

SK innovation Sustainability Report 2015



About This Report

SK innovation has published its annual sustainability report since 2005 to transparently disclose management activities and roadmaps for the future, and incorporate stakeholder feedback into management activities. This Report is published upon the review of and approval by the Board of Director's CSR Committee.

Reporting Standard

This report follows the Global Reporting Initiative's (GRI) G4 Guidelines and the global standard on social responsibility, 'ISO 26000.' Please refer to pages 77~79 for specific indexes.

Report Summary

Materiality Test Process

To determine the topics with the most material impact on the company and our stakeholders, we adopted a materiality test process based on the GRI G4 Guidelines.

To assess the materiality of topics, we gathered internal and external information - including global standards for sustainable management, industry trends, and media - and identified 32 topics, which were then prioritized based on discussions with both internal and external sustainability experts, and a stakeholder survey. To prioritize the topics, we comprehensively reviewed topics from the 2014 report, recommendations of the global sustainability reporting guideline including the GRI G4, and SK innovation's ability to disclose data. Finally, 10 material topics were selected for the 2015 report.

Reporting Scope

The 10 material topics addressed in this report include enhancing Board-driven management, securing financial health, accelerating global growth, strengthening fundamental competitiveness, boosting R&D, creating and sharing economic value, strengthening ethical management, implementing global-standard SHE management, maintaining work life balance, and strengthening capacity building and communication with suppliers. This report contains our managerial approach, standard disclosure and miscellaneous issues we deem necessary to disclose to represent SK innovation's efforts in sustainable management.

Reporting Boundary

The reporting boundary of this report is limited to the domestic operations of SK innovation's headquarter in Seoul and its five subsidiaries (SK energy, SK global chemical, SK lubricants, SK incheon petrochem and SK trading international) and the production plants in Jeungpyeong, Cheongju, Seosan, Ulsan and Incheon as well as the Daedeok R&D Park. To align with our global strategy, we will endeavor to expand the reporting boundary to include overseas business sites in future reports.

Reporting Period

This report includes performance data from January to December 2015. For some performance indicators, data from the period of 2013 to 2015 is included to capture and convey the change in trends. For other corporate management information and particular results considered to have potential influence in stakeholder decision-making, data up to the first half of 2016 is included.

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Other information		
Report Assurance		
To enhance the accuracy and credibility of the content, DNV GL provided independent assurance of the report. Please refer to the Independent Assurance Statement on pages 75-76 for methodologies and scope of assurance and the final opinion.		
Reports from previous years		
SK innovation has published the sustainability report since 2005. The 2005~2014 reports are available on our website (http://www.skinnovation.com).		
Additional Information		
Additional information on SK innovation's sustainable management can be found on our website (www.skinnovation.com) and inquiries may be directed to the Sustainability Management Planning Team		
Sustainability Management Planning Team		
Mail ski_sr@sk.com		
Phone +82-2-2121-5114		

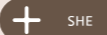

Stakeholder Engagement & Material Topics

A company's sustainable growth is attained by establishing a trust-based relationship with its stakeholders aimed at achieving mutual growth. Therefore, SK innovation identifies its customers, employees, shareholders, local communities, and suppliers as key stakeholders and seeks ways to achieve mutual growth through consensus building between the company and its stakeholders through a wide-range of communication channels.

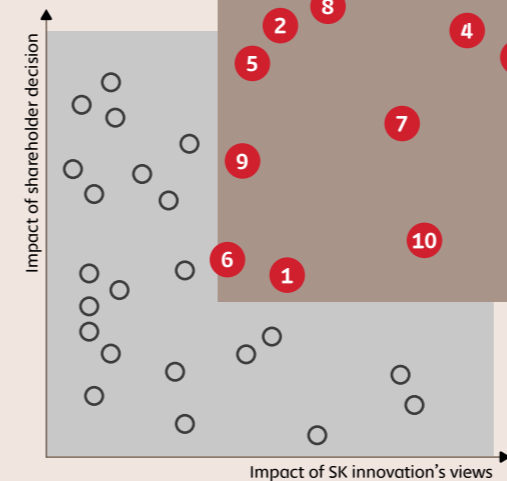
Stakeholder Communication

SK innovation has various communication channels in place tailored to 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 Topics by Stakeholder Group

Key Stakeholders	Communication Channels	2015 Key Topics
 Customers	<ul style="list-style-type: none"> > 'Customer Happiness Call Center' (call center services) > Operation of EnClean.com > Customer Satisfaction Survey on promotion, etc. > Facebook (www.facebook.com/if.skinnovation) & Blogs (http://skinnovation-if.com), etc. > SK energy Facebook (www.facebook.com/skenergy) & Blogs (blog.skenergy.com), etc. 	<ul style="list-style-type: none">  Economy > Accelerate global growth  SHE > Implement global-standard SHE management  Economy > Secure financial health
 Employees	<ul style="list-style-type: none"> > In-house Broadcasting (GBS) & Newsletter > Intranet (tong tong) > iCON (Change Agent) & Management Council (M2M Board) > Business Briefing sessions, etc. 	<ul style="list-style-type: none">  SHE > Implement global-standard SHE management  Economy > Strengthen fundamental competitiveness  Society > Maintain work-life balance
 Shareholders	<ul style="list-style-type: none"> > General Shareholders' Meetings, Earnings Releases > Domestic/overseas NDR (Non-Deal Roadshow) > Domestic/International Conferences > 1:1 Meeting, e-mail/phone counseling > Disclosures, Reports 	<ul style="list-style-type: none">  Economy > Accelerate global growth  Economy > Respond to internal-external risks  Economy > Secure financial health
 Local 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">  Society > Protect client health and safety  Society > Fair trade act compliance  SHE > Pollutant management
 Suppliers	<ul style="list-style-type: none"> > Regular Meetings with Suppliers > Supplier-CEO Seminars > Business Briefing Session, etc 	<ul style="list-style-type: none">  SHE > Implement global-standard SHE management  SHE > Pollutant management  Society > Maintain work-life balance

Prioritization of Topics



- 1 Enhance Board-driven transparent management
- 2 Secure financial health
- 3 Accelerate global growth
- 4 Strengthen fundamental competitiveness
- 5 Boost R&D
- 6 Create and share economic value
- 7 Strengthen ethical management
- 8 Implement global-standard SHE management
- 9 Maintain work-life balance
- 10 Strengthen capacity building and communication with suppliers

Status of Material Topics Included in the Report

2015 Material Topics	GRI G4 Aspect	2015 Report table of content
1	Governance (Generic Disclosure)	Corporate Governance p.10
2 3 4 5 6	Economic Performance	Our Strategy p.34
7	Anti-corruption	Ethical Management p.44
7	Anti-competitive behavior	
7	Compliance	
8	Environment	SHE p.48
8	Occupational health & safety	
9	Employment	Talent Management p.54
10	Supplier assessment for social impact	
10	Procurement practices	Mutual Growth p.58

CEO Message



Dear SK innovation stakeholders,

I would like to convey my deepest gratitude for your continued support of SK innovation.

Although 2015 was challenging with external business conditions worsening since 2014, SK innovation recorded its highest operating profit since 2011. As our strenuous efforts helped us overcome unprecedented challenges last year, we will continue to strive not merely to survive, but to achieve sustainable growth. We would like to share our major business activities, performance and plans for increasing our corporate value and efforts towards refining our sustainable management practices through the 2015 Sustainability Report.

Structural innovation to increase corporate value

SK innovation endeavored to overcome the challenges of a difficult business environment through innovations in its profit, business and financial structures. SK innovation not only streamlined and reduced costs in industrial complexes located in Ulsan and Incheon, but also increased its market share in the oil product, chemicals, and lubricants markets to further solidify its market leadership.

Moreover, SK innovation expanded its global partnerships through, for example, formation of SABIC SK Nexlene Company (SSNC) and Iberian Lube Base Oils Company (ILBOC), built additional battery production capacity, and increased its corporate value by reinforcing our E&P business in North America. Further, by improving SK innovation's financial structure which had been weakened at the end of 2014, SK innovation was able to restore its credit rating to be on the same footing with other global leaders. Today, SK innovation continually strives to increase corporate value by diversifying its business portfolios.

Management innovation for enhancing execution ability

Built upon the SK group's unique management system, SK Management System (SKMS), SK innovation aims to evolve and develop into a company that is strong in the face of a crisis and equipped with excellent execution capacity. While innovating SK innovation's management system to respond rapidly against sudden changes in the business environment, we also work to improve policies and remove inefficiencies from outdated practices. In particular, SK innovation promotes the spirit of 'Self-Design' policies and individual cultures uniquely fit for each of the five subsidiaries of SK innovation and its business units as part of our 'separate yet unified' approach as we strive to strengthen on-site operational excellency.

Enhancing Sustainable Management to pursue stakeholders' happiness

SK innovation is making its best effort to not only increase corporate value, but to also live up to its reputation as a company that is trusted and respected by all stakeholders. SK innovation endeavors to secure its employees' health and safety, manage Safety, Health, and Environment (SHE) in accordance with global standards, pursue mutual growth with suppliers, and enrich the quality of life for local communities. Moreover, in support of various global initiatives on sustainability including the UN Global Compact (UNGC), SK innovation will actively participate in the global discourse on corporate social responsibility including the responsibility to uphold human rights and labor rights, safeguard the environment, and spearhead anti-corruption initiatives.

Dear esteemed stakeholders,

All of us at SK innovation concertedly strive to become a global leader in the energy and chemical industry through change and innovation. SK innovation will earn your respect and affection by always listening to your opinions and communicating with all of our stakeholders.

Respectfully yours,
SK innovation Vice Chairman and CEO,
Chung, Chul-Khil

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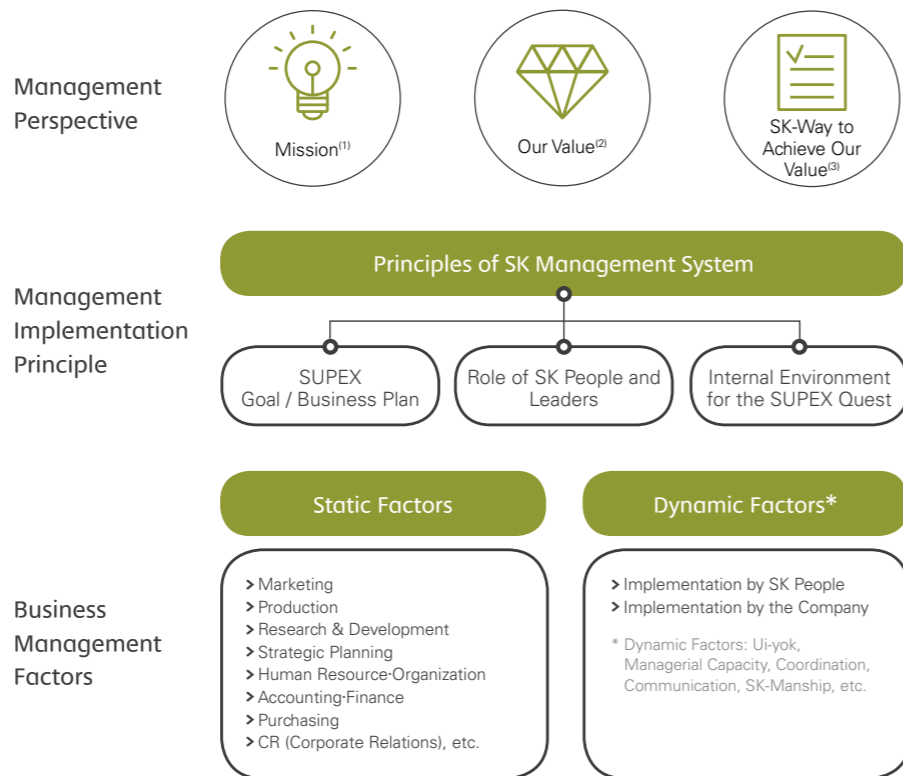
SKMS

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. Moreover, SKMS goes beyond theories, embedding real business cases to sharpen employees' practical skills. Through these efforts, we will secure the competitiveness required to become a leading global company in the global environment. 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 stakeholders.
 (3) **SK-Way to Achieve Our Value:** Pursuing SUPEX via-Human-Oriented Management.

Our Commitment

SK innovation, committed to fulfilling our social responsibilities and duties as a global corporate citizen, joined the United Nations Global Compact (UNGC) in October 2007. We proclaimed our commitment to support the Ten Principles of UNGC covering four areas of human rights, labour, environment and anti-corruption. We strive to adhere to the Ten Principles in our various management practices by incorporating them in our talent management strategies, Safety Health Environment (SHE) policies and ethics guidelines.

The Ten Principles of the UN Global Compact

The infographic details the Ten Principles of the United Nations Global Compact, organized into four categories:

- Human Rights:**
 - Principle 1:** Support and respect the protection of internally proclaimed human rights
 - Principle 2:** Make sure that they are not complicit in human rights abuses.
 - Principle 3:** Uphold the freedom of association and the effective recognition of right to collective bargaining
- Labour:**
 - Principle 4:** Eliminate all forms of forced and compulsory labour
 - Principle 5:** Effectively abolish child labour
 - Principle 6:** Eliminate discrimination in respect of employment and occupation
 - Principle 7:** Support a precautionary approach to environmental challenges
- Environment:**
 - Principle 8:** Undertake initiatives to promote greater environmental responsibilities
 - Principle 9:** Encourage the development and diffusion of environmentally friendly technologies
- Anti-corruption:**
 - Principle 10:** Work against all forms of corruption, including extortion and bribe

Additional context provided in callouts:

- Human Rights:** Espousing belief in 'human-oriented management,' SK innovation endeavors to maintain a workplace free of human rights abuse. We have identified a 'trusted global expert with the spirit of challenge and innovation' as our ideal employee, and recruit talent in a fair and sensible manner. Furthermore, employees are offered equal opportunities in light of respective aptitude, skills and duty compatibilities. We also recognize the freedom of association and collective bargaining rights and hold periodic dialogues with employees to address their work-related concerns and improve the work environment.
- Environment:** SK innovation has prioritized environmental management as its core task, and established and comply with internal environmental standards that are more stringent than regulatory requirements in order to become a role model in the industry both at home and abroad. To that end, we are contributing to environmental protection by minimizing the emission of greenhouse gas, wastewater and toxins. To further promote values conducive to environmental preservation through our business operation, we are channeling efforts to develop eco-friendly technology and achieve innovation in energy.
- Anti-corruption:** Building upon our exclusive management system SKMS, we established an ethical code of conduct for appropriate behavior and value assessment among employees, and set application guidelines to offer specific criterion. To foster high ethical standards among employees, we also provide ethics counseling and firmly address unethical behavior upon receiving tip-offs through an online channel.

Corporate Governance

SK innovation places the Board as the highest decision-making body of the SKMS to carry out Board-driven management. Board-driven management reflects the interests of shareholders evenly by ensuring the Board is operated true to its mission and promotes a corporate structure of ethical and transparent decision-making. To achieve this, the Board and the CEO strive to cooperate with each other and share responsibilities.

Ensuring an Independent Board of Directors

As of June 2016, SK innovation's Board has eight members, comprised of three executive directors and five independent directors. The chairmen of the Board's committees are all appointed from among the independent directors and the majority of the committee members are comprised of independent directors to ensure the independence and transparency of the Board.

Current Board Members

(as of June 2016)

Executive directors



Kim Chang Geun

PRESENTI Chairman and Council's Talent Cultivation Committee of SK SUPEX Council
PRESENTI Chairman, SK Innovation Board
 > HR Committee



Chung Chul-Khil

PRESENTI President, Energy Chemical Committee of SK SUPEX Council
PRESENTI Vice Chairman & CEO, SK innovation
 > Recommendation & Nomination Committee
 > Strategic Planning Committee



Yu Jeong Joon

PRESENTI President, Global Growth Committee of SK SUPEX Council
PRESENTI President & CEO, SK E&S
 > Transparent Management Committee

Independent directors



Kim Dae Ki

PRESENTI Visiting professor, KDI School of Public Policy and Management
FORMER Chief Secretary to the President for National Policy
 > Audit Committee(Chairman)
 > Strategic Planning Committee
 > Transparent Management Committee



Shin Un

FORMER Ambassador, Embassy of the Republic of Korea to the Islamic Republic of Pakistan
FORMER Senior Advisor & Head, Delegation of KSP Consultation(Pakistan Policy Advisory Group)
 > HR Committee(Chairman)
 > CSR Committee(Chairman)
 > Recommendation & Nomination Committee



Hahn Min Hi

PRESENTI Professor, KAIST College of Business
FORMER President, Korea Marketing Association
 > Recommendation & Nomination Committee(Chairman)
 > Audit Committee
 > CSR Committee



Kim Joon

PRESENTI Chairman, The Spinners & Weavers Association of Korea
PRESENTI President & CEO, Kyungbang Co.
 > Strategic Planning Committee(Chairman)
 > Audit Committee
 > HR Committee



Ha Yun Kyoung

PRESENTI Professor, Hongik University
PRESENTI Chairman, Korean Chemistry Olympiad, Korean Chemical Society
 > Transparent Management Committee(Chairman)
 > CSR Committee

Composition of Board Committees

Committee	Ratio of independent directors	Main duties
Audit	100%	Conducting audits on the job performance of directors and accounting and management practices, as well as evaluations on internal accounting management system.
Recommendation & 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	67%	Reviewing transactions between subsidiaries and reviewing the Fair Trade Compliance Program.
CSR	100%	Reviewing CSR (Corporate Social Responsibility) activities and major CSR issues.

Systematic and Advanced Operation of the Board of Directors

Holding Periodic Board Meetings

The Board convenes on the fourth Friday of every month. The directors are provided with necessary materials at least five days prior to the Board meetings and two days before the Committee meetings to allow for a thorough review of agenda items. In addition, Ad-hoc meetings are convened to make prompt decisions on any urgent matters, thereby promoting transparent management practices. In 2015, 14 Board and 21 Committee meetings were held.

Preliminary Review of Major Decision-making

Matters critical to the company, including large-scale investments, separations, and mergers are required to undergo a three-stage process comprised of preliminary review, Board discussion and feedback, and a separate Board meeting for voting purposes. In 2015, we held in-depth discussions on the divestment of shares of Peruvian gas transport company (TgP), the status of the Lithium-ion battery separator(LiBS) project and the mid-and long-term business plan.

Business Planning & Status and Performance Report

The Board reviews short-term business plans and medium-and long-term strategies (To-be Model) annually on a regular basis. Meanwhile, the Board 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 performance, management issues, performance and plans of subsidiaries and affiliated entities are also reported, so that the Board members can conduct an overall evaluation of the company's status.

Holding Board Meetings On-site

We hold Board meetings at domestic and overseas worksites to implement on-site management practices. In 2015, we actively implemented such management practices by holding the Board meeting at SK incheon petrochem site the Board also attended the ribbon cutting ceremony of the Nexlene Plant in Ulsan, and other on-site activities.

Promoting Strategic Communication Session

SK innovation periodically holds the strategic communication session attended by top executives and independent directors, including the CEO, to gain a better understanding about its major agenda items through discussions. At the communication session, the participants openly discussed management philosophy, vision, strategic fit and difficulties, as well as issues that were raised during the discussion. In 2015, there were in-depth discussions held during the sessions about status of the global petroleum industry and its implications, the medium-term business strategies of SK innovation's subsidiaries, and other pertinent issues.

Board Performance Evaluation & Compensation

The composition, function and operation related matters of the Board are assessed annually. The result is reviewed and then documented in the annual reports. Incorporation of the results in the Board operation plan and its active implementation spurs our Board's continued growth. To provide fair reward to the directors, the HR Committee sufficiently deliberates in advance on the pay ceiling, which is then voted on during the Board meeting and confirmed in the General Shareholders' Meeting.

To promote effective and professional activities at the Board, our independent directors actively participate in educational programs related to domestic/overseas governance structure and businesses. By attending conferences held by the two most eminent global institutions in corporate governance, NACD⁽¹⁾ and ICGN⁽²⁾, our directors benchmark advanced global practices and network with managers and directors from world-renowned companies. Furthermore, newly appointed independent directors are offered orientation programs at the headquarter and local business sites to enhance their company knowledge.

(1) **NACD**: National Association of Corporate Directors

(2) **ICGN**: International Corporate Governance Network

Enhancing the Expertise of Independent Directors

At a Glance

SK innovation

Established 1962. 10. 13
HQ 26 Jongno, Jongno-gu, Seoul
Business Areas Petroleum, lubricants, petrochemicals, macromolecule, green energy, battery, I/E material
Representative Vice Chairman & CEO, Chung Chul-Khil
Employee no. 1,419 persons

SK energy

Established 2011. 01. 01
HQ 26 Jongno, Jongno-gu, Seoul
Business Areas Petroleum products
Representative President & CEO, Kim Jun
Employee no. 2,433 persons

SK global chemical

Established 2011. 01. 01
HQ 26 Jongno, Jongno-gu, Seoul
Business Areas Petrochemical products
Representative President & CEO, Kim Hyungkun
Employee no. 1,001 persons

SK lubricants

Established 2009. 10. 01
HQ 26 Jongno, Jongno-gu, Seoul
Business Areas Lubricant and lubricant base oil
Representative President & CEO, Lee Kihwa
Employee no. 283 persons








SK incheon petrochem

Established 2013. 07. 01
HQ 415 Bongsu-daero, Seo-gu, Incheon
Business Areas Petroleum products and petrochemical products
Representative President & CEO, Lee Jae Hwan
Employee no. 578 persons

SK trading international

Established 2013. 07. 01
HQ 26 Jong-ro, Jongno-gu, Seoul
Business Areas Trading of crude oil and petroleum products
Representative President & CEO, Song Jin Hwa
Employee no. 110 persons

Business Operation

	Oil and gas Exploration and Production	<ul style="list-style-type: none"> > Nation's pioneer in commercial resource development > Participates in 16 production blocks & 4 LNG projects in 11 countries as of the end of 2015 > Proved reserves of approx. 550 million BPD
	Battery, Information & Electronic (I/E) material	<ul style="list-style-type: none"> > Equipped with the value chain essential for battery manufacturing > Pursues joint projects and collaborations with business partners home and abroad > Solidifying global status in the mid/large battery and I/E material industry
	R&D	<ul style="list-style-type: none"> > Supports 'Open Innovation' in diverse fields including petroleum, new materials and green energy > Builds strong cooperation among functions to identify new growth engines and strengthen competitiveness
	Petroleum products	<ul style="list-style-type: none"> > Korea's first oil company and a leading domestic energy provider for the last 50 years > Possesses more than 50 different crude oil types as the world's largest crude oil refiner (1.2 million BPD) > Exports over 50% of the products by leveraging efficient and stable operational excellence
	Petrochemical products	<ul style="list-style-type: none"> > Supplies diverse raw/subsidiary materials ranging from cutting-edge materials to daily products > Spearheads the growth of domestic petrochemical industry by strengthening technological prowess via continued infrastructure investment and R&D > Reinforces the functional chemical product and high value-added product lines to maximize future profitability
	Lubricants, base oil	<ul style="list-style-type: none"> > Dominates the domestic lubricant market and the Group III advanced base oil market with the leading lube oil brand SK ZIC, and the base oil YUBASE
	Import crude oil, export petroleum products	<ul style="list-style-type: none"> > Exports and imports raw material and products for SK energy, SK global chemical and SK incheon petrochem > Leads the effort in strengthening core competencies and global growth of SK innovation's subsidiaries

Status and production capacity of major production sites

Crude oil exploration at 9 blocks | China (2), Vietnam (2), Australia (2), Morocco, Equatorial Guinea, Peru
Crude oil production at 7 blocks | Peru (3), Vietnam, U.S. (2), Libya
4 LNG Projects | Yemen, Peru, Oman, Qatar

Seosan plant | Production line for lithium-ion batteries
Jeungpyeong, Cheongju plant | Production line for battery material, circuit material

Global Technology | R&D in petroleum, lubricant, petrochemical, macromolecule, new energy, battery and I/E material

Ulsan Complex Refinery plant | Atmospheric distillation process, vacuum distillation process, hydrogen desulfurization process, catalytic reforming process, asphaltting process
Intermediate oil cracking plant | **HOU plant** - 2nd vacuum distillation process, intermediate oil cracking process, intermediate oil desulfurization process, hydrogen production process, sulfur recovery process, lube base oil process, lube oil process, grease production process
1st and 2nd FCC plant - RHDS process, RFCC process, PRU process, MTBE process, ALKY process

Petrochemical plant | Produces aromatics, breaks down naphtha, produces paraxylene (PX) and cyclohexane
Polymer plant | Produces linear low-density polyethylene (LLDPE), high-density polyethylene (HDPE), polypropylene (PP), ethylene propylene diene monomer (EPDM) products
Lubricant base oil and lubricant plant | Produces lube base oil, YUBASE products, SK ZIC products

SK incheon petrochem Refinery plant | Atmospheric distillation process, hydrogen desulfurization process, sulfur recovery process, gas recovery unit, vacuum distillation process
Petrochemical plant | Aromatics production process - naphtha, reformed gasoline, produces quality base chemical oil

America, Europe, Singapore Corporations, Dubai Branch
 > Procure crude oil and petroleum products used domestically
 > Export petroleum products manufactured domestically
 > Trading and Bunkering Business etc.

