



SK energy

SK global chemical

SK lubricants

SK incheon petrochem

SK trading international

Contents

02

Corporate Information

- 002 Message from the CEO
- 004 SK innovation Overview
- 006 SK innovation & Subsidiaries

18

Business Review

- 018 Value Chain
- 020 Our Strategy
- 024 Research & Development
- 026 Market Outlook
- 028 Business Performance

32

Sustainability Material Issues

- 032 Creating a Safe and Healthy Workplace
- 036 Paris Agreement and Climate Change
- 039 Creating Value for Mutual Growth
- 042 UN SDGs
- 044 SK Double Bottom Line (SK DBL)

50

Sustainability Performance Review

- 050 Board of Directors
- 054 Risk Management
- 056 Ethical Management
- 060 Employees
- 065 Supply Chain Management
- 068 Social Contribution
- 076 SHE (Safety, Health, Environment) Management

82

Appendix

- 082 Materiality Test
 - 084 Stakeholder Engagement
 - 085 ESG Data
 - 094 GRI Index
 - 096 Independent Auditor's Report
 - 097 Financial Statements
 - 098 Independent Assurance Statement
 - 100 Greenhouse Gas Verification Statement
 - 101 Membership Status
 - 102 Publication History of Sustainability Report
 - 103 About This Report
-



Message from
 the CEO

SK innovation will continue to enact diverse efforts for sustainability management to become a better and stronger company. We appreciate your continued support and encouragement.

Dear Valued Stakeholders,

I would like to begin this letter by expressing my deepest gratitude for your unwavering support for SK innovation. In 2017, SK innovation managed to strengthen its core competitiveness in the business, thinking outside of the box to realize steady improvements. As a result, we achieved the best business performance in our history. We were also incorporated in the Dow Jones Sustainability Indices (DJSI), the highest authority in assessing sustainability management, thanks to our concerted efforts to create social value.

With the hope that these accomplishments will serve as a stepping stone to produce greater economic and social value in the future, we have outlined our achievements in the past year and clarified our commitment and future plans for sustainability management in this report.

Implementing Deep Change 2.0 and Producing Results

In order to demonstrate high performance amid intensifying competition in a rapidly changing market, it is necessary to shift from a Red Ocean to a Blue Ocean Strategy. This strategy requires us to change the way we look at the markets and try to create new ones. SK innovation will build partnerships with global companies and actively explore future growth engines to lay the foundation for sustainable growth. Based on this, we will take the leap forward to lead the energy and petrochemical industry.

Innovating Business Models by Expanding Shared Infrastructure

SK innovation actively shares our capabilities and assets both internally and externally to enhance all stakeholders' happiness. Sharing assets began at SK energy's gas stations in Korea, and will be extended to all of our global workplaces in the future. We will continue to innovate our business models and the way we work through building a shared infrastructure, thereby delivering outstanding performance.

Pursuing Stakeholders' Happiness by Creating Social Value

SK innovation believes that creating social value for stakeholders is one of the most important objectives of business management. Thus, we have made concerted efforts to enhance the sustainability of society as a whole, going beyond profit generation. These efforts have resulted in several positive outcomes, such as the successful operation of the Happiness Sharing Program to Promote Mutual Growth with 1% and the 'Discovery of Star Social Enterprises'.

In addition, we advocate the Ten Principles of the UN Global Compact and other global initiatives on corporate sustainability. We will continue to incorporate these principles into our business strategies as we lead the industry, setting the stage for happiness and prosperity in local communities and society.

SK innovation is highly committed to fulfilling its responsibility in regard to sustainability management, thereby becoming a better and stronger company. Once again, we ask for your enduring support and encouragement for SK innovation.

Thank you.

