Status and Performance Report

The BOD reviews the short-term business plans and medium-and long-term strategies (To-be Model) annually on a regular basis. Meanwhile, the BOD sets the direction for achieving sustainable growth by holding in-depth discussions actively about internal and external environments and characteristics for each business area, including petrochemicals and EV batteries. Also, when making reports on the quarterly management performances, the management issues, performances and plans of subsidiaries and affiliated entities are also reported, so that the BOD members can conduct an overall evaluation of the company's status.

Holding the BOD Meetings on the Site

In order to enhance the BOD members' on-site expertise and ensure better understanding about the worksite, we hold the BOD on the site by visiting domestic and overseas worksites to implement on-site management practices. This allows the BOD members to enhance their expertise on the business by understanding the situations better on-the-spot and listening to the opinions of on-site workers, as well as raising the employees' awareness of the BOD activities so that a consensus is established. In 2014, we held the BOD on the worksite in Ulsan complex, which provided an opportunity to listen to the opinions of employees in person, by visiting the Paraxylene (PX) and Nexlene plants.



BOD meeting held on the site at Ulsan complex.



The 1st Strategic Committee Session held in 2014.

Promoting Strategic Communication Session

SK Innovation periodically holds the strategic communication session attended by top executives and independent directors, including the CEO, to get a better understanding about the company's major agenda items through discussions. At the communication session, the participants discussed openly about management philosophy, vision, strategic fit and difficulties, as well as issues that were raised during the discussion. In 2014, there were in-depth discussions held about the business plans and medium-term business strategies of SK Innovation's three CICs (Company In Company) and five subsidiaries.

BOD Performance Evaluation & Compensation

The BOD conducts annual performance evaluations in the categories of BOD composition, roles, responsibilities and operations. The evaluation results are reported back to the BOD and presented in Annual Reports. BOD operational plans are developed for the following years based on these evaluation results with some improvements made to its functions and operations when necessary. In addition, the HR Committee conducts preliminary review on the allowable limit for the remuneration of directors and gives the final approval at the General Shareholders' Meeting after the BOD approves it, ensuring fair evaluation and compensation.

Ethical Management

SK Innovation builds trust-based relations with its stakeholders to bring more happiness to the society as a whole. To achieve this, ethical management was internalized in the SKMS that consists of SK Group's management philosophy, with efforts made for all employees to follow ethical management in their daily lives by having a standardized ethical management system in place.

Ethical Management System

SK Innovation established the Code of Ethics that specifies the appropriate action and principles that employees should comply with. At the same time, we have in place channels for reporting and consulting ethics-related issues, such as the Ethics Counseling Office and the Ethics Website, with rewards given to the person who made the report.

Ethical Management Programs

Status of Ethics Training for Employees

(As of December 31, 2014)

Number of Trainings

612 persons

Training Hours

612 hours



Ethical Management Website
(<https://ethics.skinnovation.com>)

Ethics Training for Employees

SK Innovation conducts ethics training for employees, including new employees and those being promoted. In 2014, we held ethics training of 612 hours for a total of 612 employees. In 2015, we will create a fair and transparent culture to internalize ethical management by providing on-line training programs for all employees.

Spreading Business Ethics to Suppliers

SK Innovation implements ethical management based on trust-based relations with its suppliers. When registering suppliers through the purchasing portal, they have to go through the process of signing a Fair Trade Agreement with its suppliers. If a supplier is detected pursuing any illegal or corrupt activity, it will be subject to sanctions according to SK Innovation's bylaws. Since 2011, we strive to comply with fair trading rules by implementing the campaign of not giving and not receiving gifts during the holiday from external stakeholders, including suppliers, agencies and clients.

Fair Transactions

SK Innovation and its subsidiaries have worked towards creating a culture of fair transactions for the society by implementing fair trade practices. In 2014 and 2015, we will concentrate on addressing internal and external environmental changes on fair transactions in the future by upgrading the levels of fair trade management for SK Innovation and its subsidiaries.

Fair Trade Compliance Program (CP)



Risk Responses

SK Innovation establishes a response system to manage the risks caused by internal and external uncertainties on the company. We create the foundation for sustainable growth by minimizing the variability of business activities to ensure a stable environment and seeking an opportunity to establish strategic directions.

Risk Management Strategies

SK Innovation reviews various risk factors that might occur during the business operation, so that factors that need to be addressed at the company-wide level are identified. We have in place an organization to be prepared for various risks, including the dependence on foreign sources of crude oil and market price fluctuation risks, enabling us to take actions efficiently and quickly. Also, we gather information on best practices and share them with our employees.

Response Activities for Various Risks

Risks Associated with Dependence on Foreign Sources of Crude Oil

Most Korean petroleum production companies are entirely dependent on importing crude oil, where the supply and price of imported crude oil are determined by numerous factors. In particular, the most significant factors include the production volume decided by OPEC (Organization of Petroleum Exporting Countries) and other oil producing countries and the political situation in the Middle East. In addition, there are numerous risk factors like domestic and international energy-related laws, the political and economic situations of countries that are developing resources, the present condition of global climate change, the economic growth rate of China and the domestic economic situation.

Risks Associated with Market Price Fluctuation of Crude Oil

SK Innovation takes numerous measures to minimize the risk factors arising from the fluctuation in market prices of crude oil, and various other global factors, whether economic, regulatory or political, as well as weather conditions, which can alter market prices. Also, there are risk factors arising from the difference in crude oil prices between the shipping month and the arrival month due to long-term contracts with the Middle East.

Risks Associated with Fluctuations in Foreign Exchange Rates

Unexpected fluctuations in foreign exchange rates can bring direct losses to the company's profitability with impacts on sales volume, prices and cost of crude oil. In order to reduce losses that might arise from risks associated with fluctuations in foreign exchange rates, SK Innovation closely monitors foreign exchange-related risks. Also, we decide on the acceptable level of foreign exchange risks and hedge excessive foreign exchange risks that go beyond the acceptable levels, so that foreign exchange rate-related risks are minimized.

Risks Associated with Concentrated Production Facilities

Refining, transporting and storing crude oil, refined petroleum products and petrochemical products involves many significant hazards, including fires, explosions, spills and other unexpected accidents. Any interruption to operations as a result of an accident or any other unexpected problem adversely affects a company. At SK Innovation, we carry insurance in amounts recommended by overseas rating agencies to cover any damages that might occur at Ulsan and Incheon complexes. The insurance coverage is deemed sufficient to restore all facilities in the event of an unforeseen accident and to compensate immediate monetary losses.

Risks Associated with Environmental Regulations

Petrochemical businesses are applied with various environmental laws and regulations at home and abroad. SK Innovation is in full accordance to meet the standards set by related laws and regulations regarding pollutant emissions, fuel quality, the handling, use, storage, transportation and disposal of petroleum-based products, while also abiding by all applicable environmental laws and regulations regarding pollutants into the air, soil and/or water. As governmental and non-governmental groups continue to require stricter environmental regulations in the future, additional capital expenditures or operating expenses will be needed, which will ultimately affect our overall business performance.

Talent Management

Recruiting talented people with expertise and global experience is the key factor for companies to achieve sustainable growth. Therefore, SK Innovation recruits and fosters talented people with competitiveness, while also striving to create a pleasant working environment where employees can concentrate on their duties with pride.

Recruiting Outstanding Talent

Strategy for Recruiting Talented People

SK Innovation has the human resource development (HRD) policies directed at fostering highly trusted global experts who practice innovation and take on any challenge. We set up a system for recruiting talented people from diverse fields without restrictions on gender and academic background through a fair and reasonable recruitment system. We refrain from a unified evaluation based on specifications and evaluate on internal and external experiences like work experiences and club activities, so that talented people with the job competencies and abilities required for various job duties are hired and assigned at the suitable position to realize their full potential.

SK Innovation's HRD Policies



Fair Opportunities and Respect for Diversity

SK Innovation strives to ensure fair and reasonable opportunities are provided for all job seekers without discrimination. All recruitment procedures abide by Korea's Labor Standards Act and Equal Employment Act to ensure fair opportunities are given across the board regardless of gender, nationality and social status. Furthermore, we are working towards gradually increasing the ratio of female employees to create a corporate culture of respecting diversity.

Human Resource Development (HRD)

The 4 Strategies of HRD

Based on the management principle of the pursuit of SUPEX through human-oriented management practices, we support the development of our employees from new employees to the CEO in various stages. We conducted HRD policies with the responsibilities of the company and on-site leaders and employees specified in the categories of SK Values, leadership, job competencies and globality. Through these efforts, we strive to create a happy workplace where all employees can realize their full potential.



Performance Evaluation and Compensation

Reasonable Performance Evaluation

SK Innovation prohibits unfair discrimination based on gender and academic background and conducts evaluations regularly on employees' abilities and competencies according to fair standards by using standard indexes, including promotion, transfer of position, training programs and compensations. The performance evaluation is applied to all regular employees to take into consideration SK Values, competencies and performances, with differentiation in evaluation categories and procedures according to the employees' job position, such as team members being evaluated on their job competencies and team leaders on their role as leaders.

Fair Compensation

SK Innovation operates the annual salary system and performance-related pay based on competencies to motivate its employees and maximize business performance. According to the overall evaluation, we give more compensation to employees with more outstanding results and abilities in grades. The performance-related pay is given according to the employees' performance results based on the EVA (Economic Value Added) and the KPI (Key Performance Indicator). There is no difference in salaries for male and female employees and we implement a fair and reasonable promotion system that takes into consideration the overall evaluation results.

Enhancing Employee Welfare

SK Innovation operates diverse welfare programs to help the self-development of its employees and ensures they maintain a stable life. We provide regular medical check-ups and medical cost support, while also helping out with loans to purchase or rent houses. Also, we support our employees' leisure activities by providing condominium facilities and giving monetary support during times that call for congratulations or condolences. Furthermore, we help out with the living expenses of our retired employees by running a retirement grants system, with rewards given to long tenured employees.

Increasing Outstanding Female Employees

SK Innovation has continuously supported fostering female leaders above managerial levels by ensuring that fair opportunities are given regardless of gender. In particular, we give a generous maternity leave package and rest, to our female employees who are assured that they can later return to the same position.

Corporate Culture

Creating a corporate culture for a great workplace is an essential factor in achieving sustainable development. SK Innovation strives to enhance the corporate culture by strengthening cooperation among employees and promoting the importance of the company's development.

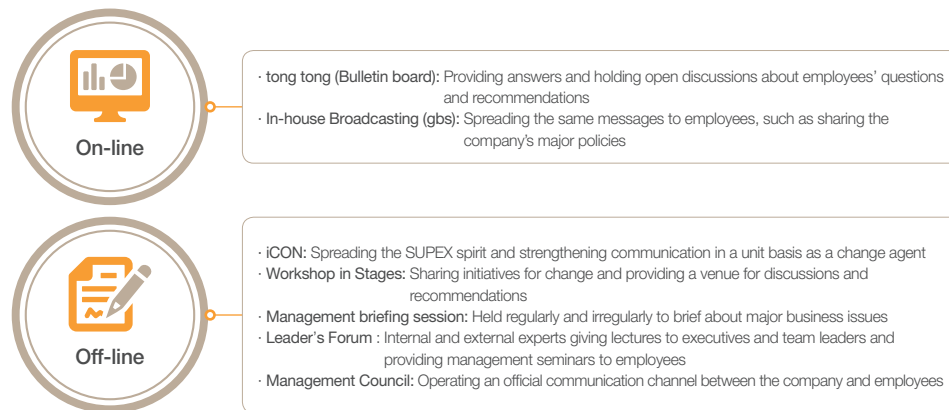
Promotion of Open Corporate Culture

SK Innovation encourages employee engagement by sharing the company's future directions through open communication channels. Through these efforts, we establish a reliable relationship with our employees and create a corporate culture and working environment where each employee can realize his/her full potential. Therefore, we got rid of partitions that blocked communication between employees, and addressed any complaints made by employees.

Expanding Communication with Employees

Internal communication channels established can consolidate the employees' competencies to create a winning culture. Starting from 2015, we plan to integrate the division in charge of communication to SKMS Department, so that diverse communication channels are provided.

Operating Channels



C-Talk (a Year-round Coaching Program)

C-talk is SK Innovation's one-to-one coaching program for assisting employees' self-development. Employees can consult their team leaders or peer groups whenever they need motivation or advice on new projects, career development, or work issues. To that effect, the company is systematically assisting team leaders in developing their coaching skills because this coaching program is expected to highly enhance overall performance results and stimulate employees' competency-building.

iCON (Innovation Communication ON)

Until now the Junior Board was in place for each subsidiary, but starting from 2015, SK Innovation and its subsidiaries will integrate it into iCON. After going through a strict screening process with candidates nominated by executives and team leaders, a total of about 200 persons with at least one person from each team, are selected for iCON. They will take the lead in adapting to changes and bringing innovations through communications with the management, leaders and other employees as an opinion leader with SK Value and competencies. Besides spreading the management philosophy and commitment and being active in communicating with other employees, the opinion leaders will take the lead in change and innovation by creating a winning culture at the workplace. Also, they will implement various activities across the board, including reviewing the SKMS and SUPEX status and establishing guidelines.

Addressing Employees' Complaints

SK Innovation reflects employees' complaints that might arise from carrying out their job duties by operating the Grievances Committee. It consists of representatives recommended by the CEO and the labor union, which help out with improving working environment and working conditions verbally or via mail, phone, e-mail and other media.

Operating an In-house Counseling Center Called 'Harmonia'

SK Innovation operates an in-house counseling center called 'Harmonia' to assist its employees with their stress management and career development. With certified psychology counselors on standby and ten more external specialists ready to help, the center provides employees with systematic counseling programs in the areas of life, career, work and family to receive good responses from employees and their spouses, parents and children. Also, we provide programs to support development at work, such as team building, conflict management and leadership coaching. Since its opening in 2005, the number of employees using the service has grown over the years and reached 1,382 persons in 2014, showing a high satisfaction among users with 4.8 points on a scale of 5. As such, Harmonia has become a trusted partner to our employees for their happiness and we plan to expand it to local worksites.

Work-Life Balance

First Korean Refiner to Adopt Flexible Work Hours

SK Innovation adopted a flexible work hour system that is carried out according to each team. A flexible work hour system means the employees can adjust their working hours by choice depending on their personal situation and work status, so that they can achieve a balance between their work life and personal life.

Enhanced Flexibility in the Work Process with the Smart Work System

In order to enhance work efficiency and get rid of inefficient practices, SK Innovation adopted the smart work system. This is part of the efforts made to streamline the procedures of meetings and documentation, while also creating an environment where employees can adjust their working hours to enjoy time with their families or use it for personal life

Strengthening Family-Friendly Management

Increasing the Certifications of Family-Friendly Management

After receiving the Presidential citation for Outstanding Family-friendly Company in 2012, SK Innovation has made efforts to further strengthen its family-friendly management practices. We operate family-friendly systems like improving flexible working hours and providing a generous maternity leave package, while also achieving a work-life balance to contribute towards enhancing the quality of life at home and in the workplace. In 2014, SK Lubricants acquired the certification as an Outstanding Family-friendly Company.

Addressing Childcare Issues with Mandatory Childcare Leaves

SK Innovation has made it mandatory to take childcare leave without feeling uncomfortable about applying for childcare leave at the end of maternity leave. As a result, employees who have taken maternity leave are automatically required to take at least a year off after giving birth. In a case where the employee does not want to take such steps or wishes to adjust the period, it can be done through an application made separately, and get the supervisor's approval to suit individual situations.

Creating a Winning Culture

In 2015, SK Innovation has taken 'Winning Culture' as the keyword for overcoming crisis. Also, SK Innovation's leaders refer to people who make the organization and team members win in their assigned duties regarding projects and tasks. Therefore, all employees should be able to overcome structural problems arising from global competition by seeking solutions and taking necessary action. Based on a winning culture, SK Innovation will create a corporate culture where talented people with competitiveness and excellence can realize their full potential.

INNOVATION FOR THE FUTURE

| | | |
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| Materiality Test Result Report | — | 24 |
| Focus 1. Enhanced business for sustainable growth | — | 26 |
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Materiality Test Result Report

SK Innovation strives to select key issues of stakeholder engagement derived from materiality test and provides detailed information on them. In accordance with the global sustainability report guidelines GRI G4 report format, we connected the issues of high interest for our stakeholders with key aspects, so that they can be used in general reports and special reports depending on the importance of key material issues selected.

Materiality Test Process

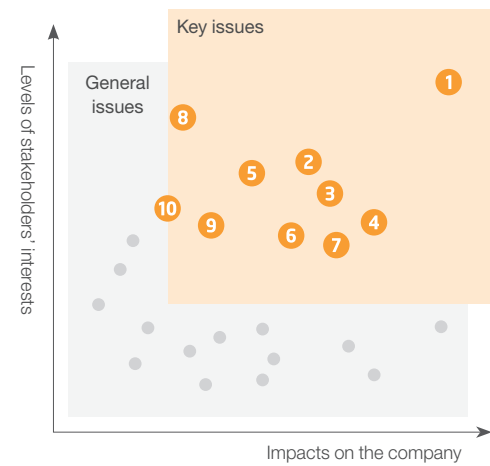
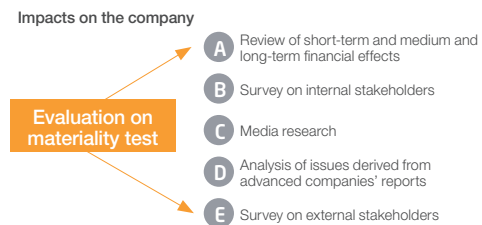
STEP 1. POOL OF SUSTAINABILITY ISSUES

- A total of 117 sustainability issues were selected through the global standard indexes like GRI G4, issues derived from past reports and the media research process.
- After making an in-depth evaluation on the pool of issues derived from the first evaluation, including issues found in advanced companies' reports, key issues in the industry and reflection of business environment, we selected 41 key issues in the second evaluation.