Crude oil secured based on proven reserve
550 million barrels

Electric vehicle battery supply
30 thousand units/yr

Annual Petroleum product capacity
Ulsan Complex 293 million barrels
SK incheon petrochem 137 million barrels

Annual Petrochemical product capacity
Ulsan Complex 7 million 637 thousand ton
SK incheon petrochem* 1 million 467 thousand ton

* based on px

Annual Base oil product capacity
23 million 810 thousand barrels

Annual Lubricant product capacity
1.81 million barrels

2015 Business Performance

E&P and other businesses

Revenue: KRW 1 trillion 149.8 billion
 Operating profit & loss: - KRW 45.1 billion

Petroleum business

Revenue: KRW 35 trillion 299.7 billion
 Operating profit & loss: KRW 1 trillion 299.1 billion

Petrochemical business

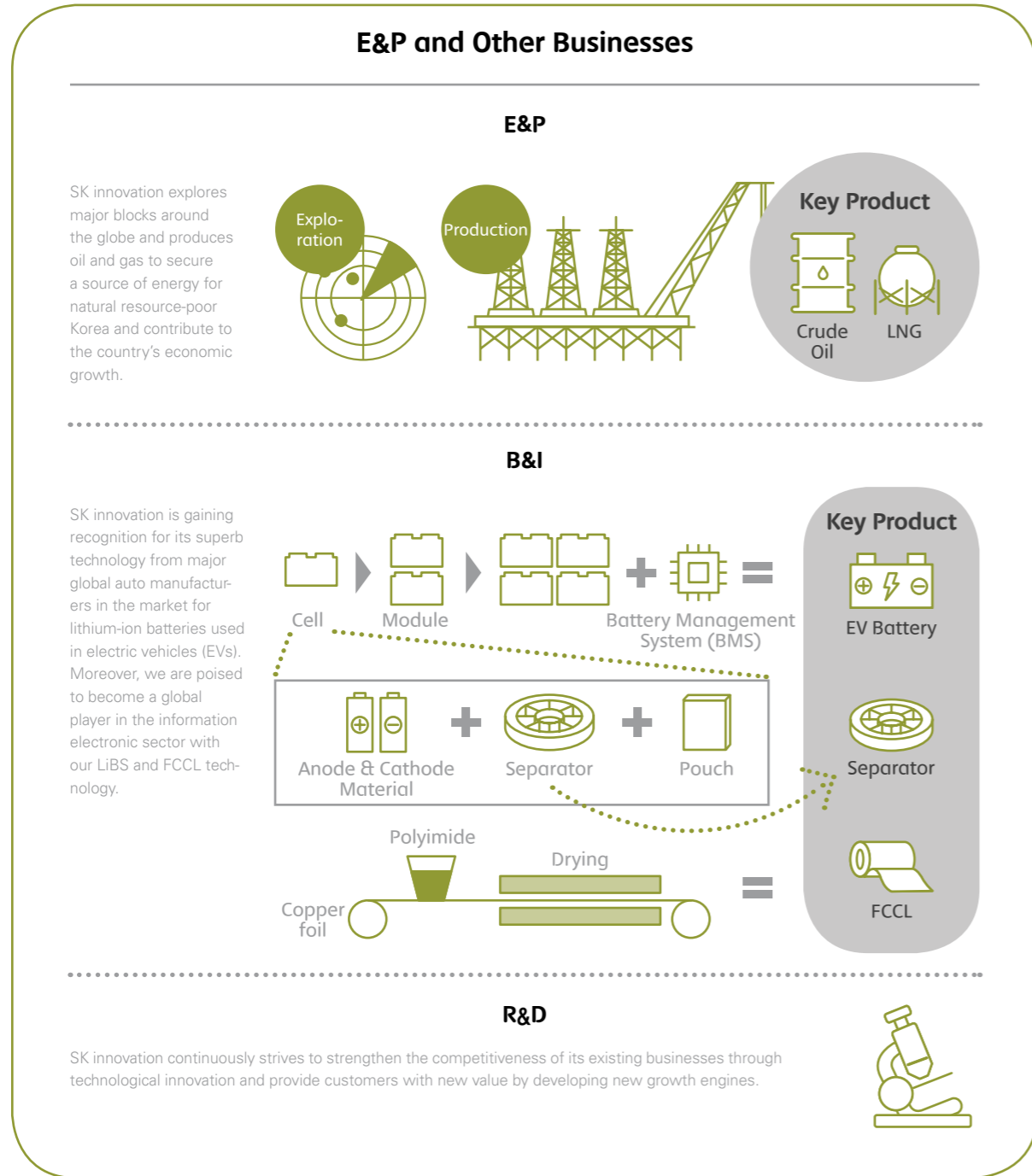
Revenue: KRW 9 trillion 288 billion
 Operating profit & loss: KRW 430.9 billion

Lubricant business

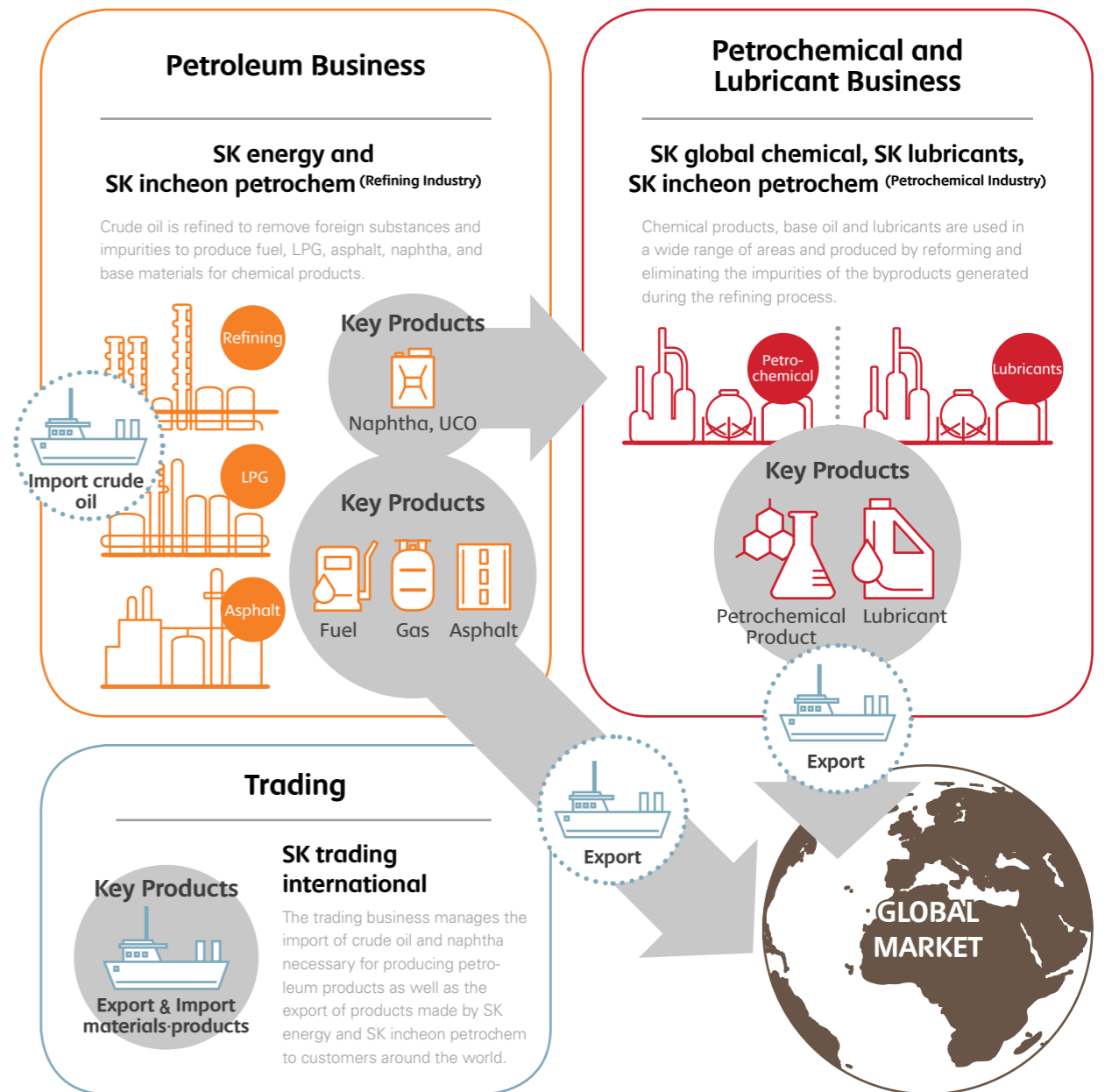
Revenue: KRW 2 trillion 618.8 billion
 Operating profit & loss: KRW 294.7 billion

*For information on the shareholding structure of SK innovation and its subsidiaries, please refer to the website (<http://www.skinnovation.com>)

Business Value Chain



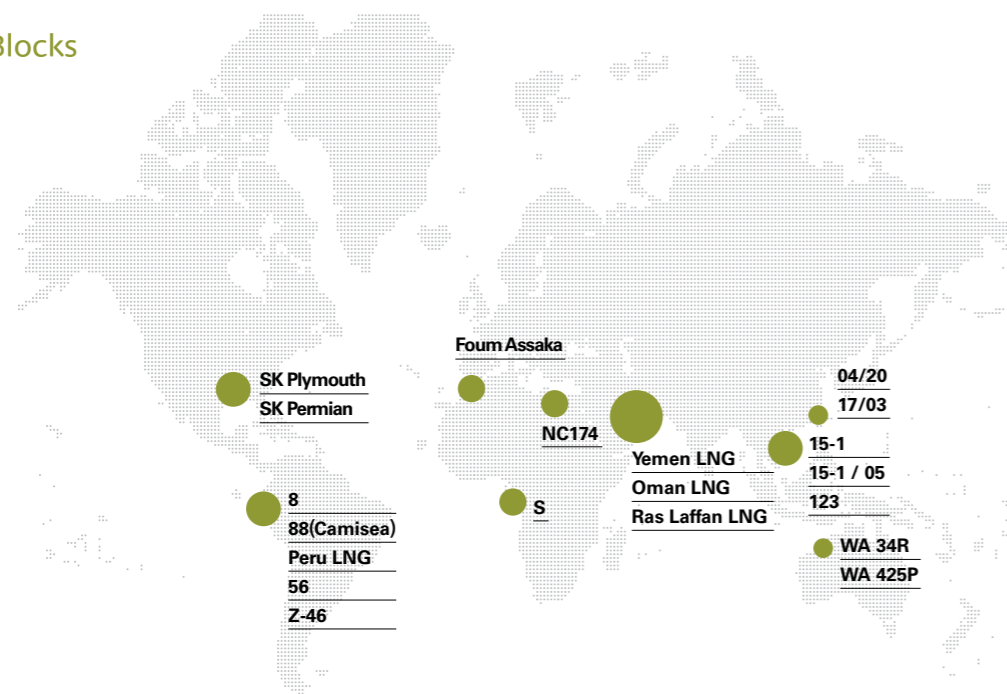
SK innovation has successfully advanced into the business of exploration and production of oil, gas and other resources overseas. We are gaining attention for our success with a stream of projects in countries including Vietnam, Peru, and the United States. Moreover, we are utilizing our outstanding crude oil refining technologies to produce not only fuels, such as high-quality gasoline, diesel, and kerosene, but also high-quality base oil, lubricant, and a wide range of products with everyday applications including basic chemical products, chemical solvents, and synthetic rubber. We are increasing the competitiveness of our existing businesses by optimizing the entire operational process from importing crude oil to producing and selling products. We are also striving to create future growth engines based on technologies accumulated over the past 50 years. As a result, we are entering into the I/E materials business areas of batteries and battery separators for electric vehicles, and are starting to gain traction with major customers in the global market.



SK innovation Exploration & Production (E&P)

SK innovation is actively engaged in Exploration and Production (E&P) business around the world, participating in 16 production blocks and four LNG projects in 11 countries as of the end of December 2015. SK innovation's production blocks in countries such as Peru and Vietnam produce approximately 63 thousand barrels of oil equivalent per day (BPD). With the proven reserves totaling 550 million BPD or the equivalent of an eight-month supply for Korea, SK innovation is helping Korea secure energy resources and contributing to its economic growth.

Overview of Blocks



LNG Projects

Country	Project Name	Participating Since
Yemen	Yemen LNG	1997
Oman	Oman LNG	1996
Qatar	Ras Laffan LNG	1999
Peru	Peru LNG	2003

Exploration Blocks

Country	Block Name	Participating Since
Morocco	Fom Assaka	2013
Vietnam	15-1/05	2007
	123	2008
Equatorial Guinea	S	2009
Australia	WA 34R	1998
	WA 425P	2009
China	04/20	2015
	17/03	2015
Peru	Z-46	2008

Production Blocks

Country	Block Name	Participating Since
Libya	NC174	2000
U.S	SK Plymouth	2014
	SK Permian	2014
Vietnam	15-1	1998
Peru	8	1996
	88 (Camisea)	2000
	56	2004



Overview of Major Overseas Development Regions

Vietnam

After acquiring exploration rights in Block 15-1 in Vietnam, SK innovation carried out exploration and development for five years and started production in 2003. In September 2014, we successfully made additional developments, making the Su Tu Nau field our fourth oil field. This was an exceptional case of a Korean private company undertaking the entire process from exploration and development to commercial production.

Peru

After starting crude oil production in Block 8 of Peru, SK innovation began production at Blocks 88 and 56 in 2004 and 2008, respectively. In 2010, the Peru LNG project was completed with the construction of the company's own LNG plant as part of the value chain consisting of E&P, pipeline transportation, LNG production, and exports. With the plant's completion, SK innovation achieved vertical integration and is now able to manage the entire value chain from exploration to sale of products.

U.S.

SK innovation accelerated its advancement into the U.S., the hub of the Shale Revolution, by acquiring assets in Oklahoma and Texas in March 2014. In Oklahoma, it successfully reduced the drilling time and increased the daily production volume by 30% with an effective drilling method. SK innovation is propelling its E&P business capacity forward by obtaining the U.S.'s unconventional⁽¹⁾ E&P technology and know-how through its operation of production blocks in the U.S.

China

In 2015, SK innovation became the first Korean company to venture into the South China Sea. The two blocks (04/20, 17/03) are shallow in depth ranging from 50 to 400 meters, allowing relatively low-cost exploration and drilling. The location of the blocks near China and Korea serves as an advantage that could reduce transportation fees, making them even more promising assets. With Blocks 04/20 and 17/03 each being 2.8 times (5,138km²) and 4 times (7,686km²) the size of Jeju Island, SK innovation established a branch in Shenzhen for exploration activities and is developing the blocks jointly with China National Offshore Oil Corporation (CNOOC).

(1) Unconventional resources: Shale Gas, Oil sands, Ultra-heavy oil and other resources that are difficult to extract with conventional methods

Future Plans

SK innovation wrote success stories in Yemen's Marib, Vietnam, and Peru, built its reputation and became a trusted business partner. Currently, SK innovation is strengthening its business portfolio consisting of exploration, development, and production by exploring in strategic locations and acquiring new blocks. In 2016, SK innovation will maximize the production efficiency in the existing blocks and continue development activities to discover additional reserves to maintain reliable sources of revenues. Furthermore, exploration at the two new blocks in China will be carried out promptly. Moreover, we will accumulate our experience and continue to strengthen our technological competitiveness by securing talented E&P professionals through M&As and acquisition of production blocks.

SK innovation Batteries and Information & Electronics Materials (B&I)

SK innovation has integrated the entire value chain for battery manufacturing and is maintaining its cooperative relationship with global automotive manufacturers to strengthen its position in the global battery industry. In addition, building on over 50 years of chemical technology competency, SK innovation became the first Korean company to independently develop lithium-ion battery separators (LiBS) and the world's first developer of Infrared Rays continuous curing FCCL production technology, which enables us to produce more advanced I/E materials.

SK innovation is developing and supplying lithium-ion batteries for electric vehicles to major domestic and foreign customers. Also, SK innovation's lithium-ion battery separators are superior to our competitors' products in terms of uniformity, safety, and permeability. We are supplying FCCL with industry-leading dimensional stability and flexibility in step with the miniaturization and weight reduction trends in IT devices, such as smartphones and tablets.



(1) LiBS: Li-ion Battery Separator
(2) FCCL: Flexible Copper Clad Laminate

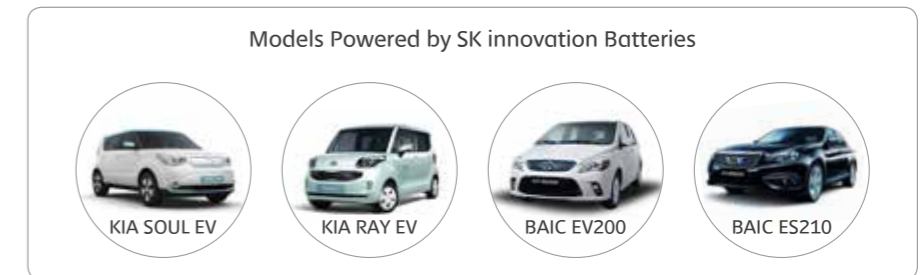
Battery Division: Expansion of the Seosan Plant

In 2015, SK innovation completed expansion of the Seosan battery plant, doubling its capacity, and began operating at full capacity. The Seosan battery plant is now equipped with EV battery production facilities that can produce a total of 800MWh, enough to supply 30 thousand units of EVs, twofold the original capacity.



Battery Division: Expansion of EV Battery Supplies

Although SK innovation had a late start in the battery market compared to competitors, it has made meaningful achievements by securing world-class domestic and foreign car manufacturers including Hyundai-Kia Motors, Beijing Automotive Industry Holding Co.(BAIC), and Daimler Group as customers. In 2015, the Seosan Plant operated at 100 percent capacity around the clock to respond to the rising demand for Kia Motors' electric car, Soul EV, and BAIC's EV200 and ES210. In early 2016, the company captured a stable source of demand by signing a large size contract with the Daimler Group to supply the company's EVs with batteries.



I/E Materials Division: 2nd Largest Producer of LiBS in the World

SK innovation successfully developed LiBS in 2004 and initiated commercial production in December 2005. In 2015, we captured the second largest global market share with annual LiBS sales reaching 150 million m². In 2016, SK innovation expects to rapidly close the gap with the largest producer, propelled by the EV battery market's explosive growth. In the EV and lithium-ion secondary battery markets, safety is gaining increasing importance on top of chemical property requirements, slimmer design, and thermal resistance. As such, SK innovation will use its specialty ceramic coated separators to accelerate into the next level and become a market leader in the wet LiBS market by 2020.



LiBS Production at Jeungpyeong Plant

I/E Materials Division: Continued Development of FCCL Technologies

SK innovation's FCCL Business has secured its superior position in both quality and competitiveness by producing its own key raw materials and introducing a manufacturing method (the world's first to develop IR⁽³⁾ continuous curing FCCL production technology) that surpasses all competitors. Although the domestic business conditions were not favorable in 2015 due to a sluggish mobile device market, we are growing our business by advancing into new global markets and diversifying our client base. We are seeing tangible results from our activities such as production of differentiated products such as ultra-thin and thick films and new application of our products in car transmissions. We are continuously developing new products to boost our factory utilization rate.

(3) IR: Infrared Rays

Future Plans

As China is expected to become the largest EV battery market in the world, SK innovation will continue to pursue growth with a focus on China, partnering with global companies as in the case of Beijing BESK Technology, which is a joint venture with Beijing Electronics Holding Co., Ltd (BEHC) and Beijing Automotive Industry Holding Co., Ltd. (BAIC) to produce batteries in China.

The I/E Materials Division is planning facility expansion in 2016 to respond to the surge in market demand. The expansion will solidify SK innovation's place in the global market as the second largest LiBS producer and push the company towards its goal of becoming the No. 1 company by 2020.

There is continued competition among companies in the FCCL business due to recent oversupply in the market. However, the supply and demand balance is expected to improve following steady market growth. SK innovation will continue to secure new customers by using differentiated technology to develop superior products.

SK energy

SK energy continues its company-wide efforts to innovate its revenue model by cementing market leadership and focusing on operational excellence with agility and flexibility. Bolstered by our global partnerships, we will identify differentiated paths to growth and extensively refine our business model to become a leading global company in the energy sector.

Key Business Areas

Petroleum Business

SK energy lives up to its status as Korea's No.1 oil company by supplying both domestic and overseas markets with petroleum products produced at the world-class Ulsan plant, which boasts crude oil refining capacity of 840 thousand barrels per day. To proactively respond to the rising oil price and petroleum product price volatility, SK energy continually expedites and boosts flexibility throughout the value chain. It is also revamping quality assurance programs to raise customers' trust and provide differentiated customer services, including the EnClean bonus card, customer events such as 'three thousand point privilege', credit card affiliated gas station discounts and the Netruck business, which provides total solutions to freight truck drivers.

