



*Deep Change
for
Tomorrow*

About This Report

SK innovation has published this annual sustainability report since 2005, as a key communication channel to transparently disclose the direction, activities, and achievements of the company's sustainable management initiative. We listen to diverse group of stakeholders and reflect their feedback into our management activities, to enhance the effectiveness of our sustainable management activities.

Reporting Standard

This report follows the G4 Guidelines(Core Opinion) and Oil & Gas Sector disclosure of the Global Reporting Initiative(GRI) and reflects key global indexes on social responsibility, such as the Ten Principles of the UN Global Compact and Sustainable Development Goals of the UN. In order to select core issues suitable to the company's industry characteristics, reporting issues were chosen based on the SASB(Sustainability Accounting Standards Board) Standards for Industries.

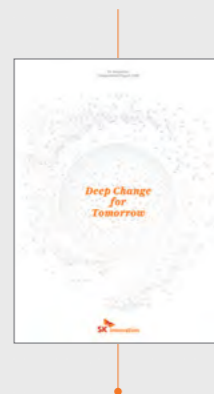
Reporting Period and Scope

This report includes data from January 1 to December 31, 2016. In the case of certain indexes that require performance trends, the company presents data from the past three years. For some items, data from the first half of 2017 was included, in light of the material nature and timeliness of information.

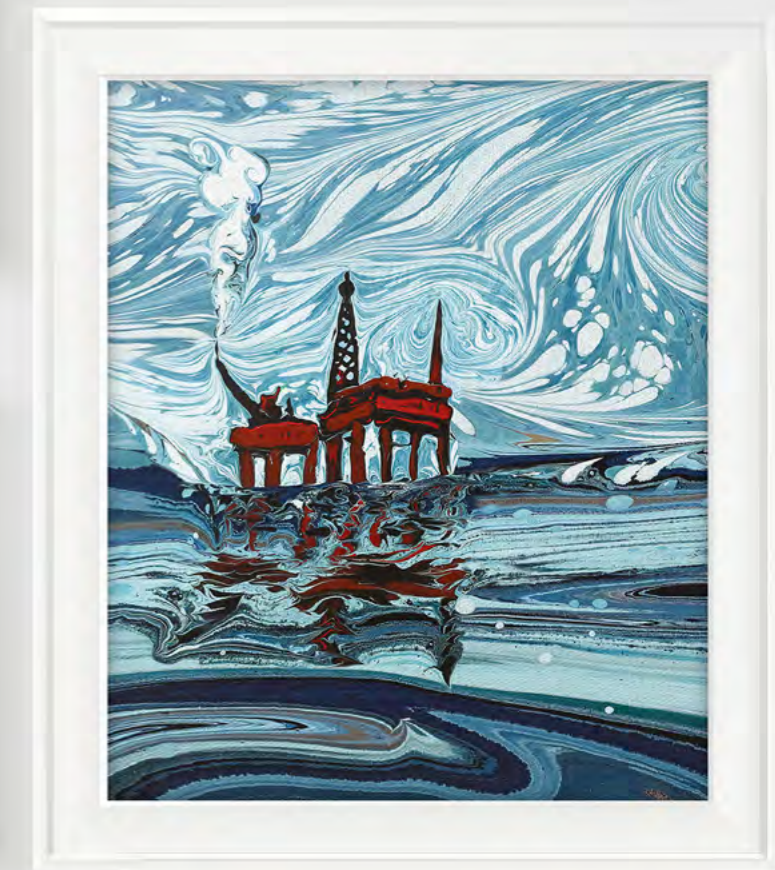
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Reporting Reliability

This report has been published upon review by the Board of Directors' CSR Committee to enhance the appropriateness of the content. In addition, DNV GL, a third-party assurance provider, has evaluated the contents and data of this Report according to ISAE3000, limited level of assurance, to ensure objectivity and transparency. Reliability assurance engagement was performed on certain performance information.



The cover of the report is a graphic visualization of SK innovation's activities and achievements to become a global top-tier energy and chemical company by, developing new growth drivers, engaging in continuous structural innovation, and pursuing stakeholder-centered sustainability management, and adopting a selective and focused strategic direction.



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Beyond Korea, further into the world

Leading the
Energy and
Petrochemical
Industry

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SK innovation

—

SK energy

SK global chemical

SK lubricants

SK incheon petrochem

SK trading international

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Message from the CEO

Dear stakeholders,

I would like to start by expressing my deepest gratitude for your support and interest in SK innovation.

In the face of an extremely volatile business environment during the past year, the company continued to focus its efforts on innovating its profit structure. As a result, we achieved the most successful annual business performance in our corporate history. Not only did we successfully accomplish the largest turnaround to date, but also paved the basis for future growth by forward-positioning our petrochemical and refinery business in the global market and expanding our electric vehicle battery and I&E material capacity. In addition, efforts to improve our financial position came to fruition as the company achieved its highest credit rating to date from an international credit rating agency in 2017.

SK innovation will not rest on these achievements. We will strive to enhance our corporate value through persistent innovation and continuous growth. This sustainability report presents the company's main business, accomplishments, commitment and vision to improve sustainable management and corporate value.

Structural innovation of the business model for global growth

SK innovation is committed to business model innovation, in accordance with better positioning ourselves for stronger global growth, and enhance our corporate value. The company will aggressively push forward with strategic investments to expand new businesses and boost global growth. To spur meaningful innovation in our business structure, we plan to increase partnerships with leading companies around the world. In addition, the company will engage in a wide range of profit structure innovation by creating a foundation for steady margin generation through optimization, stronger operating competitiveness, and structural cost savings.

Enhancing innovation execution by creating a passionate, agile and flexible culture within the organization

Based on SK Management System(SKMS), SK Group's unique philosophy and business management system, SK innovation strives to respond quickly and flexibly to the ever-changing business environment by creating a robust corporate culture and concentrating the abilities of its employees. All employees are encouraged to freely and enthusiastically pursue innovation based on passion, the core of SKMS. In addition, we are strengthening innovation execution by introducing swift decision-making and work processes, flexible corporate culture and stronger communication.

Strengthened social responsibility in the pursuit of happiness for all stakeholders

SK innovation is exerting its utmost efforts to become a company that pursues the happiness of our stakeholders. We put the utmost priority on the safety and health of our stakeholders. Moreover, the company is committed to fulfill its social responsibility by adopting the global best practice SHE(safety, health and environment) management, pursuing mutual growth with suppliers, strengthening responsibility to our local community, and supporting the global initiative of sustainable management. These efforts will help us maximize social values and work together with our stakeholders to spread happiness.

Based on the trust and respect of our stakeholder, SK innovation aims to grow into a global top-tier company in the energy and chemical industry through continuous innovation. We will always listen to your opinion and be happy to communicate with you.

Best Regards,

SK innovation CEO and President **Kim Jun**



SK innovation Overview

History

1962

Korea National Oil Corporation is established



1980

Sunkyong Group acquires Korea National Oil Corporation



1997

Changed the Company name CI to SK Corporation Co., Ltd



2007

The Company is transformed into a holding company



2009

SK lubricants spin-off



2011

Launched SK innovation's governance and spin-off of SK energy and SK global chemical



2013

SK incheon petrochem and SK trading international spin-off

Company Overview



SK innovation

Date Established October 13, 1962

HQ 26 Jongno, Jongno-gu, Seoul

Businesses Petroleum, lubricants, petrochemicals, battery, VE material

CEO & President Kim Jun



SK energy

Date Established January 1, 2011

HQ 26 Jongno, Jongno-gu, Seoul

Businesses Petroleum products

CEO & President Kim Jun



SK global chemical

Date Established January 1, 2011

HQ 26 Jongno, Jongno-gu, Seoul

Businesses Petrochemical products

CEO & President Kim Hyung-kun



SK lubricants

Date Established October 1, 2009

HQ 26 Jongno, Jongno-gu, Seoul

Businesses Lubricant and lube base oil

CEO & President Jee Dong Seob



SK incheon petrochem

Date Established July 1, 2013

HQ 415 Bongsu-daero, Seo-gu, Incheon

Businesses Petroleum and petrochemical products

CEO & President Choi Nam Kyu



SK trading international

Date Established July 1, 2013

HQ 26 Jongno, Jongno-gu, Seoul

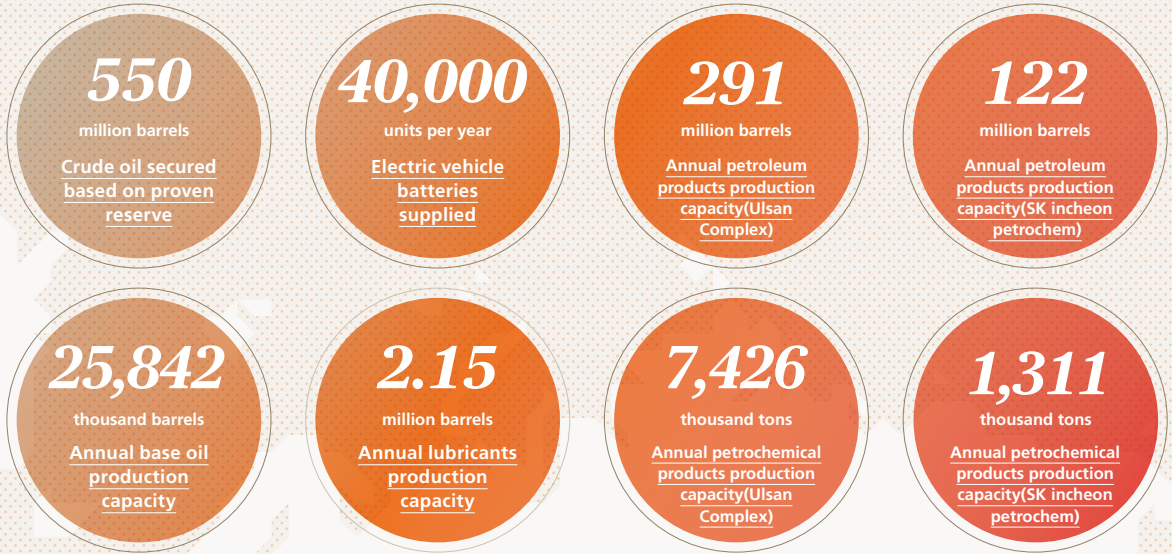
Businesses Crude oil and petroleum products trading

CEO & President Song Jin-hwa

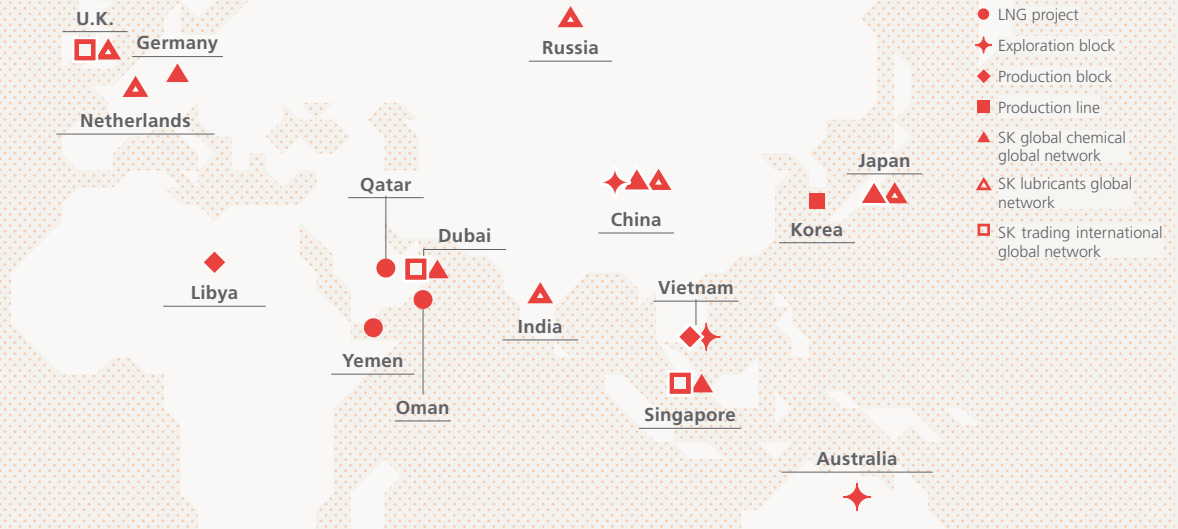
For more information on the ownership structure of SK innovation and each subsidiary, visit the website(<http://www.skinnovation.com>).



Production Capacity



Overview of Key Business Locations



Crude oil production block | Peru, Vietnam, U.S., Libya
Crude oil exploration block | China, Vietnam, Australia
LNG projects | Peru, Yemen, Oman, Qatar
Seosan Plant | Lithium-ion batteries production lines
Jeungpyeong, Cheongju Plant | Battery and circuit material production lines
Ulsan Complex | Refinery, middle distillates crackers, petrochemical plant, polymer plant, lube base oil and lubricant plant

Global Technology | Daejeon R&D Center
SK global chemical | Subsidiaries in China, Singapore, Japan and America, Germany and Dubai Branch
SK lubricants | Subsidiaries in the U.S., China, India, Russia, Japan and Netherlands, U.K. and China Branch
SK incheon petrochem | Refinery, petrochemical plant
SK trading international | Subsidiaries in the U.S., U.K. and Singapore, Dubai Branch



Korea's First and Largest Energy & Chemical Company

SK innovation

As one of the most distinguished energy and chemical companies in Korea and a company with five subsidiaries and two business units, SK innovation aims to become a global leading company through continuous innovation in its portfolio. SK innovation E&P(exploration and production) business strives to generate stable profits by ensuring balanced growth in core regions and establishing a business model based on differentiated technical capabilities. B&I(battery and I/E material) business boosts the value of business by securing differentiated technical competitiveness and achieving innovation in cost competitiveness. In the E&P business, SK innovation will accelerate the growth to "Global Top Tier E&P Company" based on North America by utilizing M&A and building an additional platform, while B&I business will continue business value-up by expanding the order of EV batteries and making business from new material items.

E&P(exploration and production)

Business Overview

Production Blocks

Country	Project Name	Participating Since
Peru	8	1996
	88(Camisea)	2000
	56	2004
Vietnam	15-1	1998
U.S.	SK Plymouth	2014
	SK Permian	2014
Libya	NC-174	2000

Exploration Blocks

Country	Project Name	Participating Since
China	04/20	2015
	17/03	2015
Vietnam	15-1/05	2007
	123	2008
Australia	WA-34R	1998

LNG Projects

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

Major Business Activities

As of December 2016, SK innovation operates 12 blocks and 4 LNG projects in 9 countries and has secured crude oil proven reserves(1P) of a total 550 million barrels.¹⁾

Peru Peru is the country that contributes the most, in terms of production volume and profitability to SK innovation's E&P business. SK innovation built a vertically integrated local production system after first producing crude oil from Block 8 in 1996. We manage the whole value chain from oil exploration to sale of products.

Vietnam After acquiring exploration rights for Block 15-1 in 1998, SK innovation has executed the entire process from exploration and to development and to commercial production since 2003. In September 2014, the company developed its fourth oil field, Su Tu Nau where it is currently producing oil.

U.S. SK innovation began making inroads into the US market by acquiring production assets in Oklahoman and Texas in 2014. By acquiring unconventional E&P technology and expertise in the US, we were able to expand our business capacity. Drilling has resumed in the Oklahoma block leading to higher expectations on an increase in production volume. Operational efficiencies, such as reducing drilling time, have also been achieved successfully.

China In 2015, SK innovation was the first Korean company to participate in the South China Sea Block Project(04/20, 17/03). Recognizing the significant cost and geographical potential that both blocks have, the company has fully supported the development of the project by establishing a separate branch in Shenzhen and conducting joint development with the China National Offshore Oil Corporation(CNOOC).

¹⁾ As of 2015 end



Vietnam 15-1 block ocean platform view

Batteries and Information & Electronic Materials(B&I)

Business Overview

Major Products	 <p>Batteries</p>	 <p>FCCL</p>	 <p>LiBS</p>
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Major Business Activities

Battery Division: Increasing Supply of EV Batteries

SK innovation completed its investment in a third production line in 3Q 2016, securing capacity of 1.1GWh to supply batteries for up to 40 thousand electric vehicles per annum. In 4Q 2016, the company decided to construct a second battery plant in Seosan, South Chungcheong Province. Once the new No. 4 to 6 production lines, which total 2.8GWh is completed, total capacity will reach 3.9GWh (equivalent to batteries for approximately 140 thousand EVs) by 2018. Off the expanded No.1 to 3 lines, batteries for high-quality EVs in Korea and abroad will be supplied. This includes KIA SOUL EV, BAIC Motors EV 200 and recent orders signed for future Hyundai Motor Company and Mercedes-Benz electric vehicles.

I/E Materials Division: Increasing the Development of Differentiated Products

Since completing the sequential stretching process for separators in 2007 for the first time in the world, SK innovation has been leading the global separator market with superior technology, such as developing the world's first 5µm thin film and commercializing the world's first ceramic coating separators(CCS). In 2016, the company embarked on expanding capacity to support annual production of 330 million m² to satisfy demand from China and other global markets. To solidify its market leadership, the company also added a third and fourth unit for CCS, which provide higher performance than traditional lithium-ion battery separators(LiBS). In addition, SK innovation is planning to grow the circuit material business by releasing differentiated products, such as ultra-thin film and thick film products that require the continuous development of FCCL technology and customized low-k products, to broaden our global customer base.



Battery Cell Production



Production of LiBS at SK innovation Jeungpyeong Plant

Korea's Leading Oil Refiner Competing on the Global Stage

SK energy

Amid a global low-growth environment, the oil refining business enjoys sound refining margins, due to increasing demands for major petroleum products such as gasoline. However, the company is likely to face a more competitive business environment because of uncertain oil price expectations and new additions of refining capacity in the region. Against this backdrop, SK energy is concentrating all efforts to secure sustainable and differentiated competitiveness by innovating its profit structure and establishing a forward-looking business structure. As part of these efforts, the company reinforces the status as No.1 asphalt provider in the region by supplying locally customized asphalt in China and continues value-up in the gas station network based on drive-thru style to generate new profit sources and raise competitiveness in sales. SK energy will leap forward to become "Regional Top R&M Company" by increasing the competitiveness of the Ulsan Complex, establishing and upgrading to a swift and flexible operating system, and strengthening global partnerships.

Business Overview



Petroleum Business

As Korea's No.1 oil refinery, SK energy supplies petroleum products in Korea and overseas through its world-class Ulsan Complex. Moreover, the company has strengthened the speed and flexibility of the value chain, in order to take preemptive action when necessary amid an uncertain business environment. In addition, we sell petroleum products through our gas stations to individual and corporate customers in Korea, and provide corporate cargo drivers with SK's comprehensive solution Netruck as a unique customer service.

Fuel

Premium gasoline, regular gasoline, diesel, kerosene

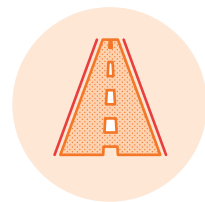


LPG Business

For LPG business, SK energy boosts customer loyalty by introducing a differentiated retail customer care program, with the aim of reinforcing long-term competitiveness and securing a stable business foundation. In addition, customer relationship management(CRM) programs have been introduced at LPG refilling stations to boost network competitiveness and brand value. Going forward, SK energy is committed to reinforcing marketing capabilities to ensure sustainable growth and high margins in the future.

Gas

LPG



Special Products Business

SK energy has a leading competitive edge in the asphalt market, based on its excellent products and services. A prime example is SBS Polymer Modified Asphalt(SBS PMA), a product that the company independently developed, commercialized, and patented for the first time as a refiner in Korea.

Asphalt

Superphalt
Regular asphalt



Front view of the plant from the main building of SK energy Ulsan Complex

Major Business Activities

Solidifying its Position as the No.1 Asphalt Provider in the Region

In 2016, SK energy produced and sold a total of 2.57 million tons of asphalt, including exports of 1.87 million tons and domestic sales of 700 thousand tons in Korea. Exports to China reached 1.25 million tons, enabling the company to maintain its No.1 position among importers in the Chinese market. Based on China's massive infrastructure development plan, asphalt demand for road pavements are expected to increase, resulting in an increase in company's Chinese exports. SK energy has concentrated its asphalt research and local marketing capabilities at SK Asphalt(Shanghai) Co., Ltd. to provide customers with high-quality asphalt with the best service. Moreover, the company not only supplies asphalt tailored to local markets from five local production bases, such as Ningbo, Chongqing and Hefei, but it is also diversifying its sales channels in China by increasing local sales through leasing tank terminal to local Chinese customers. In Japan, we exported 410 thousand tons, making us the No. 2 supplier after JX Nippon Oil & Energy. In addition, the company also supplies 210 thousand tons of asphalt to other markets, such as Southeast Asia, further solidifying SK energy's position as the No.1 asphalt provider in the region.

Enhancing the Network Value Adding Value via QSR Drive Thru

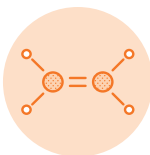
SK energy has continuously enhanced the value of its gas station network by analyzing the commercial district of each location and identifying and positioning the best complimentary business for the gas station to strengthen its competitiveness. Through these efforts, these gas stations are able to increase asset efficiency, boost customer traffic by hosting popular outlets, and create new revenue sources by engaging in non-gas businesses. Of the directly managed and independently owned SK gas stations nationwide the company operates 72 gas stations(accumulated basis) that have completed this transformation. Since 2014, the main complimentary business has been QSR(Quick Service Restaurant) drive thru, which has a high synergy with gas sales. Customers find it convenient to visit the gas station to not only fill their tanks, but also enjoy their favorite fast food. In addition, these QSR-drive-thru-combined gas stations are visually more appealing and recognizable, while the drive-thru provides joyful experience for the customers.

Creating a New Future in the Chemical Industry for Customers

SK global chemical

SK global chemical will step-up growth in the global market, with a key focus on China, the country with the largest demand and growth potential for chemical products. The company will not only continue to reinforce its existing China businesses and carry out strategic cooperation with local companies, but also expand partnerships with global petrochemical firms. Moreover, with the goal of maximizing future profits, SK global chemical will focus on improving its product portfolio by identifying a wide variety of new growth options, including strengthening performance chemical products and high value-added businesses. Through these efforts, SK global chemical will emerge as a global chemical company with marketing platform focused on China and a portfolio of high value-added products based on technology.

Business Overview



Olefin Business

Starting with the first NCC(Naphtha Cracking Center) in Korea in 1972, the business currently has the capacity to produce 860 thousand tons of ethylene. This business steadily supplies key petrochemical feedstock, such as ethylene, propylene and butadiene to Ulsan Complex, various domestic petrochemical plants, and overseas customers.



Aromatics Business

The aromatics business produces and supplies various aromatic products, such as benzene and paraxylene, which are used to make general goods, construction material, electronics and textiles. As a result of continuous investment in facilities, the business enjoys the top level of production capacity(3 million tons p.a.⁴⁾) in the region. In addition, the aromatics business strives to grow into a top player in the global market by expanding its trading business and reinforcing its market leadership.



Performance Chemical Business

The performance chemicals business produces solvents used in a wide range of products from household goods to high-tech products. The division has independently developed specialty chemical production technology used in products, such as dearomatized products that do not have toxic ingredients for humans. Based on our marketing network and technology know-how accumulated across three decades, we focus on developing customized customer products and supporting the improvement of user technology.



Polymer Business

The polymer division specializes in the production of Linear Low Density Polyethylene(LLDPE)¹⁾, High Density Polyethylene(HDPE)²⁾ and Polypropylene(PP)³⁾, which it sells approximately 800 thousand tons per year. The division will proactively penetrate the high-end market by creating new customer value through products, such as the high-performance polyethylene Nexlene™. Moreover, it also plans to strengthen customer contact by providing market intelligence and technical support.



EPDM Business

The EPDM Division produces and supplies EPDM (Ethylene Propylene Diene Monomer), a high value-added synthetic rubber with outstanding resistance to foul weather, heat and corrosive ozone. The division aims to both strengthen its competitiveness in the global market, including China, and boost customer satisfaction through continuous quality control and technical support.

1) LLDPE: Linear Low Density Polyethylene, which is used in packaging and agricultural film, wire coating, civil engineering and construction pipes and sheets.

2) HDPE: High Density Polyethylene, which is used in containers, food packaging film, water treatment or chemical plants, and vessel civil engineering pipes.

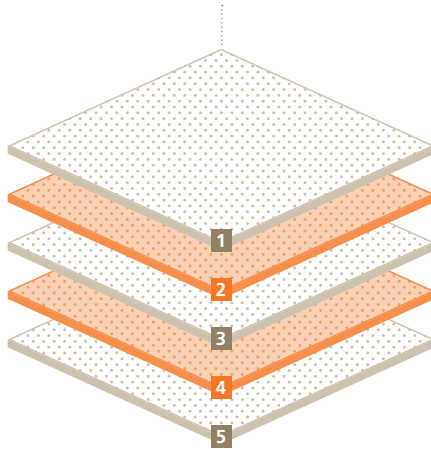
3) PP: Polypropylene, a plastic used to make various types of containers, experiment tools, megaphones, and automobile parts.

4) p.a.: per annual

Major Business Activities

Ethylene Acrylic Acid(EAA)

Functional adhesive copolymer primarily used in the adhesive layer of multi-layered film material, such as aluminum foil packaging



- 1** LLDPE, Nylon, PET, etc.
- 2** EAA
- 3** Foil, PET, etc.
- 4** EAA
- 5** LLDPE, Nylon, PET, etc.

Penetrating the High Value-added Packaging Business

SK global chemical is committed to transforming into a high value-added chemical business strongly resilient to market cycles in order to realize the vision of becoming a top global energy and chemical company. As part of this strategy, the company signed an agreement to acquire Dow Chemical's Ethylene Acrylic Acid(EAA) business in February 2017. Under the agreement, the company will acquire two global production facilities — the Freeport production facility in Texas, U.S. and Tarragona production facility in Spain — as well as manufacturing technology, intellectual property and trademark rights for the business. EAA is a type of adhesive copolymer primarily used as a packaging adhesive with aluminum foil and polyethylene. Advanced markets, such as the U.S. and Europe, account for the majority of the demand, because of high entry barriers to the technology. In addition, the business is likely to enjoy continuous growth on the back of strong demand from emerging market, such as China.

By creating synergy with its existing business, SK global chemical has acquired the capability to expand its portfolio in the high value-added packaging business. Moreover, it expects to diversify its high value-added product line-up using the advanced core proprietary technologies gained through the acquisition. We will lead the high value-added chemical market in emerging countries, such as China, by continuing strategic investments required for business innovation.



Front view of SSNC(SABIC SK Nexlene Company) Ulsan Plant

Global Top Lubricants Provider Pursuing Endless Innovation and Change

SK lubricants

SK lubricants has gradually built-out its global presence, resulting in most of its lubricant products being exported to overseas markets in the U.S., Europe and Asia. In addition, SK lubricants built base oil capacity in Europe and Asia to underscore its position as a leader in the global premium base oil market. Furthermore, the company is consistently strengthening its marketing competitiveness with major customers. In the lubricant business, demand for premium lube oil is on the rise, due to tighter environmental regulations in the global market. Moreover, we will expand our presence in target markets, such as China and Russia, and accelerate growth by pursuing a wide range of partnerships. Through such efforts, SK lubricants aims to become a global top-tier company.