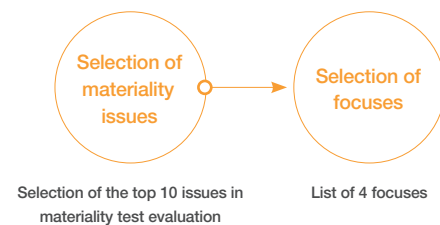
STEP 2. EVALUATIONS ON MATERIALITY TEST

- After reorganizing the selected key issues into five categories, including industry and management, ethics, employees, safety & health and environment, society and mutual growth, we reached a conclusion by conducting a survey on internal and external stakeholders.
- The result of materiality test for key issues and the survey results are all reflected when evaluating the materiality test through a separate review process.



STEP 3. DECISIONS ON FOCUSES

- The four focuses are decided out of the key issues of interest for stakeholders identified in the materiality test evaluations in connection with specific aspects that are defined in GRI G4.
- After confirming the GRI G4 indexes applicable to the focuses chosen, we decided on whether or not it is possible to make the report.



Result of Focuses Chosen

According to the result of reclassifying the 10 key issues derived from the materiality test evaluation in GRI G4, we decided on 4 focuses with the general standard aspect for the issues related to transparent BOD operation and the specific standard aspect for the other 9 issues. The four focuses were selected to proactively respond to the stakeholders' areas of interests, which will be reported on its background, responses and future plans according to each focus.

| Issue number | Key issue | General standard aspect/ Specific standard aspect | Table of contents | Pages | |
|--------------|---------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------|--------|
| 10 | Operation of transparent BOD | General standard aspect | Corporate Governance | 14-15p | |
| 9 | Strengthening fundamental competitiveness | General standard aspect | Focus 1. Enhanced business for sustainable growth | 28-30p | |
| 6 | Accelerating global growth | | | 31-33p | |
| 7 | Management of energy consumption and GHG emissions | | | 38-40p | |
| 8 | Implementing SHE management at the global level | | | 41-43p | |
| 2 | Helping out with advancing suppliers' technologies | Specific standard aspect | Focus 2. SHE competitiveness at the global level | 48-49p | |
| 3 | Implementing activities for continuous communication with suppliers | Specific standard aspect | | Focus 3. Mutual growth with suppliers | 50-51p |
| 4 | Transparent evaluation and compensation for suppliers | | | | 52-53p |
| 5 | Securing the independence of social enterprises | Specific standard aspect | | Focus 4. Achieve win-win through social contribution | 56-59p |
| 1 | Implementing community-based CSR activities | Specific standard aspect | | 60-62p | |

* In the case of 'Operation of transparent BOD', it is reported as general standard aspect because it is classified as a general issue from the perspective of sustainability.

Changes in Sustainability Issues

In 2014, SK Innovation conducted a more detailed evaluation on materiality test to enhance the understanding about sustainability management issues of stakeholders. Compared to the materiality test evaluation of the previous year, we could find that stakeholders showed increased interest in the sustainable growth from the economic perspective, like the issues related to strengthening fundamental competitiveness and accelerating global growth. On the other hand, the interest in issues related to working environment and general business environment decreased in comparison.

| 2012 Top Priority Issues | 2013 Top Priority Issues | 2014 Top Priority Issues |
|------------------------------------------------|--------------------------------|-----------------------------------------------------------------------------|
| 1 Stakeholder engagement | 1 Mutual growth | 1 Implementing community-based CSR activities |
| 2 Mutual growth | 2 Social contribution | 2 Helping out with advancing suppliers' technologies |
| 3 Employee safety & health | 3 Employee safety & health | 3 Implementing activities for continuous communication with suppliers (new) |
| 4 Environmental management (carbon management) | 4 Stakeholder engagement | 4 Transparent evaluation and compensation for suppliers |
| 5 Corporate governance | 5 Business performance | 5 Securing the independence of social enterprises (new) |
| 6 Mitigating climate change | 6 Corporate governance | 6 Accelerating global growth |
| 7 Labor-management relationship | 7 Sustainable use of resources | 7 Management of energy consumption and GHG emissions (new) |
| 8 Fair competition | 8 Working conditions | 8 Implementing SHE management at the global level |

FOCUS 1

Enhanced business for sustainable growth

Background

Due to the prolonged economic downturn and a continuous fall in international oil prices, energy and chemical businesses experienced a management crisis in 2014. Under these situations, advanced companies strengthen fundamental competitiveness with the goal of overcoming the crisis, while also focusing on increasing synergies between industries. Also, companies strive to become a market leader by tapping into new markets at home and abroad and strengthening market position. Likewise, the efforts made to achieve sustainable growth by building a sustainable growth engine in the industry is the focus of many stakeholders.

Response

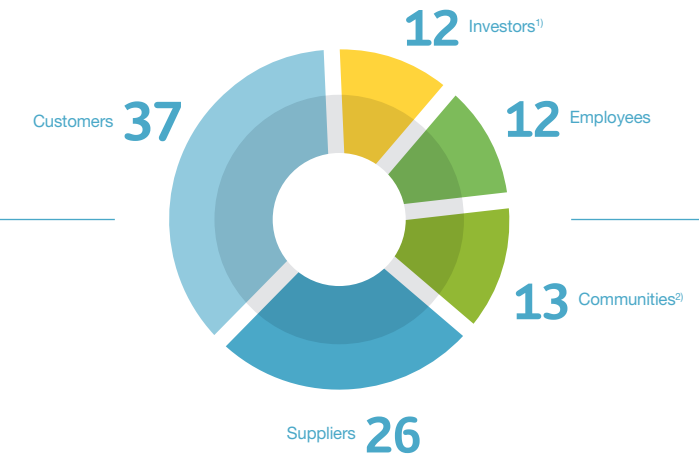
SK Innovation has in place an independent management system based on the principles of autonomy and responsibility for its six subsidiaries according to each business area. In this regard, we strengthen the professionalism and enhance the flexibility of each company to respond quickly to changing business needs, while also increasing company-wide synergies for higher efficiency and differentiated competitiveness. In addition, we aim to become a leading company in the market by actively exploring domestic and overseas markets, to respond to tighter competition in the domestic market and achieve higher growth in emerging markets like China.



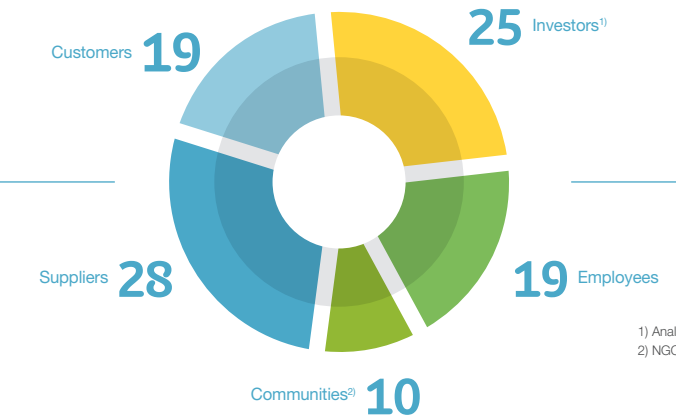
Stakeholder Survey

According to the result of analyzing major areas of issues in 2014 aimed at SK Innovation's five stakeholder groups, the highest interest shown in enhanced business for sustainable growth were issues related to strengthening fundamental competitiveness and accelerating global growth. In particular, customers showed lots of interest in issues related to strengthening fundamental competitiveness, with suppliers showing high interest in issues related to accelerating global growth.

Strengthening Fundamental Competitiveness (Unit: %)



Accelerating Global Growth (Unit: %)



1) Analysts, institutional investors, etc.
2) NGOs, social welfare institutions, etc.

Performance and Future Plan

Despite the difficult business environments, SK Innovation has achieved continuous performance through strategic operation of each business area. In the future, we will further strengthen fundamental competitiveness by aiming to enhance cost competitiveness, achieve operation excellence, and expand technology and optimization. Moreover, we will focus on increasing our market share in global markets with differentiated competitiveness by securing core technology and establishing strategic portfolio for each business area. Also, we will ensure fundamental competitiveness through business optimization, as well as actively exploring business expansion to take the lead in creating sustainable economic value.

Strengthening Fundamental Competitiveness



Q Issue Definition

Strengthening fundamental competitiveness refers to each business area maintaining the autonomy for independent and accountable management practices. By reinforcing the fundamental competitiveness through the process of increasing efficiency and optimization, companies can strengthen the efficiency of business organization, as well as establish a system that creates a virtuous cycle.

Business Review

Each business area acquiring growth potential through its core competencies is the company's first priority for achieving long-term goals. Therefore, we need to work towards strengthening the competitiveness of each business area and creating company-wide synergies.

Sustainability Review

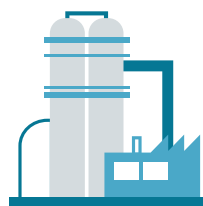
Reinforcing differentiated competencies for different business areas to overcome difficult business conditions at home and abroad and to achieve sustainable performance is the most important business strategy. Through these efforts, we will proactively respond to changing business environment and prepare for the future to achieve sustainable growth by strengthening the growth foundation.

Key Figure

Petroleum production capacity

412 million barrels per year

(Total of Ulsan and Incheon Complexes)



Sales (SK Innovation)

65.9 trillion

KRW



Expanding Business Value of Each Business Area

Optimizing Management Decision Making Processes: SK Innovation

SK Innovation has in place a systematic decision making process based on scientific methods to optimize the overall efficiency of operation and management, that include purchasing, manufacturing and sales processes. We optimize the process for selecting raw materials to ensure optimal raw materials are purchased, by taking into consideration the present status of availability and installation in our main businesses, including petroleum and petrochemical businesses. Also, we optimize the operation process to allow plans to be adjusted for product production and process operation by taking into consideration sales profit and production costs. Furthermore, we strive to optimize the process operation, so that variables are controlled and managed with the goal of optimal operation for each process. Moreover, we promote enhancing capital efficiency by optimizing investment decisions, such as exploring alternatives or selecting the optimal investment plan to raise the investment profit rate and withholding inefficient investments through long-term evaluation and analysis of investment effects.

Securing Differentiated Competitiveness: SK Energy

SK Energy implements diverse innovation plans to secure a stable profit base in the rapidly changing environment. We plan to continue our efforts to strengthen our fundamental competitiveness focused on advanced optimization through minimum investment, including avoiding investment methods that increase the ratio of upgrading existing facilities, enhancing the process and operation flexibility and diversifying raw materials. Furthermore, we plan to enhance profitability by improving the cost structure to increase the efficiency of energy and domestic marketing, while also adopting crude oil with handling restrictions to ensure reasonable profits even in a critical situation for profit increase.

Reinforcing Commercialization of Nexlene Original Technology: SK Global Chemical

SK Global Chemical strengthens its market dominance by increasing sales through their original technology development. As a high value-added petrochemical product developed by SK Global Chemical's original technology, Nexlene is a high performance polyethylene used in high value-added films, auto parts, footwear interior materials and cable insulation that boasts a stronger performance in endurance, transparency and processability. An annual growth of more than 10% is forecasted for the high performance polyethylene market, with the Ulsan Complex expected to achieve sales of more than KRW 400 billion per year. Moreover, SK Global Chemical signed a joint venture contract with SABIC, a Saudi petrochemical company, for the production and overseas sales of Nexlene. The two companies agreed to set up a joint venture in Singapore, including the construction of the second plant in Saudi Arabia. Through these efforts, we strive to strengthen overseas expansion and achieve optimal business performance.



SK Global Chemical's Nexlene Production Plant

Strengthening Fundamental Competitiveness

Leading the Market through Diversifying Product Lines: SK Lubricants

SK Lubricants strives to meet the diverse needs of customers by developing various types of lubricant products, including a premium lube base oil called YUBASE™ and an advanced lubricant called ZIC™. In particular, we expanded our product lines to offer 10 packages with about 800 lubricant products as of 2014, by developing original technologies for a higher level of catalyst and process that manufacture the raw material for premium lubricants, including Group II and III lube base oil products. In the future, we will develop various types of products, including automotive lubricants, industrial lubricants and special purpose lubricants, to reaffirm our position as being ranked first for Group III lube base oil products globally, ranked first in the Korean brand preference of finished lubricant products, and ranked first for 16 consecutive years in the brand power survey (as of 2014).

Expanding PX Plants to Maximize Value Added: SK Incheon Petrochem

SK Incheon Petrochem aims to secure optimized competitiveness through maximizing value added. Due to diversifying the business lines through expanding and upgrading production lines of condensate-based products in 2014, SK Incheon Petrochem added an annual capacity of 1.3 million tons of paraxylene (PX), which is the raw material for polyester, to become Korea's largest producer for a single business site. As such, SK Incheon Petrochem strives to become a leading global oil and petrochemical company by acquiring world-class productivity.

Optimizing through Diversified Imports & Exports of Crude Oil and Products: SK Trading International

SK Trading International pursues the optimization through the diversification of crude oil imports and products exported by utilizing local experts and infrastructure. We increase the purchase of feedstock from the Middle East and offshore area, including crude oil, heavy oil and naphtha, to reduce the introduction costs and purchasing risks related to feedstock. Besides our major export markets in Asia, we are increasing exports of petroleum products to Europe, Africa, the Americas and Central and South America. In particular, we establish a sustainable growth foundation by strengthening the local marketing network focused on regions that are expected to achieve high growth rates like the US, Australia and Southeast Asia.



SK Trading International's Global Imports & Exports

Accelerating Global Growth

Issue Definition

International oil prices dropped due to the sluggish demand of emerging nations and the conflict between the US and the Middle East to gain the leadership made it difficult for the domestic oil refining industry. While uncertain business environments are expected to continue, we worked towards establishing a sustainable growth foundation to overcome the crisis by reinforcing internal stability and expanding businesses abroad.

Business Review

In the case of Korea's petroleum business, changes in the market environment led to more intense competition between oil refinery companies. As such, it is necessary to create economic performance through business strategies for revitalization, such as tapping into overseas markets, while also securing long-term growth engines.

Sustainability Review

Increasing business opportunities by tapping into overseas markets is an important factor of sustainable management practices. Therefore, companies need to satisfy the stakeholders, including shareholders and customers, by entering into a market that is highly profitable to expand businesses and dominate the market.



Key Figure

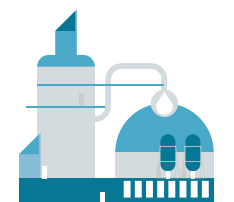
Blocks in Holding

15 Countries 22 Blocks



LNG Projects

4 Countries 4 Projects



Accelerating Global Growth

Strengthening Global Partnership

Accelerating Localization by Establishing Regional Base Oil Production Systems

SK Lubricants strive to drive overseas expansion by establishing regional base oil production systems in Asia and Europe. In Asia, we set up Patra SK with Pertamina in Indonesia to run a lube base oil plant locally, as well as having a production plant for finished lubricants in Tianjin, China. In accordance with Europe's environmental standards being strengthened recently, we began the commercial production in full scale starting from October 2014, including establishing a joint venture company called Iberian Lube Base Oil Company with Spain's largest energy company, Repsol, and constructing a lubricant production plant in Cartagena, Spain. In order to gain global market share, SK Lubricants plans to accelerate global growth based on various strategies for localization in the future, such as setting up a joint venture company and agreeing to strategic alliance.



A production plant for lube base oil in Cartagena, Spain.

Dominating the EV Battery Market in China

In order to enter into the Chinese market that has emerged as the world's largest EV market, SK Innovation set up a joint venture with Beijing Electronics Holding and Beijing Automotive Industry Holding in China named BESK Technology. BESK has a battery package production line in its plant in Beijing to produce automotive batteries. Since the second half of last year, BESK supplies EV batteries for Beijing Automotive Industry Holding's ES210 and EV200, especially ES210 EV has been used as the official vehicle for the APEC (Asia-Pacific Economic Cooperation) held in November, 2014. In cooperation with BESK, SK Innovation plans to grow into the No.1 EV battery company in China.



ES210 EV chosen as the official vehicle at the APEC.

Expanding Investments Globally

Securing a Bridgehead for Entry to the US Market by Developing Unconventional Resources



A drilling site for developing unconventional resources in Oklahoma, US.

SK Innovation has started to participate in projects for developing unconventional resources, including shale gas and oil, conducted by the US oil development companies. Unconventional resources are oil resources that had not been developed due to technological limitations and high development costs associated with the traditional methods, but economical mining is allowed now as a result of the latest new technologies being developed. Most representative examples are tight oil and gas including oil sands and shale oil & gas. SK Innovation plans to expand its unconventional resources development projects in the US, which is the home base of the Shale Gas Revolution by internalizing the technologies and know-hows on horizontal boring and hydraulic fracturing offered by the US oil development companies. In the future, we will continuously enhance our competencies in projects for unconventional resources, to extend global projects from North America to cover South America and China.