SK innovation CEO & President Kim Jun

Kim Jun

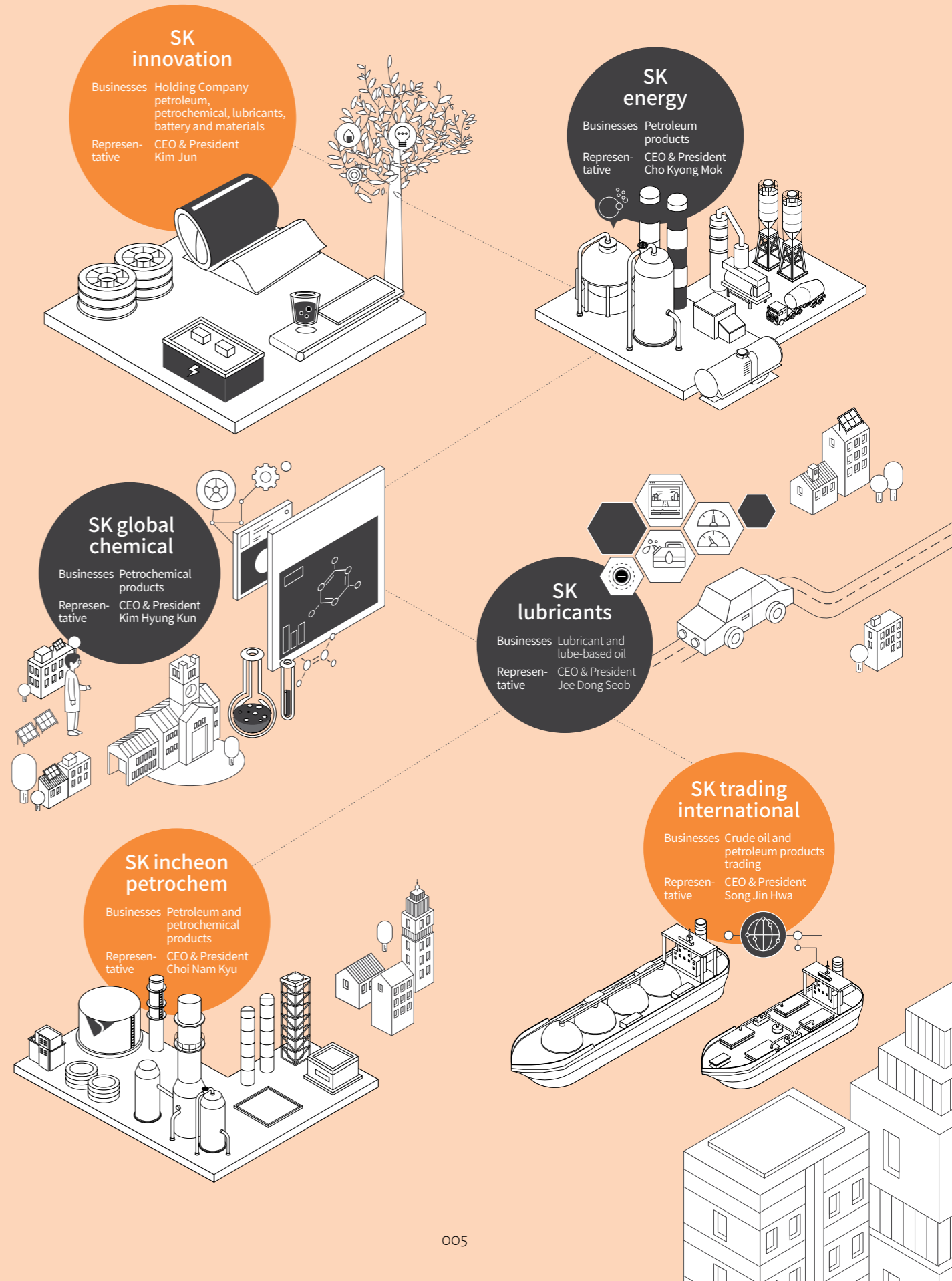


Leading Energy & Petrochemical Industry

Beyond Korea, further to the World

SK innovation is extending beyond Korea into the world as a leading global energy and petrochemical company, jointly with SK energy, Korea's No. 1 refining company, SK global chemical, the leader in the domestic petrochemical industry, SK lubricants, a global lubricants company, SK incheon petrochem, a refining and chemical company, and SK trading international, a trader of crude oils and petrochemicals.

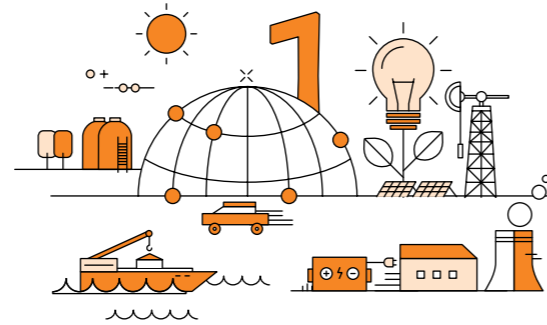
1962	1980	1997	2007	2009	2011	2013
Korea National Oil Corporation is established.	Sunkyong Group acquires Korea National Oil Corporation.	Changed the Company name and CI to SK Corporation Co., Ltd.	The Company is transformed into a holding company.	SK lubricants spin-off.	Launched SK innovation's governance and spin-off of SK energy and SK global chemical.	SK incheon petrochem and SK trading international spin-off.