Business Overview

Base Oil Business

SK lubricants developed its premium lubricant base oil YUBASE with its own proprietary technology and began operation of its first VHVI (Very High Viscosity Index) base oil plant in 1995. Thereafter, the company has enhanced the quality of its products through continuous technology development, ultimately positioning itself as a leader in premium base oil by exporting products to 50 markets around the world, including the U.S. and Europe.

Lubricant Oil Business

SK ZIC, the company's leading brand in the lubricants business, adopts a tailor-made marketing and localization strategy, reflecting the characteristics of each export market. Moreover, we try to maximize profits by capturing growth opportunities in emerging markets. The company was the first Korean energy company to build an independent lubricant plant overseas (Tianjin, China). In addition, it is emerging as a global brand with its products being recognized internationally by receiving the top quality levels from the two major quality assessment institutions (American Petroleum Institute, International Lubricants Standardization and Approval Committee) in the world.





LBO Plant of ILBOC Spain(joint company of SK lubricants and Repsol)

Major Business Activities

The Launch of SK ZIC X8 Shield

In December 2016, SK lubricants released SK ZIC X8 Shield, product with remarkably improved engine protection performance. ZIC X8 Shield is based on the company's premium lube oil and high-end Group V lube base oil. In light of the fact that consumers put priority on engine protection performance when selecting lube oil. SK ZIC X8 Shield adds organic tungsten to the mix, differentiating itself from regular lubricants. With this combination, we developed a "Double Shield Technology," which improves wear resistance and achieves 27% better performance in engine protection when compared to other products. As a result, the company has been able to increase the satisfaction level of customers who put priority on engine protection. Upon the launch of the product, the company gained public attention by conducting multi-channel marketing, including its "Double Protection" ad campaign, across a multiple number of platforms, such as the Internet and SNS. Going forward, SK lubricants will present a broader spectrum of products to increase the scope of choice for consumers.



"Double Protection" Ad Campaign



Korea's Leading Energy & Petrochemical Company

SK incheon petrochem

SK incheon petrochem was established in 2013 as a result of a spin-off of SK energy's Incheon Complex. The company is responsible for the stable supply of energy to the Seoul metropolitan area and the Incheon International Airport. In 2014, SK incheon petrochem expanded production to include condensate-based high value-added products such as paraxylene. In addition, the company uses its geographical location to export to China and Southeast Asia with future plans to further penetrate the global market. In 2016, the company boosted production efficiency, laying the foundation to generate stable profits. SK incheon petrochem will continue to strive to become a global top-tier oil and petrochemical company with world-class per capita productivity by adopting rigorous process control and environmental management standards

Business Overview

Petroleum Business

SK incheon petrochem provides customers with eco-friendly and high-quality products by adopting an upgraded refining process, improving production facilities, and conducting continuous research on advanced technology for petroleum products, to embody the management philosophy that highlights customer satisfaction and quality first.

Petrochemical Business

SK incheon petrochem uses naphtha derived from condensate or the refining process to produce high value-added petrochemical products, such as PX(Paraxylene) and benzene, via naphtha catalytic reforming processes. This creates a stable profit base for the company, which enhances the sustainability of the business.

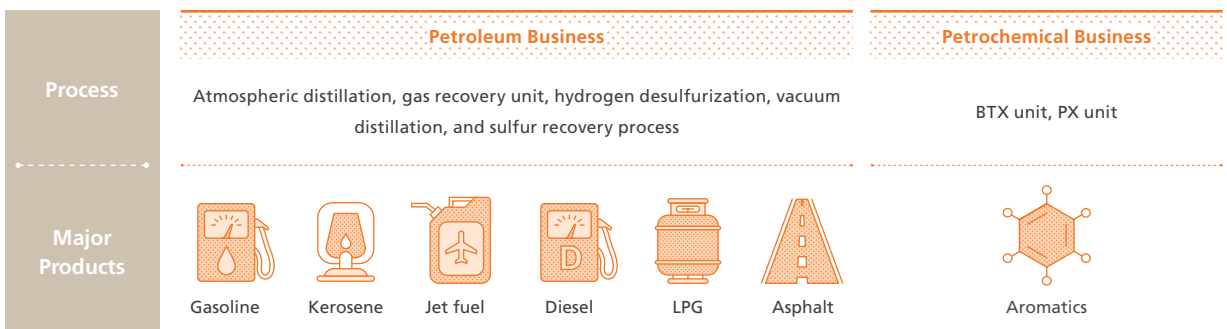
Major Business Activities

Highest Operating Profit in Corporate History

In 2016, SK incheon petrochem recorded its highest operating profit in its history. This record was the result of the strong commitment of all employees to introduce more economic, low-cost crude by improving feed flexibility, to increase margins by producing more high value-added finished and semi-goods, and to engage in cost savings. In addition to achieving excellent financial performance, the company has continued its efforts to engage in social contribution and policy cooperation with its community in order to create a sustainable business environment based on the trust and support of the local community.



Key Business Areas





Optimizing Trading through a Global Network

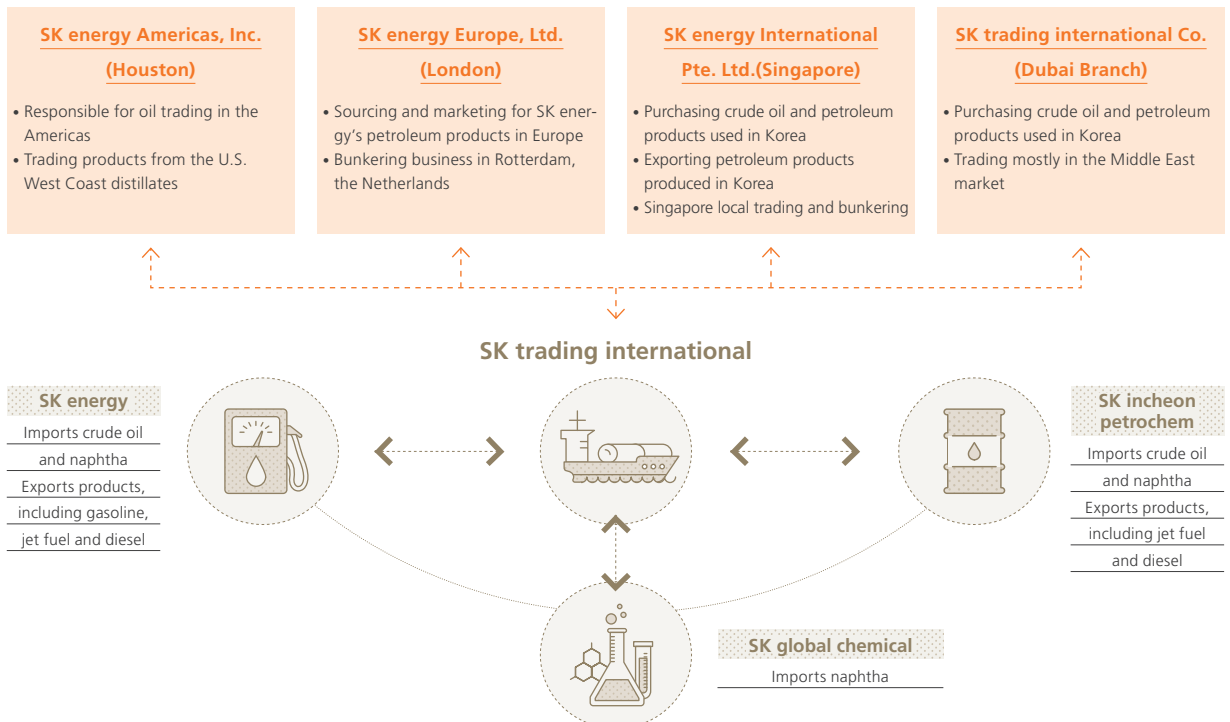
SK trading international

Product specification is becoming more diverse, due to environmental regulations. Also, the export market within the region is gradually contracting, due to increase of local sourcing in major import countries and exports from the China and India. Against this backdrop, SK trading international has established a differentiated global trading business model based on advanced risk management techniques. In addition, the company monitors the market on a real-time 24/7 basis to trade crude oil and petroleum products under the best terms and conditions. Going forward, SK trading international will broaden its business portfolio by expanding strategic partnerships, while also introducing operational optimization based on market dynamics in order to secure business competitiveness to grow into a global trading company.

Business Overview

SK trading international provides a global trading platform for SK innovation. For example, it imports crude oil and exports petroleum products for SK energy and SK incheon petrochem, and also sources naphtha for SK global chemical. Beyond simple importing and exporting, the company has established a branch in Dubai and 3 overseas subsidiaries in the Americas, Europe and Singapore, to engage in business development, trading and marketing. Based on these global networks, the company effectively manages the entire trading process from selecting the optimal oil type to contracting, shipping, and payment.

Global Network



Dynamic and Responsible Performance for Tomorrow



Night view of SK energy Ulsan Complex

2016
Business Performance

Credit rating
**Highest Rating
in the Korean
Refining Industry**
BBB+

* Based on S&P Rating

Sales in
petroleum business

KRW
28,369.9
billion

Sales in E&P
and other business

KRW
928.3
billion

Sales in
petrochemical
business

KRW
7,686.5
billion

Sales in
lubricant business

KRW
2,535.8
billion

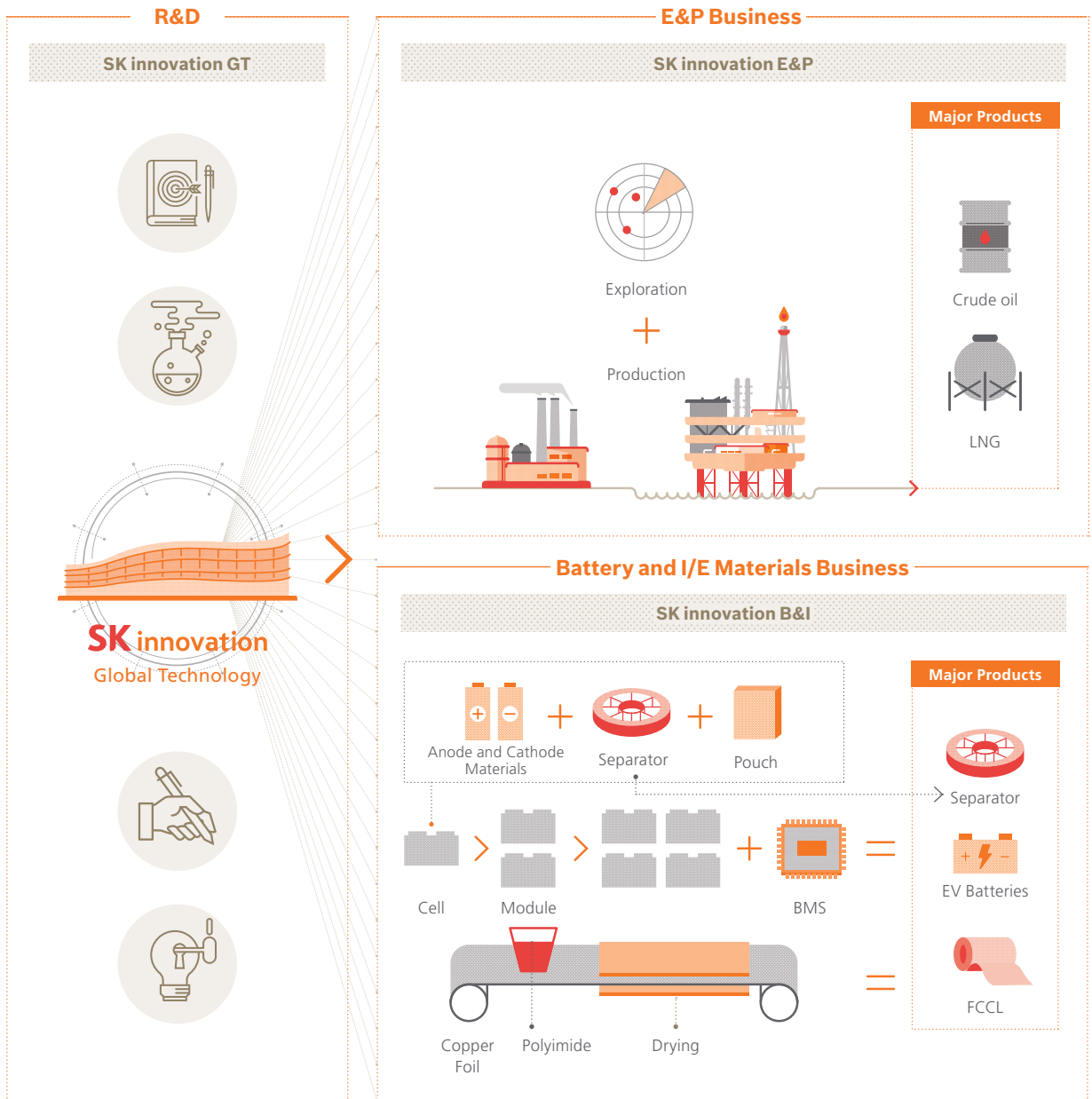
Business Review

; more
growth
and profit

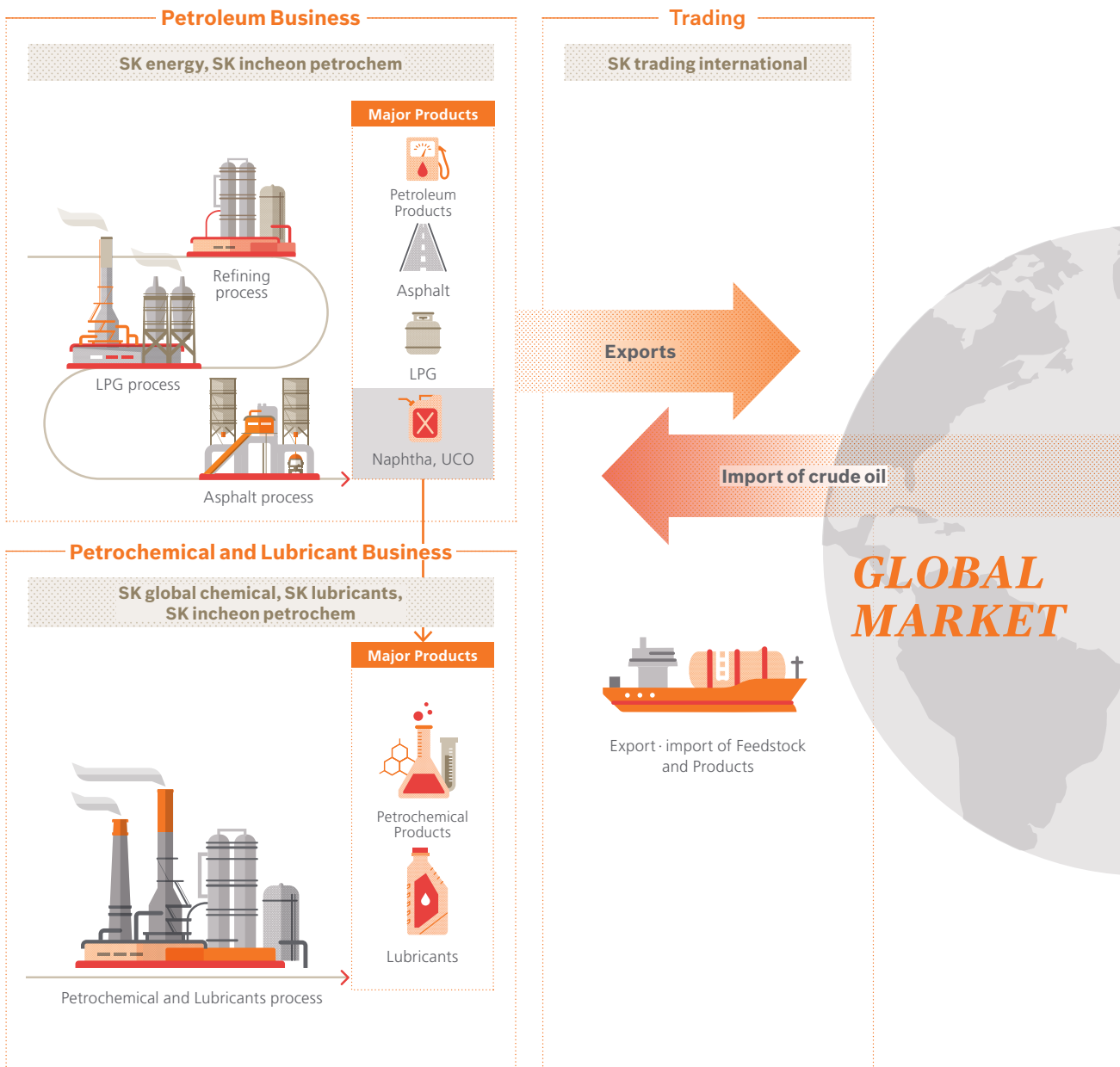
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Value Chain

SK innovation recently has been credited with a series of successful overseas resource developments, such as crude oil and natural gas, in countries including Vietnam, Peru and U.S. Based on our cutting-edge oil refining technology, the company produces not only fuel, such as gasoline, diesel and kerosene, but also high-quality lube base oil, lubricants, and also basic chemical products, chemical solvents and synthetic rubber used in various daily goods.



In addition, SK innovation strengthens the competitiveness of existing businesses by optimizing the operation of the whole process from crude importing to product production and sale. Moreover, it strives to create future growth engines based on the technological expertise accumulated during the past five decades. As a result, the company entered into the I/E material sector, which includes EV batteries and battery separators, for which it has received recognition by key customers in the global market.



..... ***Our Strategy***

Structural Innovation Spurring Deep Change

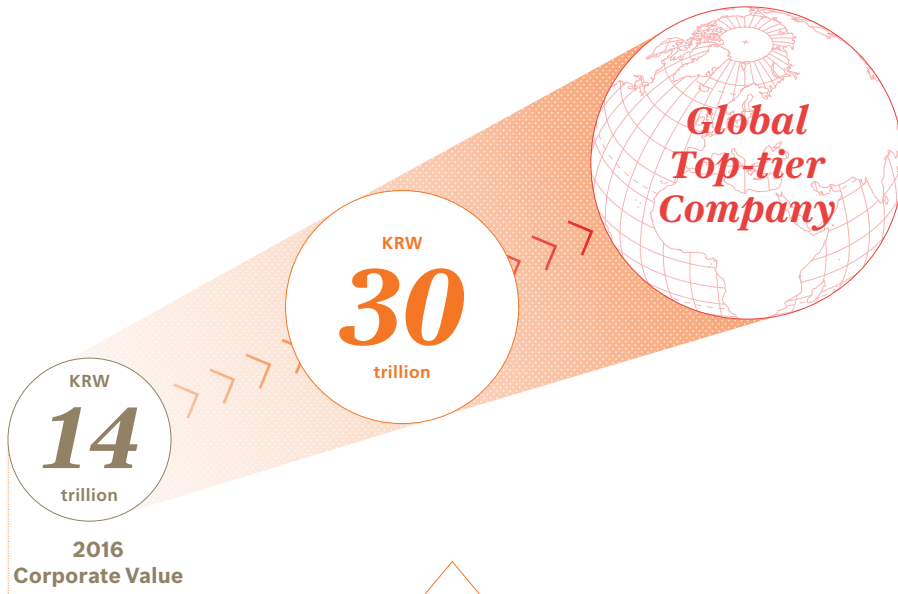
As the global business environment gets more unstable, it is imperative not only to secure the stability in business, but also to set the strategic direction by choice and focus and to find and implement a new growth option. Thus, SK innovation continues to pursue structural innovation and strategic investments via global partnerships and M&A to ultimately strengthen the mid-to long-term value of the company.

Our Strategy

Vision

“Global Top-Tier Energy & Chemical Company”

Through bold business model innovation, SK innovation aims to achieve corporate value of KRW 30 trillion in the short run to ultimately become a global top-tier energy and chemical company.



Deep Change

Deep Change: In order to respond to changes in management environment, breaking and changing the framework of existing customs in terms of business, organizational, and culture. It is included not only business structure but also corporate culture(upgrade of management system, change of working method, etc.), asset efficiency.

“ Fully engage in structural innovation to grow into a global top-tier company ”



- **Business Structure Innovation: Realizing global growth through bold investments**
 - Identify and develop new growth drivers by leveraging partnerships and M&A
 - Strengthening competitiveness in a different way for each business
- **Profit Structure Innovation: Building a sustainable profit basis**
 - Minimize profit/loss volatility and develop additional profit sources by quickly and flexibly adapting strategic responses

Corporate Value Innovation Based on Global Growth and New Businesses

Increasing investments to secure sustainable future growth engines

SK innovation is accelerating the pace of structure innovation across the company based on profitability and growth potential to secure new growth options. In 2017, the company is expecting CAPEX to reach a maximum KRW 3 trillion. The investment would include M&As and equity investments in the petrochemical and E&P sectors in Korea and abroad, and continuous investment in new business areas, such as expanding the capacity of battery production and expanding the LIBS business. As part of these activities, SK global chemical announced the acquisition of Dow Chemical's high value-added EAA¹⁾ business in early 2017. In addition, the B&I(Battery and I/E material) business built its No. 4-6 production lines in 2016-17.

1) Ethylene Acrylic Acid(EAA): Functional adhesive resin which is primarily used in the adhesive layer with multi-layered film material such as aluminum foil packaging

Strengthening organization and human resource management for global growth

SK innovation has relocated our major departments to various global sites in order to more aggressively and effectively take on the global market. For example, the business representative and senior managers of the E&P business were relocated to Houston, U.S, while the CEO and key senior team of SK global chemical moved to China. SK global chemical established a Global Marketing Division in China to concentrate on strengthening local marketing and develop a successful global joint venture business model in this region. In addition, to support the aggressive expansion of the new businesses, we plan to gradually expand the number of new hires across the next 5 years with a plan to recruit a total 1,200 employees, including college graduates and new technicians. The company will also contribute to vitalizing the Korean economy market.



Seosan Battery Plant



Block site in Oklahoma, U.S.

..... *Our Strategy*

Optimization

As a leading company in the energy and chemical industry, SK innovation pursues value management, which maximizes the value of raw materials and products, leveraging our business knowledge, data and optimization capabilities. Moreover, the company uses a systematic approach to optimization by converging its capabilities with ICT technology with the aim of applying it to various business areas to create value. Under this initiative, the company is planning to innovate the profit structure of each of its businesses to continuously enhance our corporate value.

..... Optimization-based Value Management

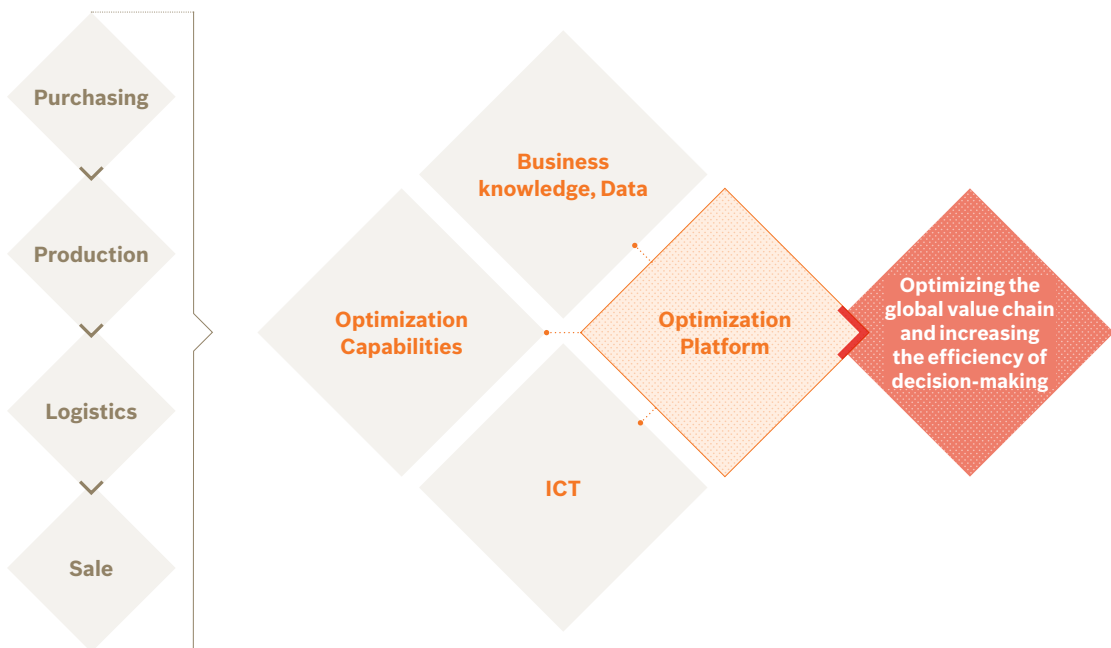
As a leader in the petroleum and energy sector over the past five decades, SK innovation has gathered significant data and extensive knowledge about topics including feedstock, energy refining, markets, and global business environments. Moreover, it created an exclusive organization responsible for optimization in 2012 to systematically manage and analyze data, develop mathematical al-

gorithms and engage in modeling to further evolve the company's optimization capability. By combining these capabilities, we are able to accurately assess the real value of our feedstock and products, and maximize the value of such, against the risk and opportunities in a changing external environment.

..... Enhancing Corporate Value by Spreading Value Management

SK innovation has gradually expanded its business scope to include more countries across the world, which creates a clear need to engage in efficient decision-making at a global level. To this end, the company has accumulated business knowledge, data and optimization capabilities, which it has converged with ICT technology to strengthen the scalability of value management. Moving forward, the value management capabilities accumulated in the petroleum

and energy business will be displayed not only to traditional hydrocarbon businesses, such as resource development, petrochemical, lubricants and trading, but also to other areas, including EV battery and I/E business, to enhance the value of these businesses. SK innovation will continue to strengthen our corporate value by upgrading our optimization platform and achieving innovations in the profit structure utilizing the upgraded platform.



..... *Our Strategy*

Global Partnering

SK innovation utilizes its global partnering with other leading companies to acquire advanced industry know-how and strengthen its competitiveness in the global market. Going forward, we will continue on the path to becoming a global top-tier energy and chemical company by forging win-win partnerships with advanced companies in each industry.

Maximizing Value Generation via Global Partnering

In 2014, SK global chemical agreed on a partnership with SINOPEC, China's state-governed oil company, creating the largest petrochemical joint-venture production facility in the history of Korea-China relations. In 2015, the company signed a partnership with SABIC, the second largest petrochemical player in the world, to enhance the status of a global chemical company. In addition, SK

lubricants has emerged as one of the top 3 lube base oil providers by engaging in a wide range of global partnership, which started with a joint venture PatraSK in Indonesia in 2008. More recently, it established ILBOC, a joint venture with Repsol, Spain's largest oil refining company.



SK global chemical X China's state-owned oil company SINOPEC

- Name of Joint Venture: Sinopec-SK(Wuhan) Petrochemical Co., Ltd.
- Production Capacity: Approximately 2.5 million tons p.a.
- Highlight: Largest joint petrochemical production facility in the history of Korea-China relations



SK innovation X BEHC X BAIC

- Name of Joint Venture: Beijing BESK Technology
- Date Completed: Currently in commercial production after being completed in 2014
- Highlight: Strategic foothold to target the Chinese electric vehicle market

CHINA

SK global chemical X World No.2 Chemical Provider SABIC

- Name of Joint Venture: SABIC SK Nexlene Company Pte. Ltd.(SSNC)
- Production Capacity: Approximately 230 thousand tons p.a. of high-performance polyethylene products
- Highlight: The first global JV creating using SK's proprietary technology

SINGAPORE

*The production is located in Ulsan.