Diversifying Entry into the Chinese Market

SK Global Chemical joined hands with China's largest state-run petroleum company, Sinopec, to construct a Naphtha Cracking Center (NCC) in Wuhan City and initiate full commercial production. With a gross production capacity of 2.5 million tons of petrochemicals, including 800,000 tons of ethylene, 600,000 tons of polyethylene and 400,000 tons of polypropylene, we recorded profits in only one year after starting commercial production, by achieving sales of 18.4 billion yuan in 2014. As a result of the successful Wuhan project, we established the foundation for tapping into overseas markets to create economic profits, while also securing a production base for petrochemicals in the Chinese market. In addition, we plan to set up the Ningbo-SK Synthetic Rubber Co., Ltd in collaboration with the Ningbo Municipal Government and start commercial operation in April 2015, to provide an annual EPDM production capacity of 50,000 tons. This is very meaningful because it is the first large project being implemented in China, led by SK.



A complete view of Wuhan plant in China.

Expanding the World's Top Three Oil Logistics Hubs

Besides the Middle East (branch in Dubai), SK Trading International has overseas subsidiaries and branches in the world's top three oil logistics hubs, including Singapore (subsidiary in Singapore), Europe's ARA (Amsterdam, Rotterdam, Antwerp), and the US's Gulf Coast (subsidiary in Houston). Major overseas subsidiaries enhance their trading professionalism by hiring local traders and operating storages. In the future, we plan to expand our global competitiveness through acquiring hubs with high growth potentials and recruiting local human resources.

Actively Implementing Domestic Marketing

SK Innovation provides a variety of customized services that place top priority on customers' convenience to increase domestic market share. Through these efforts, we ranked first in the domestic market share for sales volume of light oil (SK Energy) in 2014. In the future, we will strengthen our position as the No.1 oil company in Korea by actively implementing marketing strategies.

Promoting Synergy Marketing

SK Innovation provides convenience to customers through strategic alliances and joint marketing strategies with other industries besides the energy industry, while also striving to strengthen brand competitiveness.

Increasing Multi-purpose Gas Stations

While holding the largest number of gas stations in Korea (as of the end of December 2014), SK Energy aims to strengthen the competitiveness of each gas station, while also improving the accessibility of customers. Besides providing the existing services of car wash and maintenance for customers using the gas stations, we expanded them into multi-purpose gas stations by exploring various types of non-oil businesses that meet the characteristics of customers and the commercial districts of gas stations. We plan to improve profitability by incorporating various types of non-oil businesses that make profits, including fast food franchises, convenient stores and marts, and strengthen the struggle for survival to gain market share in the domestic market.



A multi-purpose gas station with self-service in Sangjin, Daegu.



A Haengbok multi-purpose gas station in Incheon.

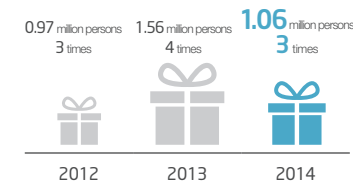
Operating Web and Mobile Services

We provide diverse services to our customers by operating SK Energy's marketing website (www.enclean.com). Recently, we attempted to actively implement customer-oriented activities, including opening a mobile Enclean app based on smart phones.



enclean.com
(www.enclean.com)

Customers that Participated in 3,000 Privilege Points



Offering Membership and Promotional Benefits

Since introducing the concept of membership to the oil business for the first time in Korea, SK Energy offers all Enclean Bonus Card holders with 0.1 percentage of their purchase in SK Cashbag points for filling up gas at SK gas stations and 0.5 percentage of their purchase in SK Cashbag points for using its charge stations. Besides this, we provide services that give discounts of up to 100-150 KRW per liter and accumulate points from it through various alliance cards available. Moreover, we actively develop more alliances cards through an alliance between SK Energy and all card companies. Starting from 2012, we started the campaign of 3,000 privilege points that allow customers to receive at least seven times more gifts than the customer points. According to the customer survey conducted regarding the campaign, it showed that the final customer satisfaction level scored 4.2 points out of 5 points.

Customer Survey

| Final Customers | Distribution Customers |
|-----------------------------------------------------------------------|---------------------------------------------------------------|
| Levels of customer satisfaction (a perfect 5 point) 4.2points | Levels of customer satisfaction (a perfect 5 point) 4.0points |
| It was effective in improving the brand image of SK Gas Stations. 98% | |
| It resulted in a positive impact on choosing the SK Gas station. 96% | |
| I felt the value of points more than before. 97% | Realising the contribution to gas station businesses. |
| I will participate again next time. 100% | It was effective in managing customers. 75% |

Improving Customer Value

SK Innovation operates diverse channels to gather customers' opinions. We improve the reliable relationship with our customers by reinforcing our services through these channels, while also enhancing our brand image.

Promotion of CS Standards and Checking on the CS Levels of Gas Stations

By developing the SK Gas Station CS Guidelines as CS standards for SK gas stations and promoting it on the site, we aim to provide standardized services to our customers. Also, we run an on-site CS monitoring system at all of the SK gas stations to check the customer satisfaction level together with a professional research institute. The evaluation results are analyzed and sent to the gas station individually to be used for future improvements.

Collecting Voice of Customer (VOC)

At SK Innovation's SK Energy Customer Happiness Center for its customers, skilled CS attendants specializing in their respective service areas promptly address customer inquiries and complaints. The VOC feedback process allows the company to continuously improve the process to improve customer satisfaction level.

Protecting Customer Information

In order to safeguard the privacy of the Enclean membership holders, we make sure that leakage of customer information is prevented by using the latest version of anti-virus program and always encrypting customer information. In addition, we established the Security Operation Center (SOC), which reinforces the information security management and limits only a handful of trained employees to have access to handling customer information. Meanwhile, we provide on-line and off-line training programs to all employees at the group level in SK, aiming to raise the employee awareness of protecting customer privacy.

FOCUS 2

SHE competitiveness at the global level

Background

The variety of variables surrounding the business environment, such as the growing consequences of climate change affecting the earth environment and the number of industrial safety accidents increasing, not only have direct and indirect impacts on local communities, but also on the company's sales. Also, the interests of the government, academia and industry have grown to establish a response system and take a more pro-active management style on SHE (Safety, Health, Environment) issues to achieve sustainable growth. In this regard, major companies are establishing reliable relationships with their stakeholders by adopting a proactive management style focused on SHE issues and sharing relevant information with stakeholders transparently.

Response

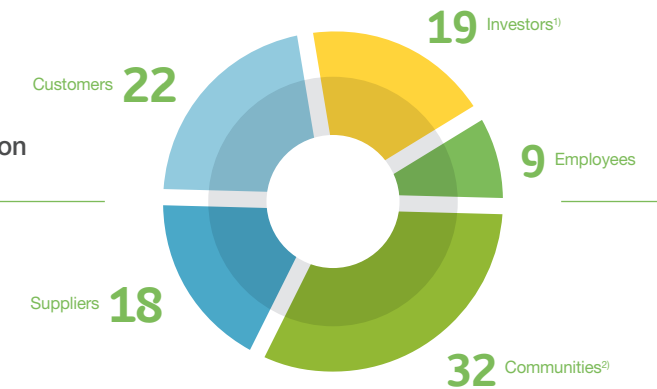
SK Innovation is focusing on reinforcing its competencies of SHE management to systematically respond to policies and systems on climate change that will be newly introduced, while also maintaining and improving the SHE management system at the global level. In this regard, we will internalize the SHE culture and expand investments on the environment and upgrade facilities to meet global standards. Also, we strive to secure global competitiveness by actively investing in reducing GHG emissions and energy consumption and improving energy efficiency.



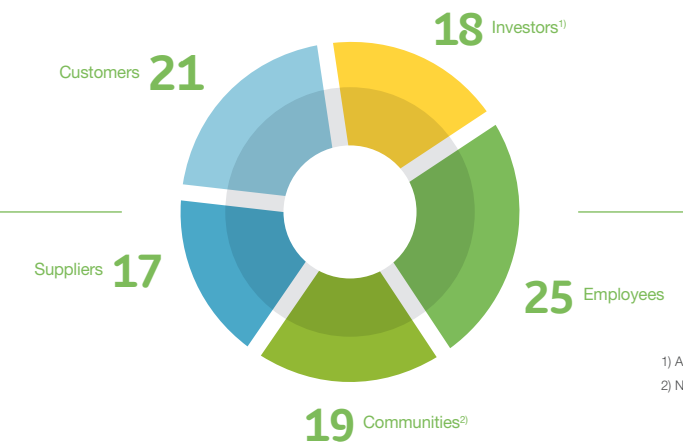
Stakeholder Survey

According to the result of analyzing major areas of issues in 2014 aimed at SK Innovation's five stakeholder groups, the highest interest shown in securing SHE competitiveness at the global level, were issues related to managing energy consumption and GHG emissions and implementing SHE management at the global level. In particular, high interests were shown by local communities in the case of issues related to managing energy consumption and GHG emissions, with employees showing high interest in issues related to SHE management at the global level.

Management of Energy Consumption and GHG Emissions (Unit: %)



Implementing SHE Management at the Global Level (Unit: %)



1) Analysts, institutional investors, etc.
2) NGOs, social welfare institutions, etc.

Performance and Future Plan

SK Innovation will implement various activities to secure the SHE (Safety, Health, Environment) competitiveness at the global level. We aim to bring out the best results by enhancing the emergency response system to meet global standards and establish an implementation system to address and comply with the laws and regulations related to the Emissions Trading Scheme, which will be implemented starting from 2015. In the future, we plan to continuously upgrade the SHE management system, while also increasing investments to improve the SHE competitiveness of all employees and suppliers and establish an advanced SHE culture.

Management of Energy Consumption and GHG Emissions



Q Issue Definition

In order to respond to global climate change, the necessity of strategic management on energy consumption and GHG emissions has been raised. Therefore, efforts have been made to reduce major energy resources by leading global companies, including improving facility efficiency and establishing the database for resources used, with many stakeholders taking interest in moving closer to implementing green management in the future.

Business Review

Abnormal climate and environmental changes can cause unexpected losses to the company's businesses and management practices, which may block new investment opportunities by increasing costs associated with it. However, a company that adapted to these changes with environmental management, including effective management of energy and GHG emissions, is able to discover new value through differentiated competitiveness.

Sustainability Review

Maintaining the balance of our Earth's ecosystem and conserving resources for future generations and social value, are opportunity factors for achieving long-term development. It is necessary for companies to continuously participate in environmental protection activities, including reducing energy consumption and GHG emissions and making investments in technology development.

Key Figure

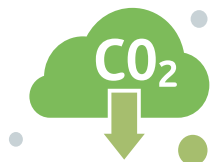
Energy Consumption in 2014

208,860 TJ



GHG Emissions in 2014

13,311 thousand tCO₂eq



Building a Response System to Climate Change

Building a GHG & Energy Management System (GEMS)

SK Innovation operates its own GHG & Energy Management System (GEMS) in connection with its Operation Information System (OIS). The GEMS gathers all the necessary data to automatically calculate GHG emissions from the OIS, allowing us to manage GHG emissions systematically. In addition, SK Innovation is in the process of improving its system, so that various information required for the Emissions Trading Scheme can be handled at the same time.

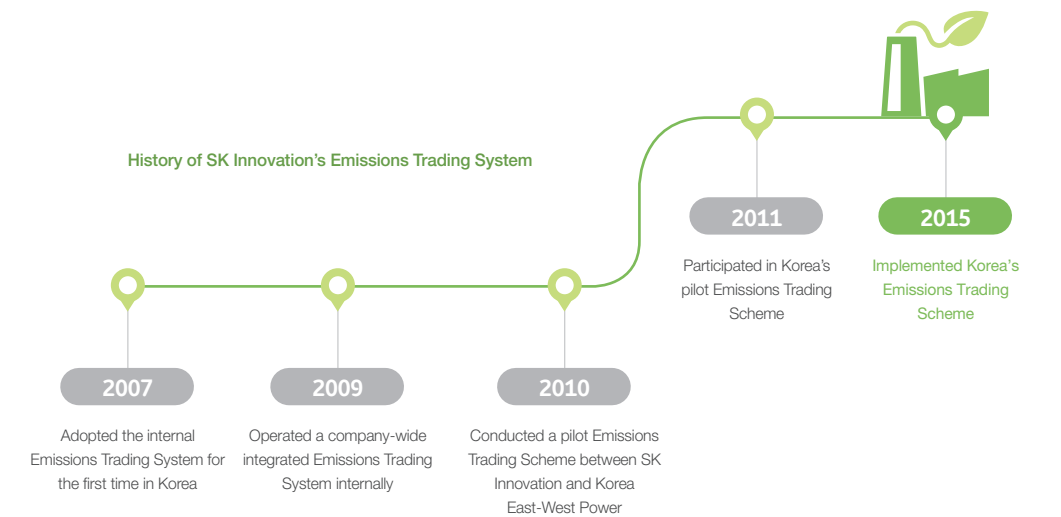
Responding to the GHG & Energy Target Management System

Since SK Innovation's subsidiaries, including SK Energy, SK Global Chemical, SK Lubricants and SK Incheon Petrochem, have been designated to the GHG & Energy Target Management System, we have been managing GHG emissions and energy consumption in accordance with the government's Target Management System Guidelines. With the mandatory target management system ending in 2014, we will faithfully comply with laws and regulations and reduce GHG emissions by building an implementation system focusing on the newly introduced Emissions Trading Scheme that starts in 2015.

Implementing the Emissions Trading Scheme (ETS)

As part of its efforts to reduce GHG emissions, the Korean government has been implementing the Emissions Trading Scheme (ETS) starting from 2015. In response to this, SK Innovation was the first company to adopt an internal Emissions Trading System in Korea. Based on the accumulated experiences from operation, we do our best to respond to climate change. In particular, we strive to adapt to the ETS by establishing an implementation system at the company-wide level and operating a GHG management system. SK Innovation will strengthen its competitiveness in the industry by actively utilizing the ETS, such as covering a shortage of allowances in the short term, and reducing its GHG emissions at the same time, thereby taking the lead in creating environmental value.

History of SK Innovation's Emissions Trading System



Management of Energy Consumption and GHG Emissions

Energy Conservation Campaigns

Adopting Electric Vehicles (EV) for Business Use and Installing Charge Stations

Starting from 2012, SK Innovation adopted electric vehicles (EV) for business use and installed charge stations, so that as of 2015, there are 4 Soul EVs, 1 Ray EV, 8 slow chargers and 1 fast charger at our Head Office. While reducing the use of fuel by using EVs, we also raise the awareness internally and externally on the use of new and renewable energies.

Enhancing the Efficiency of Internal Energy

SK Innovation's Head Office building utilizes an Ice Thermal Storage System that takes advantage of idle electricity after midnight to make ice, which is reused to create cool air during the day when air-conditioning the office building, allowing us to save approximately KRW 300 million in electricity bills annually. In addition, we adopted the Building Energy Management System (BEMS) to optimize the operating hours and settings of various facilities, which reduced carbon emissions by 17.3%. As a result of these performances made, we were selected as an Outstanding Eco Mileage Organization by the Seoul Metropolitan Government in 2014.

Reducing GHG Emissions at the Head Office Building

(Unit: kgCO₂)

| Category | 2013 (April-September) | 2014 (April-September) | Increase/Decrease |
|-------------|------------------------|------------------------|-------------------|
| Electricity | 3,203,908 | 2,708,932 | 15.4% reduction |
| Gas | 347,507 | 224,034 | 35.5% reduction |
| Waterworks | 10,544 | 9,944 | 5.7% reduction |
| Total | 3,561,959 | 2,942,910 | 17.3% reduction |

* Based on the data submitted to the GU office for being selected as an Outstanding Eco Mileage Organization in the second half of 2014.

Recycling Outside Energy

SK Innovation enhances energy efficiency by implementing a collective energy project that provides a stable supply of steam to neighboring companies by recycling and reusing its surplus resources. Furthermore, we turn gas generated from the Seongam Sanitary Landfill in Ulsan into fuel, which is supplied to Kumho Petrochemical Co., Ltd. and a waste incineration plant in Ulsan, to make the most of biomass resources.

Energy Use in 2014

(Unit: TJ)

| Classification | Direct energy | | Indirect energy | | Total amount |
|----------------------|---------------|-------------|-----------------|--------|--------------|
| | Fuel | Electricity | Electricity | Steam | |
| SK Innovation | 944 | 1,950 | | 0 | 2,894 |
| SK Energy | 65,053 | 17,209 | | 8,727 | 90,989 |
| SK Global Chemical | 55,620 | 10,292 | | 12,846 | 78,758 |
| SK Lubricants | 2,199 | 1,225 | | 2,344 | 5,768 |
| SK Incheon Petrochem | 23,817 | 6,446 | | 186 | 30,449 |
| Total | 147,633 | 37,122 | | 24,103 | 208,858 |

Implementing SHE Management at the Global Level

Issue Definition

Companies can implement SHE management more effectively for its employees, worksites and local communities through the system management. In particular, the social demand for SHE management has increased due to the series of big accidents that occurred recently, which resulted in the importance of building a SHE management system that reflects the company's differentiated competitiveness.

Business Review

If a company neglects the SHE management, it can bring a huge loss to the business and cause big accidents. Moreover, it will put the company at a disadvantage if it fails to meet the strengthened environmental regulations, such as restricting business activities. However, we can gain the trust of our society if we set up SHE guidelines that are above legal standards and transparently disclose the results.

Sustainability Review

The SHE management is an essential factor for achieving sustainable development. Managing and addressing SHE issues, including running a safe worksite, improving employees' health and minimizing pollutants, are not only social responsibilities that corporate citizens should keep, but they are also needed to establish reliable relationships with stakeholders and achieve mutual prosperity.