• SK innovation

As an operating holding company, SK innovation has five subsidiaries including SK energy, SK global chemical, SK lubricants, SK incheon petrochem, and SK trading international, and operates E&P, battery, and materials businesses.

Based on the expansion of the Electronic Vehicle market, SK innovation is establishing battery production facilities in Hungary to expand its presence in the global market, while also increasing the number of production facilities with superior technology in materials business in order to lead the global membrane market. By focusing our resources on the development of new growth engines for the future, SK innovation will accelerate the implementation of Deep Change 2.0 and become a Top Tier Energy and Petrochemical Company recognized around the world.



E&P (Exploration and Production) Business

E&P business is a series of business activities that involve searching for underground crude oil and natural gas and developing these resources for commercialization. As of December 2017, SK innovation operates 13 production blocks and 4 LNG projects in 9 countries and produces a daily average of 55,000 BOE¹⁾ worldwide, including in Peru and Vietnam, and has a total of 530²⁾ million BOE of confirmed reserves (1P).

Business Overview

• Production Blocks

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

• Exploration Blocks

Country	Project Name	Participating Since
China	04/20	2015
	17/03	2015
	17/08	2017
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

Note 1) BOE: Barrel of Oil Equivalent
Note 2) As of early 2017

Major Business Activities

Peru — After the first production from Block 8 in 1996, Block 88 and 56 started production in 2004 and 2008 respectively. With completion of LNG plant in 2010, SK innovation successfully completed vertical integration of the upstream value chain in Peru. Currently, Peru is the largest source of production volume and revenue for our E&P business.

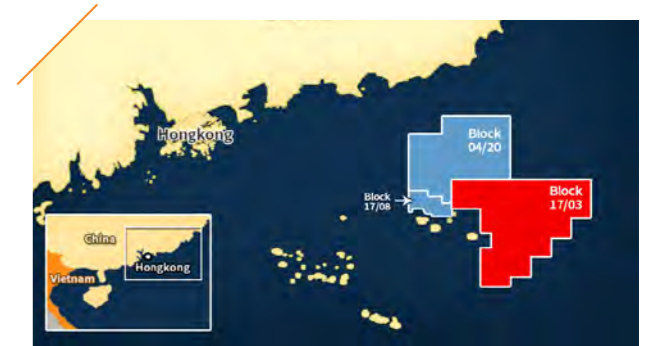
Vietnam — After acquiring exploration rights for Block 15-1 in 1998, exploration was undertaken and production started in 2003. In September 2014, the company successfully developed its fourth oil field, “Su Tu Nau”, and is currently developing “Su Tu Trang” while expanding its production volume in existing oil fields.

U.S.A. — SK innovation began making inroads into the US unconventional oil and gas market by acquiring production assets in Oklahoma and Texas in 2014. The company is strengthening its foundation for growth and expanding its business based on its technical expertise and know-how.

China — In 2015, SK innovation became the first Korean company to conduct oil exploration with operatorship in the South China Sea (Block 04/20, 17/03). After a series of successful preliminary feasibility studies with China National Offshore Oil Corporation (CNOOC), the company acquired additional exploration right for Block 17/08.

— Oil Discovery in the South China Sea

SK innovation had made its first oil discovery as an operator in Block 17/03 in the South China Sea. In December 2017, SK innovation drilled its first exploration well into 2,014m depth and found 34.8m net oil pay. The oil production of the well was tested up to 3,750 barrels per day. SK innovation plans to drill follow-on appraisal wells to assess reserves and commerciality of the project. Once the commerciality of the project is secured, SK innovation will use it as a platform for growth into other areas in the South China Sea.