SK global chemical X Japan's No. 1 Energy Corporation JX Nippon Oil & Energy

- Name of Joint Venture: Ulsan Aromatics Co., Ltd.(UAC)
- Production Capacity: Approximately 1.6 million tons p.a.
- Highlight: Strategic partnership with Japan's largest energy corporation

KOREA

SK lubricants X Japan's No. 1 Energy Corporation JX Nippon Oil & Energy

- Name of Joint Venture: YUBASE Manufacturing Asia Company(YMAC)
- Production Capacity: Approximately 26 thousand barrels per day
- Highlight: Strategic partnership with Japan's largest energy corporation

KOREA

SK lubricants X Repsol, Spain's No. 1 Energy Corporation

- Name of Joint Venture: Iberian Lube Base Oils Company(ILBOC)
- Production Capacity: 13.3 thousand barrels per day
- Highlight: Partnership extended as the No. 1 Group III base oil provider

SPAIN

SK lubricants X The world's No. 2 oil producer Pertamina

- Name of Joint Venture: PatraSK
- Production Capacity: Approximately 9 thousand barrels per day
- Highlight: SK lubricant's first Group III base oil plant overseas

INDONESIA

... *Research & Development* ...

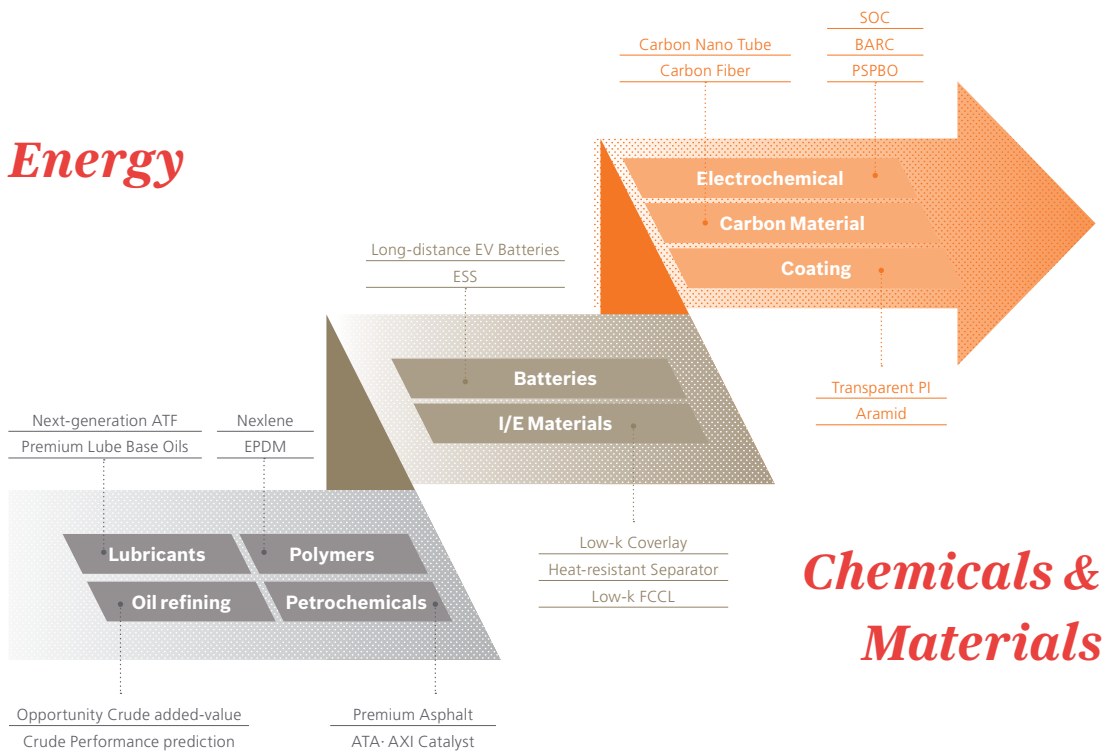
In order to acquire the competitive edge required to create a sustainable future for the company, SK innovation must engage in innovative research and development to provide customers with differentiated products and services. This R&D not only boosts the technical competitiveness of its existing businesses, but also develops new growth engines through open innovation and new technology development to reinforce the company's position as a global leader.

Global Technology

In 1995, SK innovation established the SK Daedeok R&D Park to gain the technological leadership critical for its business. Global Technology, which is responsible for technological R&D for SK innovation and its subsidiaries, and the B&I R&D Center, which provides technological support for the battery and I/E materials busi-

ness, are located within this complex. Global Technology, which is composed of the petroleum & lubricant R&D center, chemical R&D center and base technology R&D center, focuses on creating future value through unwavering technology innovation.

R&D Growth Plan



Key Research Activities

Multi-wall Carbon Nanotube Technology

To satisfy the requirement for lighter and more efficient materials, SK innovation is developing multi-wall carbon nanotube technology with high conductivity, insulation, mechanical strength and flexibility. The ultimate goal is to mass-produce high-quality carbon nanotube at lower cost than competitors by using ethylene and applying a unique catalyst, fluidized bed reactive processing, and product technology. Once completed, we expect this technology to be used on heatsinks(LED and electronic devices) and conductive materials(cable, wires and batteries). Currently, we are conducting the R&D for pre-marketing.

Future Plans

SK innovation Global Technology performs a wide range of R&D projects and technology support to strengthen the competitiveness of each subsidiary. By developing a total solution for crude limitations, R&D Center is trying to identify the factors constraining crude as feedstock to contribute to lower crude import costs. In addition, Global Technology develops more advanced technology to be deployed across the value chain, such as base oil feedstock conversion and assessment technology, base oil yield and properties forecasting technology, and measures to expand feed used in producing high-quality base oil.

In 2017, Global Technology is planning to focus on commercializing Par-Frac technology, a technology developed independently by the institution, in order to increase oil production and strengthen the competitiveness of the petrochemical business. In the chemical sector, we are planning to develop new production techniques for functional products to penetrate the advance chemicals market, and continue R&D on technology that can reinforce the specialty business, such as technology related to semiconductors and carbon materials.

Core Mid- and Long-term Projects

Project Name	Project Goal	Target Due Date
Par-Frac technology for subsidiary integration and value creation	Create execution options	2018
Developing a total solution to address crude oil limitations	Reduce crude import costs	2019
Developing a leading product for the advance chemicals market	Develop two global top 3 products	2020
Developing fundamental products for the specialty business	Expand sales in the semiconductor and chemical display materials sector	2020
Developing next-generation technology	Develop and commercialize technology	2021
Developing base oil feedstock conversion and assessment technology	Secure Group III base oil feedstock Expand Group III plus base oil feedstock	2021



Market Outlook

As the global economy is stuck in a low-growth trap and it has a negative impact on corporate business activities; the energy and chemical industry has also experienced various environmental changes. SK innovation strives to minimize any negative potential impact on our management activities by identifying and analyzing internal and external market trends swiftly and deal with each scenario flexibly.

E&P Business

Oil Price Trends

Dubai crude oil decreased from USD 108 per barrel in June 2014, to USD 26 per barrel in January 2016. Prices thereafter showed some volatility, but posted a recovering trend to reach an average USD 52 per barrel in December 2016.

Energy Industry Trends

A surge in oil production from unconventional sources in the US and low international oil prices have led to many changes within the E&P sector. Most companies are scaling down or suspending their investments in high-cost projects, such as deep-water oil fields, LNG, and polar oil fields. Against this backdrop, SK innovation has aggressively restructured its asset portfolio focusing on profitability.

Petrochemical Business

Basic Chemical Trends

Since 2009, the petrochemical market has recovered on the back of factors including economic stimulus measures in China. However, market volatility has increased, due to new capacity additions in China and the Middle East, the Eurozone debt crisis, and slow recovery from global economic crisis. In addition, we expect the rise of unconventional low-cost feedstock, such as shale gas and coal, to become a key factor driving market dynamics.

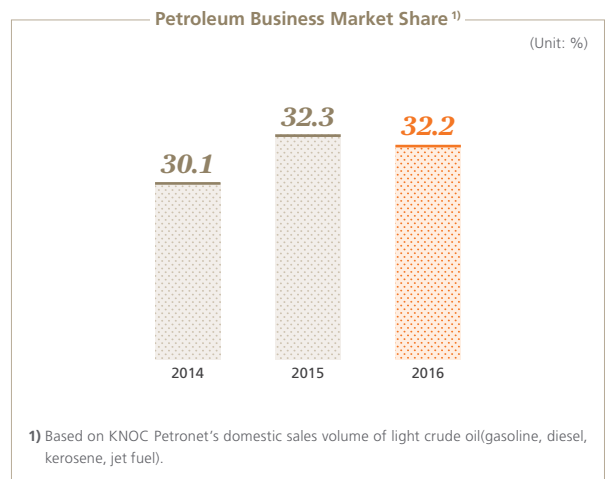
Chemical Material Trends

Though it started as a domestic-demand business, the chemical material business has transformed into an export-oriented business. The growth potential of this business is deeply related to global economic growth. In particular, Chinese demand is a main driver, which means there is a strong correlation to Chinese economic growth. Recently, we have been expanding our business in growing emerging markets, such as Latin America, Southeast Asia and India.

Petroleum Business

Petroleum Products Consumption Trends

Based on accumulative figures as of December 2016, domestic demand for major petroleum products increased by 11.1% year-on-year. Demand for fuel used for transportation, such as gasoline, diesel and jet fuel is continuously increasing. Furthermore, demand for generation and industrial fuel, such as kerosene, middle distillates and LPG, also increased compared with previous year. SK innovation's domestic market share in Korea is 32.2%, representing a 0.1% decrease from the previous year.



Lubricant Business

Domestic and Overseas Market Trends

The key feed used in finished lubricant products is base oil, which is made by running unconverted oil(UCO), produced as a by-product of upgraded hydrocrackers during the oil refine process, through additional vacuum distillation and catalysts. As a result, entry-barriers are high, unless the provider is a refinery capable of making large-scale facility investments.

The lubricant base oil market is categorized into different groups, based on quality and properties, with each group showing different demand growth. Group I base oil, which has the weakest product performance and shortest life, has experienced a drop in demand, resulting in a smaller total market. The higher-end base oils(Group II and III) enjoy stronger growth, due to tighter environmental regulations and stronger demand. The domestic base oil market in Korea is dominated by the four major players, which all have refineries and upgrading facilities. The local market is in oversupply, which has pushed most companies to export their products overseas, including to Asia, Americas, and Europe.

Domestic and International Competitive Dynamics

The lubricant market in Korea is a perfect competition with more than 200 market participants, including 19 suppliers registered as full-members of the Korea Lubricating Oil Industries Association, and numerous other non-registered companies. The main players are SK Lubricants, GS Caltex, Kukdong Oil & Chemicals Co., Ltd., Michang Oil Ind. Co., Ltd., Dongnam Petroleum Ind. Co., Ltd., Valvoline Korea, Changam CALS, STLC and Hyundai Oilbank. In the overseas market, major oil refining companies including Shell, ExxonMobil, BP, Chevron, TOTAL, PetroChina, SINOPEC, FUCHS and Ashland(Valvoline) dominate the global market, while regional players also exist in specific markets, creating a challenging environment for Korean companies.

Battery and I/E Material Business

Mid to Large-size Battery Business Trends

The mid- and large-size battery business produces and sells high-capacity lithium-ion batteries used in eco-friendly electric vehicles(EV) and energy storage systems(ESS)¹⁾. Tougher environment regulations around the world are encouraging the development of EV technology with increasing emphasis on feasibility. Thus, we expect high growth in the EV market around the world. With an increasing emphasis on energy security²⁾, interest and demand for ESS have also increased.

1) An energy storage system(ESS) temporarily stores mass produced electricity to be used later when needed.

2) Energy security is a concept recognizing the importance of a stable and reasonable energy, as it is fundamental to all economic activity and deeply related to national security.

Information & Electronic Material Business Trends

SK innovation's I/E materials business is mostly composed of battery material(LiBS) and circuit material(FCCL). As a core material for lithium-ion batteries, Lithium-ion Battery Separators(LiBS) prevents direct contact between the cathode and anode within the battery, while also providing a channel through which the lithium-ion can travel. The LiBS market is consistently growing in line with the secondary battery market. Flexible Copper Clad Laminate (FCCL), a combination of copper film and polyimide, is used in flexible printed circuit boards for smartphones or tablet PCs. The demand for FCCL is on the rise together with the growing number of smart devices, as well as the trend of IT devices becoming smaller with higher performance. Oversupply continues to create strong competition between producers, but this dynamic is expected to improve as FCCL is adopted in a wider range of areas.

· · · · Business Performance · · · ·

Realization of stable financial performance is a core element to have the largest impact on the existence of a company and serves as the foundation of securing future growth engines. With continuous efforts to improve the profit structure, SK innovation has achieved the largest management performance and acquired the highest credit rating in history to lay the foundation of creating sustainable value.

Economic Value Creation

On a consolidated basis, SK innovation achieved sales of KRW 39 trillion 520.5 billion and operating profit of KRW 3 trillion 228.3 billion, recording the strongest performance in the history of the company. Even though the annual average oil price(based on Dubai oil) in 2016 was USD 41 per barrel, the lowest level since 2004, and top-line sales was approximately KRW 39 trillion, the lowest level since 2009, the company was still able to record its highest operating profit in history, as well as an operating margin of 8%, the highest level since 2004. This performance also indicates that the business structure innovation initiated by SK innovation and its subsidiaries is starting to bear fruit.

Since 2011, SK innovation has invested over KRW 4 trillion, focusing on the petrochemical and lubricant business. Some examples of this investment are the portfolio upgrade of SK incheon petrochem, Ulsan Aromatics(UAC), Sinopec-SK(Wuhan) Petrochemical Co., Ltd., and Spain ILBOC. As a result, the company globally ranks No. 5 in terms of PX(Paraxylene) production capacity, and No. 1 in terms of premium lube base oil capacity. In addition, the investment in the petrochemical and lubricant business for the past 5 years has diversified the company's margin profile. The company expects to consistently achieve strong business performance, as the results of global partnerships, such as Sinopec-SK(Wuhan) Petrochemical Co., Ltd. with China's SINOPEC, UAC with Japan's JX Nippon Oil & Energy, and ILBOC with Spain's Repsol come to fruition

Key Highlights of Each Business

Petroleum Business: The R&M business recorded sales of KRW 28 trillion 369.9 billion and operating profit of KRW 1 trillion 939.1 billion. Though the top-line decreased year-on-year, due to lower oil prices, operating profit increased by KRW 640.0 billion. This is mainly because refining's fundamental competitiveness has been significantly improved by diversifying import sources for crude oil and optimizing production operation. SK incheon petrochem also recorded its highest operating profit of KRW 374.5 billion. In particular, this was a result achieved by investing KRW 1.6 trillion in 2014 to build 1.3 million ton paraxylene production facilities and upgrade the portfolio to transform the oil refining business into an energy and chemical business.

Petrochemical Business: The petrochemical business recorded operating profit of KRW 918.7 billion representing an increase from the previous year. The main drivers were strong spreads from major products, such as ethylene and paraxylene, and strong 4Q benzene spreads, for which the company pre-emptively invested via a global partnering.

Lubricant Business: Thanks to lube base oil spreads remaining strong, the lubricant business recorded operating profit of KRW 468.3 billion, up from the previous year, and contributed to the non-refining business recording its best earnings in history.

E&P Business: Although oil prices remained low, the E&P business achieved operating profit of KRW 105.2 billion through operational efficiencies.

Sales

(Unit: KRW 100 million)

Breakdown	2014	2015	2016
Sales	658,607	483,563	395,205
- Petroleum Business	490,563	352,997	283,699
- Petrochemical Business	126,352	92,880	76,865
- Lubricant Business	29,818	26,188	25,358
- E&P and Other Businesses	11,874	11,499	9,283

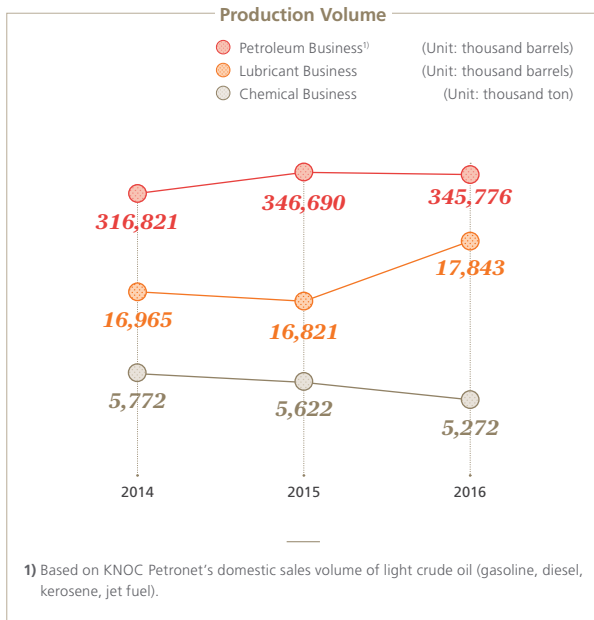
Operating Profit

(Unit: KRW 100 million)

Breakdown	2014	2015	2016
Sales	-1,828	19,796	32,283
- Petroleum Business	-9,990	12,991	19,391
- Petrochemical Business	3,592	4,310	9,187
- Lubricant Business	2,899	2,947	4,683
- E&P and Other Businesses	1,672	-451	-978

Production Volume

SK innovation optimizes its production facilities and utilizes its proprietary product quality control program to produce petroleum and lubricant products.



Credit Rating

SK innovation received a BBB+(stable) credit rating from S&P, based on its sound financial policies and steady operating cash flow. As the highest credit level in the history of the company, the credit rating reflects the company's efforts to strengthen the financial profile and innovate the profit structure by diversifying its business portfolio to include, the petrochemical, lubricant, E&P and EV battery business.

Securing Future Growth Engines

Acquisition of Dow Chemical's EAA Business

SK innovation acquired Dow Chemical's EAA²⁾ business, which is composed of two global production facilities— one in Texas, U.S. and one in Spain—as well as EAA products, ionomer production technology, goodwill, and trademark rights. By acquiring core technology and production facilities used in the high value-added packaging, the company will be able to broaden its portfolio to include high margin technology-based downstream products. By acquiring ultra-high pressure and high-level acid processing technology, we have laid the foundation to further expand our product portfolio and technical capacity in the future. In addition, the company has created a foothold to dominate the rapidly growing, high-end Chinese chemical market, while also generating additional margins via marketing synergies with existing products.

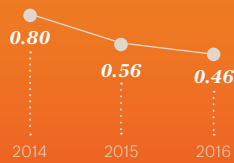
²⁾ Ethylene Acrylic Acid(EAA) is a type of adhesive copolymer primarily used as a packaging adhesive with aluminum foil and polyethylene

Right Principles and Best Practices for Tomorrow



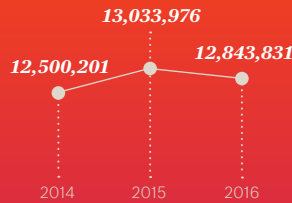
Key Sustainability Performances

LTIR
(Lost Time Incident Rate)
(Unit: cases per million working hours)



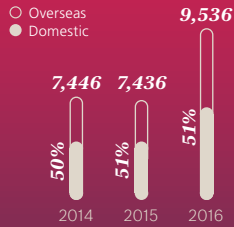
Creating a Health and Safety Workplace

GHG Emission
(Unit: tCO₂eq)



Paris Agreement and Climate Change

Three Year Purchasing Volume
(Unit: KRW 100 million)



Creating a Sustainable Supply Chain

Sustainability Material Issues ; better operation and balance

42 Creating a Health and Safety Workplace

46 Paris Agreement and Climate Change

50 Creating a Sustainable Supply Chain

Material Issue 01

Creating a Health and Safety Workplace

What is the impact on the company?

Stakeholder Impact Evaluation

Issue	Financial Impact	Reputational Impact	Operational Impact	Strategic Impact
Industrial Health & Safety			✓	
Management of Environmental Pollutants		✓		

Why is it important?

The Importance of the Issues

- Neglecting SHE(Safety, Health and Environment) management can lead to major accidents and cause significant damage to business operations, which makes SHE an essential element of sustainable management
- Recognizing the importance of SHE management, governments around the world are tightening safety and environmental regulations. Companies that do not satisfy these standards receive disadvantages, such as being restricted in business activities

How is SK innovation responding to this issue?

SK innovation's Strategic Approach

- Managing industrial safety across the whole value chain
- Developing a SHE compliance framework
- Operating a comprehensive chemicals management system

How is performance tracked?

Performance Measurements

- UCL(Unplanned Capacity Loss) Target Satisfaction Rate
- LTIR(Lost Time Incident Rate) Target Satisfaction Rate

All employees working at a worksite should come to the workplace with confidence that it is a safe environment, and feel a sense of pride about this fact. SK innovation engages in activities to improve the SHE level across the value chain, including not only its own personnel but also those working for suppliers or invested companies. SK innovation strives to become a company trusted by stakeholders to grow and develop together with its society by engaging in activities including assessing the safety culture, improving supplier and invested companies' capabilities, and developing a laws, regulations and by-law compliance support frameworks.

Industrial Safety Management Across the Value Chain

Assessing the On-Site Safety Culture

To achieve global level of competitiveness in SHE, it is imperative to strengthen the safety culture. In 2016, SK innovation conducted a personnel survey and on-site safety assessment for all worksites. Through this process, the company gauged how mature the safety culture was, and compared the data to leading companies in Korea and abroad. As a result we have identified 120 improvement tasks for each organization and established execution plans accordingly. In the future, the company will perform periodic safety assessments to improve the level of safety culture in an organized manner. In addition, we will engage in a wide range of activities that can boost compliance and strengthen capabilities.

SHE System Compliance at Suppliers

SK innovation supports suppliers to improve their safety management beyond just following laws and regulations to a level that evokes pride in their employees. In cooperation with the Korea Occupational Safety and Health Agency, SK innovation is promoting a project for suppliers to receive KOSHA and OHSAS 18001 joint certification. SK innovation will support the cost for consultation, receiving the certification and building the safety health management system. Through this program, 39 suppliers have been certified. SK innovation will also support them to secure on-site abilities to improve the system and inspect on-site implementation.

Supporting SHE for New Global Businesses and Invested Companies

With tougher SHE requirements and regulations in the global community, the significance of global SHE risk management is becoming more important. Employing the capabilities and know-how accumulated by building and operating a SHE management system for local worksites, SK innovation provides support, so new businesses or invested companies can identify and mitigate potential SHE risk and create their own SHE framework and capacity. Through these efforts, not only are we able to create safe and competitive global worksites, but also able to strengthen cooperation with business partners.



Developing a SHE Compliance System

With an increasing number of new and restricted safety and environment regulations in Korea, legal standards to follow at worksites and relevant risks are continuously increasing. To minimize these risks, SK innovation has identified the SHE legal requirements for each worksite and managed compliance

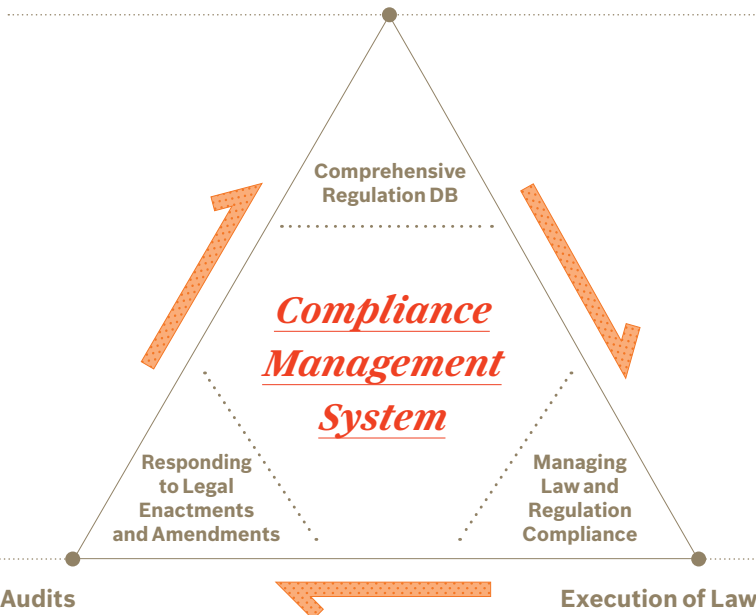
through an IT system(Legal Compliance System). This system enables employees to manage SHE compliance risk, from including revised or new regulations in the drafting stage, to check legal compliance on site. SK innovation is planning to apply this system to all sites by 2017.

SHE Compliance System

- Policy Trends and New/Revised Laws & Regulations: Gather intelligence on SHE related bills submitted by the government and National Assembly, and track the progress of legal enactments and amendments, to understand the impact on the company's business activities and to share such information with the business sites
- Rationalize Legal Interpretations and Regulations: Receive clear interpretations of law and regulations to ensure SHE compliance at the sites, and create a systematic approach to business processes¹⁾ between organizations in order to rationalize regulations that do not fit work reality
- Information on laws and regulations: Building information on requirements in SHE and laws and regulations and systemizing information to enable search and utilization

1) Business Process: Request from site → Internal review → Government consultation → Notify results

Law and Regulation Information



Inspections and Audits

- Systemize internal and external inspection and audits to track the implementation of any corrective measures to enable sites to share and use such measures

Execution of Laws and Regulations

- Provide information on pre-defined standards via the system to allow the business sites to comply with legal requirements and internal standards in a timely manner, and enable compliance management

Strengthening On-site Chemical Management

A recent series of chemical accidents have highlighted the risks of chemical material and increased social awareness on the topic. In addition, the government revamped the existing legal framework on chemicals management, accident handling, and damage relief, to encourage more extensive chemical management. To be in full compliance with all laws and regulations regarding chemicals, a company is required to not only to collect data and record the current status of chemicals used, but also to create a system to track the management from the point the material enters the organization through the processing, storing, transporting, sale and disposal of the material. This requires the full commitment and capabilities of the corporation.

Operating an Integrated Chemicals Management System

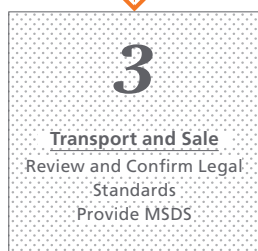
SK innovation operates a comprehensive chemicals safety management system that tracks the whole process from the point the chemical substance enters the organization through the production of a new chemical product, and the transportation and sale of such product, to protect the environment and safeguard the safety and health of all related stakeholders.



Purchasing Chemical Substances: Prior to a new chemical substance being purchased, the company will first assess the level of hazard and toxicity and check to ensure safe storing and usage conditions are in place. The Material Safety Data Sheet(MSDS) is used to confirm basic hazard and toxicity data. Based on this data, a hazard assessment is conducted to evaluate the risk to our stakeholders, suppliers' employees, local communities and production facilities, after which a decision is made on whether to import the relevant chemicals. If purchasing the chemicals under current conditions is deemed potentially hazardous, necessary actions are implemented to eliminate the risk and to secure conditions for safe usage of such chemicals. In addition, all chemicals are registered in the internal chemicals management system linked to the company's procurement system. Information on any necessary measures, such as licenses and permits, is supplied to the relevant department, which ensures that key factors for legal compliance related to the chemicals are not overlooked, and information is utilized and managed in a timely manner.