Key Figure

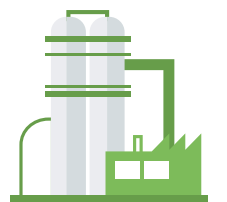
2014 LTI¹⁾

0.16



2014 UCL²⁾

0.208

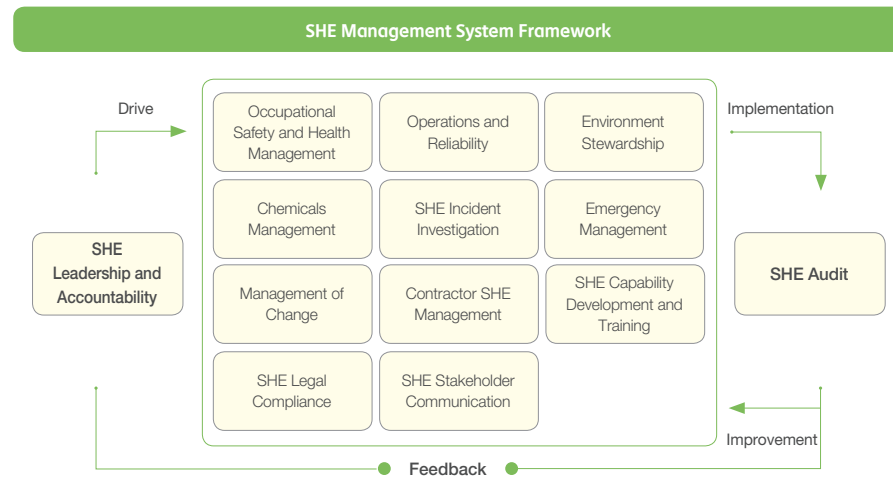


1) LTI: Lost Time Incident rate, the ratio of lost time injuries for every 100 persons working approximately 1 year (2,000 hours)
2) UCL: Unplanned Capacity Loss, the ratio of lost time volumes due to accidents compared to the annually planned operating hours (%)

Implementing SHE Management at the Global Level

SHE Management System

SK Innovation recognizes that the SHE (Safety, Health, Environment) management practices are essential to achieve the company's sustainable development. The SHE Division is a company-wide organization overseeing SHE management that fulfills the role of upgrading the SHE management system to meet global standards, while also raising the employee awareness on SHE issues and establishing an advanced system to meet legal compliance. Instead of the traditional notion of social responsibilities, such as reducing accidents and pollutants, it is essential to have a SHE management system with global competitiveness to achieve sustainable growth and gain the trust of the society. As such, we set up a company-wide SHE guidelines and work procedures to be implemented. Meanwhile, we strive to ensure continuity in the implementation by securing the control of SHE management leadership and establishing SHE audit practices.



Building an Emergency Response System at the Global Level

Recently, the social demand for the company's emergency response system has increased due to the series of big accidents occurring. Therefore, SK Innovation enhanced its emergency response system by benchmarking the best practices of foreign companies from abroad, while also focusing on three major areas, including reinforcing on-site emergency responses, strengthening emergency response management for big accidents and enhancing emergency response capabilities.

Major Improvement Directions



Reinforcing On-site Emergency Responses

In order to encourage quick emergency responses on the site, SK Innovation offers a clear operational rule, which stipulates primarily protecting life and environment and then protecting assets and images after that. All rights associated with on-site emergency responses are given to the highest-ranking officer at the worksite, while also improving the responsiveness by coming up with a clear standard for internal and external reporting. Meanwhile, we improved our emergency response grade system to stipulate the operation of an integrated crisis management committee, so that the corporate image and the possibility of accident expanding are taken into consideration besides the existing scope of losses when calculating the grade.

Operational Rule for Emergency Response



Strengthening Emergency Response Management for Big Accidents

SK Innovation re-established the relationship between the Head Office and worksites' emergency response management in detail to minimize damages caused by an accident occurring at the worksite, quickly. The Head Office focused on securing sustainability management at the company-wide level and improving on-site emergency responses. Also, we newly adopted the operational rule for emergency response meetings to respond quickly to issues that were difficult to address in big accidents only, with a detailed manual. Meanwhile, in the case of a big accident, we ensured accurate and efficient communication in writing by adopting it as a report form in the emergency response plan.

Adopting the Operational Rule for Emergency Response Meetings



Enhancing Emergency Response Capabilities

SK Innovation strives to strengthen emergency response training, including clarifying training item and cycle and making it mandatory to submit the training report. We enhance management capabilities by regularly reviewing and monitoring the emergency response system and frequently checking on changes made to the organization and human resources.

Safety and Health Management at Worksites

Running a safe and healthy worksite is the basic factor in achieving sustainable and stable business growth. SK Innovation has thoroughly implemented the safety and health management, such as monitoring the levels of implementation and risk factors found from the worksites' safety and health management and conducting safety training, contributing to enhancing the health of all employees and preventing industrial safety accidents. Furthermore, we strive to improve the safety and health management capabilities of our suppliers.

Safety Control at Worksites

In order to proactively prevent safety accidents at worksites, SK Innovation adopted the Process Safety Management (PSM) system supervised by the Ministry of Employment and Labor. By monitoring the process and safety regularly, we manage the whole process, which resulted in 7 plants out of 14 plants earning the highest grade 'P' grade as of the end of 2014, with the remaining seven receiving the second highest 'S' grade. We plan to continue implementing process safety management practices to earn 'P' grade for all plants subject to the PSM grading, while also holding various safety training to enhance the employees' SHE competencies and create the SHE culture.

Employee Health Management

In order to create a healthy workplace for our employees, SK Innovation operates various facilities and programs. At the Ulsan Complex, we have an Industrial Health Center with doctors and nurses on full-time standby. The center also has an affiliated clinic, physical therapy room, physical strength testing & exercise room as well as medical equipment to assist employees' health management. In addition, we upgraded the regular health check-up to total health check-up and a Health Management Center at the Tech R&D Center has been installed to provide a more systematic support to employees' health management. At the same time, the Head Office, Ulsan Complex and Tech R&D Center operate Sports Centers to help employees and their families keep healthy.

Safety Control at Suppliers' Worksites

In accordance with the basic policy that the suppliers' SHE competencies have to be enhanced for its sustainable competitiveness, SK Innovation operates various programs to support enhancing the safety management practices of suppliers.

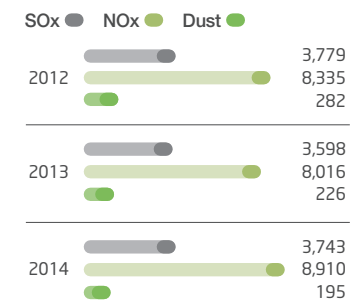
Support for Building Suppliers' Safety and Health Management System

SK Innovation supports its suppliers' safety management levels to remain above the level of legal compliance, so that the suppliers' employees can feel proud at the high levels. To achieve this, we are implementing the project to help our suppliers acquire the KOSHA and OHSAS 18001 certifications in collaboration with the Korea Occupational Safety & Health Agency (KOSHA). Under the slogan of Achieving Safety Together in 2015, a total of 41 suppliers are provided with support programs where SK Innovation helps out in building a safety and health management system, including supporting consulting costs.

Pollutant Control

SK Innovation applies its own strict environmental standards that include managing air pollutants, water pollutants and wastes. We strive to reduce the environmental impacts by conducting the environmental impact assessment on the production process regularly, while also doing it on an ad hoc basis when changing the processes and work methods and purchasing raw materials.

Air Pollutant Emissions (Unit: Tons)



* Based on worksites in Ulsan (SK Energy, SK Global Chemical) and Incheon (SK Incheon Petrochem).

Air Pollutant Control

In order to limit the levels of air pollutant emissions, SK Innovation adopted the Tele-Metering System (TMS) for pollutant emissions monitoring and periodic check-ups at its major facilities where air pollutants are discharged. At the same time, we control odors to maintain a clean and pleasant environment, while also operating VOC to address environmental issues arising from neighboring areas.

Water Pollutant Control

SK Innovation is striving to enhance the efficiency of water use and its wastewater treatment capabilities. Besides installing a remote water quality monitoring system and highly efficient biological wastewater treatment system called the Membrane Bio Reactor (MBR), we manage the water quality of wastewater by using our original technology of WAO*. Also, water that contains corrosive materials generated from the production process is reused as water to remove salt after reprocessing, with some of the reclaimed water used for fire extinguishing and watering gardens.

* WAO: Wet Air Oxidation

Wastewater Treatment

| Worksite | Treatment Facility | Treatment Method | Destination |
|--------------------------------|----------------------------------------|---------------------------------|--------------------------------------|
| SK Energy (Ulsan) | Ulsan CLX Wastewater Treatment Plant | Biological + Advanced treatment | Public bodies of water (East Coast) |
| | No. 2FCC Wastewater Treatment Plant | Biological treatment | Youngyeon Wastewater Treatment Plant |
| SK Global Chemical (Ulsan) | PE/PP Wastewater Treatment Plant | Physiochemical treatment | Yongam Wastewater Treatment Plant |
| | EPDM Wastewater Treatment Plant | Biological treatment | Yongam Wastewater Treatment Plant |
| SK Incheon Petrochem (Incheon) | Incheon CLX Wastewater Treatment Plant | Biological + Advanced treatment | Gajwa Wastewater Treatment Plant |

Waste Discharge Volume (Unit: Tons)



* Based on worksites in Ulsan (SK Energy, SK Global Chemical) and Incheon (SK Incheon Petrochem).

Waste Control

SK Innovation manages waste generation through its own waste treatment system and periodic on-site inspections. In the case of waste oil, which is a designated waste, it is reused by sending it to renewable fuel plants. We also promote recycling waste at the company-wide level by holding recycling training programs for our employees and suppliers.

FOCUS 3

Mutual growth with suppliers

Background

Suppliers are the key partners for achieving mutual prosperity and development. Through mutual growth with suppliers, companies can achieve sustainable growth and fulfill their social responsibilities at the same time. Therefore, it is necessary to achieve mutual prosperity with suppliers by conducting transparent performance evaluations on them and providing customized support to enhance their competencies. Also, establishing a cooperative corporate ecosystem that communicates and grows together with stakeholders through various win-win partnership policies and programs emerged as a social issue, contributing to bringing mutual prosperity to suppliers and local communities.

Response

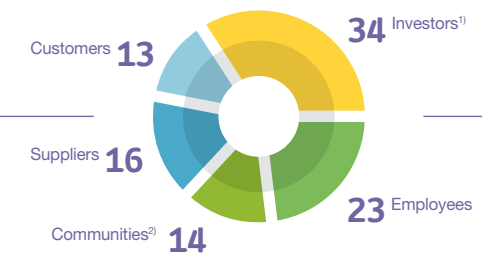
In order to systematically achieve sustainable growth, SK Innovation set up a division to be in charge of mutual growth directly under the CEO to provide high level of support to its suppliers. By providing communication channels for our suppliers and compensating them based on transparent performance evaluations, we make sure the partnership relationship with our suppliers is the top priority in SK Innovation's management practices for achieving mutual prosperity.



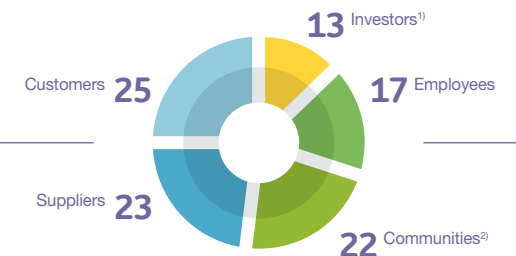
Stakeholder Survey

According to the result of analyzing major areas of issues in 2014 aimed at SK Innovation's five stakeholder groups, the highest interest shown in mutual growth with suppliers was about issues related to helping out with advancing suppliers' technologies, implementing activities for continuous communication with suppliers and conducting transparent evaluation and compensation for suppliers. In particular, investors showed high interest in issues related to helping out with advancing suppliers' technologies and customers in implementing activities for continuous communication with suppliers. Also, customers and investors both showed high interest in issues related to conducting transparent evaluation and compensation for suppliers.

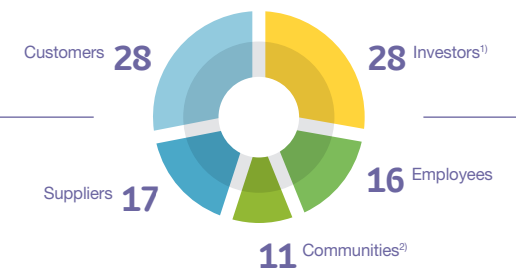
Helping Out with Advancing Suppliers' Technologies (Unit: %)



Implementing Activities for Continuous Communication with Suppliers (Unit: %)



Transparent Evaluation and Compensation for Suppliers (Unit: %)



1) Analysts, Institutional Investors, etc.
2) NGOs, Social Welfare Institutions, etc.

Performance and Future Plan

In order to establish a reliable relationship with suppliers, SK Innovation implements various activities for its suppliers, including expanding support, diversifying communication channels and conducting transparent evaluations and giving compensation. Through these efforts, we were selected as an Outstanding Company for three consecutive years in evaluating mutual growth indexes since 2012. In the future, we will reflect the opinions of our suppliers through various communication channels and establish transparent performance evaluation system and culture by ensuring fair compensation.

Competency Building Programs for Suppliers



Issue Definition

The activities to help out with strengthening the suppliers' competencies set the foundation for sustainable growth. Therefore, establishing an environment where the company can grow together with its suppliers through various support programs, including providing funds and supporting technology development for suppliers, became important in ensuring the long-term development of the company.

Business Review

In the process of creating value through resource development, crude oil refining and sales, cooperation with suppliers is no longer an option but a necessity. The technological value of outstanding suppliers also has a direct impact of reducing exploration and production costs, as well as bringing a positive effect on the supply chain evaluation.

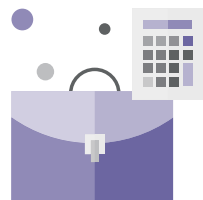
Sustainability Review

While the difficult business environment is expected to continue with the slowdown of growth and profit rates, the social demand is focused on the responsibilities and roles of large companies to achieve mutual growth with its SME suppliers. As a result, various support programs, investments and joint projects are being actively carried out to create opportunities for mutual prosperity with suppliers.

Key Figure

Present Status of Support for Suppliers in 2014

KRW **58.7** billion



Operating Mutual Growth Fund

KRW **49** billion



Educational Support

Since the suppliers' competencies are connected with SK Innovation's competitiveness, various education and training programs are provided for the employees of its suppliers. The costs associated with education and accommodation are all supported by SK Innovation to reduce the burden on suppliers, including Ulsan CEO Seminar, MBA job training, e-learning course and on-line technology education, providing education in areas that need improvement like accounting, finance, marketing, process and equipment.

Present Status of Education Program

| Classification | Target | Contents |
|------------------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Ulsan CEO Seminar | CEO | Education on business management, economy, organizational and change management, domestic and foreign market conditions, current events, etc. |
| MBA job training | Mid-level managers | Education on planning, accounting, finance, marketing, HR, etc. |
| Online e-learning course | Working-level employee | Education on marketing, leadership, HR, accounting, IT, CS, OA, etc. |
| On-line technology education | Working-level employee | Education on process, equipment, inspections of materials, corrosion, equipment, statistical process management, etc. |
| Technology seminar | Working-level employee | Education on market conditions and forecasts of crude oil, naphtha and chemicals, introduction of new products and technologies, etc. |

Safety Management Support

SK Innovation operates a Safety & Health Win-Win program to enhance the health & safety management of suppliers and prevent industrial accidents and disasters. In this regard, SK Innovation and its three subsidiaries, including SK Energy, SK Global Chemical and SK Lubricants, has appointed a Safety & Health Supervisor from each company to hold meetings for the Safety & Health Win-Win program and at the working-level once every quarter and once every month, respectively. In 2014, we held an explanatory session on Risk Evaluation Manual for 67 suppliers to improve their management competencies to ensure a Safety & Health environment. In addition, we are greatly interested in operating a safe environment for our suppliers by making sure they follow the four essential safety regulations at worksites (wearing protective hats, complying with safe work procedures, putting safety marks and holding the safety & health education programs), supporting the suppliers' own safety & health programs and compensating outstanding employees in SHE practices.

Financial Support

In addition to direct funding that lends funds to suppliers, SK Innovation also operates various fund support programs to provide indirect support using network loans and to support credit guarantees through the mutual growth guarantee agreement. In particular, SK Innovation provides financial support to suppliers that need urgent help by operating the Mutual Growth Fund, with contributions of KRW 27 billion and KRW 22 billion from SK Innovation and SK Global Chemical, respectively.

Introducing Win-Win Partnership Programs

Holding a Job Fair for Suppliers

In order to revitalize the regional economy and help our SME suppliers to employ outstanding talent, known to be difficult for small companies, we held a win-win partnership job fair for our suppliers. With about 40 suppliers of SK Innovation, SK Energy, SK Global Chemical, SK Lubricants and other SMEs in Ulsan in attendance, the recruitment process was conducted by each supplier. In particular, we made sure the job fair ran smoothly by receiving applications for prior registration and providing information about the suppliers that will be participating beforehand, through the website. In addition, we offered various programs that are helpful to job seekers, such as lectures on employment and aptitude tests for local youngsters, occupational psychological tests and photo-taking to be used in resumes, so that both job seekers and suppliers were satisfied with the event.