Key Products



Petroleum Products

Premium Gasoline

EnClean Solux boasts a higher Research Octane Number (RON) than regular gasoline products, which increases engine power, protects engines, and dramatically improves ride quality. Compared to the existing EnClean gasoline, the premium gasoline is a more eco-friendly fuel with additional detergent, thereby improving fuel economy and reducing exhaust gas emission.

Regular Gasoline

SK's state-of-the-art gasoline detergent is included in EnClean gasoline, markedly improving its cleaning capabilities. As a result, carbon buildup on the intake valves is minimal when using EnClean gasoline. In addition, removal of deposits inside the engine can lead to better engine output and fuel economy, less toxic exhaust fumes, improved driving dynamics, and other positive effects.

Diesel

SK energy's diesel is used for automobiles and possesses superb ignitionability essential for high-speed diesel engines, creates an appropriate amount of stray, and maintains adequate viscosity and lubricity required to prevent abrasion of the fuel injection pump. Our diesel's distillation features also allow for satisfactory combustion and high thermal efficiency.

Kerosene

SK Kerosene undergoes a highly sophisticated refining process making it suitable for supplementary indoor heaters and household boilers, and therefore does not contain foreign substances, demonstrates excellent combustion properties, and emits little toxic substance.



Gas

LPG

Since EnClean LPG goes through combustion in the form of a gas, it is highly flammable and combustible, allowing it to undergo uniform and complete combustion, and has high thermal efficiency.



Asphalt

Superphalt

Superphalt is the product name of polymer modified asphalt (PMA) developed by SK energy. It is an innovative product that lengthens the life span of roads. A net of polymer chains created between SBS and asphalt molecules absorbs stress applied on the pavement, dramatically improves viscosity and elasticity, thereby remarkably lengthening the life span of roads.

Regular Asphalt

SK energy is leading the development of high-quality functional asphalt based on its superb technology. Moreover, the company is going beyond simply selling products, to addressing any issues in the field by dispatching asphalt experts with specialized training and experience.

Major Achievements in 2015



May 2015 Event



August 2015 Event

Future Plans

LPG Business

SK energy's LPG Division is building on its brand loyalty through a differentiated retail customer care program to strengthen its long-term competitiveness and secure a stable business foundation. In addition, customer relationship management (CRM) programs that target customers at fuel stations have been introduced in order to boost network competitiveness and brand value. SK energy is focusing on reinforcing marketing capabilities to ensure sustainable growth and high profitability in the future.

Specialty Petroleum Products Business

SK energy has a competitive advantage in the asphalt market based on its excellent products and services. A prime example is Polymer Modified Asphalt (SBS PMA), which SK energy became the first domestic oil refining company to independently develop, commercialize, and patent. SK energy is also strengthening its marketing capabilities in the Chinese market through joint ventures involving asphalt production, storage, and sales.

Greater Focus on the Chinese Asphalt Market

SK energy seized the opportunity to channel its research and marketing capacities into SK Asphalt (Shanghai) Co.,Ltd., maximizing synergistic effects, and also focused on capturing the Chinese asphalt market. SK (Beijing) Road Science & Tech. Co., Ltd. was scaled up and consolidated into SK Asphalt (Shanghai) Co.,Ltd.. In addition, SK energy supplied asphalt tailored to local markets from five local plants including Ningbo, Chongqing, Hefei. As a result, SK energy recorded the highest export volume to China in 2015 and sustained the largest market share in China's import asphalt market.

Reinforcing Marketing Aimed at Domestic Consumers

SK gas stations' '3,000 Point Privilege' marketing campaign, launched in 2012, aims to provide greater benefits for redeeming 3,000 unused OK Cashbag points. SK energy held two 3,000 Point Privilege events in May and August 2015, offering personal care products, including body wash and toothpaste, as well as building block kits of SK's tankers, drill ships and more. The model kits reflect the preference of 'kidults' in their 30's and 40's and families with children who frequent SK gas stations. These items were wildly popular, with 50 thousand units selling out far earlier than the events' close. In order to enhance the event's effectiveness in promoting the use of OK Cashbag points amongst key clientele and solidify its prominence as SK gas stations' signature customer service event, we will continue to raise customer satisfaction by offering a wider range of privileges redeemable with three thousand points.

Improving Asset Efficiency to Enhance Corporate Values

To sustain business operations and build a foundation for growth amid mounting uncertainties in our business environment caused by stagnant global economic growth and increasing price volatility of oil, enhancing the profit and business structure and strengthening our core competencies is essential. To that end, we actively pursued sales of idle assets in 2015, and will enhance the value chain's efficiency and continue to boost corporate values by focusing on maintaining a cash flow.

SK energy will not rest on its position as a leader in the domestic market. The company will leverage its operational capabilities, technologies, and marketing skills accumulated from supplying petroleum products, to solidify our market leadership as a 'regional top R&M company.' We will thus enhance competitiveness in our profit and business structure, and build upon our global partnering approach to identify differentiated business model to ultimately evolve into a 'global top-tier R&M company' with bright future prospects and vision.

SK global chemical

SK global chemical has spearheaded the development of the domestic chemical industry through continuous facility investment, R&D and technological improvement. SK global chemical supplies a wide range of products ranging from raw and supplementary materials for everyday consumer goods to advanced materials for automobiles, electronics, and communications devices. SK global chemical strives to advance its functional chemical product and high value-added product businesses to maximize future revenue and endeavors to achieve sustainable growth in the global market with a focus on China.

Key Business Areas

Olefin Business



The Olefin Division produces basic oils, such as ethylene and propylene and intermediate derivatives, such as butadiene and butane-1. By doing so, the division contributes to internal and external synergies by achieving vertical and horizontal integration across the chemical industry comprising petroleum, polymers, and aromatics. Investments made in competitive production technology will lead to cost competitiveness and flexibility in terms of materials. Using this technology as a stepping stone, we will pursue further globalization. Moreover, we will continually strive for sustainable and reliable growth by providing our customers with a dependable supply of high quality products.

Aromatics Business



The Aromatics Division produces benzene, toluene, xylene, styrene monomer, and cyclo-hexane, which are used as raw materials for daily necessities and widely prevalent in the construction, electronics, and textile industries. This division has secured the highest production capacity in the region (annual BTX capacity of 3 million tons) by expanding its scale through continuous investment. The division will continue to introduce and promote trading in order to strengthen its business competitiveness and become a leader in the global market.

Performance Chemical Business



The Performance Chemicals Division produces solvents used in a wide range of products from household goods to high-tech products. Starting with the development and production of de-aromatized products whose toxic ingredients have been removed, the Performance Chemical Division has been independently developing and applying the necessary technologies for manufacturing various solvents and specialty chemical products. Furthermore, the division optimizes efforts to develop products tailored to customers' needs and improve the applicability of each of our products based on our experience in technological support, accumulated over 10 years of operating quality service centers.

Polymer Business



The Polymer Division supplies materials used not only in cars, electric appliances and communications devices, but also for most daily necessities including tooth-paste tubes, stationery and storage containers. Having established itself as an LLDPE⁽¹⁾, HDPE⁽²⁾, and PP⁽³⁾ specialist, the division is actively developing new products to advance into the high value-added market and boost the competitiveness of our products. The division also strives to build and reinforce our market network to strengthen our competitiveness in the Chinese market, the largest source of market demand.

- (1) **LLDPE**: Linear Low Density Polyethylene which is used in packaging and agricultural film, wire clothing, pipe for civil engineering and construction, sheet, etc.
- (2) **HDPE**: High Density Polyethylene which is used in containers, grocery packaging film, water and sewage or chemical plants, vessels, pipe for civil engineering, etc.
- (3) **PP**: Polypropylene is a kind of plastic which is used in various types of containers, experiment tools, megaphones, automobile parts, currency, etc.

Performance Rubber Business



The Performance Rubber Division produces EPDM, a high value-added synthetic rubber with an outstanding resistance to foul weather, heat, and corrosive ozone. With the continued growth of the automotive and industrial rubber parts industries, we are focusing our efforts on producing high quality products and supplying them at competitive prices. We also seek to meet the expectations of our customers through continued quality assurance and communication.

Major Achievements in 2015

Targeting the Global High Performance Polyethylene Market

SK global chemical established a joint venture with Saudi Arabia Basic Industries Corporation (SABIC), a major global chemical company, to target the global high performance polyethylene market. The joint venture, 'SABIC SK Nexlene Company (SSNC)' held an inauguration ceremony for the Nexlene Plant in Uljugun, Ulsan attended by distinguished guests representing both companies: Chey Tae-won, CEO of SK holdings, and Prince Saud bin Abdullah bin Thenayan Al-Saud, Chairman of the Board of Directors of SABIC. Korea's Trade, Industry and Energy Minister, the Mayor of the city of Ulsan and representatives from customers and partner companies totaling around 400 people were in attendance. SK global chemical applied various technologies it had independently developed since 2004 to SSNC's Ulsan Nexlene Plant. As such, it became the first petrochemical plant in Korea to be constructed without foreign technology and boasts an annual high-performance polyethylene production capacity of 230,000 tons. SK global chemical seeks to become a global leader by utilizing SSNC and the Nexlene Plant, and intends to construct additional Nexlene Plants in Saudi Arabia and beyond.



SABIC SK Nexlene Korea Plant Inauguration Ceremony and Plant Inspection



Future Plans

SK global chemical will promote global growth strategies centered on China, which is expected to account for the lion's share of chemical product demand as the world's factory. Furthermore, we will continue to develop new technologies to satisfy the needs of our customers and the market, diversify our portfolio through strategic investments, and strengthen our competitive advantage in the global market. To that end, we are concentrating our organizational capacities on China and identifying and promoting various growth options, while also continuing to create value with our existing businesses, actively pursuing M&A projects and expanding partnerships with global petrochemical companies to secure technological competitiveness and industry excellence.

SK Lubricants

SK lubricants has led the global lubricant and premium lubricant market since it first commercialized the world's first Group III base oil manufacturing process in 1995. SK lubricants is capturing the overseas premium base oil market by constructing new base oil factories in Europe and Asia in a proactive response to the surging demand for ecofriendly and fuel-efficient premium lubricant oil. We use a thorough localization strategy centered on local production facilities in order to expand our market share. We will continue to pioneer change in the lubricant and base oil industry and provide better value for our customers based on our agile action and investments.

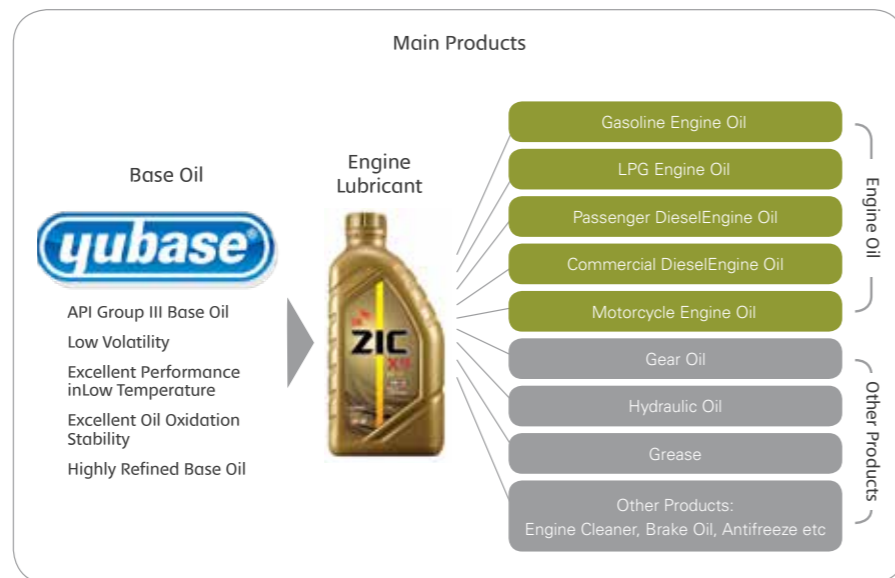
Key Business Areas

Base Oil Business

SK lubricants' YUBASE has high viscosity index above 120, while maintaining more than 90% saturation and less than 0.03% sulfur. This specification categorizes it as Group III premium base oil. Ever since we began operation to produce our first VHVI lubricant factory in 1995, YUBASE has been continuously enhanced, and our high quality base oil now records sales in 50 countries, including the U.S., Europe, and Japan. 50 countries including the US, Europe and Japan.

Lubricant Oil Business

Produced from our high quality base oil, our lubricant SK ZIC boasts longer usage and enhanced preservation rate with excellent performance even in low temperatures. It has been a popular choice among drivers in 50 countries since it was first exported to Russia in 1995. With its excellent low temperature startability and fuel efficiency, it has gained global popularity from freezing Siberia to fuel-economy conscious areas of Southeast Asia. SK ZIC has solidified its status as the foremost lubricant brand in Korea, acknowledged as the leading brand by major institutes for 18 consecutive years since its launch.



Major Accomplishments in 2015

First Export of SK ZIC Lubricant Brand

SK lubricants accomplished the goal of becoming the first Korean lubricant producer to export their own brand of products. SK lubricants has signed a brand licensing agreement with Rabigh First Lubricant Co. Ltd., a Saudi Arabian lubricant subsidiary of Globetech, in May 2015. Following this deal, the SK ZIC brand and our unique technology has been exported to Saudi Arabia, generating annual brand royalty sales profit for the next six years until 2020.



Brand Export to Saudi Arabia

Globetech is a pipe-coating specialty corporation whose biggest shareholder is the Khonaini Group, which possesses a petroleum network in Saudi Arabia. Its subsidiary, Rabigh First Lubricant Co. Ltd., will launch its lubricant business in the Middle East and North Africa regions as well as Saudi Arabia based on our licensing agreement. We hope that this will serve as an opportunity to increase our brand recognition in those regions.

YUBASE Expands into the Spanish Premium Base Oil Market

In September 2015, SK lubricants held the completion ceremony for the ILBOC's Cartagena base oil factory, our joint venture with Spain's energy company, Repsol, with the presence of Chey Tae-won, CEO of SK holdings and President Antonio Brufau of Repsol. This factory has the capacity to produce 13,300 barrels per day of Group III base oil, a premium base oil according to API categorization. Products from this factory will be sold under SK's brand name, YUBASE.



Factory Completion Ceremony at Cartagena, Spain

This was a strategic decision based on the strong brand recognition of YUBASE, which even exceeds that of Repsol's local brand. SK will also take the lead in marketing in Europe. SK lubricants will continue to collaborate with Repsol to strengthen its market dominance in the European market.

Future Plans

SK lubricants has grown to become the leader in the international Group III lubricant market, providing excellent quality and stable supply to its customers. We will continue to strengthen our market leadership by responding to the rising demand stemming from stronger environmental regulations and developing products with strong profit margins. We will also actively target emerging markets for groundbreaking growth in the lubricant end-product market, and strengthen our business structure via partnerships and M&As.

SK incheon petrochem

Spun-off from SK energy Incheon Complex in 2013, SK incheon petrochem is responsible for supplying stable energy to the Seoul Metropolitan Area and the Incheon International Airport. In 2014, SK incheon petrochem expanded production lines to produce condensate-based products, such as PX⁽¹⁾ and other high value added products, and it is utilizing its advantageous geographical location in exporting its products to China, South East Asia and beyond. SK incheon petrochem will continue to strive to become a global top-tier oil and petrochemical company by applying rigorous process management standards and environmental management standards to achieve world-class productivity.

(1) PX : Para Xylene

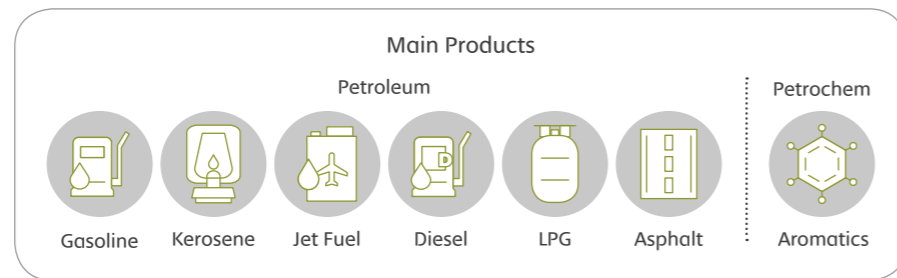
Key Business Areas

Petroleum Business

Based on our management philosophy centered on customer satisfaction and product quality, SK incheon petrochem produces high quality products that are safe for customers and the environment, while tapping into new markets. The company will keep its focus on improving its production facilities, ensuring precision in the refining process, and developing advanced technologies to upgrade the quality of all petroleum products and produce eco-friendly products.

Petrochemical Business

SK incheon petrochem has been solidifying its profit by producing and selling aromatics and solvents and high value-added chemical products, such as PX and benzene, which are produced by catalytic reforming of naphtha, derived from the refining of crude oil. We will continue to produce and supply high-quality chemical products and enhance production efficiency and technology to satisfy the demands through strict process management, thereby improving our competitiveness in the global petrochemical market.



Major Accomplishments in 2015



Incheon Complex PX Factory

Operating in the Black Post Spin-off

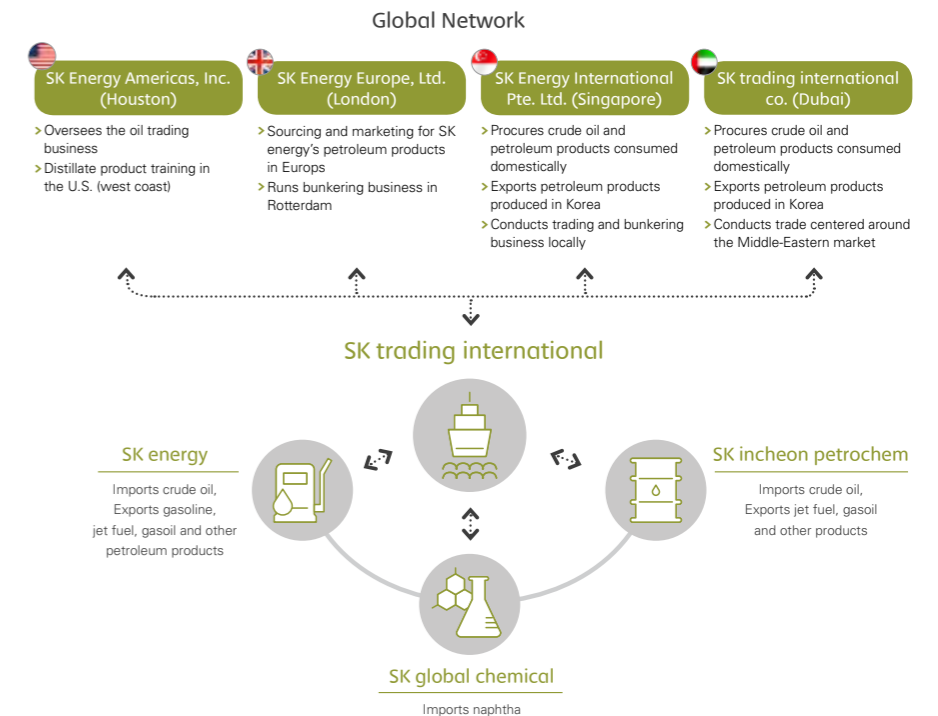
After its launch following the acquisition of SK Incheon Oil in 2006, SK incheon petrochem continuously focused on producing high value-added products and improving management. As a result, we were able to turn a profit for the first time since its spin-off from SK energy in 2013. SK Incheon Oil continuously faced challenges, such as the 2008 financial crisis, but we expanded our PX facilities from 2012 to 2014, as our long-term investment. This PX facility, which can produce up to 1.3 million tons annually, came into operation in July 2014, and has greatly contributed to achieving our 2015 operating income of 49.6 billion KRW.

SK trading international

In 2013, SK trading international was established as an independent company after its spin-off from SK energy. SK trading international trades crude oil and petroleum products for SK innovation's petroleum business-related subsidiaries, such as SK energy and SK incheon petrochem, and procures naphtha for SK global chemical. Furthermore, it is moving beyond simple trading to establishing a platform, which can directly produce, trade and market products in the global market.

Optimizing Trading Through Our Global Network

As oil prices fluctuate drastically, sales or purchase of a particular type of oil in certain time periods may impact the business's economic feasibility. SK trading international maintains three foreign branches in the Americas, Europe and Singapore alongside a foreign office in Dubai to trade optimal crude oil and petroleum products at an appropriate price by monitoring oil prices 24 hours a day, and managing the entire process including optimal oil type selection, shipping, arrival and payment of the commodity through our global network.



Business Overview & Future Plans

Based on its sophisticated risk management system, SK trading international is establishing a unique trading business model that sets us apart from our global competitors. In crude oil trading hubs, we have established an independent market network and a self-sustaining trading platform, and implemented trading optimization methods by utilizing market dynamics in various ways to become a global trading company.

SK innovation R&D

SK innovation Global Technology (SKIGT) is seeking to enhance its competitiveness by providing its customers with high quality products and services. Through open innovation in various fields and close cooperative relations with relevant internal and external partners, SK innovation is uncovering new growth engines and developing its exceptional competitive edge.

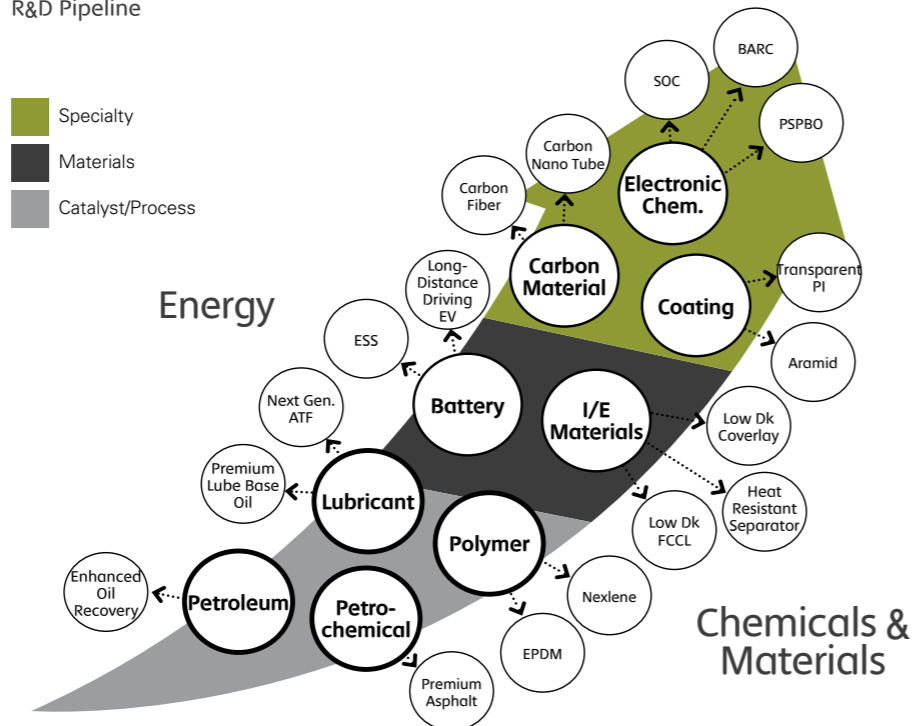
Global Technology Overview

Established in 1995, the SK Daeduk R&D Park houses Global Technology, the R&D and technological development arm for SK innovation and its subsidiaries, and the B&I R&D Center, which supports battery and I/E materials business.