Producing chemical products: In order to prevent external chemical exposure externally or to persons handling such material, most of SK innovation's facilities that store or handle such material adopt a sealed design. In particular, we operate a Leak Detection and Repair(LDAR) system to prevent even minor leaks that many occur in vulnerable areas, such as control panels or the connectors between different equipment. For all chemicals used or produced within the company, a MSDS is created and used. This MSDS used to train personnel or supplier employees about the precautions before they handle the material. In addition, a copy of the MSDS is kept onsite to allow everyone to refer to it. Moreover, a full inventory of all chemicals within the organization is created to ensure information, such as the volume produced and the properties, is managed in a comprehensive and organized manner.



Transportation and Sale: Chemicals generated in the production process or products that contain chemicals must comply with domestic laws. To export overseas, they must also comply with international conventions, such as Europe's Registration, Evaluation and Authorization of Chemicals(REACH). 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 transporting or sale. In addition, we supply the MSDS directly to the customer to clearly inform them about the safety and health information required for the handling of the material. Stakeholders can easily access this information online through the company's website.

Material Issue 02

Paris Agreement and Climate Change

What is the impact on the company?

Stakeholder Impact Evaluation

Issue	Financial Impact	Reputational Impact	Operational Impact	Strategic Impact
Responding to Climate Change				✓
Internal and External Risk Management	✓			

Why is it important?

The Importance of the Issues

- In the Paris Convention, Korea proposed the target to cut GHG emission by 37% vs. BAU by 2030 - industrials will be responsible for 11.7%.
- Due to the characteristics of the energy-intensive refinery and petrochemical industry, energy costs for the production process are high. Thus, an increase in the price of carbon credit or any incremental rise in energy costs will have a direct and indirect impact on operating cost.

How is SK innovation responding to this issue?

SK innovation's Strategic Approach

- Form an emission trading strategy
- Pursue new energy businesses
- Increase energy efficiency in the production process

How is performance tracked?

Performance Measurements

- Management of GHG emissions target
- Minimization of risks in the emission trading system



Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 13: Take urgent action to combat climate change and its impacts

[Link to SDGs](#)

As the government has recently tightened regulations on greenhouse gas(GHG) emission, industries recognize purchasing carbon credit and increasing energy cost as potential risk factors. In particular, the oil refining and petrochemical industry emits not only a large amount of direct GHG, due to fossil fuel combustion, but also a significant amount of indirect GHG related to the use of electricity and steam. Thus, each company needs to minimize the energy cost at their worksite by enhancing energy efficiency and maximize financial value by appropriately responding to carbon trading.

The Paris Convention Introducing Tougher GHG Emission Regulations

As global interest toward climate change increases, major countries such as the U.S. and China, reached a global consensus on the reduction of GHG emissions during COP21¹⁾. Participants committed to put their best efforts into setting a reduction target,²⁾ which will be submitted every 5 years. In addition, reviews on the implementation of the reduction targets will be conducted every five years from 2023. Korea, one of the top ten countries in terms of global GHG emission, proposed a reduction target of cutting emissions by 37% vs. BAU³⁾ by 2030, of which 11.7% will be achieved by industries. Therefore,

the overall manufacturing industry, including oil refining and petrochemical industries, are focusing their efforts to achieve this target. In addition, the government is expected to further strengthen GHG emission regulations on companies.

1) Conference of the Parties 21: The 21st yearly session of the Conference of Parties to the United Nations Framework Convention on Climate Change

2) Intended Nationally Determined Contribution(INDC)

3) Business As Usual: Emission outlook in the event no efforts to reduce GHG emissions are made

Responding to Climate Change in All Business Activities

Responding to Carbon Trading

SK innovation, SK energy, SK global chemical, SK lubricants and SK incheon petrochem have been designated by the government to receive allowance credits under the emissions trading scheme. During Phase 1(2015-2017) of the government's program, all SK innovation subsidiaries have adapted to the new scheme and overachieved their emission targets by conducting internal reviews to secure early reduction performance. To efficiently respond to changes in the market environment and regulations created by the introduction of carbon trading, SK innovation formed Carbon Trading Strategy and established Emissions Trading Operational Manual. The Strategy covers implementation measures from each stage of budgeting, ex-

ecution and purchasing. In addition, it also includes response measures to rising prices once companies start to purchase carbon credits, and plans to acquire additional carbon credits required to increase production capacity. Moreover, the procedures for the Emission Trading Operational Manual defines the relevant roles of each business division, and the detailed procedures of budgeting for emissions trading, organizing an Investment Committee, and executing the budget. In addition, the company has established Investment Guidelines, which requires it include the price of carbon credits when looking at investment opportunities to ensure the cost of carbon is used as a decision-making standard in prioritizing investment projects. Furthermore, SK innovation has adopted a Regulation on the Emergency Response for all affiliate companies. This regulation shall be used to effectively respond to external disasters, including electricity outages and abnormal weather conditions caused by climate change, such as typhoons and windstorms

Managing Energy in Each Operating Process Unit using EII

SK innovation not only saves energy by replacing equipment through facility investment and process improvements, but also uses the Energy Intensity Index(EII)¹⁾ to monitor energy consumption patterns. Using EII, the company sets and monitors the unit target by energy source, which reflects the optimum status of each operating process unit. The results of each week's energy analysis are shared with each production team to encourage more specific energy saving activities. With these efforts, EII in 2016 decreased by 1.1 compared to 2014; this reduction is equivalent to KRW 12 billion in cost conversion.

1) Energy Intensity Index: As The comparison of the refinery's actual energy consumption to the standard used as a benchmark by industry peers in Korea and abroad.

Discovering New Energy Saving Technology

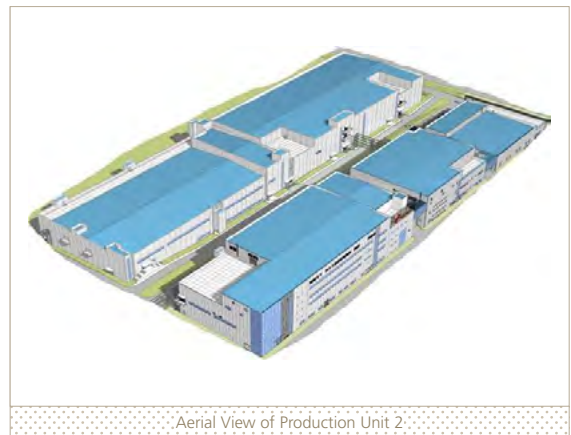
SK innovation continuously performs worksite process optimization activities, such as waste heat recovery and heat exchanger improvements to reduce energy. In addition, to improve energy efficiency even more, the company searches for new technology, such as electricity generation or steam production using waste heat, upgrading to high-efficiency facilities, new processes and catalysts, and energy management solutions. Once the technological and economical feasibility have been confirmed, the technology is applied to the processes used at worksites. For example, changing to a new high-efficiency heat exchanger, which is used to recover heat, can economize fuel costs and reduce GHG emissions. Going forward, we will continue to search for new technology and engage in activities to improve the energy efficiency of our production process.

Expanding New Energy Businesses

Strengthening the Battery Business

To prepare for an energy paradigm shift in the future, SK innovation develops and produces EV batteries and energy-storage devices based on lithium ion batteries. This covers the entire battery production process from essential material like separators and electrodes to producing battery cells and battery packs. In particular, SK innovation improves both the driving distance and user-friendly electronic vehicle by possessing cell technology¹⁾. Based on this technology, the company has engaged in supplier agreements with major auto manufacturers in Korea and abroad, including Mercedes Benz, Mitsubishi Fuso and Hyundai Motor Group, and is developing EV batteries that meet a wide range performance and customer requirements. In 2016, SK innovation expanded its capacity to product 1GWh of EV batteries, which is equivalent to supplying batteries to approximately 40 thousand SOUL electric vehicles per year. In 2017, we are expanding the battery production unit 2 to 3.9GWh and expect to secure the production capacity to supply batteries to 140 thousand electric vehicles by 2018.

1) When energy density gets higher, driving distance is on the increase; when output density is high, accelerating power is excellent.



Using Recovered Waste Heat

SK innovation recycles wasted heat into energy such as high-temperature water, steam and gas. In 2016, the company collected total waste heat of 8,180TJ from Ulsan Complex(SK energy, SK global chemical, SK lubricants), which led to energy

savings of KRW 105.6 billion. In addition, recycling waste to energy allowed us to decrease carbon emissions by 413,413 tCO₂ and contribute to using energy more efficiently at worksites.

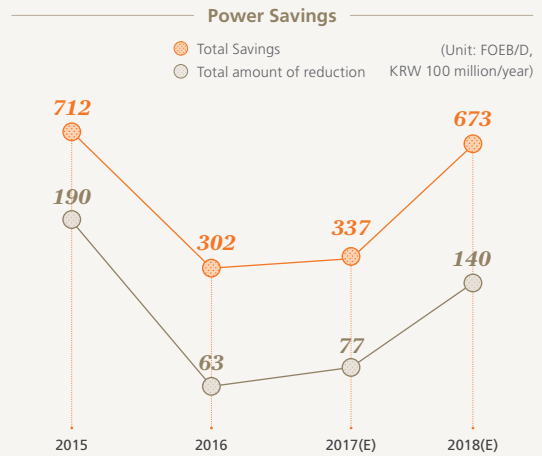


Ulsan Complex Waste Heat Recovery Boiler

Business Case

Using a Master Plan to Reduce Power Use

SK innovation implements an Energy Improvement Master Plan to reduce power costs, which account for the largest portion of operational costs. From 2015, the Master Plan includes demand and supply-side improvement items for fuel, steam and electricity. The Plan is executed in consideration of investment returns and timing for each item. Through these efforts, the company was able to save around KRW 25 billion in energy costs up to 2016. Further, the company identified continuous potential improvement items to establish its investment plans for 2017-18. During this period of time, it expects to save KRW 21.7 billion. All potential improvement items are review on technical feasibility, on-site applicability, and investment business economic feasibility to ensure their effectiveness.



Material Issue 03

Creating a Sustainable Supply Chain

What is the impact on the company?

Stakeholder Impact Evaluation

Issue	Financial Impact	Reputational Impact	Operational Impact	Strategic Impact
Strengthen Social Responsibility of Supply Chain		√		
Enhance Supplier Communication and Capacity Building			√	

Why is it important?

The Importance of the Issues

- As partnerships become more diverse and complex, the possibility of an ESG risk in the supply chain emerging to impact the reputation of a company is increasing
- There is an increasing social demand for a fair and transparent business culture with the enactment of the “Anti-Corruption and Conflicts of Interest Act” and other related regulations
- With the globalization of the corporate business environment, the need for sustainability is being expanded to the supply chain.

How is SK innovation responding to this issue?

SK innovation’s Strategic Approach

- Creating value through mutual growth and collaborative cooperation
- Raising the level of ESG in the supply chain
 - Spread of ethics practice by suppliers
 - Supporting the reinforcement of capabilities in the supply chain by assessing suppliers
- Identifying and addressing potential risks in the supply chain
- Establishing and implementing higher standards and procedures than relevant legal requirements

How is performance tracked?

Performance Measurements

- Acquiring and maintaining the best level in the win-win growth indicator assessment
- Strengthening efficiency in sanctions for suppliers based on ESG assessment
 - Monitoring ethics management including any unethical behavior by suppliers
 - Selecting best suppliers by conducting regular evaluations
- Minimizing compliance risks or potential risks in the supply chain



Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all

[Link to SDGs](#)

In the recent global business environment, there is much more interest in social responsibility within the value chain. Korea is no exception, with the government taking a strong stance towards promoting mutual growth across large, mid, and small sized enterprises by introducing new laws. Against this backdrop, SK innovation is contributing to improving the fundamental competitiveness of the supply chain by providing suppliers with capacity building training, and financial and technical support. The company is expanding the scope of sustainable business management and implementation, by emphasizing fair and ethical business transactions, to create a more transparent supply chain, and establishing a health and safety management system for each supplier to strengthen the level of safety and health within the supply chain.

Supply Chain Sustainability Management Policy

SK innovation's Supply Chain Management Policy, which applies to all supplier contracts, covers 1) total cost ownership, 2) reliability 3) on-time delivery & customer service level, 4) SHE (Safety, Health, Environment) and 5) risk management. SK innovation has created a Supplier Code of Conduct¹⁾, which requires the suppliers to develop and grow with SK innovation in a sustainable manner. The Basic Purchasing Agreement where provisions for compliance of fair trade with all suppliers that have a contractual relationship with the company is concluded to make it mandatory to carry out ethics management. Environment related regulations(such as the Act on the Liabil-

ity for Environmental Damage and Relief Thereof and the Act on the Registration, Evaluation, Etc. of Chemicals) are included in the procurement process to reinforce the executive ability for compliance of environmental responsibility. In addition, the company established credit rating management standards in its by-laws, to make it mandatory for suppliers to submit a credit assessment as part of their vendor registration.

¹⁾ Supplier Code of Conduct: http://www.skbiok.com/contents/vd_action_raw.html

Supplier Mutual Growth Activities

Supporting Capacity Building

SK innovation supports a range of capacity-building programs for suppliers with a focus on strengthening their fundamental competitiveness, rather than providing simple and temporary support, to ultimately build a sustainable mutual growth foundation with our suppliers. The company hosts mutual growth

CEO seminars which offer business training including business strategy, finance and leadership for the supplier's CEOs. In addition, we also provide detailed curriculums for different positions and responsibilities, including training for management support, technical process, capacity building and safety, in order to make the training closer to the real work environment.



2016 SK Mutual Growth MBA

SK innovation also continues to organize Supplier Recruitment Fairs for youth in Ulsan to not only enable mid-to small-sized suppliers to hire the best talent, but to also contribute to reducing youth unemployment and stimulating the local economy. The fair provides various types of support for job hunters, such as customized career consultation, vocational psychology tests, and profile photo shoots. In 2016, a total 98 employees were hired through this event. In addition, the company helps to youth with a competitive edge through its SK Employment Stepping-Stone Program, which provides applicants with on-the-job training and internship opportunities.

Program Name	Support Provided	No. of Participating Suppliers	No. of People Hired
2016 SK Mutual Growth Supplier Recruitment Fair	Recruitment booths and auxiliary events, such job hunting	19	98
SK Employment Stepping Stone (SK innovation in total)	Internship hiring and training, training cost support	58	160

Financial Support

To guarantee the stable business activities of our suppliers, SK innovation pays suppliers 50 percent of the contract amount upon starting the construction, while the remaining balance is paid within one week of the construction completion and final inspection for major construction related to Ulsan Complex turnarounds, which require significant human resources

and equipment commitment. In addition, suppliers can receive financial support through various mechanisms, including direct support in the form of a direct loan, indirect support via network loans, and special support through the Mutual Growth Guarantee Agreement. In addition to this support, the Shared Growth Fund was created to provide low-interest financing to suppliers that need emergency operating funds. In 2016, KRW 85 billion of Shared Growth Fund was prepared by depositing KRW 34 billion.



Technology Support

As an initiative to pursue mutual growth, SK global chemical engages in joint technology development with suppliers to localize equipment, register co-patents, and enter into high-value added products and global markets together. In particular, by jointly developing and registering patents with our suppliers, they have been able to grow sales by selling new products to related companies including SK innovation, while we have been able to gain better cost competitiveness by localizing previously imported products, resulting in a win-win situation for both parties.

..... *Business Case*

Supporting the Localization of Heat Exchangers Leveraging SME Technology

SK global chemical and Seoul Engineering were able to localize the cone used in heat exchangers to recover waste heat by combining the technological expertise and management skills of SK and the specialized technological proficiency of the SME. The heat exchange cone developed by these two companies is a device to recover waste heat, which is generated when naphtha is cracked in the process of making ethylene. The previous issues of cracking and overloads were solved to enable stable operations of the process. Furthermore, Seoul Engineering received investment and R&D support for the localization of heat exchangers from SK global chemical and registered the co-patent with SK global chemical. As a result, it was able to have import-substituting effect by approximately KRW 25.7 billion in exports while saving KRW 4.5 billion in energy costs across the sector in Korea. SK innovation affiliates will continue to seek new ways to create new value and grow together with its suppliers.



Supply Chain ESG Responsibility Strengthening Activities

Creating a Culture of Transparent Trade

SK innovation has embarked in a campaign with its suppliers and other external stakeholders to not give or receive holiday or congratulatory gifts to establish a fair and transparent culture across its supply chain. Employees who unavoidably receives a gift are required to submit a description of the gift to his/her reporting team at each business site. Gifts that cannot be returned are sent to relief agencies and child welfare organizations as part of SK innovation's social contribution activities.

Reducing Supplier Risk

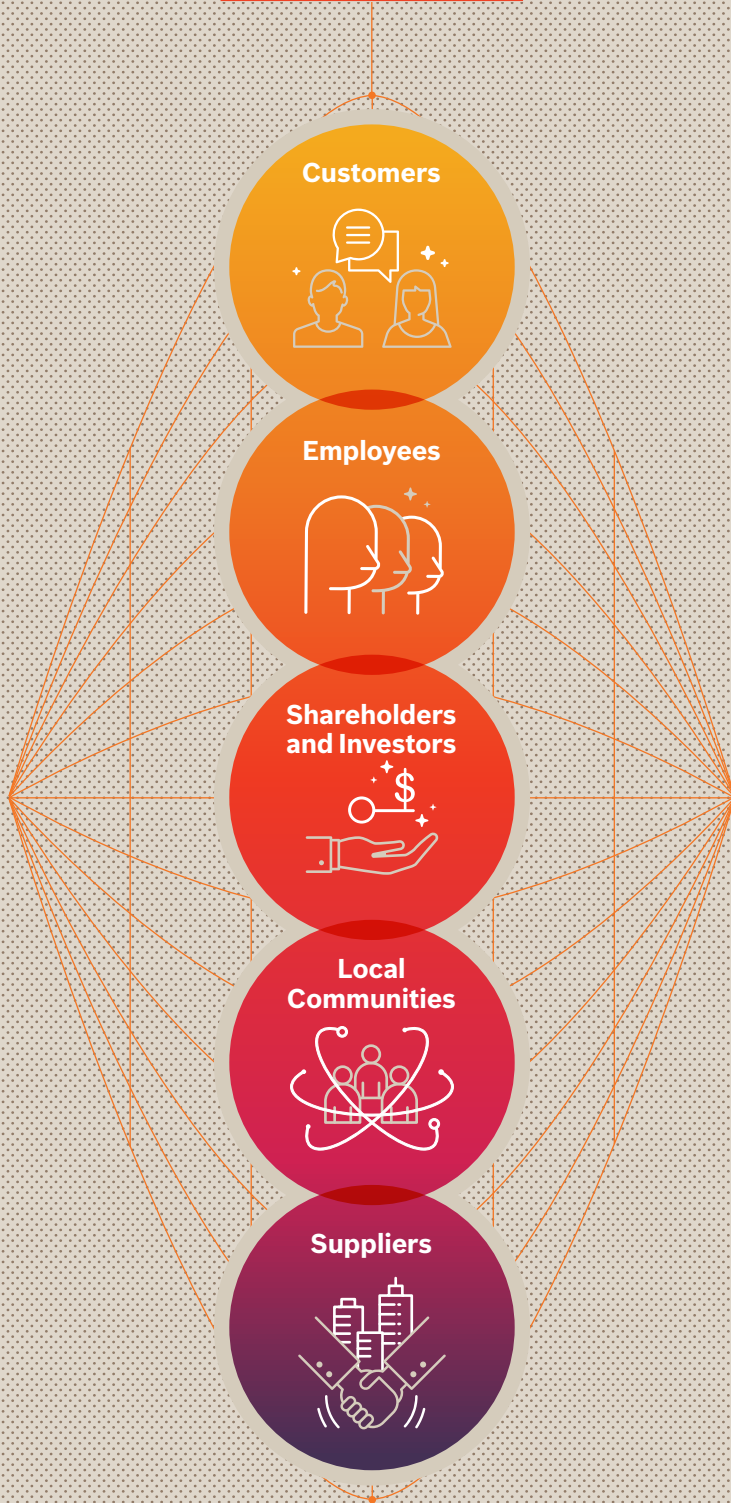
SK innovation continues to check and improve the procurement process with the aim of reinforcing fairness in the standards for registering and selecting suppliers and enhancing the level of ESG in the supply chain. The company reflects any revision in the relevant legislations or requirements in social commercial regulations in the procurement process, discloses changes to the outside through the procurement information system and requests suppliers to comply with the regulations. In registering a supplier, we collect the consent on fair and transparent trade and ask for following and reinforcing the responsibility for the overall ESG factors with the Supplier Code of Conduct.

Establishing a Supply Chain SHE System

To boost the level of SHE management in the supply chain, SK innovation pursues to improve the process and makes great effort to comply with environmental regulations to minimize any environmental impact of suppliers on the SHE society and reflect the company's SHE management policy for the supply chain in contracts. In 2015, SK innovation signed a MOU with the Korea Occupational Safety and Health Agency and major suppliers to deploy an SHE management system. Under this agreement, suppliers established an SHE management system that suited their business. All 39 suppliers that participated in the MOU received health and safety management system certification(KOSHA · OHSAS 18001).

To prevent large-scale environment accidents, the company was established a chemical registration and license management process and system, which it shares with its suppliers. In addition, we have created a company-wide emergency response framework for large-scale accidents, like ocean spills that can occur in the petroleum and petrochemical industry. Mock drills on the emergency response are run each year. In addition, SK innovation delivers our Operational Safety Guide to suppliers to increase awareness on occupational safety. Moreover, it supports supplier risk assessments and safety training through its Industrial Accident Prevention MOU.

*Value Creation
for Stakeholders*



Sustainability Performance Review

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Link to SDGs



- Goal 1** | End poverty in all its forms everywhere
- Goal 2** | End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
- Goal 3** | Ensure healthy lives and promote well-being for all at all ages
- Goal 4** | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Social Contribution



- Goal 13** | Take urgent action to combat climate change and its impacts
- Goal 14** | Conserve and sustainably use the oceans, seas and marine resources for sustainable development
- Goal 15** | Protect terrestrial ecosystems and halt biodiversity loss

SHE Management

..... Operation of the Board of Directors

A healthy and transparent composition and operation of the Board of Directors is an essential prerequisite for a company to achieve robust growth. Though BOD-driven management, SK innovation is committed to assuring the decision-making process is fair and well-balanced, reflecting the views of not only the company, but also a wide variety of stakeholders.

Independence of the Board of Directors

Independent Composition of Board and Committees

To ensure the Board thoroughly provides a check and balance to the company, SK innovation's the Board of Directors is composed of 60% or more independent directors, who are recommended by the Nomination Committee. As of May 2017, 5 out of a total 8 directors are independent directors, representing 62.5% of the Board. In ad-

dition, all chairs of the six committees under the BOD are independent directors, while a majority of each committee (Audit and CSR Committee all members) are independent directors, which ensures the independence and transparency of committee operations and the decision making process.

Board Members

	Name	Career Highlights	Committee
Executive Director	Kim Chang-geun	Present) Chairman of Board of Directors, SK innovation Former) Chairman, SK SUPEX Council	HR Committee member
	Kim Jun	Present) President & CEO, SK innovation Former) Head of the Strategic Planning Department, SK energy	Nomination Committee member Strategic Planning Committee member
Non-executive director	Yu Jeong-joon	Present) President & CEO, SK E&S Former) President, SK Global Growth Committee	Transparent Management Committee member
Independent Director	Kim Dae-ki	Present) Visiting Professor, KDI School of Public Policy and Management Former) Chief Secretary to the President for National Policy	Audit Committee Chair Strategic Planning Committee and Transparent Management Committee member
	Kim Jong-hoon	Present) Distinguished Professor, College of Business Administration at Yonsei University Former) Minister of Trade, Ministry of Trade at the Ministry of Foreign Affairs and Trade	HR Committee Chair Audit Committee and CSR Committee member
	Kim Joon	Present) President & CEO, Kyungbang Co. Former) President, Korea YEO	Strategic Planning Committee Chair Audit Committee and HR Committee member
	Ha Yun-kyoung	Present) Professor, Department of Basic Science at Hongik University Former) Director, Association of Korean Woman Scientists and Engineers	Transparent Management Committee Chair Nomination Committee and CSR Committee member
	Hahn Min-hi	Present) Professor, KAIST College of Business Former) President, Korea Marketing Association	Nomination Committee and CSR Committee Chair Audit Committee Member



Executive Director
Kim Chang-geun



Executive Director
Kim Jun



Non-executive Director
Yu Jeong-joon



Independent Director
Kim Dae-ki



Independent Director
Kim Jong-hoon



Independent Director
Kim Joon



Independent Director
Ha Yun-kyoung



Independent Director
Hahn Min-hi

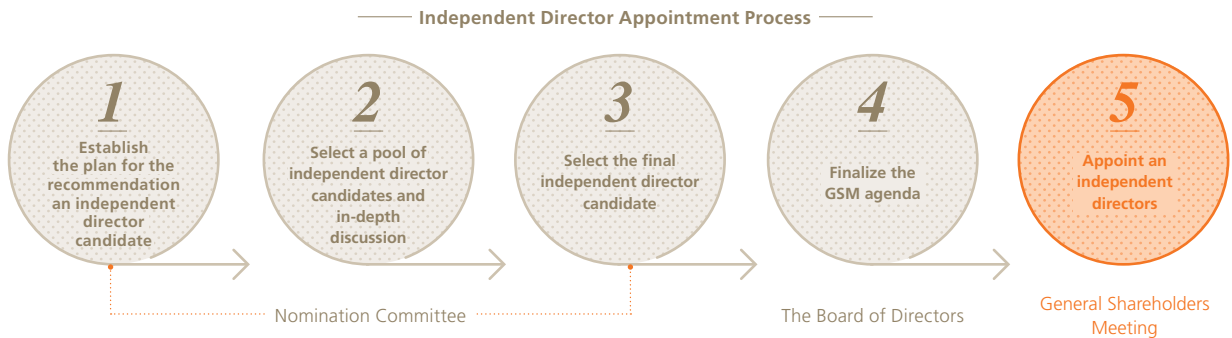
Board Committees

Committee	Composition of Directors			Main duties
	Executive Director	Non-executive Director	Independent Director	
Audit	0	0	4	Conducting audits on the job performance of directors, accounting and management practices, as well as evaluations on the internal accounting management system.
Nomination	1	0	2	Searching and managing a pool of independent director candidates and recommending candidates
Strategic Planning	1	0	2	Reviewing medium- and short-term business plans and strategies, including major investments and plans
Human Resources	1	0	2	Recommending executive director candidates, reviewing director remuneration ceilings and major HR policies
Transparent Management	0	1	2	Reviewing intercompany transactions and the Fair Trade Compliance Program
CSR	0	0	3	Reviewing CSR(Corporate Social Responsibility) and sustainability management-related activities and issues

Director Appointment Process

SK innovation has established an objective and fair process for appointing directors. The credentials and qualities of executive and non-executive director candidates are reviewed in advance by the HR Committee, after which the candidates are recommended to the General Shareholders Meeting(GSM). In the case of independent directors, the Nomination Committee first defines the plans for the recommendation process and selects the candidate pool.