Implementing Activities for Continuous Communication with Suppliers

Issue Definition

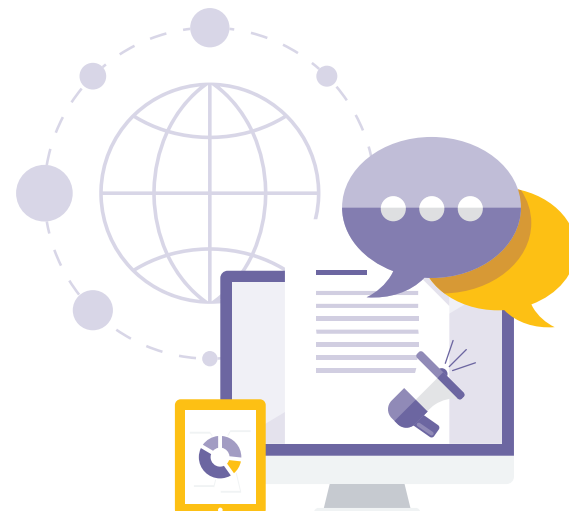
In order to offer customized support that is needed for the sustainable growth of suppliers, it is necessary to have better understanding through endless communication. Therefore, the need to establish various communication channels and using them to seek the optimal way of achieving mutual growth with suppliers has increased.

Business Review

Continuous communication with suppliers not only establishes a close and reliable relationship between the two companies, but it also sets the foundation for enhancing work efficiency by raising the awareness of mutual prosperity. Furthermore, we can look forward to mutual growth and prosperity by identifying the needs of suppliers and providing them with practical support and education.

Sustainability Review

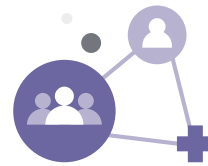
Strengthening partnership and raising the awareness on mutual prosperity through close communication with suppliers are essential in establishing a reliable relationship with stakeholders. Through continuous communication with the suppliers' CEO and employees, we can build the foundation for achieving sustainable growth.



Key Figure

Number of persons attending the Win-Win Partnership CEO Seminar

309 persons



Total number of persons attending regular meetings with equipment suppliers in 2014

699 persons



Communication Channels for Suppliers in 2014

| | | |
|-----------------------------------------------------------------------|--------------------|--------------------------------------------------------------------------------------------------------|
| Win-Win Partnership CEO Seminars | Once a month | Sharing best practices of management innovations for suppliers' CEO, etc. |
| Supplier CEO Seminars | Once a year | Sharing and discussing about suppliers' quality and SHE management plans, etc. |
| Regular meetings with equipment suppliers | Once a month | Holding Safety & Health monitoring and education for equipment suppliers, sharing best practices, etc. |
| Meetings with equipment, inspection, machinery and logistics partners | On a regular basis | Discussing about enhancing the SHE management competencies of suppliers and work expansion plans, etc. |

Win-Win Partnership CEO Seminars

SK Innovation holds seminars for the suppliers' CEO on a regular basis to share management knowledge and know-how. The CEO of each company attends the seminar to raise the awareness of partnership between suppliers to establish a reliable relationship with SK Innovation, by discussing about recommendations to the Chairman of the SK Win-Win Partnership Committee. The recommendations made by the suppliers are reborn as customized support programs to meet the needs of SMEs on the site.

Regular meetings with equipment suppliers

SK Innovation holds a monthly meeting on a regular basis to enhance the SHE (Safety, Health, Environment) management competencies. The regular monthly meetings with about 80 persons in attendance handles safety as the major agenda, contributing to raising the safety awareness of suppliers by sharing best practices of safety & health education and awarding outstanding persons in emergency response management practices. Also, we listen to difficulties that our suppliers face by communicating with the executives in charge of issues related to safe environment and facilities.

Introducing Win-Win Partnership Programs

Win-Win Partnership Consultations and Reports on Unfair Trade Practices

In order to ensure transparent and fair trading practices, SK Innovation operates a channel to report on unfair trade practices and receive win-win partnership consultations. In the case of an unfair trading occurring with a supplier or if there is a recommendation, you can log on to SK Innovation's integrated purchasing system (www.skbiok.com) and SK Global Chemical's website (www.skglobalchemical.com) to receive consultations and report on unfair trading practices. All of the consultations and reports made are confidential and we will create a culture of mutual growth by sharing the measures taken on the applicable case through e-mail.



Transparent Evaluation and Compensation for Suppliers



Issue Definition

Fair performance evaluation and compensation not only motivates suppliers, but are also essential in maintaining continuity in transactions between companies. Therefore, the social interest in establishing a fair business partnership based on transparent evaluation and compensation has increased from the perspective of selecting and managing suppliers.

Business Review

Providing compensations through a fair performance evaluation can increase work efficiency and productivity by raising the motivation of suppliers' workers. Also, it can prevent unfair trade practices between companies by establishing a fair performance evaluation system.

Sustainability Review

By providing fair compensation and benefit, it can enhance the competencies of suppliers as well as revitalize the regional economy. Therefore, besides the periodic evaluation, it is necessary to continuously improve the evaluation system in connection with performance and evaluation.

Key Figure

Periodic Evaluations on Suppliers in 2014

35 companies



Companies that were inspected for using the maintenance service building for free.

41 companies



Periodic Evaluation on Suppliers

In order to provide fair performance evaluation and compensation for suppliers, we conduct periodic evaluation of our suppliers every year to select the outstanding suppliers. In particular, in 2014, we conducted evaluations of a total of 35 suppliers by expanding the scope of evaluation. According to the evaluation results consisting of quality, construction ability and SHE management, we help out with enhancing the performances of our suppliers, such as providing various benefits and requesting for corrective action to be taken.

Profit Sharing

In order to establish a partnership with our suppliers through profit sharing, we came up with profit-sharing initiatives registered with our profit-sharing total management system. By promoting a culture of profit-sharing, we strive to establish a culture of allocating profits that ensure win-win partnership for SK Innovation and our suppliers. As part of these efforts, we focus on developing joint technologies, enhancing work quality and safety management and reducing costs.

Providing Maintenance Building for Free

We are paying close attention to preventing human injuries and safety accidents to improve the levels of work quality and safety management, so that enhancing the facility reliability can be the top priority. We offer the maintenance service building (office space, equipment, utility services) for free to our suppliers that are outstanding in their safety management, allowing residing suppliers to receive evaluations on appropriateness and relocation by reflecting their periodic evaluation results. In 2015, we conducted the evaluation of a total of 41 suppliers, including already residing ones and newly entering ones, with plans to provide more benefits to our suppliers by establishing an evaluation committee in the future to ensure that the evaluation for entering into the maintenance building is transparent and fair.



A complete view of maintenance service building is provided free to suppliers.

Introducing Win-Win Partnership Programs

Selected as the Outstanding Company for Win-Win Partnership in 2014

SK Global Chemical was selected as the outstanding company for win-win partnership for three consecutive years since 2012, with the title given also in 2014. In addition to periodic communication with suppliers, SK Global Chemical was the only petrochemical company to be selected for three consecutive years with high grades in recognition of its systematic support programs, including improving competencies, building R&D infrastructure and enhancing safety management levels. In the future, SK Global Chemical will strive to realize win-win partnership with its suppliers by setting up a cooperative and reliable relationship with its suppliers.

FOCUS 4

Achieve win-win through social contribution

Background

Today it has become mandatory for a company to fulfill its social responsibilities as a corporate citizen, as well as create the economic ecosystem around the company and pursue mutual growth, instead of it being optional. This is very important because it not only enhances the company's image and ensures the independence of the society as a whole, but also contributes to the national economic development.

Therefore, many governments and industries are looking back at the essential meaning of social contribution by seeking ways to achieve sustainable growth by establishing an infrastructure that creates shared value, instead of making a charitable one-time donation.

Response

SK Innovation has provided a new paradigm of social contribution activities that go beyond and above being a charitable one-time donation to resolve social issues and help those in need develop their independence on their own. The representative support activities involve social enterprises.

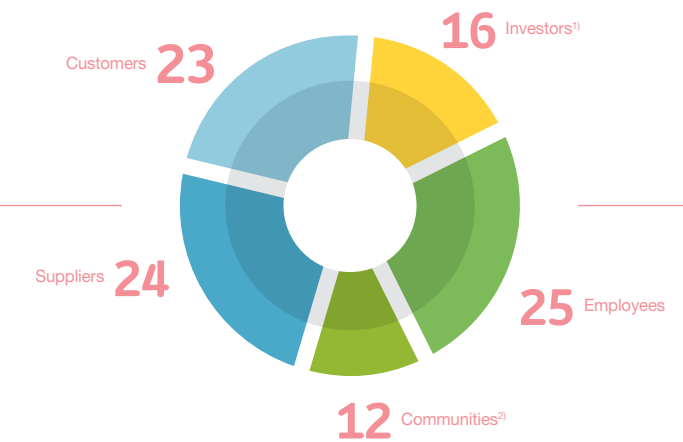
SK Innovation supports the whole process of planning, establishing and operating a social enterprise, thereby contributing to community development by setting up a sustainable business model that creates jobs for the underprivileged. In particular, we take the lead in achieving greater value by exploring social enterprises, support projects and markets.



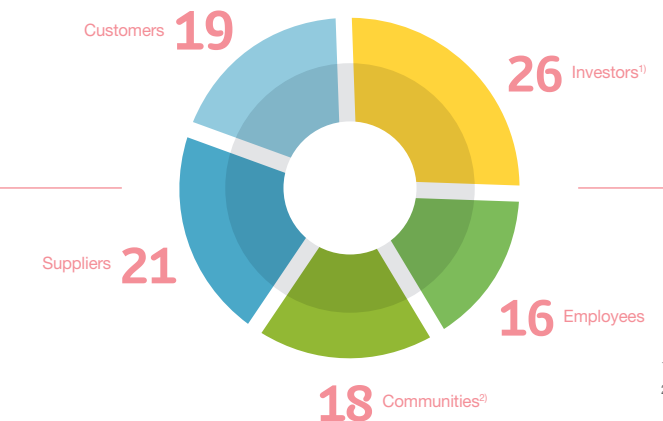
Stakeholder Survey

According to the result of analyzing major areas of issues in 2014 aimed at SK Innovation's five stakeholder groups, the greatest interest shown in achieving mutual growth through social contribution, was with issues related to securing the independence of social enterprises and implementing community-based activities at worksites. In particular, employees showed great interest in issues related to securing the independence of social enterprises and investors in implementing community-based activities at worksites.

Securing the Independence of Social Enterprises (Unit: %)



Implementing Community-Based Activities at Worksites (Unit: %)



1) Analysts, Institutional Investors, etc.
2) NGOs, Social Welfare Institutions, etc.

Performance and Future Plan

SK Innovation implements community-based social contribution activities for a cooperative relationship with local communities. In particular, we will do our best to explore social enterprises and realize diverse ideas to establish and support social enterprises. In the future, we will improve sustainability and independence of social enterprises by supporting management consulting, marketing, and market to promote the ecosystem of social enterprises. Also, we will establish a cooperative relationship with local communities by implementing social contribution activities that bring actual help instead of being just one-time events.

Securing the Independence of Social Enterprises



Issue Definition

A social enterprise refers to a company that conducts profit-making activities to help resolve social problems and allows people to be financially independent. Also, a social enterprise contributes in creating jobs for all parts of the social sector and promoting reinvestments, including generating jobs for the underprivileged and providing social services.

Business Review

Social enterprises distribute benefits to all parts of the social sector by creating value. As such, the support provided for the independence of social enterprises creates a stable climate in the corporate ecosystem and contributes to the national economy.

Sustainability Review

Social enterprises are similar to the existing NGOs or welfare facilities from the perspective of creating social value. However, there is a huge difference in that social enterprises have a structure where social value is created through profit-seeking activities and help the underprivileged to be financially independent. Therefore, our support for the independence of social enterprises contributes to ensuring the stability and sustainability of the corporate ecosystem.

Key Figure

Performance of Farming Promotion Programs conducted by Yachaywasi in 2014

Number of Farms Visited

432 farms

Number of Farms Visited in Other Regions

90 farms

Number of Rural Students Who Participated

98 persons

Number of Cases of Agricultural Technologies Transferred

40 cases



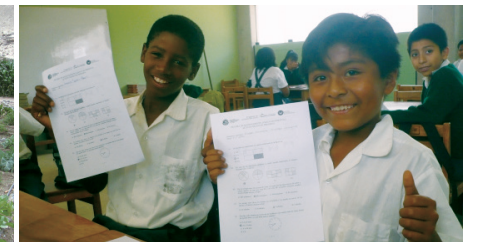
Social Enterprises at Overseas Worksites

Yachaywasi's My Eco-Tech Farm Program Implemented Together with Residents in Peru

Due to the lack of national policies for rural development and insufficient information and technologies, the farming villages in Peru are suffering from extreme poverty and many people are migrating to the cities, which is why Yachaywasi has been set up as a Farming Promotion Institute together with the private sector, government, academia and NGOs led by SK-Prosynergy. As the first global social enterprise set up by a Korean conglomerate outside of Korea, Yachaywasi provides agricultural produce tracing programs on its online platform as well as one-stop services that include supporting farming specialists' visits to local farmers for aid and arranging micro-financing for local farmers to help them be financially independent. Since the first branch of Yachaywasi was established in December 2012, we opened the second branch in September 2013. In 2014, we improved the profit model by tapping into profitable agricultural product markets, such as Maka and Quinoa. In 2015, we plan to continue our support by considering setting up the third branch of Yachaywasi with good responses from the Peruvian government, academia and local farmers.



Complete view of the first branch of Yachaywasi.



My School Program

Present Status of Participation for My School Program

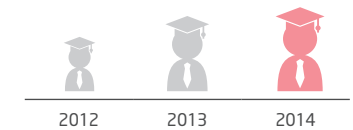
Number of Teaching Staff Who Participated (Unit: Number of Persons)

634 899 **1,126**



Number of Students Who Participated (Unit: Number of Persons)

7,034 9,935 **12,756**



An On-line Platform Participated by Local Teachers, Parents and Students in Peru

In addressing the underdeveloped public education system and low level of interest in education in Peru, SK Innovation has been implementing My School Program to provide opportunities to receive high-quality education. My School Program offers on-line teaching skills and instruction materials to local teachers, students and parents on its website, and also provides various education materials like e-textbooks, on-line library and workbooks. In addition, the program also provides self-assessment, a parental monitoring system and on-line communities for interactive communication between teachers and parents, with off-line educational services offered through the Catholic University of Korea, allowing the teaching skills of teachers to be enhanced and contributing to higher academic achievements of students. The number of users for My School Program offered through the website has shown a gradual increase. SK Innovation will contribute to better education in Peru through continuous support provided for further improvements.

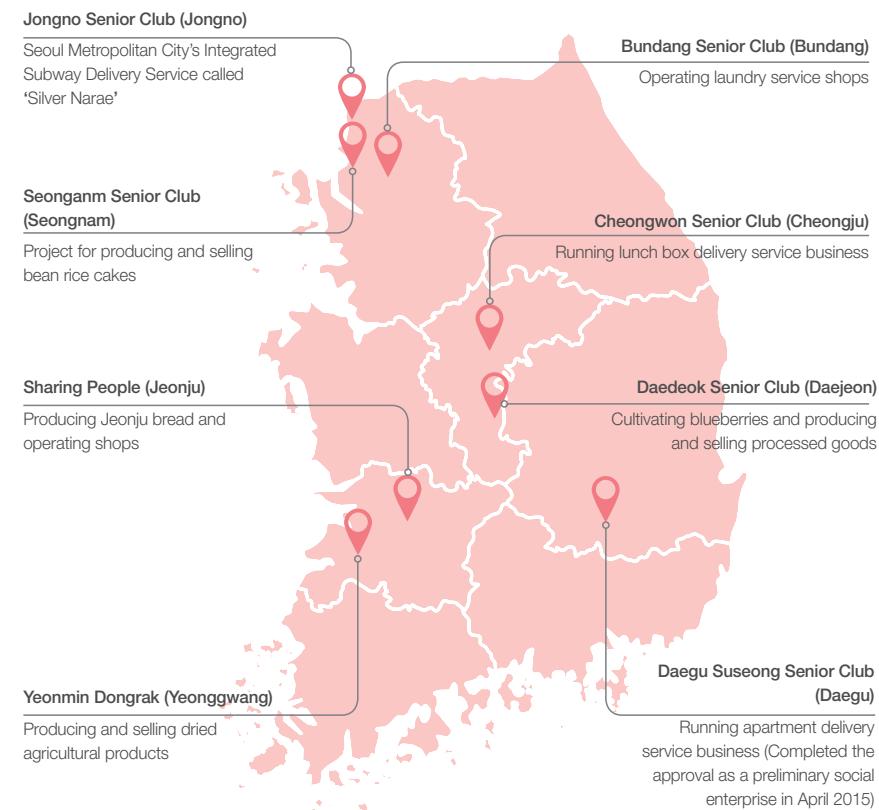
Securing the Independence of Social Enterprises

Social Enterprises in Korea

Exploring and Supporting Social Enterprises

In 2013, SK Innovation was the first Korean conglomerate to start a joint project to explore and support social enterprises in collaboration with the Community Chest of Korea and the Korea Association of Community Senior Club. In addition to tackling social problems, the main purpose of the project aimed at senior citizens is developing a business model that creates jobs with stability and security for the underprivileged. In 2015, we expanded the scope of support to implement the third project for all underprivileged classes, including senior citizens, the disabled, women and multi-cultural households. The business model that has been selected receives various kinds of support required to become a social enterprise, such as funds needed for about three years and know-how on corporate operation, human resources development, labor affairs, accounting and marketing.

Present Status of the Development and Support Projects of Social Enterprises



After selecting four institutions in 2013, we chose four additional institutions (Seongnam Senior Club, Bundang Senior Club, Daedeok Senior Club, Cheongwon Senior Club) as our social enterprises through the second idea contest for projects. The selected institutions are implementing various projects, including selling rice cakes, operating laundry service business, cultivating blueberries, producing and selling secondary processed goods and delivering lunch boxes. About 110 jobs were created for senior citizens through the first and second projects and it is expected that more social value will be created as they turn into social enterprises and the projects stabilize over the years.