SKIGT is comprised of the petroleum & lubricant R&D center, chemical R&D center, platform technology R&D center, the technology strategy office, and R&D management support office. Through technology innovation, SKIGT sharpens the competitiveness of SK innovation's existing businesses and explores future growth engines.

Furthermore, SK innovation has enhanced its business competitiveness by means of its R&D on petroleum, petrochemical products and lubricant oil, thus strengthening its global leadership by developing new business opportunities in the fields of polymer, battery, I/E materials, and other technology based development. For SK innovation's sustainable future, we will continue to reinforce our existing business through technology competitiveness, while fostering the development of new technology to create new business opportunities.

R&D Pipeline



Research Fields

	Oil Refinery Technology	<ul style="list-style-type: none"> > Developing corrosion protection technology to refine opportunity crude with high levels of calcium and acid > Developing technologies to improve handling capacity by removing impurities of crude oil, corrosion, fouling, catalyst response
	Petroleum Products	<ul style="list-style-type: none"> > Developing petroleum products utilizing semi-products & additive technology > Developed additive technology (WAFI⁽¹⁾) to enhance low temperature performance of diesel in winter
	New Asphalt Products	<ul style="list-style-type: none"> > Developing premium asphalt with excellent water resistance > Developing blending asphalt production technology that utilizes various feed and by-products
	Automobile Lubricants	<ul style="list-style-type: none"> > Supporting development and commercialization of diesel engine oil with dramatically improved oil preservation > Developing lubricants for race cars
	New YUBASE Products	<ul style="list-style-type: none"> > Developing and obtaining approval of quality certifications from manufacturers for advanced base oils with high fuel efficiency, or base oils used for shock absorber oil with low viscosity
	Enhancing Competitiveness of Aromatics	<ul style="list-style-type: none"> > Developing technology to produce benzene and xylene from heavy aromatics feedstock, which previously couldn't be processed, researching commercialization towards in-house application > Researching methods to reduce energy cost when producing PX
	Nexlene	<ul style="list-style-type: none"> > Independently developed Nexlene that produces catalyst based high performance polyethylene, allowing production of low density elastomer and mid-density polyethylene in a single-site, secured product design optimization and performance > Successful establishment of Nexlene JV with SABIC
	Chemical Products for Electronics	<ul style="list-style-type: none"> > Developed 1 type of chemical for semi-conductors and created line for mass production > Continuing to develop chemicals for semi-conductors and display panels
	Battery	<ul style="list-style-type: none"> > World's first application and commercialization of Ni-rich cathode for high energy density batteries > R&D new material and improving in processes to reduce battery production costs
	I/E Materials	<ul style="list-style-type: none"> > Applying recycling technology for LiBS manufacturing cost optimization > Developed high flexural FCCL products

(1) WAFI: Wax Anti Settling Flow Improver; collectively refers to additives that combines wax anti-setting additive and middle distillate cold flow improver

Future Plans

For our petroleum business, we will improve our refining margin by advancing analytical technology to ascertain process yield and composition forecasting, and process and product impacts, while developing technology to process and proactively address issues in refining opportunity crude. We will maximize technical capabilities for Group III base oils to solidify our market leadership and expand our product spectrum of lubricants. With particular focus on expanding the lubricant product portfolio and core technologies such as blending, we will reinforce our global technology support system.

Our petrochem sector will focus on strengthening our core competitive edge from basic chemicals to specialty chemicals. With technological innovations to enhance quality and production price for polymers, monomers, and expand core derivatives, we will also develop and commercialize specialty chemicals used for semi-conductors and display panels to target the global market led by China.

We plan to focus on developing high performance batteries and reducing production costs in light of the mass-market availability of electric vehicles, while also accelerating the production of core components like LiBS and FCCL to meet market demand.



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Business Review

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Market Outlook

Despite challenging market trends, such as the collapse of the global oil price due to over-supply and the slowing of Chinese economy, SK innovation has successfully reformed its business through a global partnering strategy with international chemical corporates, such as SABIC, Repsol and SINOPEC. We have also competitively positioned ourselves for further growth by bolstering our market leadership and share in the domestic energy market, expanding battery production lines and enhancing our North America's E&P business. In 2015, we turned our business around, recording stellar consolidated sales of 48.3565 trillion KRW and a business profit of 1.9796 trillion KRW and creating a solid foundation to further increase corporate value.

E&P Business



Oil Price Trends

After reaching its peak at \$115/barrel in June 2014, the Brent oil price continuously plummeted to hit a low of \$26/barrel in January 2016. The supply of oil continues to exceed demand as the non-OECD member countries produced more oil and gas with unconventional methods and the OECD members maintained production levels to retain their market share. In addition, political unrest in Northern Africa and the Middle East, stemming from civil war and Islamic militant groups, are further fueling the volatility of the oil and gas industry.

Major Industry Trends

The North America's oil production surge led by unconventional energy sources, including oil sand and shale gas, as well as changes in the industry have triggered the current low oil price. The subdued oil price trend has negatively affected the profitability of high-cost projects, such as development of deep-water oil fields, LNG and polar oil fields. Many companies are scaling down or suspending their investments in these areas and focusing on profitability of their asset portfolio.

Petroleum Business



Petroleum Products Consumption Trend

Although the US economy gradually recovered in 2015, market conditions remained challenging due to prolonged low oil prices from the oversupply and the slowdown of Chinese economy. Nevertheless, demand for gasoline, diesel and jet fuel increased due to an increase in the number of registered cars and demand for air travel. Furthermore, lower oil prices drove up demands for intermediate crude and heating kerosene, leading to a 5.9% accumulated increase for domestic petroleum products.

Petrochemical Business



Trends in the Basic Chemical Business

When the Chinese government implemented economic stimulus measures in 2009, it seemed that the petrochem market condition would recover. However, detrimental factors such as financial crisis in the Euro Zone and delays in the global economic recovery have caused prolonged market volatility. Production and consumption growth of unconventional low-cost feedstocks, such as shale gas and coal, is also expected to act as a major market variable.

Trends in the Chemical Material Industry

The chemical material industry provides raw materials to the automobiles, electronics, construc-

Domestic Demand in 2015 by Oil Type

(unit: MB/D)

Category	Gasoline	Kerosene	Diesel	Intermediate Crude	Aircraft Fuel	LPG	Asphalt	Total
2015	210	44	428	105	94	245	28	1,154
Year-on-Year	4.2%	5.2%	7.9%	15.3%	7.5%	(0.3%)	9.7%	5.9%

Accumulated Consumption by Oil Type

(unit: 1,000 Barrel)

Category	Gasoline	Kerosene	Diesel	Bunker Fuel	Naphtha	LPG	Others	Overall
2014	73,475	15,414	144,755	31,094	396,979	89,674	70,701	822,092
2015	76,570	16,230	156,354	35,903	411,598	89,295	69,111	855,061
Changes	4.21%	5.29%	8.01%	15.47%	3.68%	-0.42%	-2.25%	4.01%

*based on 2015 annual report

tion, pharmaceutical, and apparel industries, rendering it sensitive to business fluctuations. China's demand, which has been burgeoning as rapidly as its economy, has fueled growth in the chemical material industry. China has become more self-sufficient, which, however, has caused competition in the market to intensify. As such, many chemical companies are expanding into other emerging markets, such as South America, South east Asia and India.

Lubricant Business



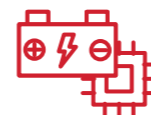
Domestic and International Competitor Trends

With four domestic refineries with refining and enhancement facilities producing lubricant base oils, supply exceeds demand, and the majority of these products are being exported to the Americas, Europe and other Asian countries. As other major oil companies including Shell, ExxonMobil, BP, Chevron and Total dominate the finished lubricants markets, Korean companies face an increasingly uphill battle to expand into and compete in new markets.

Domestic and International Market Trends

Demand has varied depending on the type and quality of lubricant base oils and lubricant products. Demand as well as market share for API Group I base oil with comparatively inferior performance is slowing down, while demand for premium base oils, such as API Group II (high quality mineral oil) and API Group III (synthetic mineral oil) is growing rapidly due to environmental regulations.

Battery and I/E Material Business



Trends in Mid to Large Sized Battery Industry

The mid to large-size battery industry produces and sells large capacity lithium-ion batteries used in electric vehicles (EVs) and Energy Storage Systems (ESS⁽¹⁾). With stricter environmental regulations around the world and the growing importance of energy security⁽²⁾, interest in ESS - which can stabilize the output of eco-friendly EVs and renewable energy sources like solar and wind - is increasing, leading to expectations that this market is poised to expand and grow rapidly.

Trends in the Information & Electronics Material Industry

Our I/E material business is comprised of circuit materials including Lithium-ion Battery Separator (LiBS) and Flexible Cooper Clad Laminate (FCCL). As the key component that splits the positive and negative terminals within a lithium-ion battery and provides a corridor for ion, the LiBS market is steadily growing along with the battery market. FCCL is an important material for flexible circuit board technology and its demand rises as IT devices become smaller and more high-tech. Recent oversupply has intensified competition amongst manufacturers, but the situation is forecasted to improve as the market continues to grow.

(1) **ESS**: Energy Storage System temporarily captures mass produced electricity to be used later when needed.

(2) **Energy Security**: A concept explaining the importance of a stable and rational supply of energy as it is interlinked with safety and all economic activity.

Our Strategy - Structural Innovation

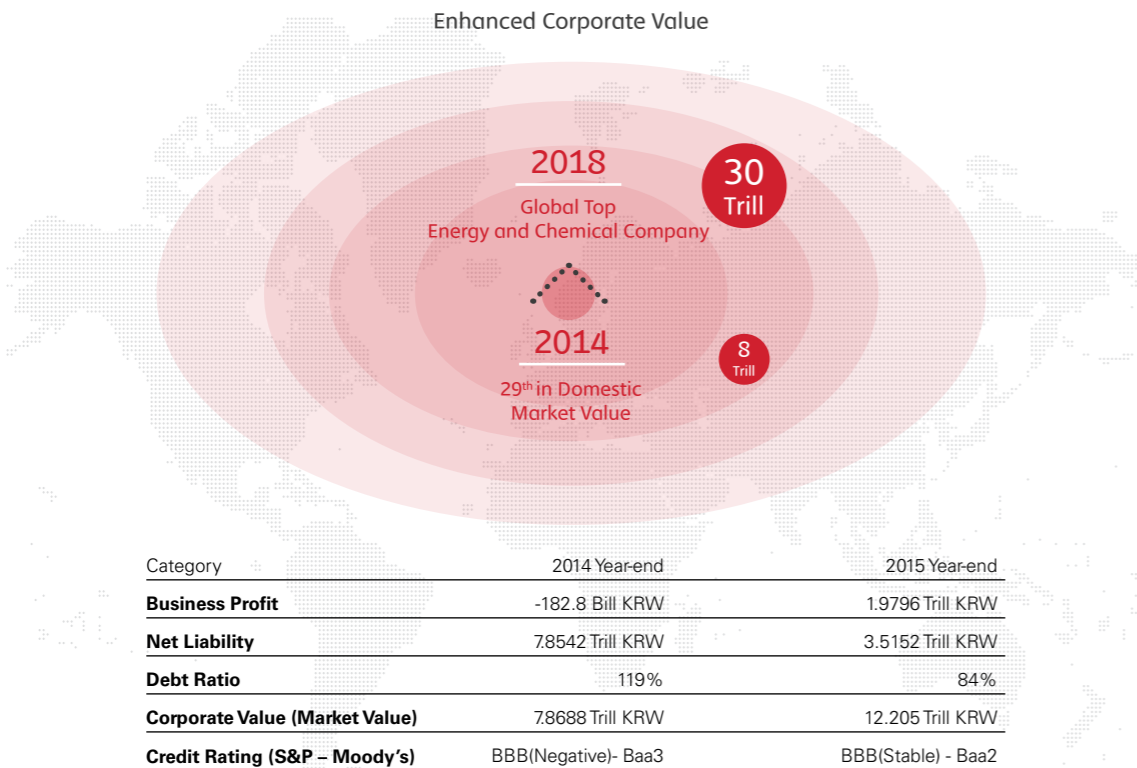
With the global market's stagnant growth, every industry is seeking changes to survive. This is especially true for the petroleum and energy industry. SK innovation is also faced with the necessity to evolve in light of the growing push for a transition into electric vehicles and eco-friendly energy. Facing such rapid changes, SK innovation is making utmost efforts to live up to its reputation as the leading global energy and chemical company with a strategic approach.

SK innovation's Strategic Goal

Reach 30 Trillion KRW in Corporate Value by 2018

SK innovation has established the goal of recording 30 trillion KRW in corporate value by 2018. To achieve this goal, we will accelerate our global growth by initiating fundamental changes in our business methods and structure. We will also pursue 'growth through stability' by securing a stable financial structure while maintaining investments to spur growth along with our business innovations.

We have founded a Portfolio Innovation (PI) Department responsible for exploring new growth engines, innovations in the business portfolio, and researching synergies amongst our subsidiaries, in order to effectively initiate and accomplish our goals. On top of this, we appointed a Chief Tech Officer (CTO) for each subsidiary to enhance technological competitiveness in its respective industries.



Business Structure

(1) **Unconventional Energy Source:** sources hard to drill using conventional method such as shale gas, oil sand and extra-heavy oil.

Expand Portfolio of Value-Added Products

Nexlene (high performance polyethylene) is SK global chemical's prime high value-added product and the first chemical product in Korea to be independently developed across all processes from catalyst to end-product manufacturing. As it is stronger, more transparent and easier to process, Nexlene has numerous applications, including plastic and vinyl, toys, pipe and vehicular compounds. SK lubricants' premium base oil, YUBASE is also one of our major high value-added products. SK innovation is actively scaling up production volume and also continuously conducting research to increase our lineup of high value-added products.



High performance polyethylene, Nexlene

Targeting Unconventional Resources and Emerging Markets

Our E&P sector is securing necessary core technology and human resources for the development of unconventional energy sources⁽¹⁾ such as shale gas. As part of our effort, we are currently producing 3,750 barrels of crude oil and gas per day using horizontal drilling and hydraulic fracturing at our Oklahoma block. We have established a strategy to develop into a North American resource expert based on our shale oil blocks in Oklahoma and Texas.

Strategic Investment in Infrastructure

To secure a stable business foundation, we are making strategic investments in infrastructure by expanding the battery section of our Seosan plant. Following our first expansion in July 2015, we have begun a second round of expansion in March 2016. Through this, we can scale up production capacity for electric vehicle batteries by 30% to produce 40 thousand electric vehicles annually. With this expansion, SK innovation is looking to augment its battery business, targeting foreign EV battery markets.



Production Line at the Seosan Plant

Revolutionize Profit Structure

Implement Optimized Management

Our distinctive optimization capability is the most prominent factor in our strategy to innovate our structure. SK innovation is also applying big data-driven optimal operation to petroleum/chemical products to arrive at the best solution for enhancing product quality and price competitiveness. This optimization is applied not only to manufacturing but also to various work processes in general management, directly improving our profit structure and contributing to improved staff work efficiency.

Improve Profit Structure by Reducing Costs

We are improving our profit structure in the petroleum sector by diversifying sources of crude oil to cut costs. In 2015, we were able to improve the refining margin by diversifying crude oil sources from Middle East crudes to include North American condensates and African crudes.

We are working hard to maintain system and organization structure to respond swiftly and flexibly in a highly volatile environment in order to maximize profit as well as to secure operational excellence and structural price competitiveness across the whole value chain from production to marketing.

Our Strategy - Optimization

SK innovation outperforms our domestic competitors by using Advanced Optimization to improve our decision-making. SK innovation is working to expand our Optimization activities to all areas of our operations from the procurement of raw materials, to production, blending, sales and general management in order to further maximize value.

Key Optimization Activities

Optimization in the Petroleum Business

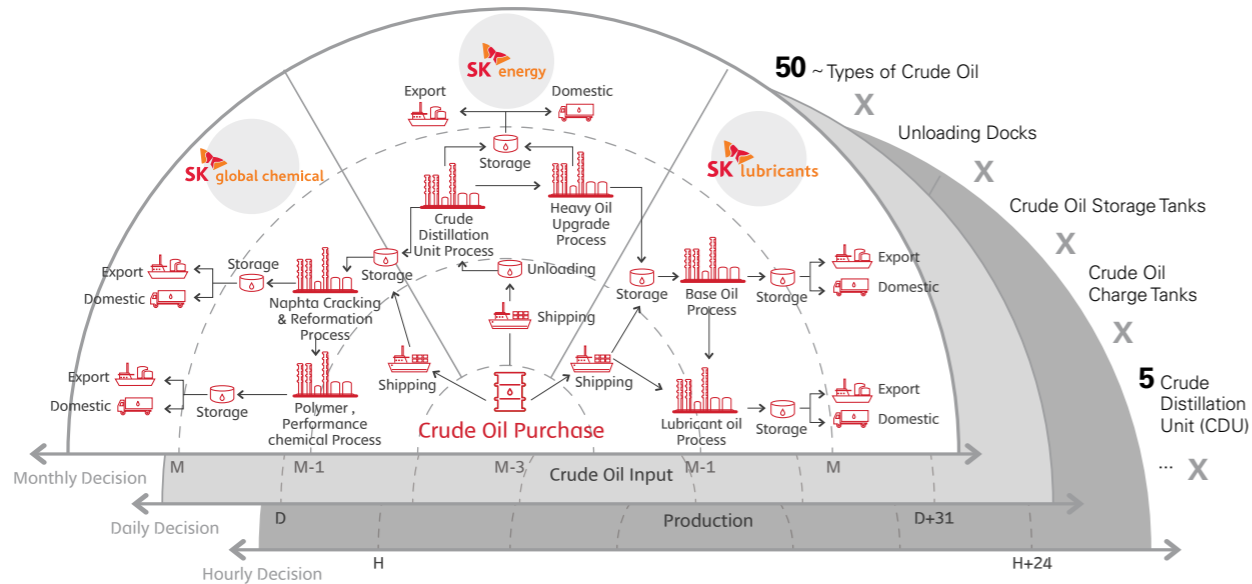
1) Crude Oil Procurement Optimization

SK innovation has established a process to evaluate the intrinsic value of individual crude oils in relation to the configuration of our facilities by analyzing the composition of various batches of crude oils and compiling productivity differences between these batches. This capability allows us to make crude oil procurement decisions that can secure the highest intrinsic value within a volatile crude oil market.

2) Crude Oil Input Optimization

Roughly 50 types of crude oil transported by about 20 vessels arrive at our Ulsan Complex every month. During this process, we must make several decisions related to the assignment of the arriving cargo to tanks, and the crude compositions to feed our units. Since the number of crudes is much larger than the number of available tanks, and since the performance of each unit depends on the crude composition, there are countless alternatives for these decisions. Finding the best decision from the available alternatives is highly complex and difficult. Through SK innovation's opti-

The increased complexity and difficulty in decision-making



mization technology, we optimally allocate crude cargoes to tanks and determine the composition of crude oil feed with the most economic value that fully maximizes the utilization and productivity of our facilities.

3) Petroleum Product Production and Sales Optimization

SK innovation utilizes optimization technology to optimize the blending recipes used for manufacturing petroleum products. These recipes are optimized for reducing costs while ensuring product specifications and stock levels are satisfied. Furthermore, the optimization simultaneously determines an export schedule for petroleum products that maximizes revenue.

Distinctive Optimization Competitiveness

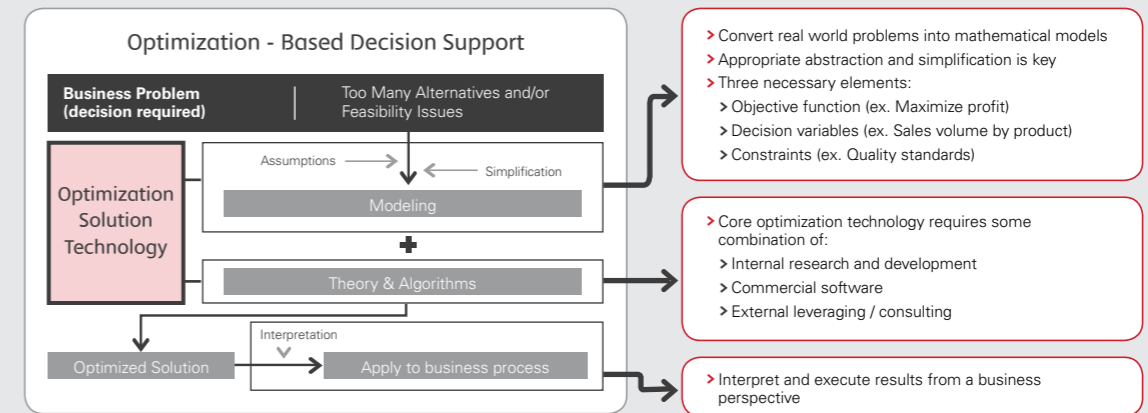
Though SK innovation had always tried to make the best decision in all situations, the complexity and uncertainty of the business environment naturally limited the quality of the decisions. However, since 2012, we have been successfully making better decisions within various business domains with the support of leading optimization experts who are developing and utilizing the most advanced optimization technology with better computing power and technology.

Systematic Management of Big Data

Our unique information system, which includes our crude oil database, product properties, yields and operation data, has been built using data archived from business, operations, and process over decades. We continuously update and analyze this information and use it in our decision-making.

Mathematical Algorithms and Modeling

Our leading global optimization experts develop mathematical models and algorithms tailored to SK innovation's decision-making.



Decision Process Innovation

Various optimization and analytics-based Decision Support Tools allows SK innovation to maximize the value of its supply chain and further enable it to respond quickly and appropriately within a dynamic market and business environment.

Pursuing Continuous Performance through Optimization

Our efforts to make better decisions based on our distinctive optimization capability enables us to sustain continuous performance without large-scale investments in facilities. Moreover, we have been expanding the application of our optimization beyond our petroleum and chemicals businesses to lubricants, trading, and information & electronic materials to facilitate scientific and systematic decision-making in all of our businesses. We strive to maximize business value through optimization by not only strengthening our decision-making capabilities, but by also analyzing and forecasting a wide range of information based on big data management.

Our Strategy - Global Partnering

SK innovation is pivoting into the global market through global partnerships with leading international companies. By launching joint businesses with global leaders in each industry, we are learning best business practices while also securing stable foreign revenue which will advance us become a top global energy and chemicals company.

Entering New Investment Areas Through Global Partnering

SK global chemical

Starting in 2006, SK global chemical has worked for seven years to build a partnership with China's national petrochemical corporation, SINOPEC, and Chinese government officials, and successfully launched a joint venture company. The Wuhan plant produces around 2.5 million tons of petrochemical products annually. SK global chemical has also built production facilities in Ulsan to proactively address the growing demand for high-end chemical products such as polyester through a joint venture with Japan's JX Nippon Oil & Energy.