Thereafter the committee hosts a series of elaborate discussions to select a final candidate to recommend to the GSM. During the discussions to select a candidates, the Committee not only reviews the independence of the candidate, but also the expertise, commitment, business mind, reputation, personal image, and other evaluation standards. Factors, such as the diversity of the Board and the business environment at the time of the appointment, are also taken into consideration.



Evaluation Criteria of Independent Directors

Category	Description
Expertise	Expertise and experience in corporate management, and a career as an director
Commitment	Committed to attending over 90 percent of BOD & Committee meetings and to contributing positively to advising on current issues
Management leadership	Leadership acquired from experience in serving as the CEO of a large company or head of an organization
Independence	Independence from management and shareholders while making faithful, independent decisions
Social position	A strong reputation recognized by many stakeholders of the company
Morality	A high level of morality that sets an example for others, with company based objectives taking precedence over personal gain
Diversity	The diversity of the Board, including gender, age, nationality and ethnicity, has been taken into consideration
Others	Current issues and social concerns at the time of nomination

Standard of Independence for Independent Directors

SK innovation ensures the independence of its independent directors to guarantee shareholder interests are reflected in a balanced manner and a fair and transparent decision-making process is followed. To this end, the company establishes and complies with the independent standards for major disqualification reasons for independent directors in compliance with the Commercial Act.

Grounds for disqualification of SK innovation Independent Directors

- Directors, executive directors and employees who are engaged in the regular business of the relevant company, or directors, auditors, executive directors and employees who have engaged in the regular business of the relevant company within the latest two years;
- The principal, his/her spouse, lineal ascendants, and lineal descendants, in cases where the largest shareholder is a natural person;
- Directors, auditors, executive directors and employees of the corporation, in cases where the largest shareholder is a corporation;
- The spouses, lineal ascendants, and lineal descendants of directors, auditors and executive directors;
- The directors, auditors, executive directors and employees of a parent company or a subsidiary company of the relevant company;
- Directors, auditors, executive directors and employees of a corporation which has a significant interest in the relevant company, such as business relations with the company
- Directors, auditors, executive directors and employees of another company for which directors, executive directors and employees of the relevant company serve as directors and executive directors.

The Systematic Operation of the Board and Committees

Systemic Operation of the Board of Directors and Committees

SK innovation's the Board of Directors reviews business plans and medium-and long-term strategies(i.e. the To-be Model) each year. In addition, the Board sets the direction for achieving sustainable growth by holding active in-depth discussions about the internal and external environment and issues for each business area, including refining, petrochemicals and EV batteries.

The Board holds regular meetings on monthly basis. To allow the directors ample time to review the agenda, meeting materials are provided at least five days before a Board meeting and two days before a Committee meeting. In addition, the Board will also hold ad-hoc meetings for agenda items that require a quick decision to lead the transparent business activities of the company. 13 Board and 17 Committee meetings took place in 2016.

Operation of the Board Communication Sessions

SK innovation's the Board of Directors is committed to coordinating various stakeholder views and fulfilling its role and responsibility as the most senior decision-making body of the company. In particular, the Board holds CEO Sessions and Strategy Sessions attended by the CEO, key senior management, and independent directors, to strengthen its role as a partner in business model innovation. At the sessions, the participants not only openly discussed business philosophy, vision, and strategic fit, but also issues that were raised during the communication process. In 2016, the Board held in-depth discussion over business philosophy(revised SKMS), dividend policy and strategies for the refining business.

Proactive On-site Management

SK innovation's the Board visits key business sites in Korea and abroad to make sure decision-making is based on expertise and an understanding about the worksite. Board meetings are held on-site during these visits to implement on-site management practices. These visits provide an opportunity to gain real proficiency about the business by seeing first-hand the situation of the site and listening directly to the views of employees working there. In 2016, a BOD Meeting was held at the Ulsan Complex, during which directors participated in on-site management together with the employees. In addition, the directors visited a key growth area, the semiconductor business(SK hynix) to develop areas of business co-operation.

Board Performance Evaluation & Compensation

The Board conducts a self-evaluation on the composition, function and operation related matters once a year. The results of this assessment are documented in the Annual Report. The results and opinions of the evaluation are fully reflected in the BOD Operating Plan to ensure the Board continues to develop in a positive direction.

In addition, the company annually participates in the ESG assessment conducted by Korea Corporate Governance Service. In 2016, the company received an A+ in the area of corporate governance, recognizing the strong achievements of the BOD. To ensure fair compensation, the HR Committee thoroughly reviews the remuneration limit for directors, which is presented for Board approval and final GSM approval.

Strengthening the Expertise of the Board of Directors

To enhance the effective and professional activities at the Board, independent directors actively participate in training programs about domestic and overseas governance structures and business. The directors have participated in conferences for the two most prestigious corporate governance institutions, namely, the NACD (National Association of Corporate Directors) and ICGN(International Corporate Governance Network). In particular, newly appointed independent directors are offered orientation programs at the headquarters and local business sites to strengthen their understanding about the company, the industry and businesses.

In addition, SK innovation Board of Directors holds a strategic session to improve specialty regarding risk management every half-year or quarter on a regular basis. Major content of the session includes providing materials to support overall decision-making such as company-wide and key business strategies, report on the trend and major risk elements and company's measures for risk management. The Board also considers internal and external business environments and holds a seminars by inviting legal and communication specialists regarding significant issues. Each quarter, the Board receives the results of internal and third party audits, reviews possible risk issues and actively participates in training related to business cases that have taken place in Korea and abroad.

... Risk Management ...

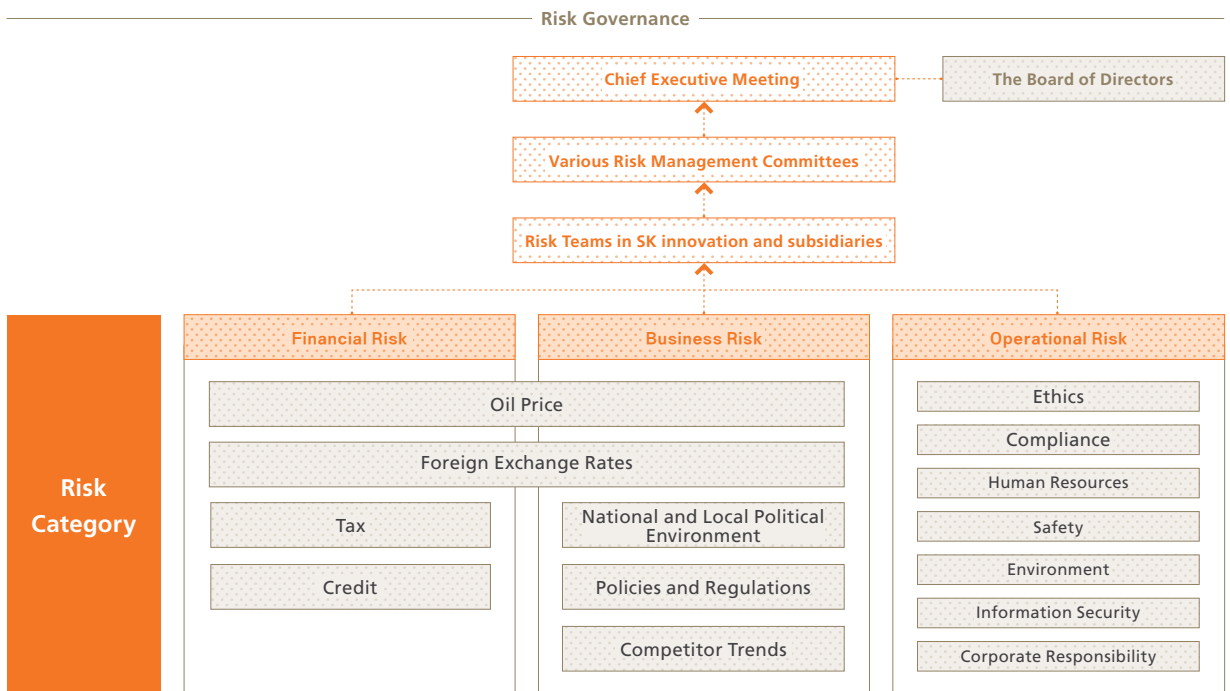
The global energy industry faces various risks amid a rapidly changing business environment. On one side, investors require conventional oil and gas producers and refiners to respond to the risks related to climate change, while on the other, increasing social interest and improved technology related to renewable energy and other forms of eco-friendly energy are in a position to significantly impact the future profit model of the conventional energy industry. SK innovation takes an organized approach to the key risks that it may face to develop the best approach to monitor and respond to each risk.

Risk Reporting and Governance

SK innovation categorizes its risks into three categories—financial risk, business risk, and operational risk. Business risk is managed by the Risk Teams at SK innovation and its subsidiaries. Any issues that require a decision by senior management are discussed at the Risk Committee, in which the CEOs and senior executives of the relevant departments participate. Operational risk, including subsidiary risk, is managed comprehensively by reach of the relevant departments at SK innovation. In the event of a decision is required from SK innovation senior management or its subsidiaries, the issue will be discussed at the Chief Executive Meeting held each month based on the type or risk. In addition, due to the close business relevance between SK innovation and its affiliates, certain key risks will be discussed at the Chief Executive Meeting(held third times a month) under the presence of SK innovation’s CEO and the five affiliate CEOs. If necessary, some risk agenda may be reported to the Board of Directors.

Analysis and Monitoring

SK innovation performs analysis and monitoring optimized for each type of risk. For financial risks such as oil price and foreign exchange movement, which have an immediate impact on business performance, we analyze short-term direction and mid-term trends for SK innovation and each subsidiary based on various economic indicators. Based on the conclusion, risk thresholds are set and managed. In the case of business and operational risk, the company monitors relevant laws and regulations, policy trends, and key stakeholder opinions on a daily basis. This information is shared through newsletters and the company’s intranet to ensure all employees are aware of key trends and engaged in their own risk prevention measures.



Mid- and Long-Term Risk Identification and Response

SK innovation regularly analyzes changes in society and environment to identify long-term risk factors that may impact the overall business, and to form and implement strategies to effectively respond to these risks.

Emerging Risks	Business Context
 <p>Unstable Oil Price and Financial Risk</p>	<ul style="list-style-type: none"> • A volatility in oil price can impact the refining and petrochemical industry via various channels, including refining complex margins and petrochemical cash margins. Following the steep fall in oil prices triggered by US oversupply in late June 2014, oil prices have started to recover from the first half of 2015, but uncertainties still remain. • In particular, at the current time the company is increasingly sensitive toward global economic trends, due to its large portion of overseas exports. In China, which is one of the largest sources of demand, there is a prolonging trend of economic slowdown and increasing localization.
 <p>Environment and Climate Change</p>	<ul style="list-style-type: none"> • In the petrochemical industry, the topic of carbon emissions and climate change is a core agenda. The influence on business has increased since COP 21. • In addition to government’s regulations on GHG emissions, more investment in new renewable energy and GHG emission reduction R&D is expected to initiate and accelerate change in the energy paradigm.
 <p>Product Sales and Business Relations (Fair Trade)</p>	<ul style="list-style-type: none"> • More transparent and fair business activities are required, due to tighter legal regulations on ethical management, and increasing demands from direct and indirect stakeholders, including agents, for broader transparency. • In addition, gasoline supply prices include a mix of different cost factors, such as international gasoline prices, international crude oil prices, and changes in oil import prices. However, lower crude oil prices have been not fully reflected in oil supply prices, which have led to consumers questioning whether companies are exploiting the situation, which is emerging as a potential risk.
 <p>Personal Information Protection</p>	<ul style="list-style-type: none"> • Negative incidents, such as customer personal information being leaked by employees of certain financial institutions in Korea, have led to growing interest in the topic of personal information protection. • More legal and regulatory requirements have been put in place, such as stronger Information Security Management System(ISMS) certification obligations and requirements to notify customers about personal information collection and use. Supervision and monitoring by government bodies is also increasing.

Risk Impacts	Mitigation Action
<ul style="list-style-type: none"> • Feedstock crude oil and petroleum products entail the risk of P&L and cash flow profiles changing according to international price trends, which could result in unstable margins. • Global oil prices are driven by various economic, legal, political and climate conditions. Oil imported from locations like the Middle East require long-distance shipping, which creates a risk due to the difference in the oil price in the month of loading vs. in the month of arrival. Oil price expectations may directly influence financial performance. • Unexpected moves in fx rates can impact sales volume, prices, and crude oil prices, which ultimately can result in direct gains or losses in profitability. 	<ul style="list-style-type: none"> • Using our deep industry knowledge, the company will apply optimization to the oil refining process, to distinguish the difference in oil by region, and pursue oil diversification optimized to the production of petroleum products. • SK innovation has created and executed a fx¹⁾ risk management policy to hedge any expected loss from fx volatility. The company has defined an acceptable fx risk ceiling and hedges any excess foreign currency positions to minimize the risk from fx movement. <p>¹⁾ foreign exchange</p>
<ul style="list-style-type: none"> • There is a risk that the company may need to purchase carbon credit under emission trading, and manufacturing costs may increase due to investments needed to cut GHG emissions. • We expect demand for petroleum products to decrease on the back of the government's energy consumption mitigation policy. 	<ul style="list-style-type: none"> • SK innovation manages GHG emissions at all worksites and mitigates carbon emissions through facility investment. • In addition, the company will establish a mid- to long-term response strategy to adapt to a paradigm shift in energy sector, and concentrate on investing in new businesses and developing technology for sustainable growth and development.
<ul style="list-style-type: none"> • Fair trade related legal and regulatory violations can have serious risk implications from various fines to damaging a company's reputation. • In addition, changes in sales price due to oil price movements may have a negative impact on consumer and brand confidence. 	<ul style="list-style-type: none"> • Fair trade risk is mitigated by creating a fair trade voluntary compliance framework, such as introducing a Fair Trade Voluntary Compliance program. In addition, the company is increasing internal monitoring and enhancing fair trade awareness within the organization. • In addition to engaging in R&D activities to provide customers with differentiated products and services, the company has continuously enhanced the value of its gas station network by analyzing the commercial district of each gas station and identifying and positioning the best complimentary business for the gas station to strengthen its competitiveness.
<ul style="list-style-type: none"> • The gas station business requires strong bonds with our customers, therefore, proper management of customer information is a key issue to growth. An absence of an information management system may lead to serious negative influences on customer communication and marketing. • In light of stronger government regulations, the company's brand can be dealt a serious blow from single incident, such as a criminal prosecution against an executive. There have been actual cases where executives of a major telecom operator in Korea were charged for negligent management of personal information, resulting in damaging the company's reputation. 	<ul style="list-style-type: none"> • With the aim of improving its customer information protection framework and responding to government regulations, SK innovation has strengthened its Personal Information Management System(PIMS) certification maintenance and management. Through these efforts, the company can take preemptive action to respond to possible personal information leaks. • SK innovation is implementing a tighter internal control process, including continuous implementation monitoring and strict control on access to customer information. In addition to internal control, the company conducts regular and non-regular inspections on outsourced service providers regarding customer information management, and provides training on improvement measures to prevent events.

· · · · *Ethical Management* · · · ·

Stronger legal regulations on ethical management in the global business environment and an increasing demand from stakeholders for such practices underscore the need for companies to conduct business in a more transparent and legally-compliant manner. Therefore, SK innovation continues to monitor international and local trends to revise its Code of Ethics and Guidelines. The company is committed to strengthening employee awareness about compliance and leading efforts to create a more transparent business culture.

Creating Ethical Management Principles

Based on the SKMS(SK Management System), SK innovation has enacted a Code of Ethics specifying the appropriate actions and principles that employees should honor. This Code is updated regularly to reflect recent changes in the business environment, more restricted external regulation and practices and lessons learned in business activities. All management and employees of SK innovation, its invested companies(including overseas subsidiaries) are obligated to observe the Code, and we also recommend equity investment companies or our business partners, who do business

with or have a contractual relationship with the company, adopt and follow the Code.

In addition, Business Conduct Guidelines that showcase case studies provide a more detail standard for decision making. For any questions employees may have, the company has a Business Conduct Guideline FAQ, which it continues to update.

Encouraging Employee Integrity

Strengthening Employee Ethics Training

SK innovation actively communicates with employees about key ethical issues they may face during work, in order to strengthen their commitment to integrity and strengthen ethical business practices. Every year the company conducts ethics training, which it has expanded to cover all employees in 2016.

Topic	No. of Participants	Total Training Hours
Online ethics training in the form of an animation for all employees	5,796 people	2,318 hours
Ethics training for new employees and promotion candidates	604 people	604 hours



Organizing Ethical Management Workshops

In 2016, SK innovation hosted Ethical Management Workshop led by leaders to discuss ethical dilemmas and risk case studies. To moderate active discussion, the first and second workshops were hosted by an executive and team leader respectively. This initiative will continue in 2017.



Ethical Management Survey

To understand employee’s level of awareness on ethical management and the ethical framework, the company conducted an ethical management survey on all employees, including those at overseas branches and subsidiaries, in 2016. After consultation with the related departments, answers to the main questions employees had that were identified through the survey were shared with all employees. In addition, company-wide efforts to strengthen awareness were made by collecting Ethical Management Commitment Letters from employees after the survey.

Strengthening Communication about Ethical Management

To create an Ethics Management Culture within the company, SK innovation has opened communication channels, including the Ethics Consultation Center and Ethical Management Website, through which it receives reports on unethical behavior and requests for consultations. We also provide a reward program for informants to encourage active participation from employees and stakeholders. The identity of an information provide by informants are strictly kept confidential to prevent any possible backlash.

As of 2016, a total of 142 reports and consultations were filed. When excluding simple inquiries, mistaken reports, double counted cases, and reports on other SK companies, the net number is 52 cases. All reported content was investigated and sent to the related department for follow-up measures, while answers were provided for consultations. Customer complaints are sent to the customer service department to be handled. Of the 15 reported cases that were investigated, 3 cases were a violation of the employee Code of Ethics. The employees involved in the case were issued warnings. (Two cases were internal regulation violations, while one case was an employee who was entertained by suppliers)

Survey on Supplier Exploitation

To implement ethical management based on mutual trust with suppliers, SK innovation conducted a survey to understand if there were cases of employees abusing their position against suppliers or engaging in actions that may violate the Code of Ethics. The survey was conducted on 849 suppliers in Korea. To gain deeper understanding about the situation, the company visited and interviewed 47 suppliers. No material unethical activities were identified as a result of the survey. Going forward, the company will continue to exert its best efforts to establish a fair and transparent relationship with its suppliers.

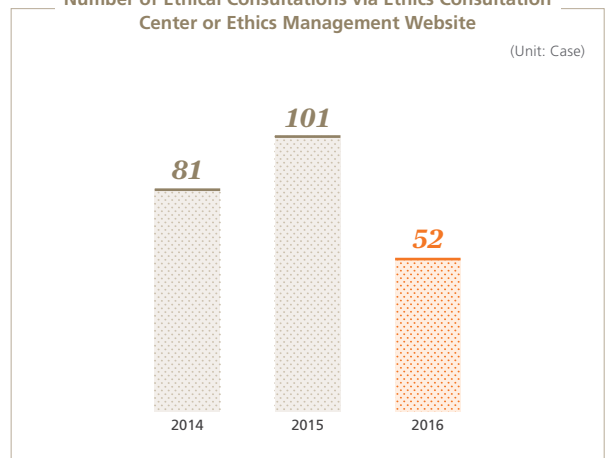
Number of Ethical Management Reports and Consultation Cases

	Number of Cases by Stakeholder			Total
	Reports	Consultation	Complaints	
Customers	-	-	15 cases	15 cases
Business partners	15 cases	-	-	15 cases
Employees	1 case	6 cases	-	7 cases
Others & Anonymous	15 cases	-	-	15 cases
Total	31 cases	6 cases	15 cases	52 cases

Breakdown of Cases by Follow-up

Investigation(Audit)	Cases Transferred to Relevant Department	Others(Cannot be Confirmed or Dismissed)
15 cases	25 cases	12 cases

Number of Ethical Consultations via Ethics Consultation Center or Ethics Management Website



Fair Trade Compliance Management System

SK innovation has established a Fair Trade Compliance Program (CP) to enhance transparency and increase competition within the supply chain. The CP is divided into Seven Stages with detailed

management measures. This enables SK innovation to manage all employees and business activities of SK innovation and its affiliates against each of the Stages.

The Seven Steps of the Fair Trade Compliance Program



Responding to External Regulations on Fair Trade

In January 2017, the Fair Trade Commission drafted Guidelines on the "Prohibition of Provision of Inappropriate Benefit to Person with Special Interest(Article 23-2, Monopoly Regulation and Fair Trade Act)" tightening the review standards on internal transactions by group corporations. SK innovation rebuilt its inspection process on internal transactions that may be subject to review, in order to apply stronger standard and mitigate risk in advance. Since the regulatory body is expected to beef up surveillance on unfair support between the affiliates of large conglomerates and unfair business activities between conglomerates and SMEs, the company is planning to disclose large-scale internal transactions and continue monitoring on unfair support via inter-company transactions and supplier exploitation.

In preparation for the implementation of the Fair Transactions in Agency Act(December 23, 2016), the company conducted an early inspection on all agency transactions in SK innovation in the second half of 2016. It reviewed all agency transaction contracts and remedied any insufficiencies. The company built and upgraded a management system to check transactions subject to the regulation and create a process to verify orders. After providing relevant organizations with training on the agency transaction process, we are continuously monitoring compliance.

Reinforcing Internal Fair Trade Monitoring

SK innovation conducted investigations on the purchasing teams and production teams that come into frequent contact with suppliers to identify unfair business activities between conglomerates and SMEs and providing training. In addition, the company also made it mandatory to consult the HQ Business Compliance Team before engaging in an inter-company transaction with an affiliate to monitor the any possibility of unfair support. Moreover, the company provides fair trade consulting for around 200 cases each year.

In addition, SK innovation operates a Fair Trade Coordinator program in each business department to encourage the front office team to communicate fair trade issues.

Going forward, we will build a compliance ecosystem -which includes risk diagnosis → review → training → performance measurement – to further reinforce compliance management.

Strengthening Employee Awareness on Fair Trade

In light of the initiative to strengthen global operations in 2016, the company provided training on the antitrust laws of each jurisdiction to the overseas business division. We strengthen the fair trade awareness of our employees at key business units, including overseas expats, by reviewing fair trade issues, including abuse of market dominant statuses and unfair trade activities.

Taking it one step beyond the level of informing employees about fair trade issues on each individual transaction through the existing Guidelines on Interacting with Competitors, SK innovation has

published a Fair Trade Guidebook, which covers the work process for all transactions and related fair trade issues. This Guidebook was distributed to all employees of SK innovation and its subsidiaries. In addition, we continue to issue the Fair Trade News Brief and Fair Trade Compliance Letter on a regular basis to raise awareness of fair trade compliance. Moreover, working-level manager participate in Fair Trade Seminars and external training programs to increase their proficiency on fair trade.

Future Plans

SK innovation is monitoring domestic and overseas regulatory trends to amended the Code of Ethics and Business Conduct Guidelines accordingly. With growing demand for ethical management from stakeholders, SK innovation is planning to engage in a variety of organized activities to enhance the understanding and compliance of ethical management across all SK innovation employees. In addition, the company will check and monitor the Fair Trade Commissions' major issues of interest to ensure transparent and fair business implementation. It will also establish and upgrade its management process for the sustainable and effective operation of its Fair Trade Compliance Program.

Fair Trade Inspections and Training in 2016	Timing	Subjects
Training on the Singaporean Competition Act and international cartels	June	The Singapore subsidiary of SK trading international and SK energy-invested Singapore JV
Risk assessment on fair transactions with subcontractors, and training on process improvements	July(Inspection) December(Training)	Purchasing Managers at SK innovation subsidiaries
Fair Trade Act training	July	SK incheon petrochem
Inspection on contracts subject to the Fair Agency Transactions Act, and relevant process training	August(Inspection) October(Training)	Marketing Department at SK innovation subsidiaries
Chinese Antitrust Act related risk assessment and training	September	SK global chemical's Shanghai Subsidiary
Japanese Antitrust Act related risk assessment and training	September	SK lubricants and SK global chemical's Tokyo Subsidiary
Online training for Fair Trade Coordinators	September – October	Coordinators in key marketing departments at SK innovation subsidiaries
Online training on Fair Trade Basics	October – November	All SK innovation affiliated employees

..... *Employees*

Each member serves a role with crucial competitiveness for corporate growth and development. To ensure sustainable growth of an organization, it is essential to establish sound organizational culture for employees to exercise their capabilities with strong devotion. SK innovation cultivates best global human resources based on its unique HR cultivation system. We also put great effort to create a strong and remarkable organizational culture and enhance the satisfaction level of employees for working environment by vitalizing liberal communication in the company, guaranteeing fair performance-based compensation and operating various welfare systems.

Reinforcement of Employees' Capabilities

SK innovation pursues "Caring Professional" to have innovation in his or her own work and working style with passion. For this goal, the company has established its independent HR cultivation system and proactively carried out activities to ensure sustainable growth and strengthen capabilities of employees.

SK innovation HR Cultivation System



Leadership



Next-generation leader



Job capability



SK Values

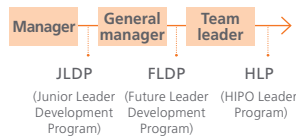


Support for developing and exercising leadership by staff members in charge

- Providing customized diagnosis-feedback based on the "Best-Fit" leadership model optimized to each group
- Proactive support for development through leadership training, coaching and workshop

Proactive cultivation of a next-generation leader group

- Searching for excellent human resources with high growth potential early and cultivating them in a systemic and proactive way



Reinforcement of specialized capabilities in each job function

- Systemic training for specialized capabilities
- Providing mid- and long-term training
- Providing on-site knowhow led by leaders and training to pass down experience

Internalization of values with passion and professionalism

- Internalizing the core value and strengthening its practice by regular and repetitive training for employees
- Accelerating the innovation of working style by continuous communication and workshop

Training Support Activities

Best-Fit Leadership Diagnosis-Feedback-Cultivation

SK innovation defines the best-fit leadership optimized to each group and diagnoses and gives feedback for the effectiveness of leadership in leaders each year based on the best-fit leadership. With this system, all leaders are offered customized leadership cultivation guide and participate in training required for each individual leader to improve leadership skill.

Employees' Job Capabilities Reinforcement Program

SK innovation proactively implements job training based on a cultivation plan specialized in each group and provides employees with support to grow as a global expert.

FLDP(Future Leader Development Program)

SK innovation appoints outstanding employees with a high potential for future growth as a leader candidate group and provides proactive training. We help them to have the required capabilities as a leader such as a strategic and financial perspective and foster prepared leaders in an early stage when it comes to group and HR management.



Biz Insight Seminar

SK innovation holds a regular seminar to share the trend and global insight for energy and chemical business. This seminar is voluntarily attended by over 3,500 employees annually and prepares an opportunity for stimulation and learning for innovation.

Fair Performance Evaluation and Compensation

SK innovation evaluates the capabilities and performance by employees and SK values by establishing a fair and reasonable performance evaluation and compensation system and applies strictly differentiated compensation based on the performance and evaluation of groups and individuals.