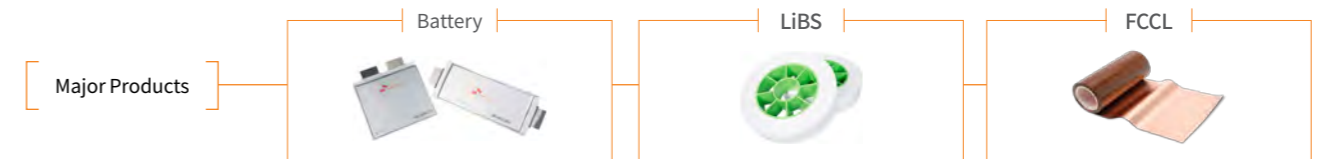
Map of south china sea block

Battery and Materials Businesses

Due to the growth of the EV and ESS markets, there is also increasing competition in the mid- and large-size battery market. SK innovation's battery business is focused on increasing business value by continuously developing technology and achieving cost competitiveness, while expanding production facilities in the Seosan plant to meet the growing demands of the market. In 2017, the company decided to construct a factory in Hungary and is making progress in entering the European market. We are continuing to make marketing plans to enter new markets such as China and the United States.

Since being the first company in the world to complete the sequential stretching process for separators in 2007, SK innovation's LiBS Division has been leading the global separator market with superior technology and quality.

Business Overview



Major Business Activities

— Battery Division

The Battery Division develops, produces, and sells a cell · module · system for mid- and large-size batteries, which is used in electric vehicles and ESS (Energy Storage System)¹⁾. Based on our proprietary high-energy density and high-power technology, SK innovation supplies batteries to Hyundai and Kia Motors and Daimler AG. We also have a joint venture partnership with BAIC (Beijing Automotive Industry Holding Co., Ltd.), China's leading electric vehicle company.

By the first quarter of 2018, the company plans to install a new 2.8GWh production line to expand capacity to 3.9GWh (equivalent to batteries for approximately 140,000 EVs). From the production lines that are expected to be completed, the company plans to produce EV batteries for Kia Motors' Niro EV and Soul EV, and for leading auto firms in the domestic and overseas markets we have recently entered into a supply agreement. Additionally, we plan to build a 7.5GWh-capacity factor in Hungary, which is expected to start commercial production in early 2020.

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

— Materials Division

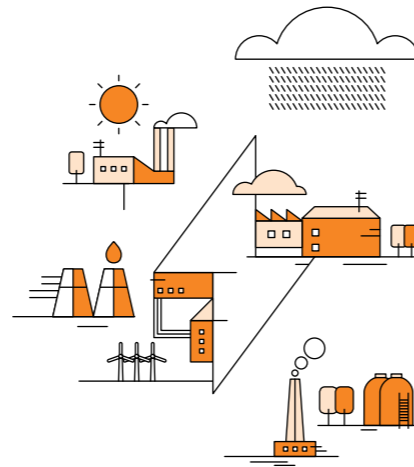
The LiBS Division has been leading the global separator market with superior technology, boasting such achievements as the development of the world's first 5µm-thin film and commercialization of the world's first ceramic coating separators (CCS). As of February 2018, the division owns eleven production lines. The company plans to start construction by expanding two additional lines, targeting completion by the end of 2019, to increase production capacity to over 500 million m²/year. To solidify its market leadership, the company also added a third and fourth coating lines for CCS, which provide higher performance than traditional lithium-ion battery separators (LiBS).

Moreover, the FCCL Division has developed and built a mass-production facility using our proprietary continuous curing technology to obtain a quality and cost advantage and is leading the growth of the business to expand supply to global institutions and diversify our client base.