SK global chemical x SINOPEC, China's National Petrochemical Corporation

- > **Joint-venture company** : Sinopec-SK (Wuhan)Petrochemical Co.,Ltd.
- > **Completed** : 2014, currently operating commercially
- > **Investment** : Approximately 3.3 trillion KRW
- > **Production Capacity** : Approximately 2.5 million tons/year of petrochemical products
- > **Features** : Largest joint petrochemical plant project in the history of Chinese-Korean ties



SK global chemical x JX Nippon Oil & Energy, Japan's #1 Energy Corporation

- > **Joint-venture company** : Ulsan Aromatics Co., Ltd. (UAC)
- > **Completed** : 2014, currently operating commercially
- > **Investment** : Approximately 940 billion KRW
- > **Production Capacity** : Approximately 1.6 million tons/year of petrochemical products
- > **Features** : Strategic partnership with Japan's largest energy corporation



SK global chemical x SABIC (Saudi Arabia), World's #2 Chemical Corporation

- > **Joint-venture company** : SABIC SK Nexlene Company Pte. Ltd (SSNC)
- > **Completed** : 2014, currently operating commercially
- > **Investment** : Approximately 710 billion KRW
- > **Production Capacity** : 230 thousand tons/annual of high-performance polyethylene products
- > **Features** : First case of a global joint venture based on SK's original technology



* Production plant is located in Ulsan.

The 2015 partnership with Saudi Arabia's national petrochemical company, SABIC, was a strategic move to increase global recognition of SK global chemical's unique high-performance polyethylene brand, Nexlene. Based on SABIC's marketing network and competitive raw materials, we aggressively target global markets while focusing on increasing Nexlene production capacity through our Ulsan Plant 1 and by establishing Plant 2 in Saudi Arabia.

SK lubricants

In 2008, SK lubricants launched a base oil plant joint venture with Indonesia's national oil company, Pertamina, in Dumai, as part of its first global partnering project. SK lubricants' Group III base oil production technology and Pertamina's ability to supply low-cost materials synergistically produce roughly 9,000 barrels of lubricants a day.

In addition, a plant producing 13,300 barrels a day of base oil was jointly launched with Spain's largest oil company, Repsol, to target the European market. Repsol provides local procurement and infrastructure while SK lubricants brings base oil production technology and a global marketing network, making SK lubricants one of the top 3 global base oil producers, and solidifying its leading market position.

SK innovation

SK innovation established the joint venture Beijing BESK Technology with Beijing Electronics Holding Co., Ltd. (BEHC) and Beijing Automotive Industry Holding Co., Ltd. (BAIC) to target the Chinese EV market, which is quickly growing into the world's largest market. Through the EV Battery Pack plant in Beijing, BESK has supplied BAIC EV models ES210 and EV200 EV with EV batteries starting the second half of 2014. We continue to work to become China's top EV battery producer through BESK.

SK lubricants x Pertamina, Indonesia's National Oil Company

- > **Joint-venture company** : PatraSK
- > **Completed** : 2008, currently operating commercially
- > **Investment** : Approximately 250 billion KRW
- > **Production Capacity** : Approximately 9,000 barrels/day of base oil
- > **Features** : SK innovation's first global partnering project



SK lubricants x Repsol, Spain's #1 Energy Corporation

- > **Joint-venture company** : Iberian Lube Base Oils Company (ILBOC)
- > **Completed** : 2014, in operation
- > **Investment** : Approximately 470 billion KRW
- > **Production Capacity** : 13,300 barrels/day of base oil
- > **Features** : Partnership expanded into #1 Group III lube base oil producer



SK innovation x Beijing Electronics x Beijing Automotive Industry

- > **Joint-venture company** : Beijing BESK Technology
- > **Completed** : 2014, currently operating commercially
- > **Features** : Strategic entry point into China's EV market



Risk Management

As the global business environment continues to grow in uncertainty and the focus on corporate stewardship increases, corporations must manage and address more diverse risks. At SK innovation, we not only expand investment and accelerate entry into global markets to strengthen competitiveness in our existing energy business while also developing new, high-value products and new growth engines such as batteries, we systematically manage various risks through specialized teams and Risk Management Committees to ensure the company's sustainable growth.

Risk Management System

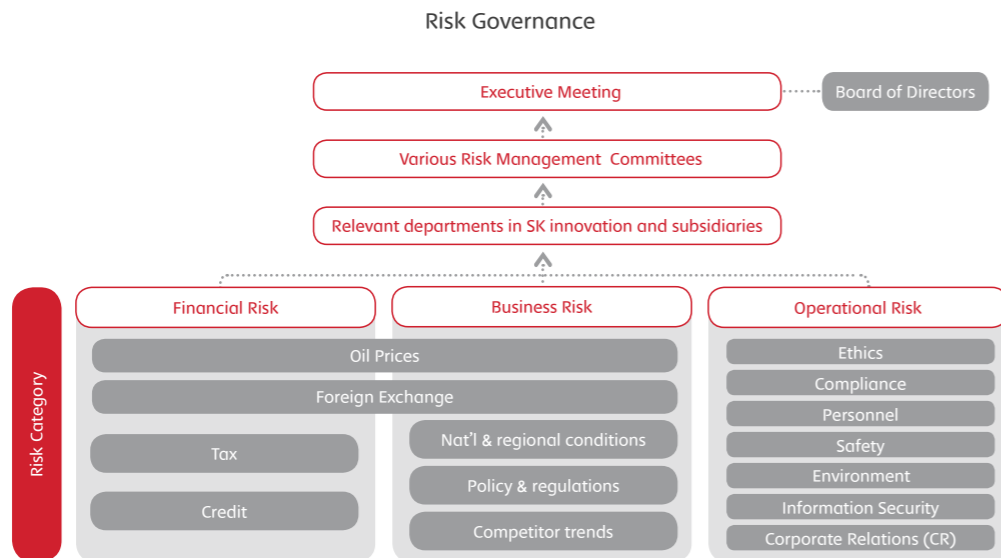
Risk Categories

SK innovation manages risk systematically by categorizing risks into three groups: financial, business and operational risk. Key financial risks are oil prices, foreign exchange, tax, and credit risks. Business risks are those that may impact business performance, revenue generation, and new investment choices, including changes in the external business environment such as oil prices, foreign exchange, national and regional conditions, policies, regulations, and refining margins. Key operation risks include ethics, compliance, personnel, safety, environment, information security, community relations, and are managed uniformly across SK innovation and its subsidiaries.

Risk Reporting and Governance

Business risks are managed by the relevant divisions of SK innovation and its subsidiaries. Issues requiring executive decisions are discussed at Risk Management Committees comprised of the CEOs of the subsidiaries and relevant management personnel.

The responsible departments in SK innovation comprehensively manage operational risks, including subsidiaries' risks, which are reported to the monthly executive meetings based on the nature of such risks.



As SK innovation and its subsidiaries' businesses are closely interrelated, key risks are resolved by the Executive Committee meetings (twice monthly) which is attended by SK innovation and its 5 subsidiaries and reported to the Board of Directors as needed.

Risk Management Activities

Analysis and Monitoring

SK innovation performs analysis and monitoring tailored to different risks. As the raw material for the most of our products is crude oil, oil price and foreign exchange fluctuation risks, which have an immediate impact on the business performance, are managed at the level of SK innovation and at the subsidiary level with various economic indicators used to analyze short-term directions and mid to long-term trends. The risk appetite is set and risks are managed based on this analysis. For operational risks, we continuously monitor relevant policy and regulatory trends, monitor feedback from key stakeholders on a daily basis and share results in newsletters and the intranet in order to raise employee awareness and promote voluntary preventative measures.

Identifying and Responding to Mid to Long-term Risk

The global energy industry faces multitude of risks arising from rapid environmental and social changes. Investors are increasingly demanding climate risk response plans from conventional oil and gas producers and refiners. In addition, society's increased interest in both renewable energy and other types of clean energy and technological advancements may have a significant impact on the future profit models of the energy industry. SK innovation regularly analyzes these environmental and social changes in order to develop and execute effective measures to respond to the long term risks that impact our business.

Climate Change

SK innovation analyzes the impact of climate change from various angles and with a long-term outlook. Based on these results, measures are divided into business and operation aspects.

From the business aspect, we proactively identify trends in clean, low carbon energy, which is closely linked to climate change, and are expanding technological R&D and investment in EV batteries.

In the operation aspects, we created a devoted Climate Change Team to actively manage GHG emissions for each of our plants and continuously reduce GHG emissions throughout our processes by investing in our facilities in order to combat climate change.

Shifting the Energy Paradigm

The introduction of new and renewable energy like shale gas, solar, and wind energy has led to a dramatic shift in the existing energy paradigm. In order to turn this into an opportunity for our sustainable growth, SK innovation will simultaneously work to strengthen our competitiveness in business competencies in existing petrochemicals while also setting mid to long-term plans to flexibly adapt to the paradigm shift. We will continue to transition our business portfolio from traditional to non-traditional resources and focus on R&D and investment for new business.

Sourcing Crude Oil

As international tensions and political complexity surrounding fossil fuel resources increase, being dependent on crude oil from a particular region may lead to potential difficulties in procuring a stable supply of crude oil.

SK innovation has applied the concept of Optimization to the refining process and we seek to diversify our oil supplies in a manner optimized to produce our petroleum products by identifying the different regional characteristics of crude oil. We have diversified our import sources globally and currently source our oil from Asia, America, Europe and Africa in addition to our main source in the Middle East.

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03

Sustainability Review

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- Mutual Growth 58
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Ethical Management

SK innovation builds trust-based relations with its stakeholders to pursue more sustainable growth and development. To help achieve this, we approach management not merely as a measure against unethical behavior, but as the standard of corporate ethics to follow in daily management practices. SK innovation also has an ethical corporate culture based on the SKMS, and pursues transparent and efficient management through fair competition, ensuring the sustainable growth of our company and the national economy as a whole.

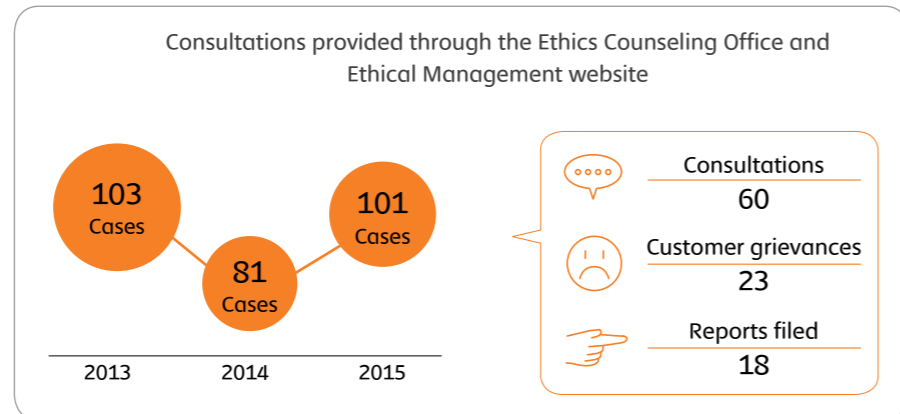
The Importance of Ethical Management

In order to gain our stakeholders' trust, we must pursue efficient decision-making and management practices suitable to our hyper-competitive business environment, while simultaneously upholding order in the market and maintaining our integrity through transparent and fair practices. Therefore, ethical management is not a simple measure or temporary tool to prevent individual employee's unethical behavior, but a necessary element for sustainable growth to be internalized in our management practices and embedded in our corporate culture.

SK innovation's Ethical Management

Based on the SKMS, we have enacted the Code of Ethics and Business Conduct Guidelines specifying the appropriate actions and principles that employees should comply with. All management and employees of SK innovation, all its subsidiaries and its domestic and overseas plants are obligated to comply with the Code of Ethics, and we also request all suppliers to recognize and comply with SK innovation's Code of Ethics.

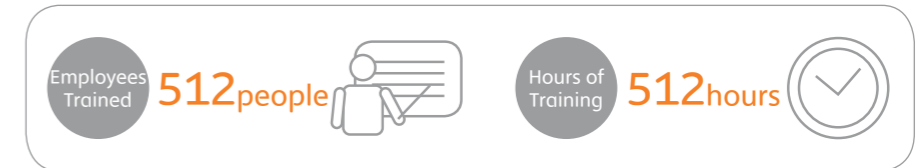
In addition, we operate an Ethics Consultation Center and online reporting channels to receive and process reports for ethics-related issues, with rewards given to the informants. To prevent retaliation against the informants, we strictly protect the identities of the informants and the content of the reports. In 2015, 101 reports and consultations were processed. Of these, 83% were unrelated consultations or client grievances that were transferred to the relevant departments. A total of one case of employee misconduct was discovered from the reports, against which appropriate measures were taken.



Ethical Management Action Programs

Ethics Training for Employees

Every year, SK innovation develops and implements plans for ethics training. In 2015, 512 hours of ethics training was provided for new employees and those being promoted. Through ethics training, we intend to solidify our ethical corporate culture by fostering a common understanding among employees of the company's efforts and commitment toward ethical management and strengthen their dedication to ethical practices. In addition, we have developed and shared scenarios for the different topics and core issues related to ethical management through the company-wide internal broadcast system in an effort to expand ethical management for employees.



Sharing Ethical Management with Suppliers

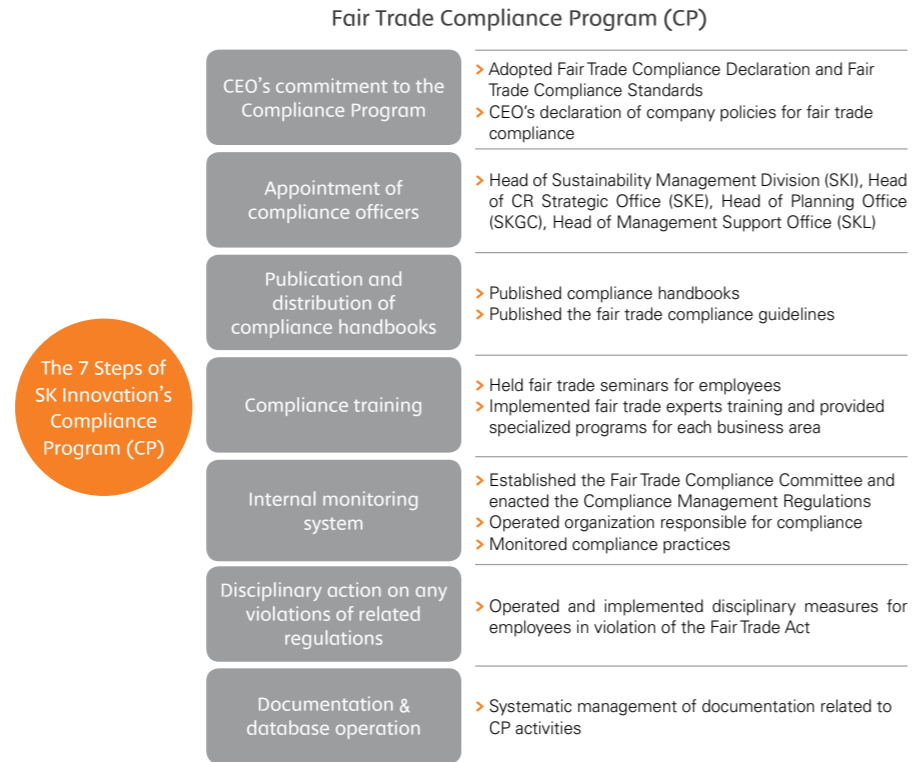
SK innovation practices ethical management based on mutual trust with its suppliers. When registering as a supplier on our procurement portal, each supplier must sign the 'Fair Trade Agreement' and if a supplier's unlawful or corrupt activity is detected, they are subject to strict sanctions as per SK innovation's bylaws. In addition, we have been implementing the campaign to not give or receive holiday gifts with our suppliers, franchises, customer and other external stakeholders since 2011. If it is difficult to return a gift to the sender, employees must report the details of such a gift to the Ethics department. SK innovation collects these gift items and donates them to our internal social contribution team to be sold at our annual charity bazaar. Any perishables are donated to local child welfare or community centers.



Campaign to Eradicate Holiday Gift Exchange

Compliance Program

SK innovation has made efforts to prevent the possibility of non-compliance with fair trade regulations across its business activities and to promote the establishment of a sound business environment. As part of these efforts, we have operated the Compliance Program (CP) since 1996, based on which we have conducted evaluation of and implemented training on fair transactions for all businesses and employees of SK innovation and its subsidiaries.



Compliance Program Key Outputs

Strengthening Awareness of Fair Trade Compliance and Preemptive Risk Evaluation

In 2015, we held the seminar titled 'Understanding the Need for and Process of Merger Filing' for all employees of SK innovation and its subsidiaries, and conducted comprehensive training and evaluation on fair trade issues, including cartel, abuse of dominant market status, and unfair trade practices across major business divisions.

2015
Fair Trade
Training and
Evaluation
Record

2015 Fair Trade Evaluation and Training	Target / Subject
Training and evaluation on subcontract-related fair trade risk	Jun SKI Procurement Office
Structural and behavioral risk level assessment on overall SKE Retail business	Jun - Jul SKE Retail Business Division
Assessment of cartel risk	Sept 5 teams within SKGC Polymer Business Division
Disclosure training for SKI subsidiaries	Sept - Oct SKI Finance Division and subsidiaries
Training and Q&A session on unfair business practices	Oct Supplier liaison at SKIPC
	Nov Supplier liaison at Ulsan Complex
Assessment and training on risks related to China's anti-trust law	Nov SKGC Shanghai Branch

In addition to the periodic evaluations of our major business divisions, we have often provided consulting on fair trade issues and established the Fair Trade Coordinator policy for each business division to create a communication channel for fair trade related issues with the working level staff.

2015 Fair Trade Consulting Completion Numbers	SK innovation	SK energy	SK global chemical	SK lubricants	SK Incheon petrochem/ SK trading international	Total (overlaps excluded)
96	96	33	10	14	238	

Furthermore, we have continued to reinforce our compliance system in various aspects. We have enacted the 'Guidelines for Interacting with Competitors' to strengthen the cartel risk management and established an internal filing process. We have also distributed the 'Fair Trade Compliance Letter', and 'Fair Trade News Brief' regularly to raise awareness, held the 'Fair Trade Seminar' on a monthly basis and provided external training to enhance the expertise of our fair trade compliance staff.

Responding to Changes in the Fair Trade Environment

In 2015, we established a monitoring process and carried out preliminary inspections of transactions in accordance with an amendment to the Enforcement Decree on 'Prohibition of providing unfair benefits to a specially related party' (The Monopoly Regulation and Fair Trade Act, Article 23-2). In addition, in response to the growing efforts of the Fair Trade Commission to monitor unfair practices by conglomerates, we conducted inspections and training regarding unfair practices for our procurement and administrative departments during the first half of this year, and for the Ulsan Complex and SK Incheon petrochem during the second half. We plan to target our efforts on enhancing our fair trade compliance levels across all our subsidiaries in order to address both internal and external changes related to fair trade compliance.

Future Plans

SK innovation continuously monitors both domestic and foreign regulatory trends and updates our Code of Ethics and guidelines accordingly. As the demand for ethical management grows from our internal and external stakeholders alike, we plan to implement various activities to help our management and employees better understand the value of ethical management and put it into practice. We will establish a process to systematically implement the Compliance Program and focus on monitoring and managing key issues of interest to the Fair Trade Commission.

SHE

SK innovation's goal of becoming a trusted company that grows together with society by achieving zero-accidents and pursuing environment-friendly management is at the heart of its SHE management. To this end, we have set standards and procedures that go beyond legal standards, and develop a management system and corporate culture that enables compliance by every employee. We strive to be a role model for the industry by sharing these results with all stakeholders.

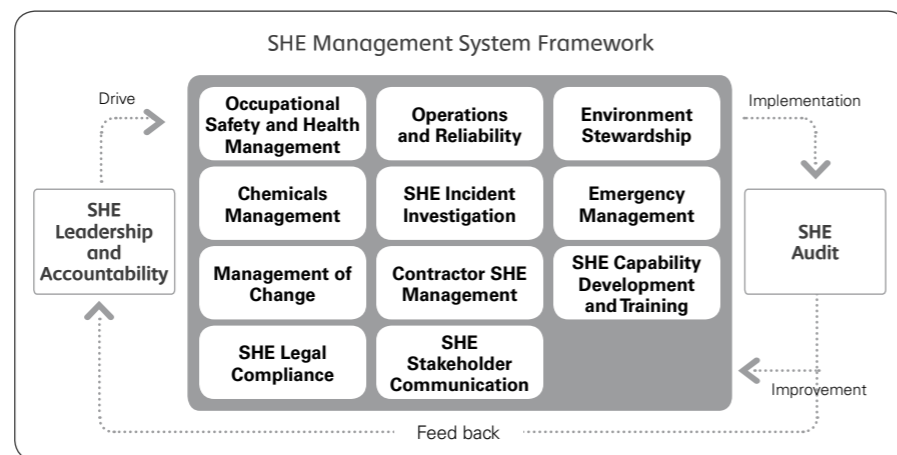
The Importance of SHE Management

Neglecting Safety, Health, and Environment (SHE) management can lead to major accidents and cause significant damage to business operations. We recognize that effective SHE management is an essential factor for achieving sustainability. As many governments around the world have strengthened SHE related regulations, non-compliance can lead to disadvantages such as sanctions on business activities for offending companies. Therefore, companies must fulfill their social responsibilities and develop and implement standards relating to SHE issues above basic legal standards and disclose the results in a transparent manner in order to gain the trust of stakeholders.

SHE Management System

SK innovation applies the concept of Creating Shared Value (CSV) as the foundation of its SHE management to gain the trust of the society and promote mutual growth, moving beyond traditional notions of corporate stewardship that focuses on simply minimizing accidents and pollutants. With this principle, SK innovation aims to establish and operate SHE management with global competitiveness in order to achieve the status of a leading global company and become a role model for the industry.

In order to attain this goal, SK innovation analyzed the key factors in safety management of leading global companies and re-established 13 management elements that included these key aspects. To execute these elements, we improved our operation system, which was applied to company policies and procedures. In addition, under the leadership of the CEO, we launched programs to strengthen execution and conducted regular audits to identify any required action, thereby establishing the 'Plan-Do-Check-Action' cycle.



Toxic Chemicals Control

SK innovation operates a structured and comprehensive chemical management system to protect its stakeholders' health and safety and safeguard the environment from any harm across the entire life cycle of chemical usage from import to production, transportation and sales.

Step 1
Hazard Assessment
Confirm and improve safety
Compliance

Importing Chemicals from External Sources

Anytime SK innovation purchases new chemicals, a stringent examination process to accurately assess the level of hazard or toxicity must be conducted and conditions for safe storage and use must be assessed prior to import.

First, the Material Safety Data Sheet (MSDS) is studied to confirm basic hazard and toxicity data. Based on this data, a hazard assessment is conducted to evaluate the risk to our stakeholders, our suppliers' employees, our local communities and our production facilities, and a decision is made on whether to import the relevant chemicals. If purchasing the chemicals under current conditions is deemed potentially hazardous, necessary technical and managerial actions are implemented to remove the risk and to secure conditions for safe usage of such chemicals.