Happy Market

In order to acquire and promote markets for social enterprises, SK Innovation opened and operated social enterprise pop-up stores in 2013, and opened a social enterprise market at the Cheonggyecheon Plaza of Seorin Building in 2014. We introduced various products made by social enterprises to SK employees, office workers in neighboring areas and tourists who visited Cheonggyecheon (Stream), including a kit for cultivating mushrooms by using coffee grounds, handmade paper cards where buds come out when you water them, and Tongyong region's traditional quilt products made by migrant women.

Happy Flower Garden

Every spring for years, SK Innovation has been implementing social contribution activities that create flower gardens on a piece of land remaining at the welfare facilities where SK Angels (1004) Volunteer Group work together with social enterprises that produce and sell flowering plants. The Happy Flower Garden Program was implemented annually to greatly improve the satisfaction level of the welfare institutions by increasing sales of social enterprises, enhancing the environment of welfare facilities and diversifying volunteer activities, with thorough follow-up management provided.

Happy Farm

Since starting the support for social enterprises through 24-hour Childcare Center Projects in 2006, SK Innovation has established social enterprises like Mezzanine I-Pack, Mezzanine Ecowon and Grateful Hands in 2008 and 2009. Based on the know-how accumulated over the years from supporting the establishment of these social enterprises, we set up a social enterprise called Happy Farm by participating in the whole process including planning, establishment and operation. Happy Farm is a social enterprise set up to resolve the problems of insufficient green spaces in urban areas and lack of jobs for senior citizens in the aging society. With the profits made through cultivating and selling flowering plants, wild flowers and shrubs, we created jobs for senior citizens (continuous employment of 8 persons as of 2014). Recently, we have been trying to ensure job security by diversifying profits like managing houseplants and delivering flowers. In addition, we signed business agreements with welfare facilities, the mental health and welfare center and daycare centers inside the district of Gyeonggi-do Siheung-si where Happy Farm is located to provide horticultural treatment and farm experiences. In 2014, about 300 local residents including the underprivileged, participated in Happy Farm's activities and received its services.



Bundang Senior Club (Starting Ceremony of Laundry Service Business)



Sharing People (Jeonju Bread Café)



Daegu Suseong Senior Club (Apartment Delivery Service)



Social Enterprises' Happy Market



Happy Flower Garden



Happy Farm

Community-Based Social Contribution Activities

Issue Definition

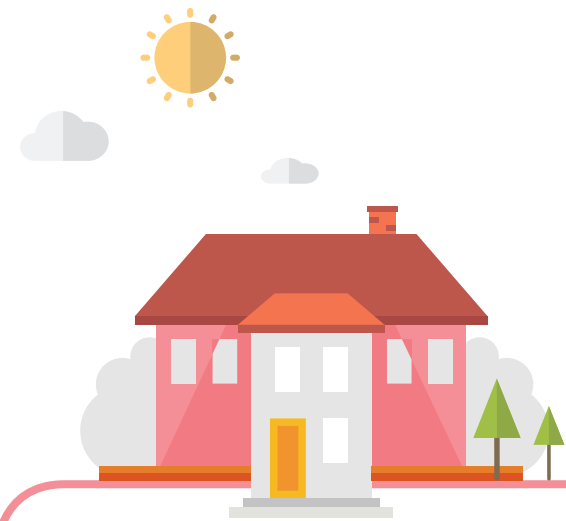
Many companies are implementing social contribution activities for the underprivileged and local residents living near their worksites. As a result, it has become necessary to establish close relationships with local residents for better communication, so that community-based social contribution activities that suit the regional characteristics can be implemented.

Business Review

In order to increase sales and ensure smooth implementation for business activities being conducted, it is necessary to strengthen close relationships with local residents and actively participate in promoting the regional economy. Through communication with local residents and investing in local communities, companies can enhance their image and also establish cooperative relationships with other companies and local communities.

Sustainability Review

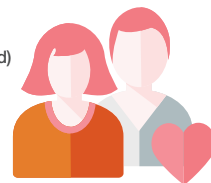
By continuously operating environmental and community-based activities, companies can emphasize the true intention of their social contribution activities and establish trusting relationships with local residents. As a corporate citizen, the trusting relationships with customers will establish the foundation for achieving sustainable growth.



Key Figure

Number of Persons Who Participated in Social Contribution Activities (Accumulated)

10,173 persons



Total Hours of Social Contribution Hours

34,053 hours



Social Contribution Channels by Worksite

Ulsan

- Executive Committee of the Ulsan Youth Counseling Welfare Center
- Operating Committee of the Ulsan Buk-gu Multicultural Family Support Center
- Operating Committee and Advisory Committee of the Ulsan Happy School
- Operating Committee of the Ulsan Gym for the Disabled
- Director and Working Committee of the Ulsan Volunteer Center
- Director of the Ulsan Nam-gu Volunteer Center
- Operating Committee of the Ulsan Social Welfare Community Chest
- Standing Committee of the Korea National Red Cross Ulsan Branch

Incheon

- Operating Committee of Incheon Crime Victim Support Center
- Operating Committee of Incheon Seo-gu Volunteer Center
- Residents' Advisory Committee of Incheon Seo-gu 4-dongs
- Advisory Committee of Incheon Seo-gu Voluntary Crime Prevention Group
- Operating Committee of Incheon Seoknam Patrol Division's Seo-gu Life Safety Council

Environment

"Love Our Environment" Writing Contest

The "Love Our Environment" Writing Contest started off for children in 1993, but changed into a writing contest for children and youngsters who are visually impaired in 2011. Since then, we have expanded it to include children with hearing impairment, intellectually and developmentally challenged and autistic children. In 2014, we allowed not only children from special-education schools, but also children from special classes at regular schools to participate in the writing contest. As a result, about 2,700 special children and youngsters showed off their talents in various categories, including poetry, prose, picture diary, writing beautiful lyrics and "Love Our Environment" reporter sections.



"Love Our Environment" Writing Contest

Energy-Saving Education and Campaign

SK Innovation made 12 pieces of animation, learning games and webtoons under the theme of Saving Energy and provided them for free through Korea's largest on-line company, Junior Naver, which recorded more than 5 million hits as of the end of April 2015. In addition, the contents produced were used in textbooks for Education for Sustainable Development (ESD), which will be used in elementary schools across the nation through MOU with the Ministry of Education. We also participated at Jeju and Ulsan's sharing festival and the Day of Energy event to promote the idea of the importance of saving energy to local residents and children, as well as an exposition for donations towards education hosted by the Ministry of Education with more than 120,000 persons in attendance. In 2015, we plan to provide an energy experience program called Energy Tomorrow for elementary and middle school students across the nation, together with our employees' talent donation in collaboration with the Korea Energy Management Corporation.



An Event for the Day of Energy

Workshop in the Forest of Ulsan Grand Park

In 2006, SK Innovation opened a workshop in the forest of Ulsan Grand Park as an education space for natural learning experience, which was handed over to the Ulsan City and managed directly to contribute in developing the leisure activities and culture of local residents. In 2014, we operated various programs, including wood craft program under free themes, wood craft program held in English, Hanji (Korean paper) craft program, napkin craft program, space maker program and perler beads, to provide happiness to 3,251 Ulsan residents who participated. In 2015, we plan to run a volunteer program that makes gifts for the underprivileged together with middle and high school students in Ulsan.



Ulsan Grand Park (Workshop in the Forest)

Community-Based Social Contribution Activities



Happy Companionship (Happy Green House)

Mutual Growth

Happy Companionship

In 2013, five companies out of about 240 cooperative institutions were selected, including suppliers of SK Innovation's subsidiaries and SK Energy's branches, while seven companies, including Taesung Plant, Daeshin Petroleum, Daegwang Petroleum, Hanyu Energy and Ilshin Chemical, were selected in 2014. As such, we supported running social contribution programs on education, culture, environment and welfare for the underprivileged in neighboring areas of these suppliers located in Seoul, Jincheon, Chungju and Yangsan. Our Happy Companionship celebrated its second year in 2014 to systematically support social contribution programs from the planning stage, which had not been easy for our suppliers to carry out until now, thereby reinforcing their experiences and competencies regarding social contribution activities. Meanwhile, we contributed to improving the quality of life for the underprivileged in the neighboring areas of our suppliers by providing them with better services.



Sharing Books

Local Communities

Sharing Books

In May 2013, SK Energy signed social contribution agreements with the Ministry of Health & Welfare and SBS (Seoul Broadcasting System) to run a program for sharing books by donating them and creating a small library at the Community Children's Center together with SK gas station and refueling customers. To achieve this, SK Energy raised funds for the campaign by contributing a certain amount of money each time a customer buys gas at SK gas stations, while SK gas stations also established a one-on-one relationship with the Community Children's Center in the region to donate a certain amount of money voluntarily. Through these efforts, the total number of books donated in September 2014 exceeded 100,000 books, so that we successfully donated a total of 140,942 children's books by the end of 2014. Meanwhile, we modified and repaired two Community Children's Centers that were out of date in 2013 and turned them into small libraries. This was followed by six centers turned into small libraries in 2014. We also held the second Reading Contest to evaluate reading activities and give funds to support outstanding children and Community Children's Centers.

Netruck House

To promote and improve the welfare of truck drivers, SK Energy runs the Netruck House, a rest area service network exclusively for truck drivers. Since the opening of the first station in Gwangyang in January 2006, the number has increased, and there are currently 14 stations across the nation as of 2015, with plans to construct four new stations.

Job Experience Classroom for Middle School Students

In order to help realize a happy education that develops the dreams and talents of middle school students who are our future generation in the neighboring areas, SK Incheon Petrochem is running the Job Experience Classroom for about 460 students from seven middle schools together with the Incheon Seobu Office of Education. The Job Experience Classroom is a program that invites children to SK Incheon Petrochem's plant to get a better understanding about the energy business and explore careers for the future through various lectures and on-site visits regarding job types and duties. Since the first Job Experience Classroom for middle school students was held in October 2014, it received good responses from local communities, and we also run an energy classroom for elementary school students under the theme of producing and saving energy.



Job Experience Classroom

RESEARCH & DEVELOPMENT

R&D — 64



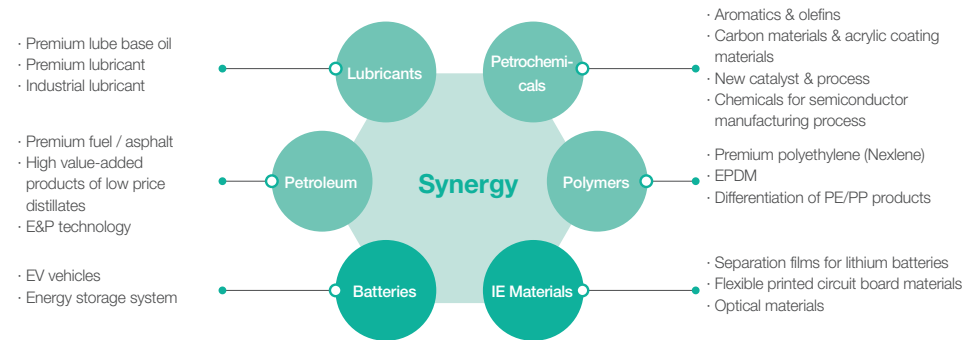
R&D

Providing high-quality products and services through technology development not only strengthens the company's competitiveness, but also acts as a means of providing differentiated value. SK Innovation explores new growth engines and reinforces differentiated competitiveness by conducting R&D in diverse fields.

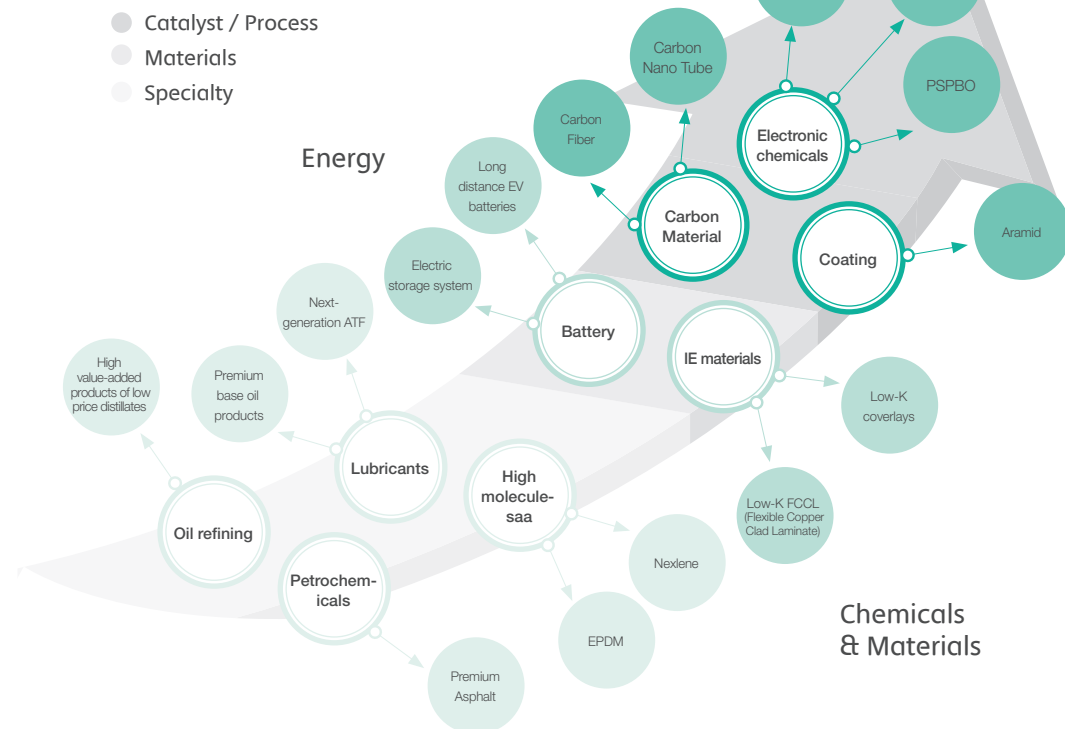
Global Technology

SK Innovation has made continuous investments in developing technologies related to energies and chemicals aimed at promoting competitiveness through innovation and exploring new businesses based on technologies. Global Technology is an organization for developing core technologies in charge of the R&D of SK Innovation and its subsidiaries, including petroleum, petrochemicals, polymers, lubricants, batteries, IE materials.

R&D Fields



Innovation and Growth Strategies for Technology Competitiveness



Introduction by Field

| | | |
|--|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Petroleum | Developing petroleum resources and high-performance petroleum products by continuously developing high-tech petroleum technologies, including technologies for handling extra-heavy crude oil and technologies for increasing supplies Technology for improving crude oil / Environment-friendly and high-performance petroleum products / Asphalt |
| | Lubricant | Producing the premium lube base oil of Very High Viscosity Index (VHVI) called YUBASE™ and the premium lubricant called ZICTM made from it Premium lube base oil (YUBASE™) / High-performance lubricant (ZICTM) / High viscosity base oil |
| | Petrochemical | Possessing independent catalyst and processing technology for producing high value-added aromatic products Olefin technology / Aromatic technology / Petroleum technology / Chemical product technology |
| | Polymers | Developing high-performance polyolefin manufacturing technology and diverse customer-oriented polymers Nexlene / EPDM rubber / On-demand products |
| | Advanced Battery | Developing and producing lithium polymer batteries for EV and batteries for energy storage devices EV batteries / Batteries for energy storage devices |
| | IE Materials | Developing and producing new materials in the fields of IE and energy by using core competencies in polymer and petrochemical FCCL (Flexible Copper Clad Laminates) / Optical films |

Developing Environment-Friendly Technologies : WMA (Warm Mix Asphalt)

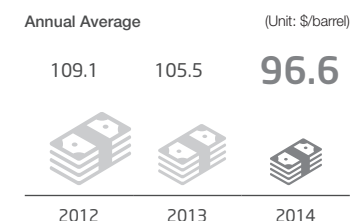
The WMA (Warm Mix Asphalt) technology is an environment-friendly asphalt technology that reduces the manufacturing and construction temperatures of the asphalt mixture by about 30 °C compared to the existing HMA (Hot Mix Asphalt) technology. This technology ensures the original function of the road, and also modifies the asphalt's characteristics so that it is easier to do the coating and compactness at a lower temperature. From the environmental perspective, it has the advantage of reducing CO₂ emissions and fuel consumption and increasing the use of recycled asphalt concretes. Also, from the road function perspective, it reduces damage to roads like potholes formed by strengthening the compactness of asphalt pavement and improving water resistance. According to the Korea Institute of Civil Engineering and Building Technology, it has been established that using the WMA technology helps in reducing CO₂ emissions and fuel consumption by more than 30 percent.

APPENDIX

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Management's Discussion and Analysis

Fluctuations in the Dubai Crude Oil Prices



* Based on Platts for disclosing prices.

International Crude Oil Market

In 2014, the international crude oil market continued to experience excess supply due to the slowdown of economic recovery around the world and the increase in the production volume of non-OPEC countries, including the US. In the case of global crude oil supply, OPEC countries maintained the same level of production as the previous year, but the non-OPEC countries' supply increased 1.9 barrels per day (2.1 percent) from the previous year to record 93.3 million barrels per day. On the other hand, the non-OECD countries achieved the highest economic growth rate for global crude oil demand, but the oil demand decreased for the OECD countries because of the economic downturn in Europe and Japan, to record 92.4 million barrels per day with an increase of 0.6 million barrels per day (0.7 percent) from the previous year. In 2014, the annual average Dubai crude oil price dropped from the previous year's \$105.5 per barrel to record \$96.6 per barrel. Also, the violent fluctuations of oil prices due to increased geopolitical uncertainties like the Iraq crisis resulted in a forecast ranging from the highest price of \$111.23 per barrel to the lowest price of \$53.60 per barrel.