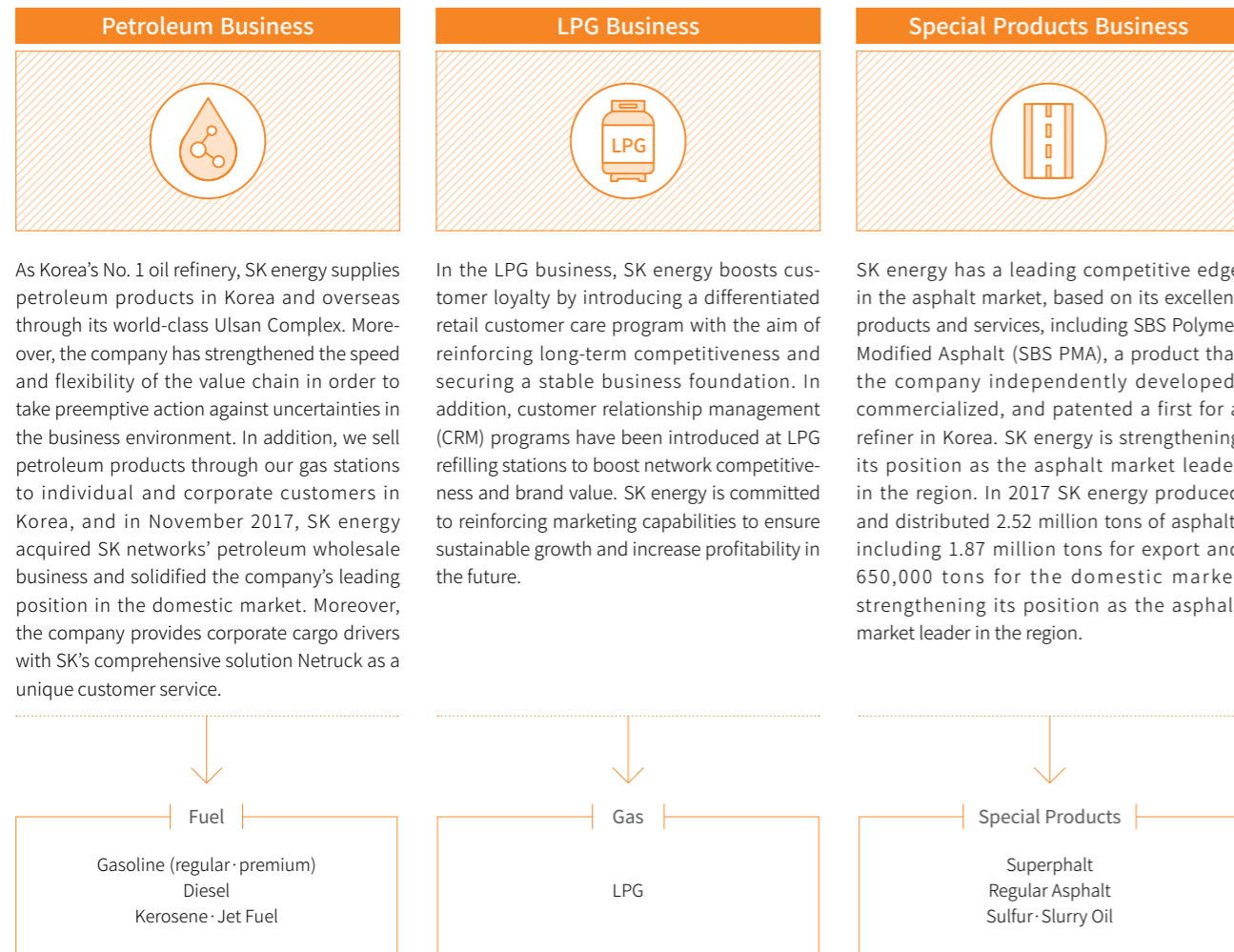
• SK energy

The oil refining business is currently enjoying sound refining margins due to increasing demand for major petroleum products, but the business environment is expected to be more competitive due to uncertain oil price fluctuation and plans for building new or additional refining facilities in regions. Against this backdrop, SK energy is concentrating on securing sustainable and differentiated competitiveness by innovating our business model.

To stay ahead of the changing market conditions, SK energy has engaged in various endeavors, including acquiring the gas wholesale business from SK networks and streamlining the production and sales strategies; simplifying the distribution structure to maximize business efficiency; and establishing the Vacuum Residue Desulfurization (VRDS) facility. In addition, the company is pursuing environmental values by reducing sources of pollution. Going forward, SK energy will continue to innovate to become more competitive, establish shared infrastructure, create social value, and achieve global growth, to become the Top Tier Energy Company in the Asia Pacific region.



Business Overview



SK energy gas station

Major Business Activities

— New Vacuum Residue Desulfurization Facility

The environmental regulations for global petroleum products are tightening. The International Maritime Organization (IMO) announced that from January 2020, ships will have to use marine fuel with a sulphur content of no more than 0.5% against the current limit of 3.5%. Demand and prices of asphalt and vacuum residue used for high sulfur content fuel are expected to fall, and the price of low sulfur content fuels will increase due to lack of supply.

In a move to proactively respond to this shift and strengthen the competitiveness of our petroleum business, SK energy has confirmed plans to build a vacuum residue desulfurization facility with a daily production capacity of 40,000 barrels in the SK Ulsan Complex. The company is targeting commercial operation by July 2020. This move to invest in a desulfurization facility, which will increase production of eco-friendly petroleum products, is not only in line with SK innovation's management principle of creating social value, but is also a preemptive action, considering new environmental regulations. This new facility will not only be used for low sulfur content fuel but will also have the capability to transform diesel and naphtha into high value-added products, thereby providing flexibility to the changing market conditions and diversifying the company's income stream.