In addition, all chemicals are registered in the internal chemical management system linked to the company's procurement system, where data on the chemical's regulatory classification and relevant permits can be accessed. This system ensures that key factors for legal compliance related to the chemicals are not overlooked, and utilized and managed in a timely manner.

Step 2
Process/Facility Safety Management
MSDS Compilation/Training
Chemical Materials Inventory

Using Chemical Materials in the Production of New Chemical Products

In order to prevent chemical leakage, most of SK innovation's facilities adopt a sealed design. We operate the Leak Detection And Repair (LDAR)⁽¹⁾ system to prevent even minor leaks that may occur in vulnerable areas such as the links between different equipment.

All chemicals used and manufactured in SK innovation are managed pursuant to the Material Safety Data Sheet (MSDS), which details toxicity, associated risks and emergency safety procedures. The MSDSs are displayed on site for employees and contractors to fully understand the MSDS.

Furthermore, we have established a chemical materials inventory that covers the type and quantity imported and used or newly manufactured in the company, along with the properties of each chemical in order to systematically manage chemical material data.

Step 3
Examine / confirm regulatory standards
Provide MSDS

Transporting Chemicals Off-site or Selling to Customers

Chemicals produced in the manufacturing process or products that contain chemicals must comply with the domestic laws such as the Act on the Registration and Evaluation, etc. of Chemical Substances. They must also comply with the Registration, Evaluation and Authorization of Chemicals (REACH) policy and all relevant international conventions if they are to be exported. SK innovation has established a process to ensure all chemical products manufactured are in compliance with these standards and all necessary permits have been obtained prior to the transportation or sale.

In addition, we supply the MSDS directly to the customer and our stakeholders can easily access this information online through the e-MSDS system.

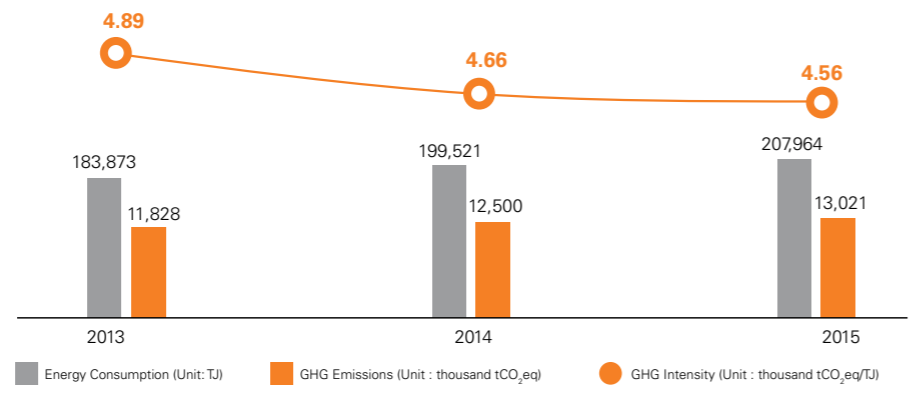
(1) LDAR System: Identifies points in equipment that are prone to leaks, regularly measures whether leaks have occurred, and enacts immediate repairs should a leak be detected in order to prevent chemical related accidents.

Climate Change Response

Reducing GHG Emissions from Energy Use

SK innovation and its subsidiaries have managed GHG emissions and energy consumption in accordance with the government's Guideline for the Greenhouse Gas Target Management System after being designated as a controlled entity subject to the system. In 2007, it became the first company in Korea to operate an in-house emissions trading scheme. Based on this experience, we have set up an implementation system focusing on the Korea Emissions Trading Scheme (ETS) launched in 2015 and established a unique ETS operations manual to comply with the regulations and improve our emissions intensity in relation to energy use.

Energy Consumption, GHG Emissions and GHG Intensity ⁽¹⁾



(1) GHG intensity calculation excludes process emissions

Establishment and operation of GHG-Energy Management System

In order to systematically manage data such as energy consumption and GHG emissions related to production, SK innovation launched the GHG & Emission Management System (GEMS) which is linked to the Operation Information System (OIS). The GEMS gathers all the necessary data automatically on a daily basis to calculate GHG emissions from the OIS, allowing us to check GHG emissions levels, the probability to meet annual targets and the appropriate measures to take if necessary.



GEMS

Reducing Indirect Emissions

In addition to reducing production-related emissions, SK innovation is adopting various measures to reduce GHG emissions outside its production lines. For instance, we have adopted electric vehicles and installed charging stations for our business use as well as an ice thermal storage cooling system at our headquarters. In addition, we have participated in community energy systems by utilizing inactive offsite facilities to provide adjacent businesses with a cost-effective and stable supply of steam.



Corporate EV

Emergency Response Management

Emergency Response Principles

- 1st Protecting Life
- 2nd Protecting the Environment
- 3rd Protecting Assets and Corporate Image

Establishing a World-class Emergency Response System

Due to the number of large-scale accidents that have occurred recently both in and outside Korea, demands for companies to establish emergency response systems are increasing. As such, SK innovation has enhanced its emergency response system by benchmarking best practices and targeting on three key areas: improving on-site execution capacity, strengthening management of large-scale emergencies, and strengthening emergency response capacity.

Improving On-site Execution Capacity

In order to promote on-site emergency response, we have clearly set our priorities to protect life and environment before our assets and corporate image. All authority related to on-site emergency response activities is granted to the highest decision-maker for each facility and we have enhanced responsiveness by establishing separate protocols for internal and external reporting procedures. In addition, we have improved the emergency response classification system, stipulated the operation of the Combined Crisis Management Committee, and took into considerations of the impact on corporate image as well as the possibility of higher emergency in addition to the existing criteria for emergencies' classification.

Strengthening Management of Large-scale Emergencies

We have re-established specific emergency response roles and responsibilities between our headquarters and sites to enable rapid response and minimize damage from on-site accidents. Headquarters attempts to support on-site emergency response and assure companywide sustainability. In addition, we have established the Guidelines for Operation of the Emergency Response Committee to enhance our rapid response capacity for large-scale emergencies. Moreover, we have adopted a standard reporting template for emergency response plans which allows for accurate and efficient written communications related to large-scale emergencies.

2015 Emergency Response Drill



Joint Emergency Response Drill (Ulsan Complex, Seosan Battery Plant, and others)



Joint emergency drills to respond to marine oil spills

Adopting the Operational Rule for Emergency Response Meetings



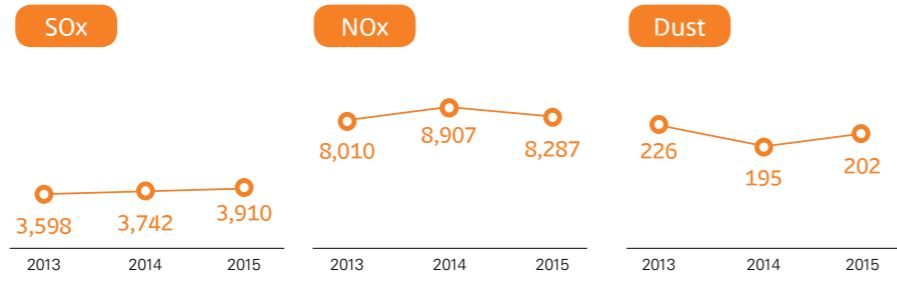
Strengthening Emergency Response Capacity

We have clarified emergency drill components and frequency, and have made the Emergency Drill Report mandatory as part of our efforts to strengthen emergency response training. We regularly evaluate and improve the emergency response system and frequently assess organizational and personnel changes to enhance management capacity. Furthermore, we hold repeated and periodic drills so all of our employees are able to internalize emergency response procedures, allowing them to respond instinctively in the face of an actual emergency.

Air Pollutant Control

SK innovation has adopted TMS at key pollutant emitting facilities to constantly monitor emissions and minimize air pollution. In addition, we operate odor prevention facilities to maintain pleasant air quality and operate a VOC (Voice of Customers) channel for reports on environmental issues related to our facilities. Details for each plant are available on page 70.

Air Pollutant Emissions (Based on SK energy, SK global chemical, SK Incheon petrochem) (Unit: Ton)



Water Pollutant Control

SK innovation operates both a remote water quality monitoring system and a Membrane Bio Reactor (MBR), a high-efficiency biological wastewater treatment system. Additionally, 'Sour Water' which contains corrosives, is treated and reused as desalted feed water to minimize wastewater generation. We reuse some treated wastewater for fire extinguishing or landscaping and continually manage discharge to maintain pollutant concentrations to 10 – 40% below regulatory requirements. In particular, we have installed Wet Air Oxidation (WAO) facilities, an original technology we developed to treat toxic nitrogenous organic pollutants. We enhanced separate operation of high concentration wastewater created during production to manage ecotoxicity in wastewater as of January 2011.

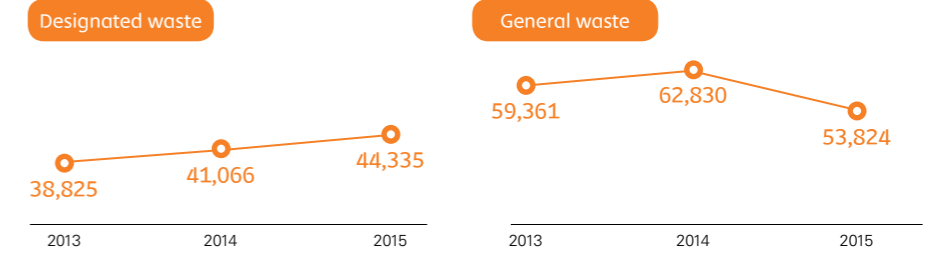
Wastewater Treatment

Worksite	Wastewater Treatment Facility	Treatment method	Destination
SK energy (Ulsan)	Ulsan Complex Wastewater treatment plant	Biological & Advanced treatment	Public bodies of water (East Sea)
	No.2 FCC Wastewater treatment plant	Physiochemical	Yongyeon Wastewater Treatment Plant
SK global chemical (Ulsan)	PE/PP Wastewater treatment plant	Biological & Advanced treatment	Yongam Wastewater Treatment Plant
	EPDM Wastewater treatment plant	Biological	Yongam Wastewater Treatment Plant
SK incheon petrochem (Incheon)	SK incheon petrochem Wastewater treatment plant	Biological & Advanced treatment	Gajwa Wastewater Treatment Plant

Waste Control

Our waste management system guides waste management, with waste either incinerated or sent to a landfill by a verified and specialized waste management company. Among designated waste, waste oil is sent to reused fuel plant to be turned into reused fuel. Metals are extracted from waste containing metals and turned into a resource to minimize waste generation. Please refer to page 72 for details on waste production by plant.

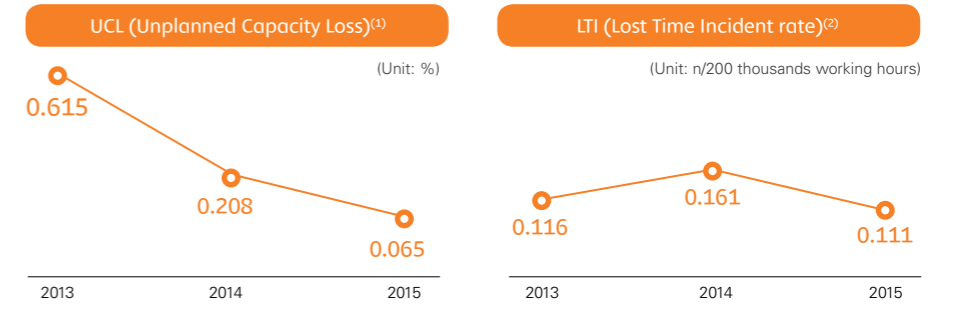
Volume of Waste (Based on SK innovation, SK energy, SK global chemical, SK lubricants, SK incheon petrochem) (Unit: Ton)



Safety and Health Management at Worksites

We work to prevent on-site accidents and provide a healthy workplace. SK innovation has adopted the Process Safety Management (PSM) program made by the Ministry of Employment and Labor's and implemented regular monitoring and safety inspections to manage safety throughout all production processes. We also provide various facilities and programs to promote employees' healthy lifestyle. By continuing to offer diverse safety training, we solidify employees' SHE capacity and a culture of workplace safety. Through the Workplace Health Center in Ulsan Complex, on-site clinics, physical therapy room, fitness assessment & diagnosis center, health classes, and health management area in the R&D Center, we promote the health of our employees and their families.

Safety and Health Indicators



(1) Time lost due to accidents as a percentage of the annual planned hours of operation

(2) Percentage of injuries for every 100 persons working 1 year (2,000 hrs)

Future Plans

To achieve our vision of 'top global energy and chemical company' and secure the commensurate SHE competitiveness, SK innovation will enhance SHE execution capacity at each site and minimize SHE risks. We will perform regular SHE audits and provide training to reinforce employees' SHE awareness and implementation abilities, and also establish SHE management systems for our suppliers. Moreover, we continually analyze SHE regulations and enhance the hazard assessment systems to minimize SHE risks, and strengthen emergency response capabilities to prevent accidents. We will also actively promote stakeholder engagement and cooperation to enhance SHE capacity.

Talent Management

SK innovation strives to create a healthy corporate culture that promotes solidarity amongst our members and contributes to the company's development in order to maximize loyalty and workplace efficiency. Moreover, we foster a global perspective in our employees through fair and rational talent management policies while providing a pleasant working environment and various employee welfare programs conducive to self-development and stable lifestyles.

The Importance of Corporate Culture

Creating and sharing a healthy corporate culture that fosters pride amongst employees and allows them to live up to their potential is crucial for the long-term development of a firm. As such, global firms have worked to strengthen solidarity, establish and promote a corporate culture that will contribute to the organization's development, and operate various support and training programs necessary to obtain these goals. Moreover, they make efforts to create effective communications that connect all members from top executives to employees to down.

SK innovation's Corporate Culture

A strong corporate culture is necessary to strengthen quick decision-making for more effective execution capacities in the face of heightened uncertainties in the external environment. Our employees' professionalism, based on world-class expertise in their subject matter and responsibility to see their tasks through, is the foundation of our aim to cultivate a respectful and considerate 'Caring Professional,' the cornerstone of our 'Winning Culture.'

Based on the principle of the 'Caring Professional,' SK innovation was able to overcome crisis in 2015 and turn them into opportunities with the fervent brainstorming and bold actions of our employees. In this process, we shared goals from the CEO and executives to management and staff, and operated various channels of communication such as the SUPLEX Workshop, Employees Workshop and Can-Meeting for business units to harness and focus our capabilities.

Employees base their actions on proactive decision-making, rather than orders and control. To cement this culture, we have implemented bold innovations to remove restraints on employees' creativity and processes and policies that hinder timely execution.

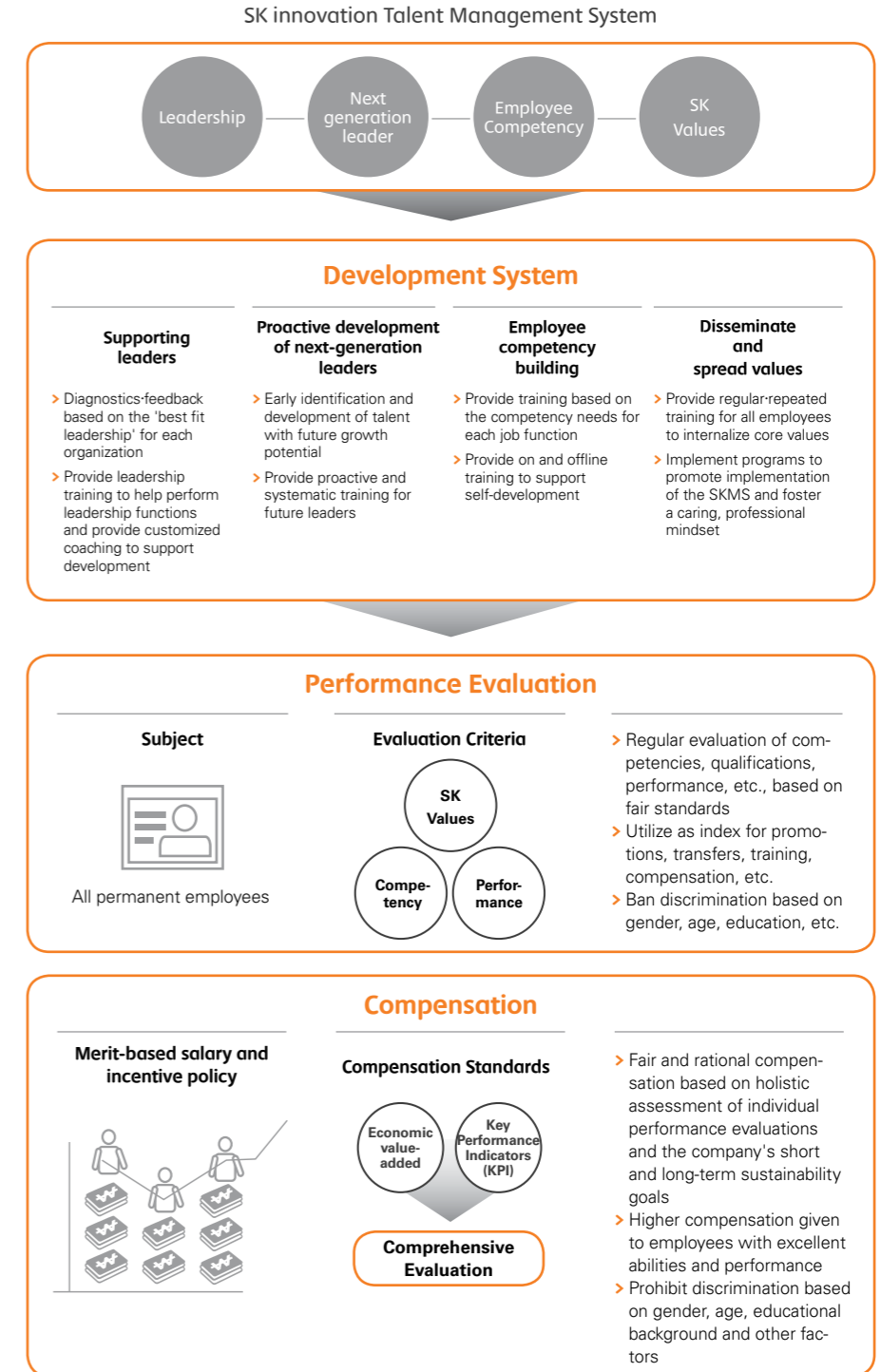
Eliminating the dress code and the customary reporting technicalities, and moving away from documentation policies that favored format over content are also innovations we have implemented. SK innovation will continue to strengthen communication while creating an environment that our employees can be proud of to create a stronger 'Winning Culture.'



Key Activities to Promote Corporate Culture

Talent Development

We pursued SUPLEX with human-oriented management and implemented a proactive talent development program based on leadership, next-generation leaders, employee competency, and SK Values built on our 'Winning Culture'. In addition, we operated a rational and fair evaluation and compensation program to provide motivation to individuals while maximizing business performance.



Expanding Communication with Employees

In order to promote and spread the Winning Culture in 2015, the communication organization was consolidated into the SKMS office and we operated various channels including iCON, C-Talk, and the Management Briefing Session.

Communication Channels

Online	tong tong	Online bulletin board enabling free communication of creative ideas, questions and other topics between employees
	gbs	A multi-directional communication channel that utilizes internal broadcasts to simultaneously share information on business performance, key issues, and the company's key messages with all employees
	iCON	With roughly 200 participants, important issues facing the company are shared between leadership and employees. iCON members also act as representatives for employees on matters of importance to them while also putting forth ideas that drive change
	Role-specific Workshop	Shares and discusses action items for implementing change as a venue for recommendations
	Management Briefing Session	A joint committee comprised of company and employee representatives, acting as the official internal communication channel
Offline	Leader's Forum	Management seminars conducted by in-house and external experts for executives and team leader level employees
	Management Council	An official communication channel between the company and employees
	C-Talk	Conducting 1:1 coaching between leaders and team members in order to support team members' development
	Harmonia	A counseling coaching center that provides support for employees' mental health and self-development. In addition to the in-house professional counselor, 10 external experts coach employees and their families in areas such as life, career, work, and family
Grievances Committee		SK innovation actively collates work-related employee grievances which are then reflected in management activities. The committee is comprised of representatives recommended by the CEO and the labor union, which assist with improving the working environment and working conditions verbally or via mail, phone, e-mail and various other channels



Integrated Communications Channel 'iCON'



Harmonia: Counseling and Coaching Center



Role-specific Workshop (Management)

Work-life Balance

By eradicating inefficient business customs and increasing workplace efficiency, we promote a healthy work-life balance. We have minimized unnecessary meetings and streamlined reporting procedures, while also providing employees with flexible working hour options to meet individual needs and actively promote a 'smart-work system.' SK innovation prides itself on creating an atmosphere that allows employees to enjoy free time with their families and these efforts have led to achievements like attaining 'Best Family Friendly Management' certification.

Enhancing Employee Welfare and Benefits

We have increased employee loyalty and improved concentration levels in the workplace by helping our employees maintain a healthy, stable lifestyle. As part of these efforts, SK innovation provides regular health check-ups, subsidizes medical costs, provides home and car loans, and operates a retirement fund program to support employees in their retirement. In addition, we provide financial assistance for life events such as weddings and funerals, support cultural and leisure activities by providing rooms at resorts and vacation condominiums and operate a rewards system for long-tenured employees to boost loyalty.

Expanding Support for Working Mothers

In consideration of female employees whose careers could be interrupted due to childcare responsibilities, we have adopted a childcare policy that automatically transitions female employees' maternity leave to a yearlong childcare leave at the end of the former. In addition, we operate the SK Happy Childcare Center and actively help female employees returning from childcare leave in readjusting to the workplace environment in order to promote an environment that helps all employees care for their children.

Future Plans

As we pursue our vision of becoming a global leader in the energy and chemical industry, SK innovation endeavors to increase our corporate value by transforming our mindset and behavior in order for all of our employees to become successful professionals. With our slogan, 'Caring Professional,' we will innovate not only our corporate culture but our soft power by striving to provide a working environment where all employees can work with professionalism in an environment that is competitive yet respectful and considerate. In order to accomplish this, we will take a comprehensive and systematic look at our policies and processes, pursue a new, diverse corporate culture built on SK innovation's common standards but also embraces our subsidiaries' and business units' uniqueness, actively incorporating employee feedback and managing change so that a real, meaningful transformation may take place.

Mutual Growth

SK innovation works to enhance both our suppliers' financial stability and build capacity while also implementing various activities to minimize our adverse environmental and social impacts. In particular, we provide support to suppliers' management and employees to raise awareness on safety and environmental issues not limited to their work with SK innovation, but that can be applied in all aspects of their business.

The Importance of Supply Chain Sustainability and Mutual Growth

Leading global companies in sustainable business management have continuously worked to improve the environment, safety, human rights, and other aspects of their supply. Calls for corporate responsibility for supply chain sustainability have gained industry-wide attention, as supply chain responsibility has become a critical issue affecting companies' business in terms of environmental and social risks.