Performance Evaluation

<p>Target</p>  <p><u>All regular employees</u></p>	<p>Evaluation area</p> 	<ul style="list-style-type: none"> - Evaluating capabilities, qualities and achievements regularly based on fair criteria - Utilizing the evaluation result as a standard for promotion, shift, education/training and compensation - No discrimination by gender, age and academic background
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Compensation

<p>Target</p>  <p><u>All employees on the annual wage system</u></p>	<p>Principle</p>  <p><u>Strictly differentiated compensation based on performance evaluation</u></p>	<ul style="list-style-type: none"> - Implementing fair and reasonable compensation policy by comprehensively considering performance evaluation of individual employees and short- and long-term targets related to corporate sustainability - Giving more compensation to employees with excellent capabilities and performance - No unfair differentiated compensation by gender, age and academic background
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Establishment of Sound Organizational Culture

Support for Work and Life Balance

SK innovation has adopted the “flexible work system” in which employees are able to autonomously adjust their times for commuting and leaving the office for the first time in the same industry and autonomously implemented by each team to allow employees to strike a balance between work and life. The company has also launched the “smart work system” to simplify the procedure for meeting and reporting so that employees can flexibly adjust their working times to enhance work efficiency.

Welfare Benefits for Employees

SK innovation operates various welfare programs to make our employees to have affection toward the company and create the stable environment in which employees can concentrate on their work. The company not only supports regular health check-up and medical expenses but also operates severance pay system and loan system in case of purchasing and renting a house to maintain a stable living. We have also prepared the long-tenured employees rewards system to boost loyalty and supported employees for their cultural and leisure life by supporting family occasions and providing rooms at resorts and vacation condominiums.

Creating Women-friendly Working Environment

With the aim of cultivating women personnel and improving women-friendly working environment, SK innovation makes extensive efforts. In 2011, the company created “SK W-Network” and continuously searches for and proactively addresses tasks with regard to female issues. As part of preventing women’s career interruption due to childcare responsibility, we adopted “Automatic Maternity Leave System” in which female employees automatically shift the state into childcare leave for one year without separate application upon maternity leave finishes. “SK Happy Childcare Center”, which was opened as the in-company childcare center in 2007, increased the number of children from 49 to 85 by 74%(36 children) and expanded the number of employees from 13 to 20 to boost support for employees’ childcare.

Creation of Swift and Flexible Corporate Culture and Employees-centered Communication

SK innovation aims to gather the capabilities of employees with the company’s unique robust corporate culture and deal with the ever-rapidly changing management environment in a swift and flexible manner. For this goal, we strive to carry out “SKMS(SK Management System)” in which all the employees try to realize innovation voluntarily and willingly with their own passion and capabilities based on SKMS, the unique management philosophy and business management system of SK Group.

Further, the company enhances executive ability for innovation by pursuing “Speed & Flexibility” in both work and corporate culture and vitalizes communication by preparing various opportunities for communication so that honest communication between a leader and employees can be ensured for any part in need of change and improvement. To make CEOs, leaders and employees in SK innovation and its subsidiaries pursue the same target and ensure swift and systemic inspection and improvement in each group, the company has established and operated the system in which management process, workshops for executives and team leaders and workshops for employees are conducted on a regular basis from 2015.

In addition, SK innovation proactively runs face-to-face communication programs to realize communication among CEOs, leaders and employees in more diverse ways and themes other than existing online channels, including Leaders Forum, CEO-Employees Communication and Happy Walk. We also select 240 “iCON(innovation Communication ON)”, who are opinion leaders and serve as a bridge for communication between a leader and employees, to create corporate culture with sincere communication with focus on employees.

The company has also strived to improve the system. We have raised the speed in innovation by enhancing existing complicated approval procedure and decision-making structure, abolished the type of approval such as approval request and notification report, adopted the reporting and approval system by email and simplified the approval process to allow completing decision-making only by sharing minutes.

Expansion of Communication by Employees

SK innovation operates online and offline communication channels to realize smooth communication among CEOs, leaders and employees. The company accomplishes communication with sincerity through face-to-face communication programs in various ways and themes such as Leaders Forum, CEO-Employees Communication and Happy Walk and iCON, which is the change facilitator.

Operating Channels(Online/Offline)

Online	tong tong	An online bulletin board in which employees suggest ideas for the company such as organizational operation and system or any inquiries and are given replies on a real-time basis to reinforce two-way communication
	Leader's Blog	A CEO's blog to organize major management philosophy and policy and messages for employees in each theme and enhance the understanding of employees
	Internal broadcast (gbs)	A multi-directional communication channel that utilizes internal broadcasts to simultaneously share information on the management activities, current status of major business, activities by each group and news for employees in all business sties of SK innovation and its subsidiaries
Offline	iCON	As an in-company communication messenger and change facilitator, iCON proposes an opinion on any agenda which needs to collect employees' opinions as a representative for employees, shares various thoughts for the current issues of management by frequent communication with leaders and suggests an idea for facilitating change(about 240 iCONs as of 2016).
	Happy Walk	As a newly adopted program in 2016, Happy Walk enables CEO and employees to carry out various cultural and outdoor activities together, communicate with each other without difficulty and share meaningful leisure time(About 100 employees and their family members voluntarily participate in Happy Walk held by CEO of each company on a monthly basis).
	Role-specific Workshop	Role-specific workshop shares the management target and tasks for change in each group and prepares an opportunity for discussion and proposal for tasks.
	Leaders Forum	Leaders Forum holds a lecture by internal and external specialists on major business issues and change and innovation and shares the current business issues on a monthly basis for CEO and all executives and team leaders.
	Harmonia	As a counseling coaching center that provides support for employees' mental health and self-development, this program provides consultation and coaching in life, career, work and family areas by in-house professional counselors and about ten external experts.



CEO-Employees Communication



Happy Walk



Leaders Forum

Further Plan

With the aim of becoming a global top-tier energy and chemical company beyond a representative company in Korea, SK innovation intends to nurture "leaders to help members" to overcome any given task and crisis and "winning employees" with the key-word of "Winning Culture."

In addition, the company will continue to strengthen communication between leaders and employees to accelerate innovation through swift and flexible corporate culture and realize practical improvement and development by collecting opinions from employees for any change required system and process.

···· Supply Chain Management ····

In corporate business activities, the boundary of business scope is expanding from previous competition between single companies to competition in value chain. Accordingly, it is imperative to diagnose any potential risk in the supply chain in advance and establish a response system for a variety of risks in order to secure stable competitiveness in the global market. SK innovation continuously manages risk in the supply chain by classifying core suppliers based on the unique standards for strict evaluation and monitoring and communicating actively with suppliers with various channels.

Governance for Mutual Growth

Tasks regarding company-wide procurement strategy and mutual growth by SK innovation are systemically conducted under the leadership of the Procurement Planning Team in the headquarters. In 2011, the Mutual Growth Secretariat in SK global chemical was separately launched to enhance the specialty in activities for mutual growth. In addition, as personnel are placed to each region

including Seoul, Ulsan, Incheon and Daejeon, they are responsible for managing suppliers and implementing detailed procurement activities. When it comes to the suppliers' safety and environment part, each business site and SHE(Safety, Health and Environment) department provide partial support.

Mutual Growth Management Organization and its Roles



Supply Chain Classification System and Risk Review

SK innovation classifies and manages core suppliers by comprehensively considering 1) transaction size, 2) impossibility of substitution and only approval and 3) current status of core technology possession. Key suppliers of SK innovation are companies which perform large-scale construction or service at a major production plant, including Ulsan Complex and incheon petrochem or handle core raw materials with regard to business(battery raw materials, catalyst, etc.). Based on these criteria, 1,733 out of 5,336 suppliers in total were classified as core suppliers in 2016.

Risk area	Major risk factors	Range of risk
Economy	Financial risks such as change in credit rating and financial information and administrative measures	0.9%
Society	Violation of ethics-related laws and regulations and unfair trade acts such as collusion Issues regarding human rights and labor	3.1%
Safety & Environment	Environmental accidents(oil leak in the ocean, gas leakage, etc.) and physical injury Violation of environmental regulations and legislations	11.3%

Evaluation and Monitoring of Suppliers

SK innovation has evaluated various items including supplied products, service quality, delivery period, ethical management by suppliers, SHE policy and management level and labor and human rights issues. With this evaluation, the company has found and improved non-financial risks, which can occur in the supply chain, laid the framework for mutual growth and continuously expanded and improved its application.

Supply Chain Due Diligence

SK innovation continues to identify and manage suppliers in special relations¹⁾ with SK innovation subsidiaries and conducts regular evaluation for core suppliers in terms of quality, finance and SHE. In case supplier's workers reside in the business site of SK innovation subsidiaries, the company implements self-diagnosis for labor management and examines any risk in human rights and working environment. In addition, SK innovation receives documents from registered suppliers including SHE policy and environmental certificates to evaluate and manage its non-financial risks. We also collect SHE proposals from all individual contracts and outsourcing contracts(100%) for production, storage and research facilities. Afterwards, we review and evaluate each proposal and reflect it in the contract.

¹⁾ Special relations: Indicates a director, employees or employees' relatives of SK innovation subsidiaries possessing shares by SK innovation

Monitoring Process

It is stipulated that any supplier in a transaction with SK innovation should pledge the "Agreement on Fair and Transparent Trade" in registering a company by procurement portal; the company has collected the agreement from all registered suppliers. In case any illegal and corrupt act is detected based on the agreement, we take stringent measures in accordance with the relevant company regulations. Suppliers also have the duty of reporting any case immediately when our employees ask for money, treatment, entertainment or convenience or special relations such as the ownership of shares of employees' relatives occur. In addition, the company monitors real-time change in financial information of suppliers in cooperation with credit rating companies and takes proper measures in any unusual case. If a supplier acquires remarkable results by regular supplier evaluation, the company provides the supplier with benefits such as exemption of deposit as an excellent supplier and allowing living in the maintenance unit; for any supplier with poor performance, we provide feedback for results as well as education and training to improve capabilities.

Key Performance of Evaluation and Monitoring

Target	2015	2016
Suppliers for SK energy Ulsan Complex and SK incheon petrochem regular evaluation(*Except for suppliers for quality evaluation)	69	72
Suppliers for SHE proposal evaluation	184	334
Suppliers for the diagnosis of labor management such as human rights and labor issues	46	74
Suppliers participating in signing the agreement for fair and transparent trade	Entire suppliers	Entire suppliers

Vitalization of Supply Chain Communication

SK innovation strives to seek further developed measures for mutual growth and cooperation with suppliers by continuous communication. The company operates Mutual Growth CEO Seminar by sharing management innovation cases with suppliers' CEOs on a regular basis and holds an annual Supplier CEO Meeting between CEO and suppliers to discuss measures for improving quality and SHE management.

In addition, the company holds the commission for facility suppliers on a monthly basis to share accident cases and check and training for safety and health. We also regularly hold a meeting for device, inspection, machine and logistics suppliers to discuss measures to boosting SHE management capabilities and tasks.



Mutual Growth CEO Seminar

..... Achievement of Mutual Growth Implementation

Evaluation of Corporate Partnership Index

SK innovation makes diverse efforts such as activities for reinforcing support based on actual needs from suppliers and vitalizing mutual communication with the aim of building happy partnership with suppliers. Especially, as SK global chemical was acknowledged for its performance of mutual growth and cooperation activities based on the group in charge of mutual growth, the company acquired the best level in 2016 in the Corporate Partnership Index Evaluation by Korea Commission for Corporate Partnership for four consecutive years for the first time in the chemical industry and was selected as the best distinguished company. SK innovation will maintain its best level by carrying out mutual growth activities and providing suppliers with support.

Performance of Products Supply Chain

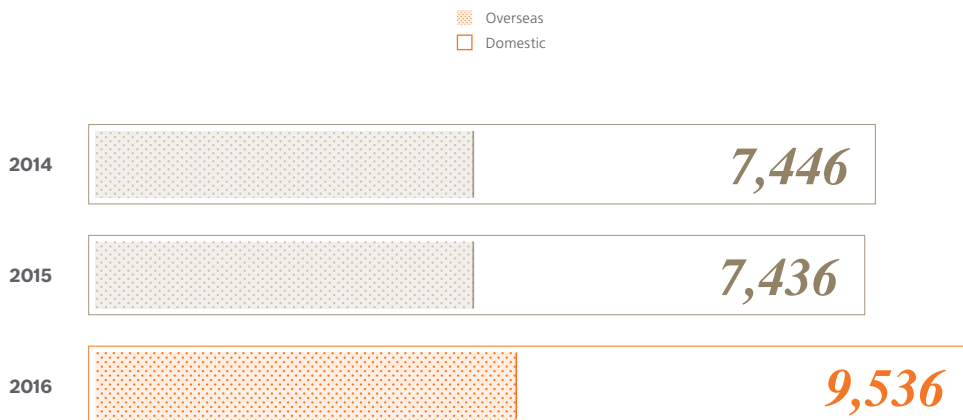
As of December 2016, the total amount of product procurement by SK innovation was KRW 953.6 billion; 51% of the total amount was the procurement from domestic suppliers.

..... Future Plan

SK innovation continues to offer support in diverse sectors such as HR cultivation, technology and fund to enable suppliers to conduct sustainable management activities. We will comprehensively consider not only the capabilities and financial current status of existing and new suppliers but also the safety and health of suppliers' employees and impact on the working environment and evaluate the system and give proper feedback to launch a sustainable supply chain and realize the zero level of potential risk in the supply chain. Furthermore, with the aim of taking the lead in broadening and implementing ethical management in suppliers, the company will proactively communicate with the management and employees of suppliers on a regular basis and create and develop the value of win-win relationship with suppliers.

Amount of Procurement for Three Years

(Unit: KRW 100 million)



· · · · *Social Contribution* · · · ·

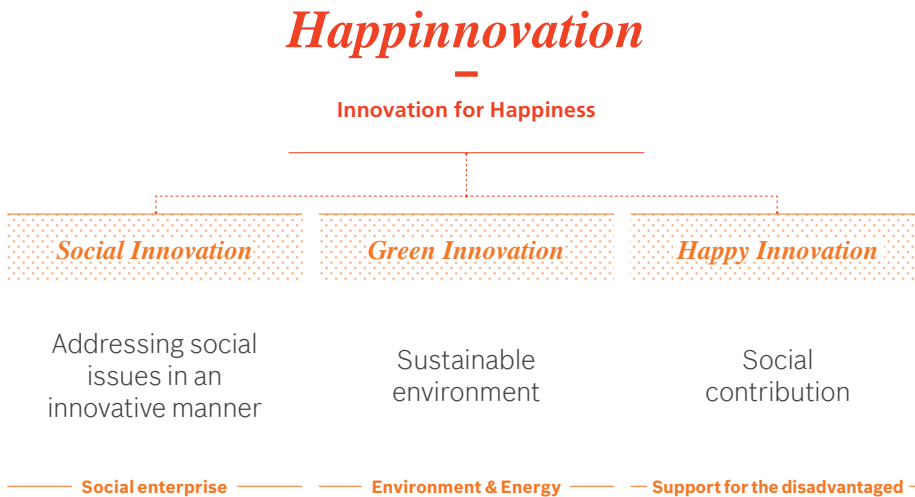
As one of the most distinguished energy and chemical companies in Korea and a global top-tier company, SK innovation has the goal of corporate management to generate happiness for stakeholders, and the ultimate aim of corporate management to achieve mutual growth with society by creating not only economic value in business, but also social value. Thus, the company pursues the aim of social contribution to become a “company continuously creating and sharing happiness”. Under the slogan of “Happinnovation(Happiness + Innovation)”, SK innovation seeks constant innovation to deal with fundamental social issues. SK innovation recognizes social contribution as an essential virtue in terms of coexistence and symbiosis beyond the level of social responsibility and aims to achieve innovation with society. Accordingly, we are making efforts to create social value in various sectors, by creating jobs, supporting the socially vulnerable and disadvantaged, cultivating future human resources, fulfilling environmental responsibilities, and investing in local communities. Through these efforts, SK innovation strives to ultimately grow into a respected and beloved company by truly enhancing a rewarding feeling and pride in employees and receiving trust and support from society.

Social Contribution Implementation System

Along with the company's philosophy, SK innovation defines the basic aim of social contribution as the “company creating sustainable happiness” by “Happinnovation”. Beyond simple dispensation of aid to our neighbors in difficult situations, the company has constantly considered fundamental solutions for social issues with social enterprises and social contribution. Further, all employees consider the issue of corporate social responsibility in the cultural perspective and fulfill their roles and responsibilities. For this ob-

jective, SK innovation has organized 67 volunteer corps under the company-wide name of “SK Angels(1004) Volunteer Group” and has continuously carried out volunteer work. In 2016, the company focused the capabilities of the volunteers to support children with developmental disabilities to improve their social adaptation and to provide senior citizens living alone with a foundation of emotional support and attempted to approach social issues in a more fundamental manner.

SK innovation CSR Framework



Value Creation by Fostering Social Enterprises

Establishment and Operation of Social Enterprise “Peru Yachaywasi”¹⁾, “Peru My School”

As a measure of addressing global social issues through a social enterprise, SK innovation has established “ProSynergy,” an institution in charge of social contribution in Peru where the company’s E&P business is positioned, for the first time in the SK Group. The company has also established the 1st and 2nd Yachaywasi Branch and operated them as a social enterprise in order to promote agricultural technology in poor local farms. With the social enterprise, the company supported local agricultural workers in poverty with farming and stockbreeding training such as agricultural technology, information and consulting.

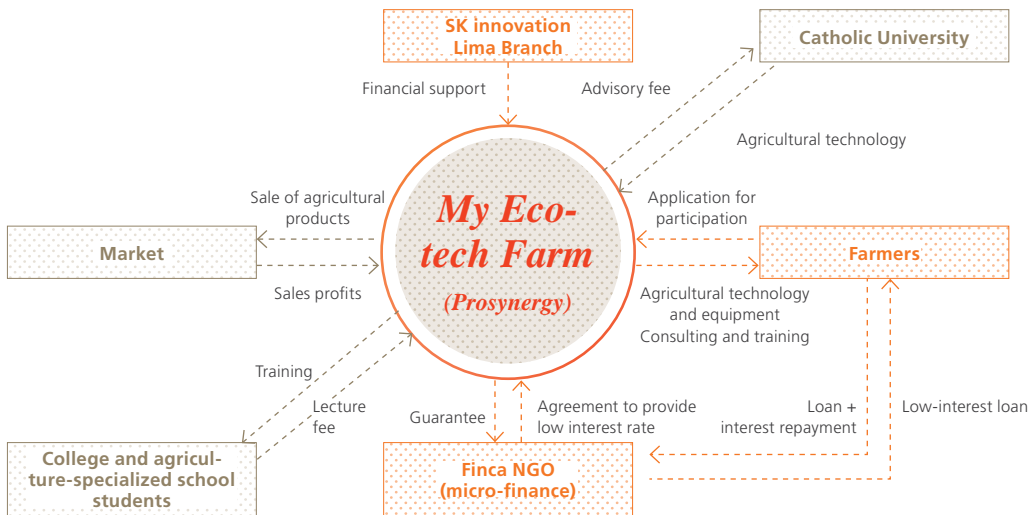
Furthermore, the branch generates joint profits for the social enterprise by selling agricultural products and contributes to improvements in the quality of farmers’ lives through cooperation with Finca, a local micro-finance program and Catholic University. These efforts have been recognized, and Yachaywasi won the IICA Fund²⁾ worth USD 239,302 from the Department of Foreign Affairs in Finland in 2015 and conducted the business to expand the dissemination of new and renewable energy in rural areas and to raise the energy self-sufficiency rate in farms. In 2016, the total sales of Yachaywasi increased by 22% compared to the previous year.

2,304 farmers including 1,974 local residents utilized products and services from Yachaywasi; about 630 farms out of all participating farms expressed their satisfaction with the program run by SK innovation. In addition, the company has supported high-quality education services by providing low-income students, parents and faculty members in Peru with a web-based education and information platform through the educational platform, “My School Program”. In 2017, we will further vitalize the program with the participation of some local schools thanks to funding by Tacna local government and support from the Peruvian Embassy in Korea.

- 1) Yachaywasi: Yachay(Teaching) + Wasi(Place) in Quechuan, meaning a “teaching place”
- 2) IICA(International Institute for Cooperation in Agriculture) Fund: A social contribution fund, established to support poor rural areas in the world to supply new and renewable energy



Yachaywasi Business Model



Projects for Discovering and Supporting Social Enterprises

SK innovation puts extraordinary effort into creating an ecosystem that allows social enterprises to conduct management activities competitively in this society other than by directly setting up a social enterprise by a company. From 2013, we have started projects to discover and support social enterprises to create jobs for the disadvantaged and ensure their independence by fostering social enterprises. Up to the current time, the company has offered KRW 1.7 billion in business expenses and provided support to launch various business models by 13 institutions, including parcel service, laundry, catering, agricultural products processing and disused cars and leather upcycling; as a result, six institutions have been converted

into social enterprises or social cooperatives. From 2015, the company also expanded the level into more various classes including people with disabilities, women from multicultural families and North Korean defectors in addition to the elderly, existing targets for job creation support; as a result of this expansion, a total of 252 quality jobs were generated. We were not just limited to providing business expenses but operated the advisory committee, which is composed of academic and social enterprise specialists, and continuously supported customized consulting such as accounting, HR management and marketing and consulting for conversion into a social enterprise to have actual competitiveness in business.

Social Enterprise Support Project Performance

1st project(May 2013 – December 2015)

Institution name	Region	Business	Jobs	SE ¹⁾ conversion
Yeomin Dongrak	Yeonggwang	Production and sale of dried agricultural products	6	S Cooperative ²⁾ (Jul. 2015)
Sharing People	Jeonju	Production and sale of Jeonju bread	18	SE(Nov. 2016)
Daegu Senior Club	Daegu	Senior parcel service for apartment complexes	12	Preliminary SE (Aug. 2015)
Jongno Senior Club	Jongno	Parcel service for Seoul Metro	58	-

2nd project(June 2014 – December 2016)

Institution name	Region	Business	Jobs	SE conversion
Seongnam Senior Club	Gyeonggi	Production and sale of rice cake(HACCP)	24	S Cooperative (expected)
Bundang Senior Club	Gyeonggi	Senior laundry workplace	13	S Cooperative (expected)
Daedeok Senior Club	Daejeon	Cultivation of blueberries – Production of processed products	28	Preliminary SE (first half of 2017)
Cheongwon Senior Club	Cheongju	Lunch box delivery and restaurant operation	27	S Cooperative (expected)

3rd project(July 2015 – December 2017)

Institution name	Region	Business	Jobs	SE conversion
Gyeongbuk Disabled Youth Center	Andong	Café for youths with developmental disabilities	10	Preliminary SE (Nov. 2016)
Rural Community Research Institute	Jecheon	Production and sale of bread by women from multicultural families	12	SE(Feb. 2016)
Dobong Senior Club	Jecheon	Senior laundry workplace	19	Preliminary SE (first half of 2017)
Sunrising Clubhouse	Seoul	Café for people with mental disorders	14	S Cooperative (Aug. 2015)
PPL(Corporation)	Gyeonggi	Disused car and leather upcycling by North Korean defectors	11	Preliminary SE (first half of 2017)

- 1) Social Enterprise
2) Social Cooperative

“Energy Magic School” for Training the Awareness of Energy and Environment

SK energy has implemented the “Energy Magic School” for preschoolers to enable growing children to recognize the significance of energy resources and to have a daily routine in saving energy. As an experience-based program in combination with entertaining elements such as magic, the program provided training in energy types and methods of saving and generating energy. The program for children with developmental disabilities was attended by employees as volunteers who had positive reactions. In 2016, the training program was enjoyed by 4,200 children in Seoul and Anyang. In 2017, the company will reorganize the school into a program by SK innovation and increase the various contents in which more children can participate.

Science Mentors for Growing Children

Since 2013, SK innovation Global Technology has actively participated in the project of “Science Mentor for Growing Children” led by Yuseong-gu District in Daejeon. The center invites 100 local students who are interested in science and provides them with interesting opportunities to experience science such as visiting an exhibition hall, carrying out scientific experiments and boarding an electric vehicle. We also carry out science mentoring activities to solve any questions in science with researchers, thus the company contributes to help local students grow into scientifically talented people as a pillar of future national competitiveness.



Energy Magic School



Sharing People(Social Enterprise)



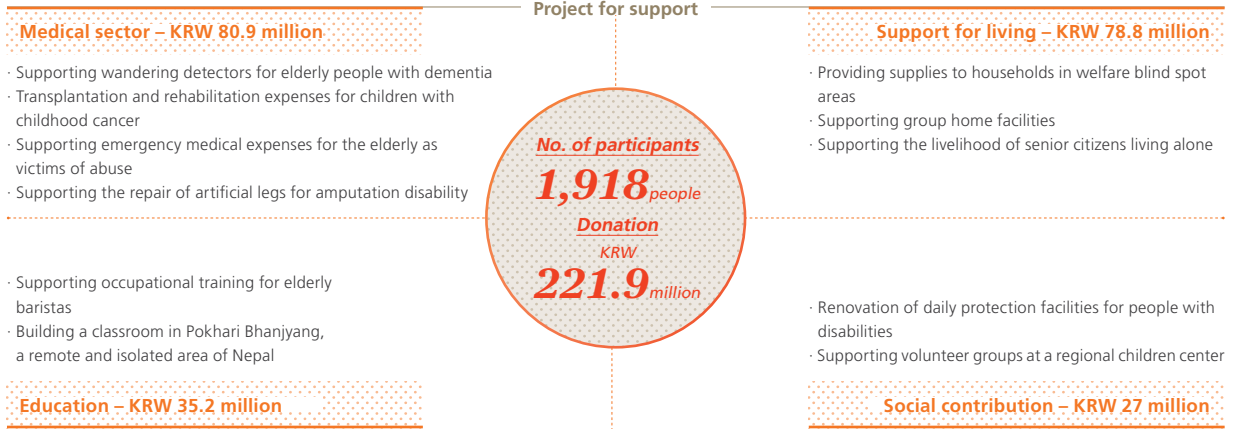
Science Mentors for Growing Children

Support for the Disadvantaged and Regional Mutual Growth

Sharing Up and Happiness Up(Donation by Employees)

As a donation program in which SK innovation employees voluntarily engage, the "Sharing Up and Happiness Up Program" is a donation program which allows employees to donate their desired donation target by one sponsorship account for each employee. For 11 years since 2007, this program has utilized the generous donations from

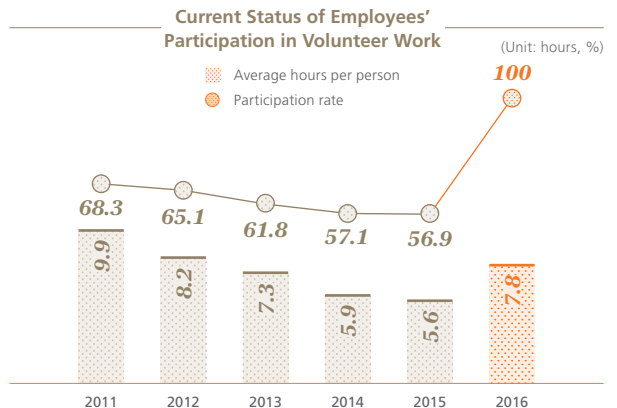
employees and donated funds to various sectors, including support for children with leukemia and childhood cancer, medical expenses for elderly people as victims of domestic abuse, construction of a classroom in a remote area of Nepal, a project to repair the artificial legs of disabled people in remote and isolated areas, and support of daily necessities for senior citizens living alone.