Market Conditions by Industry

Petroleum Industry

Crude oil prices are crucial to petroleum product prices. As Korea depends entirely on imported crude oil, its market is sensitive to the effects of exchange rates and the export policies of oil-producing nations in the Middle East and elsewhere. Since the petroleum industry value chain includes importing crude oil and refining the oil into petroleum products, transporting and storing the product and finally selling it, the crude oil shipped in oil tankers from oil-producing countries is sent to the places where refinery plants are located and discharged to storage tanks near the refinery plants to be imported into Korea. Also, the products are sold differently according to the wholesale prices sold at direct sales places, gas stations and intermediate seller and the retail prices sold at gas stations (or charging stations) for the general consumers. In 2014, the year-to-date petroleum product consumption fell by 4.3 percent from the previous year. With a steady growth in the number of vehicles registered to authorities and an increase in the aerial demands, the domestic demand for gasoline, diesel and aviation fuel increased from the previous year. However, in the case of other types of products, the LPG consumption decreased due to a decrease in the number of LPG-fueled vehicles, the kerosene consumption for heating purpose decreased because of changing to other fuel sources due to the waning need for kerosene-fueled boilers and the distribution of city gas, and the demand for non-transportation use like heavy oil fell compared to the previous year.

Consumption Trends by Type

(Unit: thousand barrels, %)

| Classification | Total | Petroleum | Kerosene | Diesel | Heavy oil | Naphtha | LPG | Others |
|----------------|---------|-----------|----------|---------|-----------|---------|--------|--------|
| 2014 | 822,092 | 73,475 | 15,414 | 144,755 | 31,094 | 396,979 | 89,674 | 70,701 |
| (accumulated) | (100.0) | (8.9) | (1.9) | (17.6) | (3.8) | (48.3) | (10.9) | (8.6) |

* Source: Korea National Oil Corporation Petronet (as of December 2014) / Consumption ratio indicated inside the bracket.

Petrochemical Industry

Basic Chemical Industry I Basic chemical industry refers to a business of basic materials that use naphtha to produce olefin products like ethylene and propylene and aromatic products like ethylene and propylene, so that chemicals like synthetic resins, synthetic rubbers and synthetic fibers are produced. It is a process industry that requires a huge initial investment in plant and equipment where the economy of scale applies because of a high entry barrier and the effect of technological preoccupation. On the other hand, due to the industrial characteristics of producing basic materials by using naphtha that is produced from crude oil, the basic chemical business is sensitive to oil price fluctuations with repetition of downturn and boom according to the global economic and supply-demand conditions.

Chemical Material Industry I Chemical material industry uses basic distillates like ethylene, propylene, benzene and xylene to produce chemical products like synthetic resins, synthetic rubbers and 1,4 BDO (Butanediol). It is one of the key industries for supplying raw materials to core industries like automobile, electronic, construction, pharmaceutical and apparel material. Due to the industrial characteristics, the chemical material industry is sensitive to changes in profitability resulting from oil price fluctuations and business fluctuations of related industries.

Management's Discussion and Analysis

Lubricant Industry

Lubricant industry is an industry that produces finished products by using base oil as its major raw materials. Since the lube base oil is produced through an additional process (vacuum distillation, catalyst) for unconverted oil (UCO) that are made from a high value-added equipment called Hydrocracker during the oil refining process, it is very difficult to enter into the lubricant market other than the oil refiners with large-scale facility investments. The market for lube base oil can be divided into Group I, Group II and Group III according to the quality and function, with different growth rates shown for each market. In the case of the lube base oil (Group I) with lower function and life expectancy of the products, the growth rates have slowed down and it is expected that the demand will decrease in the future. However, the premium base oil (Group II/ III etc.) market is forecasted to maintain high growth rates due to the changes in environmental regulations and demands. The domestic lube base oil market has four oil refiners with refining facilities and high value-added facilities participating in it. Since the domestic demand has exceeded the supply, most of the products are being exported to Asia, the Americas and Europe. Korea's lube base oil market has more than 200 companies competing with one another, including 19 companies registered as full members at the Korea Lubricating Oil Industry Association and other non-registered companies. Major companies include SK Lubricants, GS Caltex, Kukdong Oil & Chemicals, Michang Oil Industry, Dongnam Petroleum Industry, Valvoline, Cals Corporation, S-OIL Total Lubricants and Hyundai Oilbank. In the case of foreign lubricant completed products, there are major oil refiners like Shell, Exxon Mobil, BP, Chevron, Total, Petro China, Sinopec, Fuchs, and Ashland (Valvoline). Since there are many lubricant companies already in place at each region, it is not easy for domestic companies to tap into new markets abroad.

Business Performance by Business Segment

Due to the difficult business environment in 2014 like inventory losses resulting from falling oil prices and continuous weakness in refining margin and PX market, SK Innovation posted KRW 65,865.3 billion in sales on a consolidated basis, which is a decrease of KRW 174 billion from the previous year, with an operating profit dropping KRW 1,637.7 billion from the previous year to record KRW 231.3 billion. The international oil prices that fluctuated around \$107 per barrel at the beginning of the year in 2014 rapidly dropped by about 50 percent to \$54 per barrel at the end of the year due to the global oversupply of oil production such as increased shale oil production in North America and the same level of production from OPEC countries. As a result, there were huge inventory losses in the petroleum business, which also aggravated the oil development business. In the future, SK Innovation is forecasted to be greatly affected by the international oil fluctuations. Most of the experts in the industry predicted weak demands and a rise in interest rates due to the surplus of crude oil supply. Therefore, it is highly likely that the low oil prices will continue for a medium-and short-term basis until there is a sign of improvement in excess supply or there is a full recovery of demands.

Business Performance by Business Segment

(Unit: KRW million)

| Classification | Sales | | | Operating Profit and Loss | | |
|--------------------------------------|------------|------------|------------|---------------------------|-----------|-----------|
| | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| Petroleum Business | 56,588,893 | 49,896,814 | 49,056,300 | 279,070 | 59,662 | (999,031) |
| Chemical Business | 11,835,945 | 12,111,982 | 12,635,174 | 770,567 | 866,967 | 359,189 |
| Lubricant Business | 2,901,055 | 2,786,124 | 2,981,801 | 313,224 | 155,365 | 289,851 |
| Oil Development and Other Businesses | 1,268,572 | 1,244,385 | 1,191,994 | 355,424 | 324,424 | 118,714 |
| Total | 72,594,465 | 66,039,305 | 65,865,269 | 1,718,285 | 1,406,418 | (231,277) |

Petroleum Business

The company's petroleum business sales fell by approximately 1.7 percent from KRW 49,896.8 billion in 2013 to reach KRW 49,056.3 billion in 2014, with the operating profit dropping approximately KRW 1,58.7 billion from the previous year to record KRW 999 billion to show deficits. In 2014, the petroleum business recorded a huge loss due to the continued weakness in refining margin resulting from decreased demands of major importing countries in the region and the inventory losses from oil price fluctuations. In 2015, it is forecasted that the pressure of falling oil prices around the world will continue due to high supply volume compared to the crude oil demands. However, SK Innovation plans to maintain our number one position in the Korean refining industry by maximizing synergies with the largest refinery in operation and running our facilities efficiently with differentiated technologies. Also, we strive to take a step forward to become a global energy company by improving our business structure and reinforcing our expertise, such as strengthening the trading business and setting up a hub for the global market.

Chemical Business

The company's chemical business sales fell by approximately 4.3 percent from KRW 12,112 billion in 2013 to KRW 12,635.2 billion in 2014, with the operating profit dropping approximately 58.6 percent to record KRW 359.2 billion. In 2014, our chemical business showed improvement in olefins, but the market condition of PX products, a representative product of aromatic business, got worse to post a huge fall in operating profit from the previous year. Due to the downstream of market conditions like PTA and the expansion of large-sized facilities in the region like China, the PX spread fell substantially from the previous year. In 2015, it is forecasted that the PX market condition will turn around somewhat as a result of the number of facilities being expanded decreasing. In order to overcome the limits of domestic market and achieve continuous growth, SK Innovation will establish sales channels in China, Southeast Asia, the Middle East and Latin America to enhance our global competencies and diversify our business areas. Also, we plan to achieve qualitative and quantitative growths by producing diverse solvent products and high value-added polymer products.

Lubricant Business

The company's lubricant business sales increased by approximately 7.0 percent from the previous year to record KRW 2,981.8 billion in 2014, with the operating profit dropping approximately 86.5 percent to record KRW 289.9 billion in 2014 compared to KRW 155.4 billion in 2013. Due to the decrease in the raw material costs resulting from falling oil prices, the base oil spread increased and showed an improved performance from the previous year. In 2015, it is forecasted that there will be a small improvement or it may remain at the same level as the previous year because of limited expansion of facilities. SK Innovation set up a joint venture company together with a multilateral company Repsol in April 2014, and it also set up a Group III lube base oil plant in Spain with full commercial operation in September 2014. Currently, SK Innovation's Group III lube base oil market share is estimated to be around 35 percent. We will strive to become a market leader in the base oil market by making active investments and acquiring capacity.

Petroleum Development and Other Businesses

The company's petroleum development and other business sales fell by approximately 4.2 percent to reach KRW 1,192 billion from the previous year, with the operating profit dropping approximately 63.4 percent, falling from KRW 324.4 billion to KRW 118.7 billion. The biggest reason behind the poor performance is because of decreased sales and profits in petroleum development business resulting from international oil price fluctuations. In 2015, it is forecasted that the performances will fall from the previous year because of falling oil prices and low oil prices even though the production volumes from the blocks in Vietnam and North America increased.

Sustainable Performance

Economy

Condensed Income Statement

(Unit: KRW million)

| Classification | 2012 | 2013 | 2014 |
|--------------------------------------------------|------------|------------|------------|
| Sales | 72,594,465 | 66,039,305 | 65,865,269 |
| Cost of goods sold | 69,002,293 | 62,765,681 | 64,291,605 |
| Gross margin | 3,592,172 | 3,273,624 | 1,573,664 |
| SG&A expenses | 1,873,887 | 1,867,206 | 1,804,941 |
| Operating income | 1,718,285 | 1,406,418 | -231,277 |
| Financial income | 2,158,039 | 1,637,784 | 2,616,560 |
| Finance costs | 2,322,453 | 1,862,975 | 2,965,644 |
| Gains or losses from equity method | 139,949 | 67,709 | 130,775 |
| Non-operating income | 89,456 | 127,256 | 86,445 |
| Non-operating expenses | 81,264 | 237,045 | 129,928 |
| Income before income taxes | 1,702,012 | 1,139,147 | -493,069 |
| Continuing operations income before income taxes | 507,099 | 337,111 | -17,237 |
| Continuing operations net income (loss) | 1,194,913 | 802,036 | -475,832 |
| Discontinued operations net income | -12,562 | -23,303 | -61,334 |
| Net income (loss) | 1,182,352 | 778,733 | -537,166 |
| Other comprehensive income | -226,432 | 55,585 | 88,695 |
| Total comprehensive income | 955,920 | 834,318 | -448,471 |

Condensed Statement of Financial Position

(Unit: KRW million)

| Classification | 2012 | 2013 | 2014 |
|----------------------------------------------------|------------|------------|------------|
| Current assets | 17,885,166 | 16,997,440 | 14,888,371 |
| Non-current assets | 15,945,914 | 18,291,430 | 20,212,943 |
| Total assets | 33,831,080 | 35,288,870 | 35,101,314 |
| Current liabilities | 12,024,818 | 11,665,350 | 11,403,361 |
| Non-current liabilities | 5,458,237 | 6,708,266 | 7,636,896 |
| Total liabilities | 17,483,055 | 18,373,616 | 19,040,257 |
| Capital attributed to owners of the parent company | 15,371,342 | 15,839,458 | 15,000,341 |
| Capital | 468,570 | 468,570 | 468,570 |
| Other paid-in capital | 5,757,017 | 5,756,998 | 5,756,982 |
| Consolidated retained earnings | 9,114,823 | 9,535,337 | 8,636,046 |
| Other capital | 30,932 | 78,553 | 138,743 |
| Non-controlling interests | 976,683 | 1,075,796 | 1,060,716 |
| Total shareholders' equity | 16,348,025 | 16,915,254 | 16,061,057 |

Sales and Operating Income by Business Segment

(Unit: KRW 100 million)

| Classification | 2012 | | 2013 | | 2014 | |
|----------------------------------|---------|------------------|------------------|----------|---------|------------------|
| | Sales | Operating Income | Operating Income | Chemical | Sales | Operating Income |
| Petroleum | 565,889 | 2,791 | 498,968 | 597 | 490,563 | (9,990) |
| Chemical | 118,359 | 7,706 | 121,120 | 8,669 | 126,352 | 3,592 |
| Lubricant | 29,011 | 3,132 | 27,861 | 1,554 | 29,818 | 2,899 |
| Petroleum development and others | 12,686 | 3,554 | 12,444 | 3,244 | 11,920 | 1,186 |

Government Grants

(Unit: USD 1,000)

| Classification | 2012 | 2013 | 2014 |
|--------------------------------|--------|-------|--------|
| Energy Special Accounting Fund | 24,673 | 7,592 | 13,946 |

* Energy Special Accounting Fund (loan amount of energy special accounting) is a governmental loan that is provided to support resource development companies.

Shareholders with more than 5 percent of outstanding shares

(Unit: shares, %)

| Name | No. of shares in holdings | Ownership |
|--------------------------|---------------------------|-----------|
| SK Corp. | 30,883,788 | 33.4 |
| National Pension Service | 7,735,070 | 8.4 |

* As of Dec. 31, 2014

SK Innovation's share in its subsidiaries

(Unit: %)

| SK Energy | SK Global Chemical | SK Lubricants | SK Incheon Petrochem | SK Trading International |
|-----------|--------------------|---------------|----------------------|--------------------------|
| 100 | 100 | 100 | 68 | 100 |

* As of Dec. 31, 2014

R&D Investments

(Unit: KRW million, %)

| Classifications | 2012 | 2013 | 2014 |
|--------------------|---------|---------|---------|
| R&D expenses | 149,401 | 151,331 | 138,379 |
| R&D expenses/sales | 0.20 | 0.23 | 0.21 |

Ratio of Local Purchase

(Unit: KRW 100 million, %)

| Classifications | 2014 |
|-------------------------------------------------------------------|-------|
| Amount of goods and equipment purchased through all the suppliers | 9,126 |
| Amount of goods and equipment purchased through local suppliers | 4,153 |
| Ratio of local purchase | 45.5 |

* Local: based on domestic suppliers

Sustainable Performance

Environment

Energy Intensity

(Unit: TJ/person)

| Classification | 2014 |
|------------------------------------------------|------|
| Intensity (energy consumption/total employees) | 33 |

GHG Emissions

(Unit: 1,000 tCO₂eq)

| Classification | 2012 | 2013 | 2014 | |
|----------------------|--------------------|-------|-------|-------|
| SK Innovation | Direct emissions | 40 | 39 | 48 |
| | Indirect emissions | 74 | 74 | 95 |
| | Subtotal | 114 | 113 | 143 |
| SK Energy | Direct emissions | 6,120 | 5,996 | 6,420 |
| | Indirect emissions | 1,140 | 1,170 | 1,316 |
| | Subtotal | 7,260 | 7,166 | 7,736 |
| SK Global Chemical | Direct emissions | 2,461 | 2,424 | 2,688 |
| | Indirect emissions | 1,122 | 1,159 | 1,289 |
| | Subtotal | 3,583 | 3,583 | 3,977 |
| SK Lubricants | Direct emissions | 62 | 75 | 105 |
| | Indirect emissions | 147 | 146 | 207 |
| | Subtotal | 209 | 221 | 312 |
| SK Incheon Petrochem | Direct emissions | 632 | 575 | 830 |
| | Indirect emissions | 190 | 171 | 313 |
| | Subtotal | 822 | 746 | 1,143 |

* Retroactive application of GHG emissions from 2012 and 2013 due to changes in the applied emission factor.