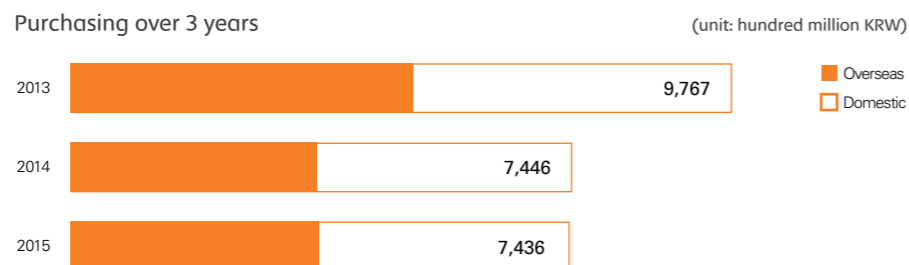
In Korea, the 'Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises' came into effect in 2008, spurring key Korean conglomerates to recognize the importance of 'mutual growth' and a wide-range of support for their suppliers. Recently, more cases are witnessed where support for SME (Small-Medium Enterprise) capacity building has gone beyond regulatory compliance to form true partnerships with suppliers.

SK innovation's Supply Chain Management System

SK innovation's Procurement Planning Team oversees the development of company-wide procurement strategies and related operations for SK innovation and its subsidiaries, while specific procurement activities and Supplier Relationship management is under the purview of the Seoul HQ, Ulsan Complex, SK Incheon Petrochem and Daedeok R&D Park. Suppliers' safety and environment related issues are supported by each plant with help from the SHE division. We also provide management, technology, and financing support in addition to our support for training and capacity building to pursue mutual growth with our suppliers. In particular, SK global chemical communicates closely with suppliers through the Mutual Growth Secretariat and was graded as Outstanding in 2014 and 2015 by the Korean Commission for Corporate Partnership's Corporate Partnership Index.

SK innovation's materials supply chain

As of December 2015, SK innovation purchased materials amounting to 743.6 billion KRW in total, of which roughly 50% was purchased from domestic suppliers.



Key Supply Chain Sustainability Management Activities

Assessing Supplier Sustainability at the Contracting Stage

SK innovation considers suppliers' sustainability from the contracting stage. For construction and service contracts over a certain threshold, we request for self-assessment of the potential supplier's labor standards, minimum wage and gender equality regulatory compliance, work-life balance, expansion of worker participation and cooperation, and non-regular worker protection. Based on the results, we confirm and factor the company's regulation compliance and human rights protection into selection. Moreover, we include environmental regulation (Act on Liability for Environmental Damage and Relief thereof, Act on Registration, Evaluation of Chemicals, etc.) compliance and risk management during the procurement process to ensure our suppliers' compliance with their environmental responsibilities.

Facilitating Suppliers' Sustainability Management Improvements

Contractors for production, storage, and R&D contracts over a certain value are required to submit a SHE (Safety, Health, and Environment) Plan covering the entire contract period. In addition, a contractor must establish standards to comply with SK innovation's ethical management, and sanctions are imposed should breaches be discovered. SK innovation maintains efforts to secure contractors' and suppliers' corporate responsibility. Further, SHE criteria has been added to regular supplier evaluation for on-going monitoring and improvements.

We also continuously invest and provide support to strengthen suppliers' social responsibility. In early 2015, SK innovation signed MOUs with the Korea Occupational Safety and Health Agency and 40 key suppliers to build safety and health management systems for its partners based on standards and process tailored to each business. Furthermore, all participating suppliers obtained the Korean health and safety certifications, KOSHA 18001 and OHSAS 18001. As a result, suppliers implement SHE management and cemented their partnership with SK innovation to foster a safer workplace together.

We also signed the 'MOU to prevent industrial accidents with suppliers' and supported the suppliers' hazard assessment and safety training. We also distributed our own 'Operational Safety Guide' to our subsidiaries' suppliers and companies in the Ulsan Petrochemical Complex to raise their safety awareness.

Key Mutual Growth Activities

Management and Training Support

SK innovation provides suppliers' management and employees with various training programs. SK innovation supports the training cost and provide programs tailored for each job function. We also hosted a job fair in Ulsan to help small to medium regional suppliers recruit top talent. The job fair, which is on its third successful run, not only promotes our suppliers, but provides local youths with various support activities such as aptitude tests, resume photos and have been appreciated by both our suppliers and job-seekers.

SK innovation supplier training and education programs

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.
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.

Technology Support

SK global chemical supports suppliers in developing domestic equipment, joint patent registration, joint entry into global markets and other activities based on joint technology development. In particular, by jointly developing and registering patents with our suppliers, we have been able to achieve localization of products and secure cost competitiveness, while our suppliers have been able to secure new revenue sources by selling new products to companies including SK innovation, resulting in a meaningful example of mutual growth.

2015 Supplier Technology Support Case

Most petrochemical facilities were built based on foreign designs imported after the 1970s and localization was difficult as any damage to a key component could impact the entire production line. As such, SK innovation collaborated with one of its suppliers to increase the use of domestic technology in key processes.

We supported Daeheung ENT, a safety valve and industrial valve supplier in developing the 'safety valve performance test system' technology, for which we secured a patent which was successfully registered in December 2015. Furthermore, we helped generate revenue for Daeheung ENT by awarding the company 13 contracts in one year, including contracts for the patented technology.

We continue to lead import-substitution not only for our company but for the domestic petrochemical industry while also working to identify new collaborations with our suppliers.



Future Plans

Strengthening Communication with Suppliers

We are advancing our partnerships by continuously communicating with our suppliers and resolving their difficulties. We regularly host the Mutual Growth CEO Seminar to share management innovation with our suppliers. We also host an annual Supplier CEO Meeting to discuss quality improvement and SHE management methods. We also provide monthly safety and health inspections and training to equipment suppliers, operate a council to share accident case studies, and hold regular meetings with equipment, inspection, machinery and logistics partners to discuss plans to improve and expand SHE management capacity and work.

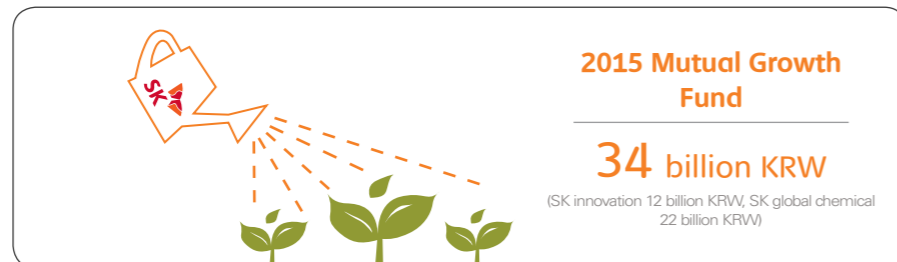


2015 SK Mutual Growth CEO Seminar

SK innovation will continue to assist our suppliers to become sustainable corporations by providing support for technology, finance, HR and other wide-ranging management practices. In addition, we will not only look at the company's production capacity or financial status in selecting our suppliers and partners, but also comprehensively evaluate their employees' safety and health, and local environmental impact. To achieve this, we will always maintain open channels of communication with our suppliers' management.

Financial Support

SK innovation provides suppliers with financial support through various mechanisms. Direct loans are available for suppliers in need. Indirect support is also available in the form of a credit guarantee through the Mutual Growth Guarantee Agreement, network loans and other financial programs. In 2015, SK innovation and SK global chemical contributed 12 billion won and 22 billion won, respectively, to set up and operate the Shared Growth Fund to provide emergency financial support to suppliers.



Local Communities

SK innovation has provided a new paradigm of social contribution activities, which goes beyond providing a simple form of donation to resolve social issues and empower the independent growth of local communities. In this regard, we provide support to social enterprises throughout their entire process of planning, establishment, and operations. In addition, we contribute to local community development by setting up a sustainable business model that creates jobs for underprivileged groups. In particular, we are leading an initiative to generate greater value for communities by identifying social enterprises, supporting projects for social enterprises and the social enterprise marketplace.

The Importance of Social Contribution

Global perceptions of a company's social responsibility have drastically changed leading to a transition from donation-based to participation-oriented paradigm of corporate social contribution activities. As such, corporations are moving away from simple volunteering work, towards activities that can resolve fundamental social issues. SK innovation is committed to becoming a company that enhances the value of life through its social contribution activities, and plans to carry out sustainable social contribution activities that ultimately bring happiness to all members of the society.

SK innovation's Social Contribution Activities

We strive to recognize and address local social needs through activities that engage our stakeholders and focus on social enterprise-related projects. Since July 2004, our company-wide employee volunteer program has been actively working to make our society a happier place through participatory activities such as providing assistance in welfare institutions and performing environmental clean-up.

SK innovation Social Contribution Directions



Creating Value for Local Communities through Social Enterprises

Identifying and Supporting Social Enterprises

Since 2013, SK innovation has worked together with the Community Chest of Korea on the Identification and Support for Social Enterprises Program in order to create jobs in underprivileged communities. Since 2015, the beneficiaries of its support, who were primarily elderly citizens, were expanded to include disabled persons, woman from multicultural homes, and North Korean refugees. In April 2015, 118 organizations nationwide, including social co-ops, NGOs and preparatory social enterprises, participated in a heated competition over three months and five business models were selected as sustainable solutions to provide job opportunities to underprivileged groups. While SK innovation plans to support a total 500 million KRW over one year to proposed business projects, it plans to also provide customized consultations to such projects in collaboration with the Community Chest of Korea and social enterprise support entities, as well as expert groups.

2015 Identification and Support for Social Enterprises Program	
Company Name	Business Model
1 The Center to Support Self-Reliance for Disabled Youths in Gyeongbuk	Open a café to create jobs and secure self-reliance for disabled youths, provide barista training
2 Taehwa Sunrising Clubhouse	
3 Farm Community Laboratory	Employ women of multi-cultural families to setup a baking workshop and learn baking skills
4 Dobong Senior Club	Laundromat that hires seniors to do laundry from nursing homes etc.
5 PPL	Hire North Korean refugees to reuse leather seats from disused cars to make fashion items

Contributing to the Community with Sports: Jeju Special Self-Governing Province Youth Soccer Council

SK energy runs the Jeju-based professional soccer team. Jeju's relatively large adult sports club population and numerous grass-covered sports fields in the elementary, middle and high schools led us to design a social contribution activity around youth soccer, combining expertise from soccer related organizations, corporations and groups.

In 2014, the 'Jeju Special Self-Governing Province Youth Soccer Council' was launched as a voluntary group and was designated as a preparatory social enterprise in 2016. The Council provides regular youth soccer tournaments and camps, soccer lessons for vulnerable social groups, talent cultivation programs, and trainer site-visits. SK energy will continue to provide support through mid-to long-term growth consultations, and identify new projects.

Jeju Special Self-Governing Province Youth Soccer Council Development Roadmap



Social Enterprise Operation at Peru Branch

Our Peru branch is effectively contributing to the community through the NGO SK-Prosynergy. Yachaiwasi⁽¹⁾, an agriculture technology center built by us to promote rural development. Yachaiwasi provides the local community with farming and livestock training, appropriate technologies, microfinance, seeds and other benefits, while creating shared profits from the cooperative sale of agricultural products.



Opening of 2nd Yachaiwasi

In 2015, nearly 800 farming families completed training at Yachaiwasi and expanded their sales networks while attracting over 2,400 new customers. An education platform, My School, is also available via website, providing teaching and learning materials online for teachers, students and parents. In 2015, 59 schools across 14 regions are registered on My School and 30 schools among them completed the program. In order to solidify the sustainable model, we plan to begin construction of the third Yachaiwasi in 2016.

(1) Yachaiwasi : Yachay (Teaching) + Wasi (Place).

Key Social Contribution Activities

Environment

1) Energy education for children and teens

In July 2015, SK energy signed an MOU on educational cooperation with the Korea Energy Agency (KEA) and operated an educational program on careers in the energy industry where children and teens could experience a career in energy and learn innovative problem solving skills to tackle energy and climate change issues.

This program for elementary, middle and high school students was jointly operated by the Ministry of Education, and the Korea Foundation for the Advancement of Science and Creativity at four energy experience centers (Yongin, Daejeon, Gwangju, Daegu) and SK facilities in Ulsan, Incheon, and Daejeon. The students attended special lectures by experts and designed their own energy facilities and characters. In particular, the lectures were provided by SK energy employees as talent donation. Visual aids that featured conservation content developed by SK energy were provided, as well as mobile classrooms. Students were encouraged to develop interest in the energy industry via site visits.



Energy Class by Experts



Energy Tomorrow MOU Signing

2) Carbon Credits Donations

SK energy and other major conglomerates in Korea gathered at the Pyeongchang Olympic Committee office in Seoul in December 2015 to donate 75,321 tons of carbon credits under the UNFCCC CDM to contribute to the vision of a low-carbon 2018 Pyeongchang Winter Olympics and Paralympic Games. The credits were equivalent to roughly 60 1MW wind turbines' (operating at 30% efficiency) annual generation and 5% of the Pyeongchang Winter Olympics' total GHG emissions of 1.56 million tons. The credits donated are expected to offset some of the emissions from event preparation and operations.

Community-based Activities

1) Ulsan Complex - Contributing to the community through the Ulsan Grand Park and Ulsan Plant

Since SK innovation developed and donated the Ulsan Grand Park to the City of Ulsan in 2006, we have operated various programs to contribute to the community. In 2015, we held the 9th Annual Rose Festival in the Park's Rose Garden. Nearly 210 thousand visitors came to enjoy the festival themed 'Ulsan, the dignified warm city of roses.' In addition, 2,871 Ulsan residents came to the Crafts Cabin to enjoy freestyle woodworking, woodworking in English, a program for local middle and high school students to make gifts for the less fortunate, and other activities.

At the SK square, employees of the Ulsan Complex and around 100 of their family members came together to work with 11 community organizations including the Ulsan Metropolitan Women's Center, and around 200 volunteers from the community to make kimchi for 1,200 marginalized families and 50 social welfare centers.



Ulsan Grand Park Rose Festival



Making Kimchi Event for the Underprivileged

2) SK incheon petrochem - Continuous Community Activities

Through various mutual benefit projects, SK incheon petrochem continues to grow happily with the local community. Starting from November 2015, we have been implementing the 'Become Regulars Campaign' to support local businesses and strengthen interaction and ties between our employees and local merchants. By voluntarily dining at local restaurants for lunch and dinner and also purchasing goods from local stores, we have contributed to strengthening the local businesses and created a channel to interact with the local merchants.

In addition, the SK Local Community Cooperation Committee launched the 'Traditional Market Tour' campaign in September 2015 not only to revitalize the stagnant local market, but also to donate goods purchased through the campaign to local senior citizens centers, afterschool learning centers and other welfare centers to strengthen traditional markets.



Become Regulars Campaign



Traditional Market Tour

3) SK incheon petrochem - Plant Tour program for local elementary and middle school students

SK incheon petrochem operates a career experience event for local elementary and middle school students. Since 2008, approximately 2,000 elementary school students have participated in the 'energy class for children' comprised of an education program to promote energy conservation and a plant tour. Middle school students have visited the company and learned about the energy business to explore their career paths through the 'career experience class' which recorded around 1,500 participants in 2015.

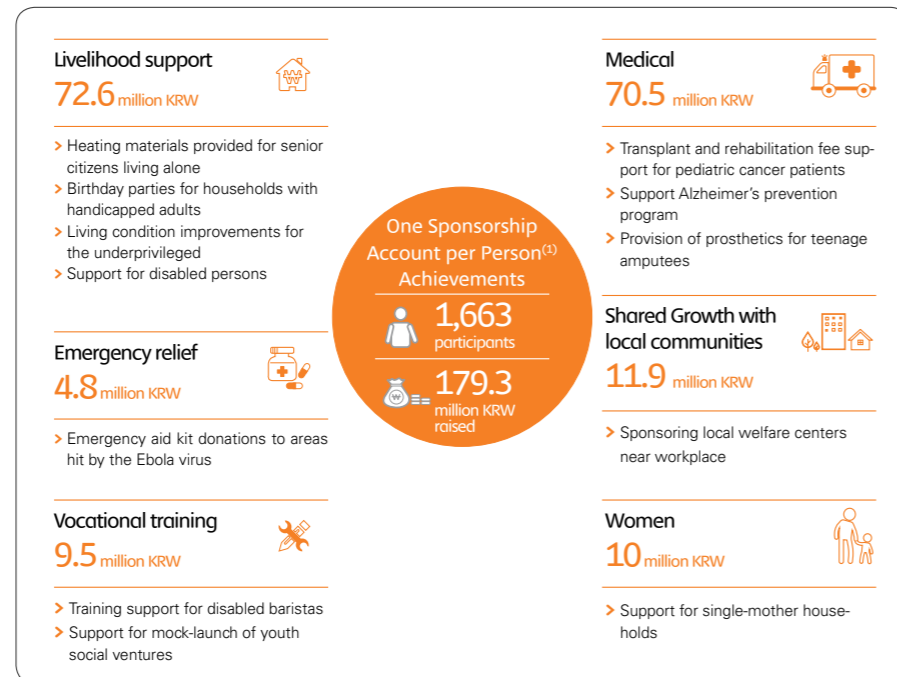
Employee Participation

1) Village Enhancement Project

SK innovation's volunteer program implemented the Village Enhancement Project over the course of one year in the underprivileged neighborhoods near our workplaces in Seoul, Incheon, Ulsan and Daejeon in order to improve the living conditions in the community. Conducted as a relay of employee volunteers, we repaired roofs, flooring and made various other home improvements. We also built waste and recycling receptacles and painted murals to beautify the neighborhoods. A total of 220 volunteers participated in improving 58 homes and 10 neighborhoods' environments and the satisfaction rate for the volunteers was high as well.

2) One Sponsorship Account per Person

SK innovation has continuously supported the One Sponsorship Account per Person program to help make voluntary donations easier. SK innovation, SK energy, SK global chemical, and SK lubricants have encouraged employee participation in the program. We will continue to expand participation in 2016 and plan to select areas of support that would make the best use of the donations.



(1) SK incheon petrochem operates their own sponsorship program (404 participants/ 36.9 million KRW raised)

Future Plans

We will continue to create value that can make meaningful contributions to local communities through the work of social enterprises. SK innovation keeps track of and manages the performance of the social enterprises and preparatory social enterprises. Through our participation, we will continue to support and strive to help them develop unique social enterprise models that can maximize the effect of social value creation and help them grow into independent enterprises.

In addition, we will continue to actively pursue participatory social contribution activities led by our SK Angels (1004) Volunteer Group with 5,740 total members as of 2015 to further raise awareness on the importance of social contribution. Moreover, we will continue to expand the activities' networks to provide participants of our rural development and education support project in Peru.

04 Appendix

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Financial Statement

SK innovation provides a summary of our consolidated financial statement to assist in stakeholders' understanding of our financial structure and business performance. The below is taken from the 2015 Annual Report. Please refer to the full annotated financial statement available on the Financial Supervisory Service's electronic disclosure system (<http://dart.fss.or.kr/>) for more details

Condensed Income Statement

(Unit: 100 million KRW)

Field	2013	2014	2015
Sales	660,392	658,607	483,563
Cost of goods sold	627,196	642,444	441,968
Gross margin	33,196	16,163	41,595
SG&A expenses	18,610	17,991	21,799
Operating income	14,586	(1,828)	19,796
Financial income	16,378	26,166	22,505
Finance costs	18,630	29,656	25,706
Gains or losses from equity method	677	1,308	2,570
Non-operating income	1,273	864	2,259
Non-operating expenses	2,370	1,220	4,884
Income before income taxes	11,914	(4,367)	16,541
Continuing operations income before income taxes	3,498	(36)	6,566
Continuing operations net income (loss)	8,416	(4,331)	9,975
Discontinued operations net income	(629)	(1,041)	(1,299)
Net income (loss)	7,787	(5,372)	8,677
Other comprehensive income	556	887	861
Total comprehensive income	8,343	(4,485)	9,538

Condensed Statement of Financial Position

(Unit: 100 million KRW)

Field	2013	2014	2015
Current assets	169,974	148,884	128,422
Non-current assets	182,914	202,129	185,177
Total assets	352,889	351,013	313,598
Current liabilities	116,653	114,034	74,940
Non-current liabilities	67,083	76,369	68,195
Total liabilities	183,736	190,403	143,135
Capital attributed to owners of the parent company	158,395	150,003	158,897
Capital	4,686	4,686	4,686
Other paid-in capital	57,570	57,570	57,481
Consolidated retained earnings	95,353	86,360	94,496
Other capital	786	1,387	2,234
Non-controlling interests	10,758	10,607	11,566
Total shareholders' equity	169,153	160,611	170,463

Sustainable Performance

Economic Performance

Sales and Operating Income by Business Segment

(Unit: 100 million KRW)

Field	2013		2014		2015		
	Sales	Percent of Sales	Sales	Percent of Sales	Sales	Percent of Sales	
Sales	Petroleum	498,968	75.6%	490,563	74.5%	352,997	73.0%
	Chemical	121,120	18.3%	126,352	19.2%	92,880	19.2%
	Lubricant	27,861	4.2%	29,818	4.5%	26,188	5.4%
	Petroleum development, etc	12,443	1.9%	11,874	1.8%	11,499	2.4%
Operating Income		Operating Income	Operating Income Ratio	Operating Income	Operating Income Ratio	Operating Income	Operating Income Ratio
	Petroleum	597	0.1%	-9,990	-2.0%	12,991	3.7%
	Chemical	8,670	7.2%	3,592	2.8%	4,310	4.6%
	Lubricant	1,554	5.6%	2,899	9.7%	2,947	11.3%
	Petroleum development, etc	3,767	30.3%	1,672	14.1%	-451	-3.9%

Distribution of Economic Value

(Unit: 100 million KRW)

Field	Recipient	Expenditure/ Investment	2013	2014	2015
Economy	Corporation	R&D ⁽¹⁾	1,513	1,384	1,654
		Acquisition of tangible assets ⁽²⁾	27,146	16,417	4,609
Investors		Total cash dividend	2,983	-	4,474
	Environment	Environmental Investment	501	596	200 ⁽⁵⁾
Society	Employees	Salaries ⁽³⁾	9,071	8,969	11,653
	Suppliers	Purchase of suppliers' products	9,769	7,446	7,436
	Community	Social contribution investments	422	306	84
	Government	Corporate tax ⁽⁴⁾	3,866	4,494	4,072

(1) Based on 2015 Annual Report

(2) Based on each year's consolidated audit report, note 10-(2) refers to items in book value of tangible assets labeled 'acquired'

(3) Based on each year's consolidated audit report, note 23, item under cost by category labeled 'employee wages'

(4) Based on 2015 Annual Report's consolidated cash flow table in consolidated financial statement

(5) Many large-scale projects to reduce environmental impact were concluded in 2014, leading to a lower investment rate in 2015

SHE

Energy Consumption

(Unit: TJ)

Field		2013 ⁽¹⁾	2014	2015	
Energy Consumption	Direct energy	Fuel	135,389	137,466	142,569
	Indirect energy	Electricity	31,477	37,116	39,528
		Steam	17,007	24,939	25,867

(1) Data for SK innovation not previously reported are included, thus figures differ from previous reports.