Happiness Sharing and Bridging Love(Volunteer Work by Employees)

In 2014, SK innovation organized "SK Angels(1004) Volunteer Group" as its volunteer corps, composed of 67 volunteer teams. As all employees join the volunteer group, each volunteer team carried out proactive voluntary work. In 2016, under the social circumstances with gradually decreasing interest and participation in volunteer work, the company recognized the volunteer work culture as a crucial element not only in social contribution but also corporate culture, conducted a campaign for one-time participation by single employees extensively and broadened a bond of sympathy in all employees. In addition, we selected intensive sectors for the issues of the elderly living alone and children with developmental disabilities for which social problems become severe and social interest increases. The company also provided support to ease a sense of isolation and recover a sense of pride, while carrying out company-wide volunteer work under the theme of improvement of social adaptation for the independence of children with developmental disabilities in daily life. Apart from economic support, SK innovation emphasized the emotional aspect and functionalized volunteer work based on social interaction; as a result, about 5,600 employees participated 100% in the activity. Through this activity,

the program was attended by about 570 children with developmental disabilities in connection with 19 institutions such as special schools and about 1,000 elderly people living alone in cooperation with seven institutions based on support centers for senior citizens living alone. With these changes, it was found that 75% of employees or more enhanced the understanding of the disadvantaged and felt an increased sense of pride and reward as an employee of SK innovation than before.



Regional Mutual Growth Program

• Ulsan

SK innovation has held the Rose Festival at the Ulsan Grand Park Rose Garden since 2006 when the company built and made a donation to Ulsan Grand Park to promote happiness for residents of Ulsan. In 2016, we held the 10th Rose Festival in partnership with Ulsan Metropolitan Government and created beautiful memories for approximately 290 thousand visitors from across the country. In addition, the company supported five enterprises to create jobs in society and carried out various other activities such as supporting the “Bunch of Happiness” to stabilize the living of the socially disadvantaged, providing rice, renovating houses for the elderly living alone and sharing kimchi.

• Incheon

SK incheon petrochem has organized a mutual-growth community with local residents and carried out various activities to develop the local community. The site focuses on supporting a high-quality education environment for students in surrounding areas to contribute to cultivating future human resources and developing the local community. The company solved problems regarding the operation of the plant with local residents through two-way communication for a “reliable plant” by announcing the agreement for a win-win relationship with local residents and reliable projects (safety verification, health impact assessment). The business site also operates a program to create an environment with a virtuous cycle in which local students can grow into talented human resources in the future and return their talent to the local community. They can do this by boosting the academic performances of local students in an adjacent old downtown, providing fair educational opportunities and improving the poor education environment. The company has enhanced the academic achievement level by providing academic support programs for local students, such as after-school classes for elementary school students and academic mentoring and summer camp for middle school students (total of 571 students benefited from the program in 2016). The Incheon business site also contributes to fostering future

human resources by improving the education environment, including supporting school uniforms for students in the disadvantaged class (total of 497 students in 2016) and scholarship for students in surrounding areas (Incheon Scholarship Foundation).

Moreover, the company opens the business site with cherry blossoms and holds the cherry blossom festival in every April to entertain local residents. The Incheon business site also runs various programs for supporting the local community, including traditional market shopping program, sisterhood ties between one company and one market to contribute to vitalizing traditional markets, campaign to encourage using local shops and participation in and sponsorship for “Seogu Kimchi Making Festival for Sharing Love” to show love for neighbors in welfare facilities with senior citizens living alone, children, people with disabilities and homeless people.

• Seosan and Jeungpyeong

Seosan Plant actively carries out voluntary work for children with disabilities and elderly citizens living alone. From October 2016, the plant conducted social experience learning such as visiting the chrysanthemum festival and having a Christmas Santa Claus experience activity with children with developmental disabilities at Issac Special Nursery Center. Through these activities, Seosan Plant aims to form a sense of empathy with disabled children and prepare continuous opportunities to lay the foundation for children to adapt to society. At Jeungpyeong Plant, the company offers scholarships to students in the low-income and disadvantaged class on an annual basis and holds an event for sharing kimchi with senior citizens living alone to take the lead in social contribution in the local community.



Ulsan Grand Park Rose Festival

Sports

Jeju Youth Soccer Council

SK energy operates the Youth Soccer Council by Jeju Special Self-Governing Province to vitalize sports for young people in Jeju. The council creates the environment to offer high-quality soccer training through various programs such as holding a soccer camp and soccer matches, giving a soccer class for the disadvantaged and fostering excellent players and instructors.

Exciting Handball Class with SK Sugar Gliders

SK Sugar Gliders, an SK female handball team, has operated the “Exciting Handball Class with SK Sugar Gliders” as part of talent donation since 2013. For elementary and middle schools in the home of the team, Uijeongbu, the handball team provides various classes including the theories and basics of handball and recreation. In addition, the “SK Happiness Sharing Handball Career Exploration Concert” was held to have a meaningful time by talking with young handball athletes about the future vision of handball and career exploration as an athlete.

History of Jeju Youth Soccer Council

- **2014** Established a voluntary association
- **2015** Launched a non-profit corporation
- **2016** Designated as a preliminary social enterprise
- **2017** Prepared for social enterprise certification



Handball Class Activity

•••• SHE Management¹⁾ ••••

SK innovation applies the concept of CSV(Creating Shared Value), which secures trust from the society and grows and develops with society beyond the conventional concept of social responsibilities such as minimizing accidents and pollutants. As this is the aim of SHE management pursued by SK innovation, we aim to achieve the status of a global top-tier company by establishing and operating higher SHE standards than legal requirements and growing into a role model for similar companies in the industry.

SHE Management System

SK innovation has analyzed required management factors for safety management by global advanced companies, established 13 major management factors encompassing those analysis results and reflected the operating system to implement these factors in the company's regulations and sub-procedures.

In addition, we carry out activities to boost the implementation of a system based on CEO leadership and perform audits on a regular basis to improve and supplement any insufficiencies to set up and operate a virtuous cycle of "Plan-Do-Check-Action."

SHE Management System Framework



1) SHE(Safety, Health, Environment)

Occupational Safety and Health

Spread of Awareness to Internalize Safety Culture

Ulsan Complex business site held the “Challenge! Ulsan Complex SHE Champion Contest”. This event was held to recognize the significance of SHE practice by sharing the best practices for safety in each plant and experiencing safety practice by employees in person. Various activities were carried out, such as SHE photo and slogan contest, SHE champion plant selection, sharing best cases and Challenge! Golden Bell and experience events. About 1,300 employees participated in the contests. SK innovation expects this event to contribute to maintaining zero-accident business sites.

Operation of Occupational Safety and Health Commission

SK innovation runs the Occupational Safety and Health Commission in each business site in accordance with the Occupational Safety and Health Act. In the Occupational Safety and Health Commission, both labor union and company discuss and decide important safety and health issues to prevent any occupational accidents and improve the working environment for employees. The commission is composed of equal numbers of labor union members and management and includes the representatives of workers and business sites. In 2016, the commission had a discussion over improving working clothes and raising safety awareness and attended the advanced safety culture exhibition jointly by labor union and management.

Operation of Emergency Response System

SK innovation operates the emergency response system to cope with any emergency situations such as fire, explosion, leakage of toxic gas or natural disaster. While safety facilities suitable for the characteristics of the process in each process, the company has an in-company emergency response group to swiftly disseminate and cope with any incident. It focuses on preventing the spread of the incident through early response. Ulsan Complex organizes the emergency response group based on the office of emergency management and on-site command office under the supervision of a business director and leadership of a plant director, including technical support, contact, administrative support, financial support, on-site support, on-site response, fire extinguishing and prevention squad and personnel control squad. The emergency response group is operated by systemic division based on the size classified into Levels 1 to 5.

Implementation of Joint Emergency Response Drill

SK innovation has established a company-wide emergency response drill system. As the scope of emergency drill, which was previously conducted based on business sites, has broadened to the company-wide range, management members including the CEO fully acknowledge the roles of each functional group and emergency response process in case of emergency. We conduct the emergency response drill in a regular and repetitive way so that all members from management to employees are fully aware of their roles and process and fulfill their duties in any emergency.

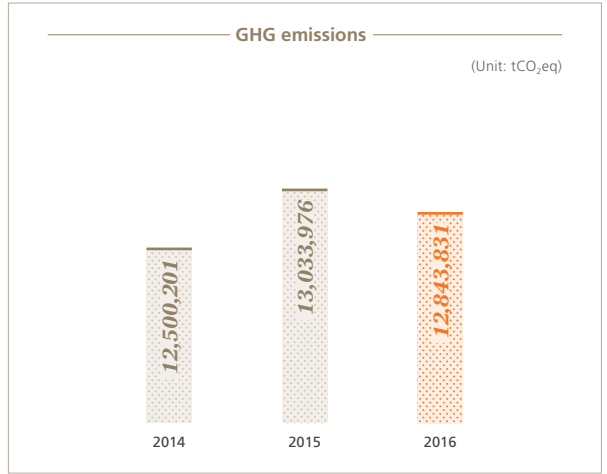
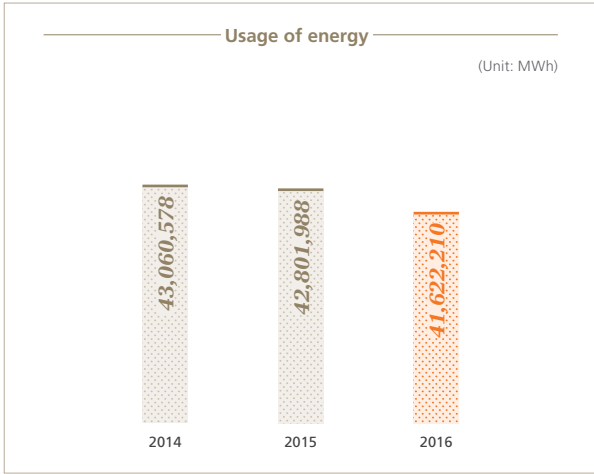


Emergency Response Drill

Health Management for Employees

SK innovation operates various facilities and programs to achieve health promotion for employees. Ulsan Complex runs an in-company medical center and provides a support program to present the right direction for health management and improve daily routine for health. In 2016, the center held lectures to prevent adult diseases, operated a promotion center for health experience and provided guidance on weight management and appropriate exercise. A total of 3,204 employees participated in the health management program. SK innovation helps employees to concentrate on their work based on physical and mental health by systemic health management.

Respond to Climate Change

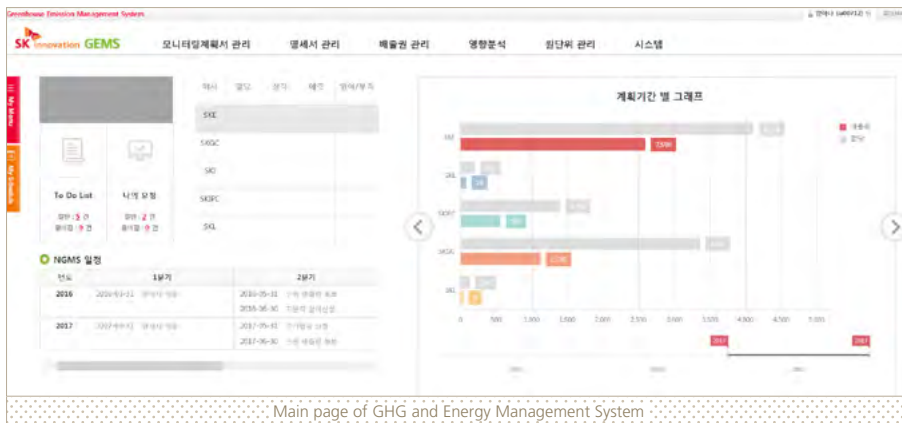


Energy Use

SK innovation manages the usage of energy based on the “Guidelines for the Operation of Greenhouse Gas and Energy Target Management” led by the government and collects data through Greenhouse Energy Management System(GEMS). The total amount of energy use in 2016 was 41,622,210MWh, down by 2.8% compared to the previous year. We aim to achieve a reduction of 9.5% compared to BAU by 2020.

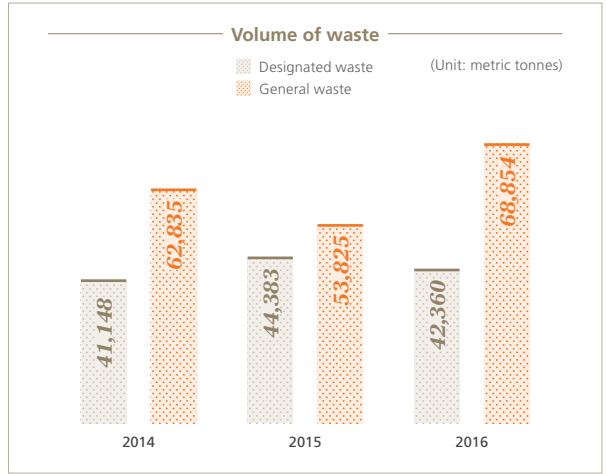
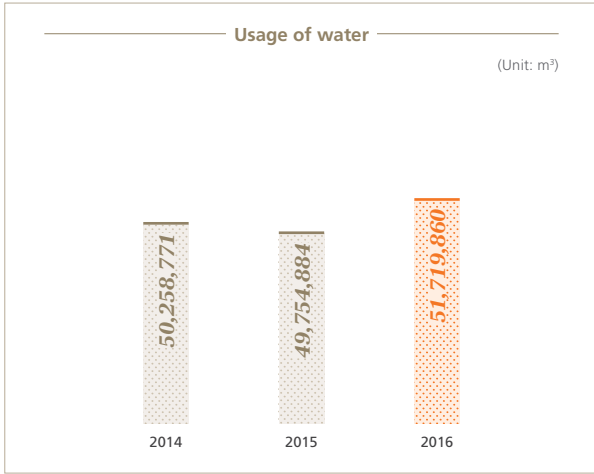
GHG Emission

The amount of GHG emissions is calculated on the basis of the Korea emission trading statement guidelines. The scope of calculation includes the petrochemical, chemical and lubricant business sectors and R&D, logistics, other business sectors including Ulsan Complex(SK energy, SK global chemical, SK lubricants), SK incheon petrochem’s Incheon business site; overseas business sites and supply chain are excluded. To deal with the Emission Trading Scheme more effectively, which has been implemented since 2015, SK innovation manages the amount of GHG emissions and basic unit based on the energy use. The total amount of GHG emissions in 2016 was 12,843,831tCO₂eq, which was a decrease of 1.46% compared to the previous year. We aim to achieve a reduction of 9.5% compared to BAU by 2020.



Main page of GHG and Energy Management System

Reduction of Environmental Impacts on Business Sites



Current Status of Water Pollutants Management

Business site	Wastewater treatment facility	Treatment method	Place of emission
SK energy(Ulsan)	Ulsan Complex Wastewater Treatment Facility	Biological + Advanced treatment	Public water body(East Sea)
	No. 2 FCC Wastewater Treatment Facility	Biological treatment	Yongyeon Sewage Treatment Plant
SK global chemical(Ulsan)	PE PP Wastewater Treatment Facility	Physicochemical treatment	Yongam Wastewater Treatment Plant
	EPDM Wastewater Treatment Facility	Biological treatment	Yongam Wastewater Treatment Plant
SK incheon petrochem(Incheon)	SK incheon petrochem Wastewater Treatment Facility	Biological + Advanced treatment	Gajwa Sewage Treatment Plant

Management of Water Resource

The usage of water by SK innovation is calculated based on water bills for major domestic business sites, including headquarters. Major sources of water intake include Daeam Dam, Daecheong Dam and Asan Bay. The usage of water in 2016 was 51,719,860 tons, a partial increase due to activities to improve the process in the plant¹⁾.

1) Activities to reform a part of the process to increase facility output(Revamp)

Management of Water Pollutants

SK innovation has installed and operated high-efficient and biological wastewater processing facility in which remote water quality monitoring and control system are applied. Any wastewater with pollutants in the production process is finally discharged through an activated carbon tower. Processed wastewater is partially recycled as water for fire extinguishing and landscaping to minimize the discharge of wastewater. We also apply a more stringent wastewater discharge concentration level than the legal standards and strictly manage the level.

Waste Management

SK innovation manages the amount of waste discharge by using an independently developed waste management system. Any generated waste is processed by self-reclamation, while part of the waste is recycled, incinerated and reclaimed by consigning the task to a specialist company whose consignment ability is verified. Waste oil is utilized to produce regenerative fuel. In 2016, waste oil collected from waste treatment facilities was partially disposed of or recycled and input to a crude oil tank again to reduce the amount and cost of waste oil generated. In terms of I/E material business, we adopted a waste oil recycling facility and input 65% of waste oil generated in the process, which decreased the amount of waste generation and saved an annual cost of KRW 1.07 billion as well as reduced oil waste.

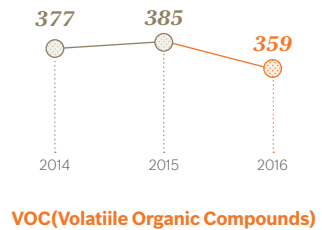
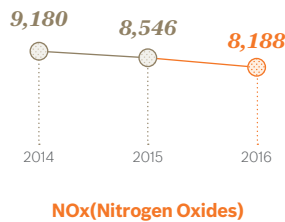
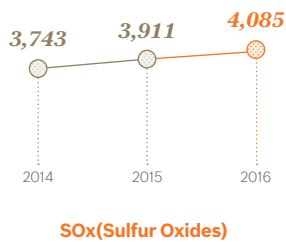
Management of Air Pollutants

SK innovation monitors the current status of air pollutants from major discharge facilities in business sites such as a heating furnace and boiler by using TMS¹⁾ on a real-time basis. With the aim of preventing any damage by hazardous air pollutants(HAPs,²⁾ the Company also applies LDAR³⁾ system at arsenic acid discharge facilities such as a pump, flange and valve and monitors such facilities at least once per year. We also operate odor-preventing facilities to sustain pleasant air environment in the local communities and business sites and run a channel for reporting civil complaints regarding environmental

- 1) TMS: Telemetering System
- 2) Hazardous Air Pollutants
- 3) Leak Detection and Repair

Emissions of Air Pollutants

(Unit: metric tonnes)



Efforts to Prevent Oil Spill

Prevention of Marine Pollution

SK innovation prepares work standards and procedures and reinforces on-site monitoring practices to prevent any marine pollution accidents. A marine pollution prevention manager stays at and manages each facility such as single Buoy⁴⁾ mooring, Dolphin⁵⁾, crude oil tank and oil storage tank. In 2016, the Company increased the number of marine pollution prevention managers and appointed additional managers to allow managers to work fully in the nighttime shift.

Soil Environment Management

SK innovation conducts various activities to prevent soil pollution, which can be caused by leakage of pollutants. As we have agreed on the "Voluntary Agreement for the Preservation of Soil Environment" with the Ministry of Environment, we voluntarily purify contaminated soil and prevent any risk of the spread of soil pollution in advance. Furthermore, we conduct voluntary soil contamination survey every other year and monitor the level of soil contamination.



Oil spill response drills

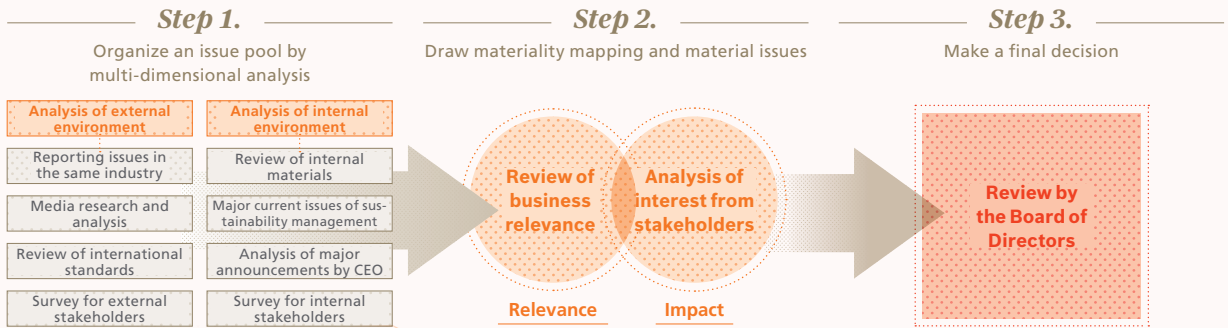
- 4) Buoy: An oil loading/unloading facility to be installed over the sea to discharge oil from a large-sized oil tanker, which cannot be docked at the pier
- 5) Dolphin: A bridge to be installed heading out to sea from the land to dock a large-sized vessel






Appendix

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Materiality Test

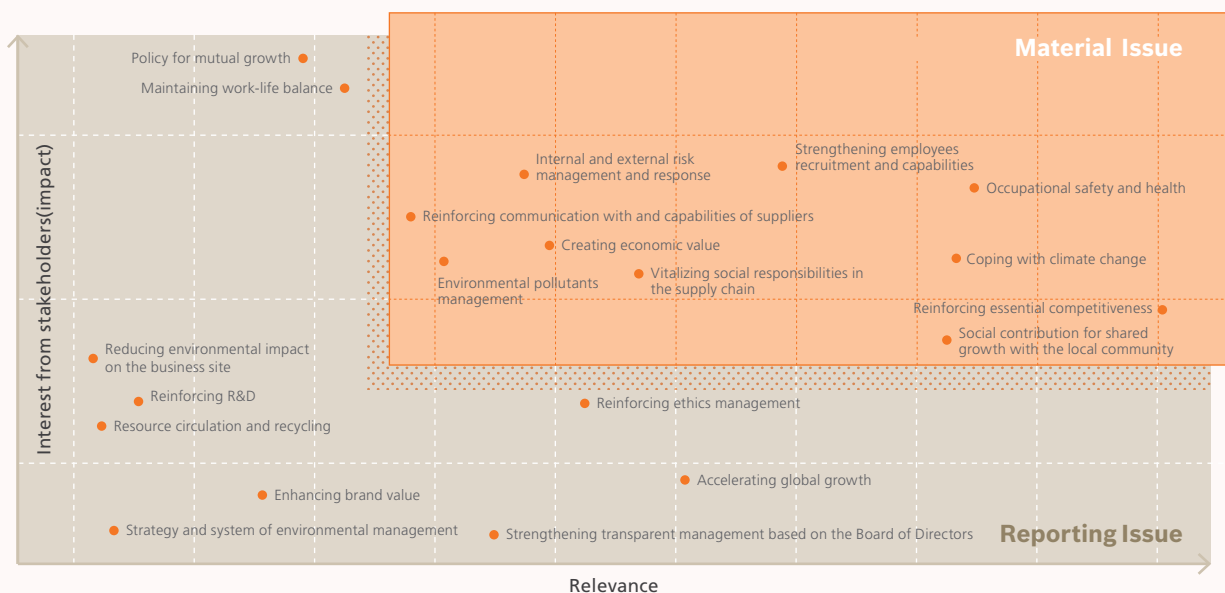
SK innovation draws any material issues, which may have an impact on the company's sustainability management, by taking into account various internal and external issues surrounding the management environment and opinions from stakeholders and discloses such content in the sustainability report in detail.



Stakeholders	Issues in 2016	Major communication channels
 <p>Customer</p>	<ul style="list-style-type: none"> · Social contribution for shared growth with the local community · Creating and distributing economic value · Policy on mutual growth 	<ul style="list-style-type: none"> · Operation of the call center "Customer Happiness Call Center" · Operation of EnClean.com · Annual meeting and event · Website(SK innovation), Facebook(SK innovation, SK energy, SK lubricants), blog(SK innovation, SK energy), etc.
 <p>Employees</p>	<ul style="list-style-type: none"> · Reinforcing essential competitiveness · Policy for mutual growth · Social contribution for shared growth with the local community 	<ul style="list-style-type: none"> · Intranet(tongtong, etc.) · In-house broadcast(gbs) and newsletter by each company · iCON(internal communication messenger, Change Facilitator) · CEO-Employees communication(Well-Comm. Day) and meeting · Happy Walk
 <p>Shareholders and Investors</p>	<ul style="list-style-type: none"> · Strengthening transparent management based on the Board of Directors · Reinforcing essential competitiveness · Preventing unfair trade 	<ul style="list-style-type: none"> · General Shareholders Meetings, Earnings Releases · Domestic and overseas NDR(Non-Deal Roadshow) · Domestic and overseas conference · 1:1 meeting, e-mail/phone counseling · Disclosures, etc.
 <p>Local Communities</p>	<ul style="list-style-type: none"> · Communication with stakeholders · Social contribution for shared growth with the local community · Vitalizing social responsibilities in the supply chain 	<ul style="list-style-type: none"> · Meeting with local organizations · Participation in local community committees and living and safety commissions for the police precinct office in the adjacent region · Engagement in welfare facilities and group operating commissions in the adjacent region
 <p>Suppliers</p>	<ul style="list-style-type: none"> · Policy on mutual growth · Reinforcing communication with and capabilities of suppliers · Social contribution for shared growth with the local community 	<ul style="list-style-type: none"> · Regular meeting with suppliers · Supplier CEO Meeting · Regular meeting with logistics, machines, equipment and inspection companies

In 2016, SK innovation strengthened the composition of stakeholder surveys and conducted assessments by dividing the potential impacts of each issue on the company into four aspects—finance, reputation, operation and strategy. Through this process, the company aims to identify any risks which may be caused by each issue and establish a more strategic sustainability management response system.

Materiality Test Matrix



Rank	GRI G4 aspects	Issue	Stakeholder impact assessment				Page
			Finance	Reputation	Operation	Strategy	
1	Occupational health and safety	Occupational safety and health			√		42~45, 79
2	Employment, training and education	Strengthening employee recruitment and building capabilities			√		66~69
3	Emissions	Coping with climate change				√	46~49, 80
4	Strategy and analysis	Internal and external risk management and response	√				59~61
5	Economic performance	Reinforcing essential competitiveness				√	28~31
6	Supplier Assessment for impacts on Society	Vitalizing social responsibilities in the supply chain		√			50~53
7	Economic performance	Creating economic value	√				36, 86
8	Procurement practice	Reinforcing communication with and capabilities of suppliers			√		70~72
9	Effluent and waste	Environmental pollutants management		√			45, 81~82
10	Local community	Social contribution for shared growth with the local community		√			73~77

Sustainability Performance - Economy

Sales and Operating Income by Business Segment

(Unit: KRW 100 million)

Classification	2014		2015		2016		
	Sales	Percent of sales	Sales	Percent of sales	Sales	Percent of sales	
Sales	Petroleum	490,563	74%	352,997	73%	283,699	72%
	Chemical	126,352	19%	92,880	19%	76,865	19%
	Lubricant	29,818	5%	26,188	5%	25,358	6%
	Petroleum development, etc.	11,874	2%	11,499	2%	9,283	2%
Operating income		Operating income	Percent of operating profit	Operating income	Percent of operating profit	Operating income	Percent of operating profit
	Petroleum	-9,990	—	12,991	66%	19,391	60%
	Chemical	3,592	—	4,310	22%	9,187	28%
	Lubricant	2,899	—	2,947	15%	4,683	15%
	Petroleum development, etc.	1,672	—	-451	-2%	-978	-3%

Distribution of Economic Value

(Unit: KRW 100 million)

Field	Recipient	Expenditure/Investment	2014	2015	2016
Economy	Corporation	R&D ¹⁾	1,344	1,654	1,453
		Acquisition of tangible assets ²⁾	16,417	4,609	6,345
	Investors	Total cash dividend	-	4,474	5,965
Society	Employees	Salaries ³⁾	8,969	11,653	11,116
	Suppliers	Purchase of suppliers products	7,446	7,436	9,536
	Community	Social contribution investments	306	84	416
	Government	Corporate tax ⁴⁾	4,494	4,072	5,193

1) Based on Annual Report 2016

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 refers to the item under cost by category labeled 'employee wages.'