* Based on statement

GHG Emission Intensity

(Unit: 1,000 tCO₂eq/person)

| | 2012 | 2013 | 2014 |
|--------------------------------------------------------------|------|------|------|
| Direct emission intensity (GHG emissions/ total employees) | 146 | 143 | 159 |
| Indirect emission intensity (GHG emissions/ total employees) | 43 | 41 | 51 |
| Total emission intensity (GHG emissions/ total employees) | 189 | 184 | 210 |

Oil Imported Volume by Year

(Unit: 1,000 barrels)

| Classification | 2012 | 2013 | 2014 |
|---------------------|---------|---------|---------|
| Oil imported volume | 307,019 | 293,185 | 278,667 |

* Based on PEDSIS (Korea National Oil Corporation) report

Air Pollutant Emissions

Air Pollutant Emissions Volume

(Unit: Tons)

| Classification | | 2012 | 2013 | 2014 |
|----------------|--------------------------------|-------|-------|-------|
| SOx | SK Energy (Ulsan) | 3,206 | 3,165 | 3,322 |
| | SK Global Chemical (Ulsan) | 213 | 208 | 200 |
| | SK Incheon Petrochem (Incheon) | 360 | 225 | 221 |
| NOx | SK Energy (Ulsan) | 6,226 | 6,097 | 6,887 |
| | SK Global Chemical (Ulsan) | 1,197 | 1,157 | 1,189 |
| | SK Incheon Petrochem (Incheon) | 912 | 762 | 834 |
| Dust | SK Energy (Ulsan) | 224 | 177 | 141 |
| | SK Global Chemical (Ulsan) | 38 | 32 | 31 |
| | SK Incheon Petrochem (Incheon) | 20 | 17 | 23 |

Air Pollutant Emissions Concentrations

| Classification | Legal limit/ Company standard | 2012 | 2013 | 2014 | |
|---------------------------|--------------------------------|---------|------|------|------|
| SOx (ppm) | SK Energy (Ulsan) | 180/170 | 27.4 | 28.9 | 35.1 |
| | SK Global Chemical (Ulsan) | 180/160 | 16.9 | 14.9 | 12.5 |
| | SK Incheon Petrochem (Incheon) | 180/160 | 20.2 | 15.1 | 7.3 |
| NOx (ppm) | SK Energy (Ulsan) | 200/180 | 73.3 | 79.1 | 89.8 |
| | SK Global Chemical (Ulsan) | 150/130 | 94.4 | 91.6 | 98.9 |
| | SK Incheon Petrochem (Incheon) | 250/235 | 74.2 | 69.3 | 41.5 |
| Dust (mg/m ³) | SK Energy (Ulsan) | 50/40 | 5.4 | 4.7 | 4.1 |
| | SK Global Chemical (Ulsan) | 30/20 | 4.9 | 4.3 | 3.9 |
| | SK Incheon Petrochem (Incheon) | 30/25 | 4.4 | 4.5 | 1.9 |

Water Pollutant Emissions Concentration

(Unit: ppm)

| Classification | Legal limit/ Company standard | 2012 | 2013 | 2014 | |
|----------------|-------------------------------|-------|------|------|------|
| COD | SK Energy Ulsan CLX | 40/20 | 10.5 | 8.1 | 9.3 |
| | No.2FCC | 90/70 | 17.3 | 14.9 | 20 |
| | SK Global Chemical PE/PP | 90/70 | 8.5 | 8.4 | 6.9 |
| SS | EPDM | 90/70 | 24.1 | 25 | 15.4 |
| | SK Incheon Petrochem Incheon | 90/40 | 19.8 | 14.6 | 10.9 |
| | SK Energy Ulsan CLX | 10/8 | 2.9 | 4.4 | 3.1 |
| Oil | No.2FCC | 80/60 | 36.7 | 32.5 | 25 |
| | SK Global Chemical PE/PP | 80/60 | 16 | 16 | 16.2 |
| | EPDM | 80/60 | 13 | 14 | 9.7 |
| Oil | SK Incheon Petrochem Incheon | 80/30 | 10.8 | 5.9 | 5.9 |
| | SK Energy Ulsan CLX | 5/1 | 0.4 | 0.3 | 0.3 |
| | No.2FCC | 5/3.7 | 2.7 | 1.3 | 1.4 |
| Oil | SK Global Chemical PE/PP | 5/3.7 | 0.4 | 0.3 | 0.4 |
| | EPDM | 5/3.7 | 0.1 | 0.1 | 0.2 |
| | SK Incheon Petrochem Incheon | 5/3 | 0.78 | 0.46 | 0.47 |

Sustainable Performance

Society

Present Status of Employees by Category

(Unit: persons, %)

| Classification | | | 2012 | 2013 | 2014 |
|-----------------|--------------------------------|---------|-------|-------|-------|
| Total Employees | | | 6,346 | 6,350 | 6,338 |
| By contract | Regular | Persons | 6,229 | 6,240 | 6,231 |
| | | Ratio | 98.2 | 98.3 | 98.3 |
| | Non-regular | Persons | 117 | 110 | 107 |
| | | Ratio | 1.8 | 1.7 | 1.7 |
| Gender | Male | Persons | 5,697 | 5,656 | 5,623 |
| | | Ratio | 89.8 | 89.1 | 88.7 |
| | Female | Persons | 649 | 694 | 715 |
| | | Ratio | 10.2 | 10.9 | 11.3 |
| By age | Under age 30 | Persons | 568 | 510 | 734 |
| | | Ratio | 9.0 | 8.0 | 11.6 |
| | Between 30 and 50 years of age | Persons | 4,190 | 4,075 | 4,263 |
| | | Ratio | 66.0 | 64.2 | 67.3 |
| | Above age 50 | Persons | 1,588 | 1,765 | 1,341 |
| Ratio | | 25.0 | 27.8 | 21.2 | |
| Underprivileged | Disabled | Persons | 113 | 87 | 130 |

* Excluding executives and advisors

Number of Retirees and Severance Rate

(Unit: %, persons)

| Classification | | | 2012 | 2013 | 2014 |
|--------------------|---------------|--------|------|------|------|
| Severance rate | | | 1.3 | 0.9 | 1.2 |
| Number of retirees | Total persons | | 81 | 59 | 74 |
| | | Male | 66 | 39 | 59 |
| | | Female | 15 | 20 | 15 |

* Based on December 31 of every year

* Severance rate: Number of retirees / Number of total regular employees

* Retroactive application for 2012 and 2013 due to changes in severance rate standard.

Average Service Years

(Unit: years)

| Classification | | | 2012 | 2013 | 2014 |
|-----------------------|--|--|------|------|------|
| Average service years | | | 15.2 | 15.5 | 15.9 |

Number of Employees on Parental Leave and Number of Employees Who Returned to Work

(Unit: Number of Persons)

| Classification | | | 2012 | 2013 | 2014 |
|--------------------------------------------------------------------------------------|--|--------|-------|------|-------|
| Number of employees entitled to parental leave | | Male | 1,042 | 927 | 1,300 |
| | | Female | 182 | 191 | 220 |
| Number of employees who used parental leave | | Male | - | 1 | 2 |
| | | Female | 43 | 58 | 61 |
| Number of employees who worked at least one year after returning from parental leave | | Male | - | - | - |
| | | Female | 48 | 41 | 25 |

Number of Consulting and Reporting through Business Ethics Infrastructure

(Unit: number of cases)

| Classification | | | 2012 | 2013 | 2014 |
|-------------------------|--|--|------|------|------|
| Number of consultations | | | 64 | 103 | 81 |

Social Contribution Investments

(Unit: KRW 100 million)

| Classification | | | 2014 |
|----------------------------------------|--|--|------|
| Annual social contribution investments | | | 306 |

Number of 1004 Volunteers* and the Annual Volunteering Hours

(Unit: persons, hours)

| Classification | | | 2012 | 2013 | 2014 |
|---------------------------|--|--|--------|--------|--------|
| Number of volunteers | | | 5,867 | 5,836 | 5,762 |
| Annual volunteering hours | | | 48,256 | 42,562 | 34,053 |

* 1004 volunteers: SK Innovation's enterprise-wide volunteer group

Ratio of worksites giving back to local communities, conducting impact assessment and implementing development programs

(Unit: %)

| Classification | | | 2012 | 2013 | 2014 |
|-------------------------------------------------------------------------------------------------------------------------|--|--|------|------|------|
| Ratio of worksites giving back to local communities, conducting impact assessment and implementing development programs | | | 100 | 100 | 100 |

Third Party's Assurance Report

Introduction

DNV GL Business Assurance Korea Ltd. (hereinafter "DNV GL") is commissioned to carry out the assurance engagement of the Sustainability Report 2014 (hereinafter "the Report") of SK Innovation Co., Ltd. ('SK Innovation'). This engagement focused on the information provided in the Report and the underlying management and reporting processes. SK Innovation is responsible for the collection, analysis, aggregation and presentation of all information within the Report. DNV GL's responsibility in performing the work follows terms of reference and scope of work agreed. The assurance engagement is based on the assumption that the data and information provided to us is complete, sufficient and authentic. SK Innovation's stakeholders are the intended recipients of the assurance statement.

Scope of assurance

This Assurance Engagement covered data and information presented only in the Report. The scope of DNV GL's Assurance Engagement includes the review and assessment of followings:

- Evaluation of the reporting principles for defining the sustainability report content and the quality in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 4.0
- Evaluation of adherence to Accountability principles provided in AA1000 Accountability Principles Standard (APS)2008 with a moderate level of assurance and Type 1.
- Check of GRI 4.0 Disclosure level against GRI 4.0 Disclosure option

Limitation

The engagement excludes the sustainability management, performance and reporting practices of SK Innovation's suppliers, contractors and any third-parties mentioned in the Report. DNV GL did not interview external stakeholders as part of this Assurance Engagement. Any financial information from SK Innovation's annual report and company reporting on operations in 2014 or other sources are not included in the scope of the Assurance. Economic performances based on the financial data were cross-checked with internal documents and the audited financial statements. The aggregation and calculation process for building economic performances is reviewed and tested by the verification team. The baseline data for Environmental and Social performance are not verified, while the aggregated data are used for the verification. The qualitative statements addressed in the GRI Content Index are not verified but the audit team has just confirmed that the indicator is reported in the GRI Content Index. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Verification Methodology

The Assurance Engagement was planned and carried out in accordance with the DNV GL Verification Protocol for Sustainability Reporting (VeriSustain™ V.4.1) and AA1000AS (2008). As part of the verification, we challenged the sustainability-related statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls. In accordance with the VeriSustain, the Report was evaluated with regard to the following criteria: DNV GL has examined and reviewed documents, data and other information made available by SK Innovation. We performed sample-based audits of;

- The process for determining the materiality of the contents to be included in the Report.
- The process for generating, gathering and managing the quantitative and qualitative data in the Report.
- The accuracy of data
- Visit to Headquarter of SK Innovation

Conclusion

In DNV GL's opinion, and based on the scope of this Assurance Engagement, the report provides a reliable and fair representation of SK Innovation's sustainability strategy, policy, practices and performance in 2014. The report is prepared 'In accordance with Core option' of GRI G4.0. Standard disclosure items assured are indicated in the verification report submitted to SK Innovation. Further opinions with accountability principles are made below;

Inclusivity

SK Innovation has engaged with a wide range of stakeholders which are shareholders, employees, business partners, local communities and customers. The report includes a process to derive expectations and interests of internal and external stakeholders. Main issues were clearly represented in the report.

Materiality

SK Innovation has formed a sustainability issue pool by analyzing stakeholder's opinion, and media coverage for its sustainability and reviewing the material issues reported by peer groups. The material issues are determined by combining the issues which are important for stakeholder and the issues which are relevant for SK Innovation in terms of sustainability. The output of the process clearly brings out material issues.

Responsiveness:

SK Innovation monitors and reports performances of material issues drawn by the materiality assessment process in the report. The report includes financial (economical) and non-financial (social and environmental) performances. SK Innovation states its vision and business strategies with the performances in the report.

Opportunities for Improvement

The following is an excerpt from the observations and opportunities reported to SK Innovation's management. However, these do not affect our conclusions on the Report and are provided to encourage continual improvement.

- The Data and information in the sustainability report should be gathered and compiled in a consistent manner. It is recommended to establish internal reporting principles and guidelines to improve consistency.

Statement of Competence and Independence

DNV GL is a leading provider of sustainability services, including the verification of sustainability reports. Our environmental and social assurance specialists operate in over 100 countries. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV GL maintains complete impartiality toward stakeholders interviewed during the verification process.



June 2015
Seoul, Republic of Korea

In-Kyoon Ahn

Country Representative
DNV GL Business Assurance Korea Ltd.

GRI G4 Index

General Standard Disclosures

| Code | Code Description | Page | External Assurance |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|--------------------|
| Strategy and Analysis | | | |
| G4-1 | CEO Message | 4-5p | - |
| Organizational Profile | | | |
| G4-3 | Name of the organization | 8-9p | 78-79p |
| G4-4 | The primary brands, products, and services | 8-9p | 78-79p |
| G4-5 | The location of the organization's headquarters | 8p | 78-79p |
| G4-6 | The number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report | 8-9p | 78-79p |
| G4-7 | The nature of ownership and legal form | 71p | 78-79p |
| G4-8 | The markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries) | 8-9p | 78-79p |
| G4-9 | Scale of the organization | 8-9p | 78-79p |
| G4-10 | Status of employment type, contract, and region | 76p | 78-79p |
| G4-11 | The percentage of total employees covered by collective bargaining agreements | 21p | 78-79p |
| G4-12 | The organization's supply chain | 48-53p | 78-79p |
| G4-13 | Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain | 14p | |
| G4-14 | Precautionary approach or principle is addressed by the organization | 17p | 78-79p |
| G4-15 | List Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses | 21, 44p | 78-79p |
| G4-16 | Memberships in associations (such as industry associations) and / or national / international advocacy organizations in which the organization | 44, 58p | 78-79p |
| Identified Material Aspects and Boundaries | | | |
| G4-17 | List all entities included in the organization's consolidated financial statements or equivalent documents | 8-9p | 78-79p |
| G4-18 | The process for defining the report content and the Aspect Boundaries | 24-25p | 78-79p |
| G4-19 | List all the material Aspects identified in the process for defining report content | 24-25p | 78-79p |
| G4-20 | For each material Aspect, report Aspect Boundary within the organization | 24-25p | 78-79p |
| G4-21 | For each material Aspect, report the Aspect Boundary outside the organization | 24-25p | 78-79p |
| G4-22 | The effect of any restatements of information provided in previous reports, and the reasons for such restatements | 3p | 78-79p |
| G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries | 3p | 78-79p |
| Stakeholder Engagement | | | |
| G4-24 | List of stakeholder groups engaged by the organization | 13p | 78-79p |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | 13p | 78-79p |
| G4-26 | Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group | 13p | 78-79p |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting | 13p | 78-79p |
| Report Profile | | | |
| G4-28 | Reporting period (such as fiscal or calendar year) for information provided | 3p | 78-79p |
| G4-29 | Date of most recent previous report (if any) | 3p | 78-79p |
| G4-30 | Reporting cycle such as annual, biannual | 3p | 78-79p |
| G4-31 | Provide the contact point for questions regarding the report or its contents | 84p | 78-79p |
| G4-32 | Report the 'in accordance' option the organization has chosen | 80-82p | 78-79p |
| G4-33 | Report the organization's policy and current practice with regard to seeking external assurance for the report | 78-79p | 78-79p |
| Governance | | | |
| G4-34 | Report the governance structure of the organization, including committees of the highest governance body | | 78-79p |
| Ethics and Integrity | | | |
| G4-56 | Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics | 16p | 78-79p |

Specific Standard Disclosures

Economic

| Aspect | Code | Code Description | Page | External Assurance |
|---------------------------|------|------------------------------------------------------------------------------------------------------------------|-------------|--------------------|
| Economic Performance | | DMA | 28, 31p | 78-79p |
| | EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change | 39p | 78-79p |
| | EC4 | Financial assistance received from government | 71p | 78-79p |
| Indirect Economic Impacts | | DMA | 56p | 78-79p |
| | EC7 | Development and impact of infrastructure investments and services supported | 57-59p | 78-79p |
| | EC8 | Significant indirect economic impacts, including the extent of impacts | 57-59p | 78-79p |
| Procurement Practices | | DMA | 48, 50, 52p | 78-79p |
| | EC9 | Proportion of spending on local suppliers at significant locations of operation | 71p | 78-79p |

Environmental

| Aspect | Code | Code Description | Page | External Assurance |
|---------------------|------|---------------------------------------------------------------------|---------|--------------------|
| Materials | | DMA | 38p | 78-79p |
| | EN1 | Materials used by weight or volume | 72p | 78-79p |
| Energy | | DMA | 38p | 78-79p |
| | EN3 | Energy consumption within the organization | 40p | 78-79p |
| | EN5 | Energy intensity | 72p | 78-79p |
| | EN6 | Reduction of energy consumption | 40p | 78-79p |
| Water | | DMA | 45p | 78-79p |
| | EN8 | Total water withdrawal by source | 74p | 78-79p |
| Emissions | | DMA | 38, 45p | 78-79p |
| | EN15 | Direct greenhouse gas (GHG) emissions (scope 1) | 72p | 78-79p |
| | EN16 | Energy indirect greenhouse gas (GHG) emissions (scope 2) | 72p | 78-79p |
| | EN18 | Greenhouse gas (GHG) emissions intensity | 72p | 78-79p |
| | EN19 | Reduction of greenhouse gas (GHG) emissions | 40p | 78-79p |
| Effluents and Waste | | DMA | 45p | 78-79p |
| | EN23 | Total weight of waste by type and disposal method | 74p | 78-79p |
| Overall | | DMA | 38, 45p | 78-79p |
| | EN31 | Total environmental protection expenditures and investments by type | 74p | 78-79p |

GRI G4 Index

Social

Labor practices and decent work

| Aspect | Code | Code Description | Page | External Assurance |
|--------------------------------|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------------------|
| Occupational Health and Safety | | DMA | 41p | 78-79p |
| | LA5 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs | 21p | 78-79p |
| | LA6 | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | 41p | 78-79p |
| | LA7 | Workers with high incidence or high risk of diseases related to their occupation | 42-44p | 78-79p |
| | LA8 | Health and safety topics covered in formal agreements with trade unions | 21p | 78-79p |

Society

| Aspect | Code | Code Description | Page | External Assurance |
|-------------|------|--------------------------------------------------------------------------------------------------------------------|------|--------------------|
| Communities | | DMA | 60p | 78-79p |
| | S01 | Percentage of operations with implemented local community engagement, impact assessments, and development programs | 77p | 78-79p |
| | S02 | Operations with significant actual or potential negative impacts on local communities | 45p | 78-79p |

Sustainability Report Published Status

2010's



2013

2012

2011

2010

2000's



2009

2008

2007

2006

2005



This report was printed with soy-based ink to minimize environmental impact.