GHG Emissions

(Unit: GHG emissions-Thousand CO₂eq, GHG emissions intensity-CO₂eq/billion KRW)

Field		2013	2014	2015
GHG emissions	Direct emissions	9,109	10,032	10,539
	Indirect emissions	2,719	2,468	2,482
	Total	11,828	12,500	13,021
GHG emissions intensity ⁽¹⁾		4.89	4.66	4.56

(1) Amount of GHG emissions from generating 1TJ of energy from fuel, electricity, or steam (GHG emissions÷ energy consumption)
Process emissions not included in intensity calculations

Air Pollutant Emissions Volume⁽¹⁾

(Unit: Ton)

Field	2013	2014	2015 ⁽²⁾
SOx	3,598	3,742	3,910
NOx	8,010	8,907	8,287
Dust	226	195	202

(1) Based on SK energy (Ulsan), SK global chemical (Ulsan), SK incheon petrochem (Incheon)
(2) SK innovation has recorded air pollutant emissions from the Jeungpyeong Plant (I/E materials) since 2015 but data is not reflected in this table
SK innovation Jeungpyeong Plant (I/E materials) air pollutant emissions volume - SOx: n/a / NOx: none detected / Dust: 1 ton

Air Pollutant Emissions Concentrations

(Unit: SOx-ppm, NOx-ppm, Dust-mg/m²)

Worksite		Legal Limit	Company Standard (Emissions ratio to legal limit)	Emissions Concentration (Comparison with in-house standards)		
				2013	2014	2015 ⁽¹⁾
SK energy ^{Ulsan}	SOx	180	170(94%)	29(17%)	35(20%)	75(44%)
	NOx	200	180(90%)	79(43%)	90(50%)	114(63%)
	Dust	50	40(80%)	4.7(11%)	4.1(10%)	4.7(11%)
SK global chemical ^{Ulsan}	SOx	180	160(88%)	15(9%)	13(8%)	36(22%)
	NOx	150	130(86%)	92(70%)	99(76%)	108(83%)
	Dust	30	20(66%)	4.3(21%)	3.9(19%)	4.9(24%)
SK incheon petrochem ^{Incheon}	SOx	180	160(88%)	15.1(9%)	7.3(4%)	11.4(7%)
	NOx	250	235(94%)	69(29%)	42(17%)	37(15%)
	Dust	30	25(83%)	4.5(18%)	1.9(7%)	3.5(14%)

(1) SK innovation has recorded air pollutant emissions concentration from the Jeungpyeong Plant (I/E materials) since 2015 but data is not reflected in this table
SK innovation Jeungpyeong Plant (I/E materials) air pollutant emissions volume - SOx: n/a / NOx: none detected / Dust: 2.2mg/m²

Total Water Withdrawal by Source

(Unit: Ton)

Source	Applicable Worksites	2013	2014	2015
Nakdong River	SK energy, SK global chemical, SK lubricants	36,357,633	40,031,726	38,299,789
Han River	SK incheon petrochem	3,015,131	3,710,574	3,837,553
Geum River	SK innovation (Seosan, Jeungpyeong, Daedeok) ⁽¹⁾	-	1,086,429	517,701

(1) Calculated since 2014

Wastewater Pollutant Concentration

(Unit: ppm)

Worksite	Treatment Facility	Water Quality	Legal Limit	Company Standard (Emissions ratio to legal limit)	Emissions Concentration (Emissions ratio to company standard)		
					2013	2014	2015 ⁽⁴⁾
SK energy	Ulsan CLX	COD ⁽¹⁾	40	20(50%)	8.1(41%)	9.3(47%)	9.3(47%)
		SS ⁽²⁾	10	8(80%)	4.4(55%)	3.1(39%)	1.5(19%)
		Oil ⁽³⁾	5	1(20%)	0.3(30%)	0.3(30%)	0.3(30%)
	No.2FCC	COD	90	70(78%)	14.9(22%)	20(29%)	15.5(23%)
		SS	80	60(75%)	32.5(55%)	25(42%)	25(42%)
		Oil	5	3.7(74%)	1.3(36%)	1.4(38%)	2.5(68%)
SK global chemical	PE/PP	COD	90	70(78%)	8.4(12%)	6.9(10%)	10.1(15%)
		SS	80	60(75%)	16(27%)	16.2(27%)	12.7(22%)
		Oil	5	3.7(74%)	0.3(9%)	0.4(11%)	0.6(17%)
	EPDM	COD	90	70(78%)	25(36%)	15.4(22%)	32.6(47%)
		SS	80	60(75%)	14(24%)	9.7(17%)	14.4(24%)
		Oil	5	3.7(74%)	0.1(3%)	0.2(6%)	0.5(14%)
SK incheon petrochem	Incheon	COD	90	40(44%)	14.6(37%)	10.9(28%)	11.8(30%)
		SS	80	30(38%)	5.9(20%)	5.9(20%)	6.7(23%)
		Oil	5	3(60%)	0.46(16%)	0.47(16%)	0.3(10%)

(1) COD: Chemical Oxygen Demand, the amount of oxygen required by organisms to oxidize pollutants
(2) SS: Suspended Solids, solids materials that float on the water surface or is dispersed in murky waters
(3) Oil: the oil that present in wastewater that is produced as a result of petroleum and gas decomposition
(4) SK innovation global technology (Daedeok) has recorded wastewater pollutant concentration since 2015 but data is not reflected in this table
SK innovation global technology (Daedeok) pollutant concentration - COD: 15pp. / SS: 8 ppm

Waste Discharge by Type

(Unit: Ton)

Type	Worksite	2013	2014	2015
Designated Waste ⁽¹⁾	SK innovation (Seosan, Daedeok, Jeungpyeong) ⁽³⁾	9,395	11,376	10,997
	SK energy (Ulsan)	20,389	17,799	20,430
	SK global chemical (Ulsan)	5,438	9,291	8,777
	SK lubricants (Ulsan)	235	151	901
	SK Incheon petrochem (Incheon)	3,368	2,449	3,230
Total		38,825	41,066	44,335
General Waste ⁽²⁾	SK innovation (Seosan, Daedeok, Jeungpyeong) ⁽⁴⁾	1,784	2,324	2,501
	SK energy (Ulsan)	42,363	45,889	37,846
	SK global chemical (Ulsan)	11,873	10,700	11,220
	SK lubricants (Ulsan)	591	2,356	399
	SK Incheon petrochem (Incheon)	2,750	1,561	1,858
Total		59,361	62,830	53,824
Total waste discharged		98,186	103,896	98,159

(1) **Designated waste** : Waste occurring from a facility that is defined by the law as a "factory" that may potentially be harmful or toxic to the environment or people

(2) **General waste**: Waste occurring from a facility that is neither designated waste or construction waste

(3) **Seosan (Battery)** - 2013: 0 ton / 2014: 0 ton / 2015: 176tons

Jeungpyeong (IE materials): 2013: 8,963 tons / 2014: 10,968 tons / 2015: 10,501 tons

Daedeok (GT) - 2013: 432 tons / 2014: 418 tons / 2015: 320 tons

(4) **Seosan (Battery)** - 2013: 86 tons / 2014: 194 tons / 2015: 441 tons

Jeungpyeong (IE materials): 2013: 1,198 tons / 2014: 1,753 tons / 2015: 1,790 tons

Daedeok (GT) - 2013: 500 tons / 2014: 377 tons / 2015: 269 tons

Discharge Volume by Treatment Method ⁽¹⁾

(Unit: Ton)

Method	2013	2014	2015
In-house treatment (landfill)	18	299	0
Outsourced volume (Recycled)	51,199	63,308	65,265
Outsourced volume (incinerator / landfill)	46,969	40,291	32,894
Waste recycle rate ⁽²⁾	52.1%	60.9%	66.5%

(1) Waste volume figures for 2013 and 2014 include data not reported in previously, thus volume figures differ from previous reports.

(2) Outsourced volume (Recycled) ÷ Total waste discharge volume X 100

Lost time Incident Rates (LTI)

(Unit: n/200 thousands working hours)

Category	2013	2014	2015
Employees	0.113	0.103	0.078
Suppliers	0.117	0.194	0.142
Total	0.116	0.161	0.111

Society

Employee Status by Category ⁽¹⁾

(Unit: Persons)

Category	No. persons (Ratio)			
	2013	2014	2015	
Total	6,350 (100%)	6,338 (100%)	5,820 (100%)	
Employment type	Regular	6,240 (98.3%)	6,231 (98.3%)	5,744 (98.7%)
	Temporary contract	110 (1.7%)	107 (1.7%)	76 (1.3%)
Gender	Male	5,656 (89.1%)	5,623 (88.7%)	5,171 (88.8%)
	Female	694 (10.9%)	715 (11.3%)	649 (11.2%)
Age	Under 30	510 (8%)	734 (11.6%)	589 (10.1%)
	30 to 50 years of age	4,075 (64.2%)	4,263 (67.3%)	3,826 (65.7%)
	50 years or more	1,765 (27.8%)	1,341 (21.2%)	1,405 (24.1%)
Minorities	Disabled	87 (1.4%)	130 (2.1%)	94(1.6%)

(1) Excludes executives and advisors

Childcare leave and rate of return

Category	2013	2014	2015	
No. of employees who used childcare leave	Male	1	2	4
	Female	58	61	65
No. of employees returning from childcare leave who worked at least 12 months following return	Male	-	-	1
	Female	41	25	39

Total Suppliers

(Unit: Number of suppliers
- number of companies,
Purchases - 100 million KRW)

Category	2013	2014	2015
Number of suppliers			5,312
Purchases	9,769	7,446	7,436
Local ⁽¹⁾ suppliers' purchases (amount)	5,131	3,710	3,767
Local ⁽¹⁾ suppliers' purchases (percentage)	53%	50%	51%

(1) Refers to Republic of Korea

Mutual Growth Fund Contribution

(Unit: 100 million KRW)

Category	2013	2014	2015	
Mutual Growth Fund Contribution	SK innovation	200	270	120
	SK global chemical	120	220	220
	Total	320	490	340

2015 Employee Volunteer Program Status

Company	No. of Activities	Hours	Number of volunteer teams	Participants
SK innovation	107	3,118	16	847
SK energy	1,087	16,951	33	4,738
SK global chemical	249	3,546	5	1,173
SK lubricants	44	786	2	228
SK incheon petrochem	197	5,609.5	8	1,564
SK trading international	3	130	1	34
Total	1,687	30,140.5	65	8,584

INDEPENDENT AUDITORS' REPORT



To the Stockholders and the Board of Directors of SK innovation Co., Ltd.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SK Innovation Co., Ltd. (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, respectively, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the SK Innovation Co., Ltd. and its subsidiaries as of December 31, 2015 and 2014, respectively, and their financial performance and their cash flows for the years then ended, in accordance with K-IFRS.

10, Gukjegeumyung-ro, Youngdeungpo-gu, Seoul
Deloitte Anjin LLC
March 3, 2016

This report is effective as of March 3, 2016, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

INDEPENDENT ASSURANCE STATEMENT

Introduction

SK innovation Co., Ltd.(hereinafter referred to as "SK innovation") commissioned DNV GL Business Assurance Korea Ltd.(hereinafter referred to as "DNV GL"), part of DNV GL Group, to undertake independent assurance of the SK innovation Sustainability Report 2015 (the "Report"). The directors of SK innovation have sole responsibility for the preparation of the Report. The responsibility of DNV GL in performing the assurance work is to the management of SK innovation in accordance with the terms of reference. DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith.

Scope of assurance

The scope of assurance included a review of sustainability activities and performance data over the reporting period 1st January to 31st December 2015. This included:

- > Evaluation of the principles for defining the sustainability report content in the Global Reporting Initiative(GRI) Sustainability Reporting Guidelines 4.0
- > Verification of disclosures to check the Report is prepared 'In accordance' with the GRI Guidelines G4(Core option)(Verification on aggregated level of data and activities that refers to the period between January and December in 2015)
- > Evaluation of the process for determining material aspects for reporting and the management approach to material issues and the process for generating, gathering and managing the quantitative and qualitative data in the Report.

Basis of our opinion

We performed our work using DNV GL's assurance methodology VeriSustainTM, which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000(ISA 3000). We applied the limited level of assurance. The audit was carried out in July and August 2016. The site visits were made to SK innovation Head office in Seoul and Ulsan complex in Korea. We undertook the following activities as part of the assurance process:

- > 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;
- > interviewed representatives from the various departments;
- > conducted document reviews, data sampling and interrogation of supporting databases and associated reporting system and associated reporting systems as they relate to selected content and performance data;
- > reviewed the outcomes of stakeholder consultation report and the materiality assessment report.

Limitations

The engagement excludes the sustainability management, performance and reporting practices of SK innovation' associated companies, subsidiaries, suppliers, contractors and any third-parties except for SK innovation, 5 major Subsidiaries and SKIGT(R&D center in Daedeok) mentioned in the Report. DNV GL did not interview external stakeholders as part of this Assurance Engagement. Economic performance based on the financial data is cross-checked with internal documents, the audited consolidated financial statements and the announcement disclosed at the website of Korea Financial Supervisory Service(<http://dart.fss.or.kr>) as well as SK innovation's website (<http://www.skinnovation.com>). These documents, financial statements and the announcements are not included in this Assurance Engagement. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organization were applied. The baseline data for Environmental and Social performance are not verified, while the aggregated data at the corporate level are used for the verification. DNV GL expressly disclaims any liability or co-responsibility for any decision a person

or an entity may make based on this Assurance Statement.

Opinion and Observation

On the basis of the work undertaken, nothing comes to our attention to suggest that the Report does not properly describe the adherence to the Principles for defining report content in GRI G4 nor is prepared 'in accordance' with GRI Sustainability Reporting Guidelines G4, Core option. The verification team has observed that there is general awareness of sustainability context across all different levels of the organization. Further opinions with regards to the adherence to the following Principles are made below;

Stakeholder Inclusiveness

SK innovation has identified internal and external stakeholder groups such as Shareholders, Employees, Suppliers, Local Communities and Customers. SK innovation engages with the stakeholders at the company and business unit levels through various channels. SK innovation organized stakeholders survey to listen to their interests and expectations on the sustainability issues. The report presents key issues of respective stakeholders which were considered during evaluating the materiality assessment process.

It is recommended to document the stakeholder engagement process and its outcomes for reliability and improvement of reporting,

Sustainability Context

The report covers the sustainability context of economic, environmental and social aspects by addressing the background and importance of key issues.

Materiality

SK innovation has conducted the materiality assessment to prepare the 2015 Report and presents the result in the Report. The relevant issues were formed from the internal and external sources such as various global standards, the media and industry peer group reports. The issues are prioritized based on the opinion of internal and external experts and stakeholders survey result. The audit team has reviewed and confirmed that the main issues selected through the materiality assessment process included in the report.

It is recommended to document the materiality assessment process and its outcomes for reliability and improvement of reporting,

Completeness

SK innovation has reported the organizational performance on key issues of sustainability taking into account the economic, environmental and social impacts. The audit team has not found material omissions or errors in the Report when it comes to reporting boundary and material aspects.

Accuracy and Reliability

Any errors and misstatements identified during the engagement were corrected prior to the Report being published. Data and information contained in the report has been described in an accurate and reliable way on the basis of sample checked and the information provided by SK innovation.

Although, different ranges of reporting are applied to some indicators depending on the circumstances of companies and sites, it is desirable to apply the same range of reporting for meaningful and comparable information for the key indicators.

Competence and Independence

DNV GL Business Assurance is part of DNV GL Group and a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. Our environmental and social assurance specialists are present in over 100 countries. The assurance work was performed by independent team which meets DNV GLs competence requirements. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.



5 Aug 2016
Seoul, Korea
In Kyoon Ahn Country Representative
DNV GL Business Assurance Korea Ltd.

GRI G4 Index General Standard Disclosure

This report adopts the Global Reporting Initiative (GRI) G4 Guidelines 'Core Option'. Based on this, the following index is provided to indicate the status of general standard disclosure required for for GRI G4 Core Option.

	Number	Disclosure	Page
Strategy and Analysis	G4-1	Statement from the most senior decision-maker of the organization	5, 9
Organizational Profile	G4-3	Name of the organization	12
	G4-4	The primary brands, products, and services	12
	G4-5	The location of the organization's headquarters	12
	G4-6	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	12
	G4-7	The nature of ownership and legal form	12
	G4-8	The markets served(including geographic breakdown, sectors served, and types of customers and beneficiaries)	12
	G4-9	Scale of the reporting organization	12
	G4-10	The total workforce by employment type, gender, employment contract and region	12
	G4-11	The percentage of total employees covered by collective bargaining agreements	50.7%
	G4-12	Describe the organization's supply chain	73
	G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply	No significant changes
	G4-14	Precautionary approach or principle is addressed by the organization	40, 41
	G4-15	List externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	9
	G4-16	List memberships in associations(such as industry associations) and national or international advocacy organizations	80
	Identified Material Aspects and Boundaries	G4-17	List all entities included in the organization's consolidated financial statements or equivalent documents
G4-18		The process for defining the report content and the Aspect Boundaries	Cover
G4-19		List all the material Aspects identified in the process for defining report content	2
G4-20		For each material Aspect, report Aspect Boundary within the organization	78
G4-21		For each material Aspect, report the Aspect Boundary outside the organization	78
G4-22		Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	Marked when occurred
G4-23		Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	Marked when occurred
Stakeholder Engagement	G4-24	List of stakeholder groups engaged by the organization	2
	G4-25	The basis for identification and selection of stakeholders with whom to engage	2
	G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	2
	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	2
Report Profile	G4-28	Reporting period(such as fiscal or calendar year) for information provided	Cover
	G4-29	Date of most recent previous report	1
	G4-30	Reporting cycle	1
	G4-31	Contact point for questions regarding the report or its contents	1
	G4-32	The 'in accordance' option the organization has chosen	77-79
	G4-33	The organization's policy and current practice with regard to seeking external assurance for the report	75, 76
Governance	G4-34	The governance structure of the organization, including committees of the highest governance body	10
Ethics and Integrity	G4-56	The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	8

GRI G4 Index Specific Standard Disclosures : Material Topic

This report discloses the content decision including materiality test by which we selected the 10 aspects to report in accordance with the GRI G4 Guidelines, provides Disclosure on Management Approach for each aspect and includes at least one standard disclosure. Based on this, the following index is provided to indicate where each aspect is reported and the aspect boundary for the 10 material topics.

Aspect	Number	Disclosure	Page
Economic Performance	Aspect Boundary	Shareholders, Employees, Clients	-
	DMA	Disclosure on Management Approach	32-41
	G4-EC1	Direct economic value generated and distributed	69
	G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	41
Procurement Practices	Aspect Boundary	Employees, Suppliers, Local Community	-
	DMA	Disclosure on Management Approach	58-61
	G4-EC9	Proportion of spending on local suppliers at significant locations of operation	58
Overall Environment	Aspect Boundary	Shareholders, Employees, Clients, Suppliers, Local Community	-
	DMA	General management approach disclosed	48-53
	G4-EN31	Total environmental protection expenditures and investments by type	69
Employment	Aspect Boundary	Employees, Suppliers, Local Community	-
	DMA	Disclosure on Management Approach	54-57
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	56
	G4-LA3	Return to work and retention rates after parental leave, by gender	73
Occupational Health and Safety	Aspect Boundary	Shareholders, Employees, Clients, Suppliers	-
	DMA	Disclosure on Management Approach	48-53
	G4-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	53, 72
Anti-corruption	Aspect Boundary	Shareholders, Employees, Suppliers	-
	DMA	Disclosure on Management Approach	44-47
	G4-SO4	Communication and training on anti-corruption policies and procedures	45
Anti-Competitive Behavior	Aspect Boundary	Shareholders, Employees, Suppliers	-
	DMA	Disclosure on Management Approach	44-47
	G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	46, 47
Compliance	Aspect Boundary	Shareholders, Employees, Suppliers	-
	DMA	Disclosure on Management Approach	44-47
	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	No significant fines or sanctions
Supplier Assessments for Impact on Society	Aspect Boundary	Suppliers, Local Community	-
	DMA	Disclosure on Management Approach	58-61
	G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society <small>*Suppliers performing fulfilling construction contracts over a certain size are required to submit a self-evaluation covering the Labor Standards Act and Minimum Wage Act compliance, gender equality, work-life balance, labor participation and cooperation promotion, Nonstandard Worker Protection law compliance, and other practices.</small>	78

GRI G4 Index Specific Standard Disclosure : Other issues

In order to better support our stakeholders' decision-making process, SK innovation has disclosed sustainability issues additional to the 10 material aspects as they demonstrate our efforts and dedication to effectively managing sustainability issues. the following index is provided to indicate where each standard disclosure is reported and the aspect boundary for the 10 material issues.

Aspect	Number	Disclosure	Page
Indirect Economic Impacts	G4-EC7	Development and impact of infrastructure investments and services supported	62-66
Energy	G4-EN3	Energy consumption within the organization	70
	G4-EN6	Reduction of energy consumption	50
Water	G4-EN8	Total water withdrawal by source	71
Emissions	G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1)	70
	G4-EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2)	70
	G4-EN18	Greenhouse gas (GHG) emissions intensity	70
	G4-EN19	Reduction of greenhouse gas (GHG) emissions	70
	G4-EN21	NO _x , SO _x , and other significant air emissions	70
Effluents and Waste	G4-EN22	Total water discharge by quality and destination	71
	G4-EN23	Total weight of waste by type and disposal method	72
Environment Compliance	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	No significant fines or sanctions

Membership Status

SK innovation mobilizes its internal capabilities to create economic, environmental, and social value. Furthermore, the company makes the best use of its external capabilities to create greater synergy. SK innovation actively engages with the key associations in each field and cooperates with various stakeholders to the end.

Economy

- WEC (World Energy Council) Korean Member Committee
- Korea Employers Federation
- Korea Petroleum Association
- Korean Fair Competition Federation
- Chamber of commerce and industry
- Korea Industrial Technology Association
- Davos Forum
- Korea Oil Association
- World Petroleum Council (WPC) Korean Member Committee
- Korea Energy Foundation
- The Association of Energy Future Forum
- Korea Lubricating Oil Industries Association
- The Federation of Korean Industries
- The Korea Oil Station Association
- Business Institute for Sustainable Development
- The Korean Institute of Chemical Engineers
- Korea Business Council for Sustainable Development
- Energy & Mineral Resources Development Association of Korea
- Korea Petrochemical Industry Association
- Korea Chemical Industry Council
- The Association of Energy Future Forum

SHE Environment

- Mae Kyung Safety & Environment Institute
- Korea Chemicals Management Association
- Korean Institute of Hazardous Materials
- Korea Environmental Policy and Administration Society
- The Korean Society for Marine Environment and Energy
- Korea Environmental Preservation Association

SHE Safety

- Korea Fire Safety Association

Society

- UN Global Compact

The History of SK innovation's Sustainability Report

2010's



2000's