4) Based on Annual Report 2016's consolidated cash flow statement in consolidated financial statement

Key Sustainability Performance - SHE

Energy Consumption

(Unit: MWh, KRW million)

Energy Target for 2020

9.5% reduce in comparison to 2020 BAU

	Classification	2014	2015	2016
Total energy consumption ³⁾	Petroleum, chemical and lubricant business sector(Incheon, Ulsan) ¹⁾	42,201,340	41,752,039	40,629,371
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics) ²⁾	859,238	1,049,949	992,839
	Total	43,060,578	42,801,988	41,622,210
Fuel	Petroleum, chemical and lubricant business sector(Incheon, Ulsan)	31,253,273	29,778,056	29,553,247
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	741,828	827,383	900,466
	Total	31,995,101	30,605,439	30,453,713
Electricity	Petroleum, chemical and lubricant business sector(Incheon, Ulsan)	9,512,487	10,085,171	9,920,573
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	585,192	715,626	733,489
	Total	10,097,679	10,800,797	10,654,062
Steam	Petroleum, chemical and lubricant business sector(Incheon, Ulsan)	7,202,515	7,408,737	6,975,112
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	-	-	-
	Total	7,202,515	7,408,737	6,975,112
Non-renewable energy consumption	Petroleum, chemical and lubricant business sector(Incheon, Ulsan)	5,766,935	5,519,925	5,819,561
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	467,782	493,060	641,116
	Total	6,234,717	6,012,985	6,460,677
Total energy consumption cost	Petroleum, chemical and lubricant business sector(Incheon, Ulsan)	2,504,694	2,185,690	1,656,636
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	50,325	48,205	44,411
	Total	2,555,019	2,233,895	1,701,047

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

3) Total energy consumption: fuel·electricity·steam purchase – non-renewable energy consumption

GHG Emissions

(Unit: tCO₂eq)

Greenhouse Gas Target for 2020

9.5% reduce in comparison to 2020 BAU

Classification		2014	2015	2016
Total GHG emissions (Scope 1 + Scope 2)	Petroleum, chemical and lubricant business sector(Incheon, Ulsan) ¹⁾	12,261,843	12,742,702	12,550,646
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics) ²⁾	238,358	291,274	293,185
	Total	12,500,201	13,033,976	12,843,831
Total direct emissions (Scope 1)	Petroleum, chemical and lubricant business sector(Incheon, Ulsan)	9,896,681	10,386,561	10,358,002
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	135,819	152,634	164,675
	Total	10,032,500	10,539,195	10,522,677
Total indirect emissions (Scope 2)	Petroleum, chemical and lubricant business sector(Incheon, Ulsan)	2,365,162	2,356,141	2,192,644
	R&D, logistics and other business sector(Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	102,539	138,640	128,510
	Total	2,467,701	2,494,781	2,321,154

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

Water

(Unit: m³)

Total Volume Target of Water Usage 2020

52,368,645m³

Classification		2014	2015	2016
Total volume of water usage	Petroleum, chemical and lubricant business sector ¹⁾	49,152,836	48,840,236	50,778,337
	R&D, logistics and other business sector ²⁾	1,105,935	914,648	941,523
	Total	50,258,771	49,754,884	51,719,860
Usage of municipal water supplies	Petroleum, chemical and lubricant business sector	49,152,836	48,840,236	50,778,337
	R&D, logistics and other business sector	1,096,212	904,883	926,839
	Total	50,249,048	49,745,119	51,705,176
Usage of groundwater (freshwater)	Petroleum, chemical and lubricant business sector	0	0	0
	R&D, logistics and other business sector	8,873	8,969	13,768
	Total	8,873	8,969	13,768
Usage of rainwater	Petroleum, chemical and lubricant business sector	0	0	0
	R&D, logistics and other business sector	850	796	916
	Total	850	796	916

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

Waste

(Unit: metric tonnes – based on a dried form)

Target of Total
Waste for 2020**103,715** metric tonnesTarget of Recycling
Ratio for 2020**67.5%**

	Classification	2014	2015	2016
Total volume of waste generated	Petroleum, chemical and lubricant business sector ¹⁾	90,197	84,661	96,021
	R&D, logistics and other business sector ²⁾	13,787	13,547	15,193
	Total	103,983	98,208	111,214
Discharge Volume by Treatment Method				
In-house treatment (landfill)	Petroleum, chemical and lubricant business sector	299	0	0
	R&D, logistics and other business sector	0	0	0
	Total	299	0	0
Outsourced volume (incinerator / landfill)	Petroleum, chemical and lubricant business sector	38,017	31,058	38,233
	R&D, logistics and other business sector	2,345	1,867	1,361
	Total	40,362	32,925	39,593
Outsourced volume (Recycled)	Petroleum, chemical and lubricant business sector	51,881	53,603	57,788
	R&D, logistics and other business sector	11,442	11,680	13,833
	Total	63,323	65,284	71,621
Waste recycle rate	Petroleum, chemical and lubricant business sector	57.5%	63.3%	60.2%
	R&D, logistics and other business sector	83.0%	86.2%	91.0%
	Total	60.9%	66.5%	64.4%
Waste Discharge by Type				
Designated waste³⁾	Petroleum, chemical and lubricant business sector	29,690	33,338	29,835
	R&D, logistics and other business sector	11,458	11,045	12,525
	Total	41,148	44,383	42,360
General waste⁴⁾	Petroleum, chemical and lubricant business sector	60,506	51,323	66,186
	R&D, logistics and other business sector	2,329	2,502	2,668
	Total	62,835	53,825	68,854

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

3) Designated waste: As waste stipulated by the Presidential Decree from the Korean government, designated waste refers to any hazardous material that contaminate the surrounding environment such as waste oil and waste acid in "industrial wastes", which are generated in the "factory" stipulated in article 2-1 of the Industrial Placement and Factory Construction Act.

4) General waste: Waste generated from a business site except for designated waste and construction waste

Air Pollutant Emissions Volume

(Unit: metric tonnes)

	Classification	2014	2015	2016	Note
NOx emissions³⁾	Petroleum, chemical and lubricant business sector ¹⁾	9,180	8,546	8,188	
	R&D, logistics and other business sector ²⁾	0	0	0	Insignificant volume generated
	Total	9,180	8,546	8,188	

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

3) Any NOx emissions which are generated by business trips and commuting by employees are not included.

(Unit: metric tonnes)

	Classification	2014	2015	2016	Note
SOx emissions³⁾	Petroleum, chemical and lubricant business sector ¹⁾	3,743	3,911	4,085	
	R&D, logistics and other business sector ²⁾	0	0	0	Insignificant volume generated
	Total	3,743	3,911	4,085	

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

3) Any SOx emissions which are generated by business trips and commuting by employees are not included.

(Unit: metric tonnes)

	Classification	2014	2015	2016	Note
VOC emissions³⁾	Petroleum, chemical and lubricant business sector ¹⁾	377	385	359	
	R&D, logistics and other business sector ²⁾	0	0	0	Insignificant volume generated
	Total	377	385	359	

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

3) All VOC emissions which are generated from non-methane VOC's and stationary sources are included.

(Unit: metric tonnes)

	Classification	2014	2015	2016	Note
Amount of hydrocarbon emissions	Petroleum, chemical and lubricant business sector ¹⁾	0	0	0	
	R&D, logistics and other business sector ²⁾	0	0	0	
	Total	0	0	0	

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

(Unit: metric tonnes)

	Classification	2014	2015	2016	Note
Methane	Petroleum, chemical and lubricant business sector ¹⁾	1,862	1,995	2,024	
	R&D, logistics and other business sector ²⁾	4	7	6	
	Total	1,866	2,002	2,030	

1) Petroleum, chemical and lubricant business sector: SK energy(Ulsan), SK global chemical(Ulsan), SK lubricants(Ulsan), SK incheon petrochem(Incheon)

2) R&D, logistics and other business sector: Battery production line(Seosan), Battery and circuit material production line(Jeungpyeong, Cheongju), Global Technology(Daedeok R&D Park), Logistics Center

**Lost-Time Incident Rate(LTIR) Target
for 2020¹⁾**

0.32

1) Integrated target including all employees and suppliers(cases per million working hours)

Occupational safety and health

(Unit: case, cases per million working hours)

Classification		2014	2015	2016
Case of fatality	Employees	1	-	-
	Suppliers	-	-	-
	Total	1	-	-
Lost-Time Incident Rate (LTIR)	Employees	0.51	0.39	0.32
	Suppliers	0.97	0.71	0.54
	Total	0.80	0.56	0.46
Total Recordable Incidents Rate(TRIR)	Employees	1.03	0.86	0.64
	Suppliers	1.52	1.27	0.68
	Total	1.34	1.08	0.66
Occupational Illness Frequency Rate(OIFR)		-	-	0.08

Process safety

(Unit: %, cases per million working hours)

Classification	2014	2015	2016
Unplanned Capacity Loss(UCL)	0.21	0.07	0.24
Rate of safety accidents in the process(Tier 1)	0.03	-	0.03

Key Sustainability Performance – Society

Employee Status by Category¹⁾

(Unit: Person)

Target of Training Hours Per Employee
for 2020²⁾

40 hours

Category		Number of people(ratio)		
		2014	2015	2016
Total number of people ³⁾		6,338(100%)	5,820(100%)	6,045(100%)
Employment type	Regular	6,231(98.3%)	5,744(98.7%)	5,915(97.8%)
	Temporary contract	107(1.7%)	76(1.3%)	130(2.2%)
Gender	Male	5,623(88.7%)	5,171(88.8%)	5,388(89.1%)
	Female ⁴⁾	715(11.3%)	649(11.2%)	657(10.9%)
Age	Under 30	734(11.6%)	589(10.1%)	522(8.6%)
	30 to 50 years of age	4,263(67.3%)	3,826(65.7%)	3,687(61.0%)
	50 years or over	1,341(21.2%)	1,405(24.1%)	1,836(30.4%)
Minorities	Disabled	130(2.1%)	94(1.6%)	94(1.6%)
	Patriots and veterans	329(5.2%)	301(5.2%)	265(4.4%)

1) Except for executives and advisors

2) Training hours per employee in 2016(base year)(27.3 hours)

3) Except for locally recruited employees in overseas business sites

4) The rate of females at the administrative position in 2016 was 4% compared to the total number of people at the administrative position.

Use of Childcare Leave and Rate of Return

(Unit: Person)

Classification		2014	2015	2016
Number of employees who used childcare leave	Male	2	4	2
	Female	61	65	65
Number of employees returning from childcare leave who worked at least 12 months following return	Male	-	1	2
	Female	25	39	48

Ratio of Labor Union Membership

Classification	Ratio
Ratio of labor union/collective bargaining applied	49.6%

Social Contribution Activities

(Unit: KRW 100 million)

Target of Local Community Investment
Ratio for 2020

75.0%

Classification	2014	2015	2016
Expenses for social contribution activities	306	84	416 ¹⁾

1) The amount of community investment in the total expenses for social contribution in 2016 was 60.8%.

Performance of Volunteer Groups

Company	Number of activities	Hours	Number of volunteer teams	Participants
SK innovation	194	11,365.5	17	1,398
SK energy	1,108	20,067	31	2,369
SK global chemical	284	3,991.5	7	949
SK lubricants	62	1,343.5	3	247
SK incheon petrochem	147	6,442	8	581
SK trading international	9	713.5	1	66
Total	1,804	43,923	67	5,610

Current Status of Major Donations¹⁾

Institution for support	Program	Institution for support	Program
Korea Handball Federation	Supporting training for the Olympics and reinforcing the capabilities of instructors and athletes	Korean Foundation for Advanced Studies	Providing academic support and fostering remarkable human resources
Community Chest of Korea	Donation for helping neighbors	Korea Association of Senior Welfare Centers	Supporting a volunteer program for senior citizens living alone
UN Global Compact Korea	Paying UNGC annual fee	The Happiness Foundation	Supporting underfunded children, vitalizing the ecosystem for social enterprises and cultivating social entrepreneurs
Incheon Human Resource Development & Scholarship Foundation	Local human resources cultivation program	Prosynergy	Social enterprise for developing local communities in Peru
Korea Disaster Relief Association	Supporting the restoration of flood damage in Ulsan		
ChildFund Korea	Campaign to find lost family members		

1) In accordance with "Article 31 Limitations of Donation of Chapter 6 in the Political Fund Act", political donations are prohibited in Korea. To comply with this law, SK innovation reflects such content to the in-company regulations. Accordingly, there was no separate political donation in 2016.

Total Number of Suppliers

(Unit: Number of suppliers – companies, Amount of product purchase – KRW 100 million)

Classification	2014	2015	2016
Number of suppliers		5,312	5,336
Amount of product purchase	7,446	7,436	9,536
Local ¹⁾ suppliers' purchases (amount)	3,710	3,767	4,833
Local ¹⁾ suppliers' purchases (percentage)	50%	51%	51%

1) Limited to the Republic of Korea

Mutual Growth Fund Contribution

(Unit: KRW 100 million)

Classification	2014	2015	2016	
Mutual Growth Fund Contribution	SK innovation	270	120	120
	SK global chemical	220	220	220
	Total	490	340	340

Current Status of Corporate Tax Payment¹⁾

(Unit: KRW 100 million)

Classification		Sales	Operating profit	Corporate tax paid
Country	Korea	438,959	33,829	4,752
	Netherlands	4,476	29	-
	U.S.	14,955	△53	140
	Spain	3,498	145	34
	Singapore	162,953	△106	180
	U.K.	37,909	△216	△2
	Indonesia	2,480	176	23
	Japan	4,930	13	7
	China	14,526	36	52
	Russia	483	△58	-
	Others(consolidated)	△289,964	△1,512	7
	Total	395,205	32,283	5,193
Region	Korea	438,959	33,829	4,752
	Asia	184,889	119	262
	Europe	46,366	△100	32
	Others	△275,009	△1,565	147
		Total	395,205	32,283

1) It is regional information on the consolidated target(based on the location), and internal transactions between consolidated targets is adjusted and reflected in the category of others.

GRI Index

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Commitment to Sustainability Management



United Nations
Global Compact

The Ten Principles of the UN Global Compact

In 2007, SK innovation joined the UNGC, the global sustainability management initiative. Since then, the company has supported the ten principles in four major sectors, including human rights, labor, environment and anti-corruption, and strictly complied with these principles by preparing a relevant system such as the policy on safety, health and environment(SHE) and establishing a code of ethics.

	Classification	Policies and activities by SK innovation
Human Rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.
	Principle 2	Make sure that they are not complicit in human rights abuses.
	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Labour	Principle 4	The elimination of all forms of forced and compulsory labor.
	Principle 5	The effective abolition of child labour.
	Principle 6	The elimination of discrimination in respect of employment and occupation.
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.
	Principle 8	Undertake initiatives to promote greater environmental responsibility.
	Principle 9	Encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Based on the philosophy of "human-centered management," SK innovation strives to commit no violation of human rights in business activities. We also recruit employees in a fair and reasonable manner and guarantee equal opportunities by considering employees' qualifications and person-job fit. Furthermore, the company acknowledges the freedom of association and collective bargaining rights and has regular communications to proactively collect and improve any grievance from employees.

SK innovation selects environmental management as its core task and establishes and complies with its independent environmental standard, which has higher standards than government requirements. The company also minimizes GHG, waste water and pollutants to conserve the natural environment and makes great effort to develop eco-friendly technology and achieve the innovation of future energy.

SK innovation has established a code of ethics for employees based on SKMS, which is the unique management system of the group, and prepared concrete practice guidelines. The company also strives to prevent any unethical behavior by operating an ethics consultation center and utilizing an online reporting channel.



UN SDGs(Sustainable Development Goals)

SK innovation relates to the objective of SDGs, which were newly presented by the UN in 2015, and seeks to contribute to developing a more sustainable environment on the earth. For this goal, the company has selected a few of the 17 sustainable development goals in total and reinforced activities, which can contribute to achieving the goal. We will establish strategic tasks and expand the related goals to boost our executive ability.

	Classification	Policies and activities by SK innovation
Goal 1	End poverty in all its forms everywhere	
Goal 2	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture	Supporting economic independence by providing local residents in overseas business regions(Peru) with support for agricultural technology(social enterprise)
Goal 3	Ensure healthy lives and promote well-being for all at all ages	Supporting senior citizens living alone near local business sites to alleviate a sense of social isolation, recover a sense of self-esteem and helping children with developmental disabilities to adapt to society
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Providing children from disadvantaged households in Incheon with academic support and improving the environment near the factory
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	Conducting activities to optimize the process in the business site and finding new technology to reduce energy consumption
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all	Supporting SME suppliers to recruit employees and raising young job seekers' competitiveness in employment through "SK Employment Stepping Stone" Program
Goal 13	Take urgent action to combat climate change and its impacts	Implementing activities to cope with climate change in overall business activities such as building strategy for emission trading scheme
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development	Preparing work standards and procedure to prevent marine environmental pollution and reinforcing on-site monitoring
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	Conducting monitoring for soil contamination level and carrying out soil purification activities

Independent Auditor's Report

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

SK innovation

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, 2016 and 2015, respectively, and the related consolidated statements of comprehensive income, consolidated changes in stockholders' equity and consolidated 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

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Korean International Financial Reporting Standards("K-IFRS") and for such internal control as the 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 of these consolidated financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 reasonability of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion of the Audit

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SK innovation Co., Ltd. and its subsidiaries as of December 31, 2016 and 2015, respectively, and their financial performance and their cash flows for the years then ended, in accordance with the K-IFRS.

10, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul **Deloitte Anjin LLC**

President Ham Jong-ho

March 3, 2017

Financial Statement

Condensed Income Statement

(Unit: KRW 100 million)

Classification	2014	2015	2016
Sales	658,607	483,563	395,205
Cost of goods sold	642,444	441,968	345,617
Gross margin	16,163	41,595	49,588
SG&A expenses	17,991	21,799	17,305
Operating income	(1,828)	19,796	32,283
Financial income	26,166	22,505	17,924
Financial costs	29,656	25,706	20,824
Gains or losses from equity method	1,308	2,570	(1,240)
Non-operating income	864	2,259	1,027
Non-operating expenses	1,220	4,884	4,937
Income before income taxes	(4,367)	16,541	24,234
Continuing operations income before income taxes	(36)	6,566	7,019
Continuing operations net income(loss)	(4,331)	9,975	17,214
Discontinued operations net income	(1,041)	(1,299)	0
Net income(loss)	(5,372)	8,677	17,214
Other comprehensive income	887	861	(102)
Total comprehensive income	(4,485)	9,538	17,112

Condensed Statement of Financial Position

(Unit: KRW 100 million)

Classification	2014	2015	2016
Current assets	148,884	128,422	149,877
Non-current assets	202,129	185,177	175,936
Total assets	351,013	313,598	325,813
Current liabilities	114,034	74,940	87,365
Non-current liabilities	76,369	68,195	55,397
Total liabilities	190,403	143,135	142,763
Capital attributed to owners of the parent company	150,003	158,897	171,031
Capital	4,686	4,686	4,686
Other paid-in capital	57,570	57,481	57,481
Consolidated retained earnings	86,360	94,496	106,708
Other capital	1,387	2,234	2,157
Non-controlling interests	10,607	11,566	12,019
Total shareholders' equity	160,611	170,463	183,050

Independent Assurance Statement

Introduction SK innovation Co., Ltd. ("SK innovation") commissioned DNV GL Business Assurance Korea, Ltd. ("DNV GL"), part of DNV GL Group, to undertake independent assurance of SK innovation Sustainability Report 2016 (the "Report"). 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 includes a review of sustainability activities and performance data over the reporting period from 1st January to 31st December 2016. This also includes:

- > Evaluation of adherence to the principles for defining the sustainability report content set forth in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 4.0
- > 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 The assurance engagement was planned and carried out using DNV GL's assurance methodology VeriSustain^{TM1)}, which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000). We provided the limited level of assurance. The audit was carried out in May 2017 and the site visits were made to the headquarters in Seoul and Ulsan Complex of SK innovation. 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 systems as they relate to selected content and performance data;
- > reviewed the materiality assessment report;
- > visited Ulsan Complex and tested the environmental data gathering process.

Limitations The engagement excludes the sustainability management, performance and reporting practices of SK innovation's subsidiaries, associated companies, suppliers, contractors and any third-parties except for SK innovation and its subsidiaries (SK energy, SK global chemical, SK lubricants, SK incheon petrochem and SK trading international) mentioned in the Report (SK mobile energy and SK battery systems were excluded from the scope). 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 (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. 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.

Conclusion 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 G4 Core option. Further opinions with regards to the adherence to the following Principles are made below;

1) The VeriSustain protocol is available upon request at DNV GL Website (www.dnvgl.com)

Stakeholder Inclusiveness

SK innovation has identified internal and external stakeholder groups such as Customers, Employees, Shareholders and Investors, Local community and Subcontractors and Suppliers. SK innovation engages with the stakeholders at the conglomerate, company and business unit levels through various channels. The examples of approaches to engage with selected stakeholders and relevant organizations are described in the Report.

Sustainability Context

The Report shows the strategic direction of SK innovation to stakeholders. In addition, the Report presents the impacts assessment of stakeholders on the key core issues, reasons for selecting material issues, SK innovation's management approach, and performance indicators. SK innovation addresses in the Report what was the key performances achieved in 2016, which would help the stakeholder understand the management approaches toward the material aspects.

Materiality

SK innovation has conducted the materiality assessment to prepare the Report. The relevant 33 issue pool is formed by analysing the key issues from the global sustainability initiatives and standards, the topics which industry peer group considers material and the subjects covered by mass media. The issues in the pool are rated by combining the level of impact on SK innovation's business and level of stakeholders' interest in the issue. The prioritization is based on the stakeholder survey results. SK innovation has ended up with 10 material issues through these evaluation processes. In addition, SK innovation has presented the relevance of SK innovation's financial, reputation, operational, and strategic aspects to selected key material issues. The audit team reviewed the materiality assessment process and confirmed that the relevant material issues prioritized from the process are addressed in the Report.

Completeness

The Report has covered the sustainability management approach and sustainability performances of SK innovation for the reporting period. The reporting boundary has been set to include SK innovation and major subsidiaries' headquarters in Seoul (SK energy, SK global chemical, SK lubricants, SK incheon petrochem, SK trading international), production plants in Jeungpyeong, Cheongju, Seosan, Ulsan and Incheon as well as Daejeon Global Technology. In addition, Institute and major subsidiaries and sub-subsidiaries of overseas corporations are included. The audit team reviewed that the performance results of material issues within thereporting boundary were reported without omissions in the Report.

Accuracy and Reliability

The audit team verified the data and information based on sampling methodology during the verification process. Especially DNV GL reviewed the reliability of the indicator data - water usage, waste generation, air emissions (NOx, SOx, VOC and hydrocarbons), industrial safety indicators (Lost Time Incident Rate (LTIR), Total Recordable Incidents Rate (TRIR), number of fatality, Occupational Illness Frequency Rate) and process safety indicator (process safety accident rate). The audit team interviewed the Person-in-charge, reviewed the process of gathering and processing data and information, and the supporting documents and records. The depth of data verification is limited to the aggregated data. Based on sampling verification and other reported information and available evidence, nothing comes to our attention that would cause us to believe that the data and information presented in the Report have any intentional error or material misstatement.

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 GL's competence requirements. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. The audit team has complied with DNV GL's Code of Conduct.



31, May 2017 Seoul, Korea
 In Kyoon Ahn Country Representative
 DNV GL Business Assurance Korea Ltd.

A handwritten signature in black ink, appearing to read "ahnk".

GHG Verification Summary

GHG Verification Summary

SK innovation Co., Ltd.

26, Jongno, Jongno-gu, Seoul Special City, Korea

Verification Scope

Korean Standards Association has conducted reasonable GHG emissions verification based on GHG report provided by SK innovation Co., Ltd. which includes Scope1 and Scope2 emissions.

Verification Standards and Guidelines

To conduct verification activities, verification team applied verification standards and guidelines. The standards and guidelines are as follows.

- GHG&Energy Target Scheme guideline(2016-255) provided by Ministry of Environment, Republic of Korea
- Verification guideline for management of GHG emissions trading scheme(2016-015) provided by Ministry of Strategy and Finance, Republic of Korea
- KS Q ISO 14064-1,2,3 : 2006
- IPCC Guideline

Verification Conclusion

As a result of verification activities, verification team has found no significant errors. Therefore, Korean Standards Association confirms that following emissions data are adequately quantified.

(Unit: tonCO₂eq)

Subject	2016 GHG Emissions		
	SCOPE 1	SCOPE 2	Total
SK innovation Co., Ltd.	46,020	120,643	166,663
SK energy Co., Ltd.	6,808,004	910,840	7,718,844
SK global chemical Co., Ltd.	2,374,593	775,224	3,149,817
SK incheon petrochem Co., Ltd.	1,206,284	408,035	1,614,319
SK lubricants Co., Ltd.	87,777	106,412	194,189

* There is a difference between the total quantity of GHG emission and the sum of each workplace's emission.
(Decimal place is not considered when calculating the emission of each workplace.)

May 16, 2017

Baek, Soo Hyun

KOREAN STANDARDS ASSOCIATION

Membership Status

SK innovation seeks measures to create value considering more various stakeholders and reinforces the executive ability of sustainability management by participating in major associations and supporting initiatives in each economic, environmental and social sector.

Economy

- Korea Economic Research Institute
- Korea Business Council for Sustainable Development(KBCSD)
- Korean Fair Competition Federation
- Korea Industrial Technology Association(KOITA)
- Association of Energy Future Forum
- World Petroleum Council(WPC) Korean Member Committee

SHE

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

Society

- UN Global Compact

Current Status of Contributions for Membership Associations and Groups

(Unit: KRW)

Total contributions	2013	2014	2015	2016
Total annual contributions	885,634,000	761,240,000	510,297,000	376,944,000

Major groups for contribution	Contribution			
	2013	2014	2015	2016
Korea Economic Research Institute	752,758,000	698,364,000	398,421,000	268,068,000
Korea Business Council for Sustainable Development(KBCSD)	70,000,000	0	50,000,000	50,000,000
Korea Institute of Hazardous Materials	20,000,000	20,000,000	20,000,000	20,000,000
Korean Fair Competition Federation	14,000,000	14,000,000	14,000,000	14,000,000
Korea Industrial Technology Association(KOITA)	7,400,000	7,400,000	7,400,000	7,400,000

The History of SK innovation's Sustainability Report

2010's



2000's



Published in June 2017

Issued by SK innovation Sustainability Planning Team

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Planned and designed by IM creative

The SK innovation Sustainability Report 2016 was produced using eco-friendly paper with the certificate of FSC®(Forest Stewardship Council®), which is attached only to products using wood produced in an environmental friendly developed and managed forest. This report was also printed using soy ink, which can significantly reduce the amount of air pollutants in the printing process.