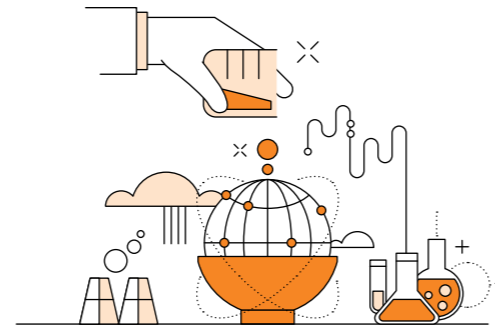
— Acquisition of SK networks Petroleum Wholesale Business

In November 2017, the company acquired SK networks' petroleum wholesale business, in order to create marketing efficiencies under the integrated production – distribution – sales strategy. This includes the entire wholesale business, with the 2,175 individually operated gas stations, distribution network and personnel, and assets. The business will supply 34 million barrels of petroleum products into the domestic market on an annual basis.

This acquisition will streamline the production and sales strategy of petroleum products, as well as simplify the distribution structure to maximize management efficiency. We also aim to improve operations and the quality of our marketing activities, supply and demand structure, after-service, and other services to enhance the satisfaction of our distribution partners and customers.

• SK global chemical

SK global chemical is expanding its business portfolio in the global petrochemical market by focusing on China, the largest market in the world. The company is strengthening its marketing platform by establishing a TS&D (Technical Service & Development) Center in China, and expanding technology-based high-value-added businesses in the North American and European markets to secure new growth engines for the future. To this end, we aim to strengthen our fundamental competitiveness by improving the profit and business structure of our existing businesses while expanding our portfolio through global partnerships and creating value for our customers by providing solutions in the global chemical market.



Business Overview



In 1972, starting as the first NCC (Naphtha Cracking Center) in Korea, our Olefin business currently has the capacity to produce 860 thousand tons of ethylene annually. In addition, in 2014, with the cooperation with Chinese state-owned oil company, Sinopec, we newly established a petrochemical joint-venture production facility in Wuhan, Hubei Province, which is producing 800 thousand tons of ethylene per year. Our Olefin business steadily supplies key petrochemical feedstock, such as ethylene, propylene, and butadiene to both domestic and overseas customers.

The aromatics business produces and supplies various aromatic products, such as benzene and paraxylene, which are used to make general goods, construction materials, electronics, and textiles. As a result of continuous investment in facilities, the business is one of the top producers in the region (3-million tons p.a.). 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.

The performance chemicals business produces solvent products used in a wide range of products, from household goods to high-tech products. The division has independently developed specialty technology, such as innocuous dearomatized products. Based on our marketing network and technology know-how accumulated over the past thirty years, we focus on developing customized products and technological support for our customers.

The polymer division is specialized in the production of high-end packing materials, including: Linear Low-Density Polyethylene (LLDPE)¹⁾, High Density Polyethylene (HDPE)²⁾ and Polypropylene (PP)³⁾, which is sold approximately 800 thousand tons per year. The division aims to expand the product portfolio and create new customer value by entering into the highly-value-added business segment with the high-performance polyethylene Nexlene™, Ethylene Acrylic Acid (EAA)⁴⁾ and Poly Vinylidene Chloride (PVDC)⁵⁾. In addition, we aim to enhance our relationship with the customers by providing various technical support and relevant information.

The EPDM Division produces and supplies EPDM (Ethylene Propylene Diene Monomer), a high value-added synthetic rubber which is most widely used for automobile parts with its 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.

Note 1) LLDPE: Linear Low-Density Polyethylene, which is used in packaging and agricultural film, wire coating, civil engineering and construction pipes and sheets.
 Note 2) HDPE: High Density Polyethylene, which is used in containers, food packaging film, water treatment or chemical plants, and vessel civil engineering pipes.
 Note 3) PP: Polypropylene, a plastic used to make various types of containers, experiment tools, megaphones, and automobile parts.
 Note 4) EAA: Ethylene Acrylic Acid, a resin used as a packaging binder for adhesion to aluminum foil, polyethylene etc.
 Note 5) PVDC: Poly Vinylidene Chloride, barrier film material that is a remarkable barrier to water and oxygen, and used in processed meat refrigeration and freezer packaging.



Night time at Sinopec-SK (Wuhan) Petrochemical Co., Ltd.,

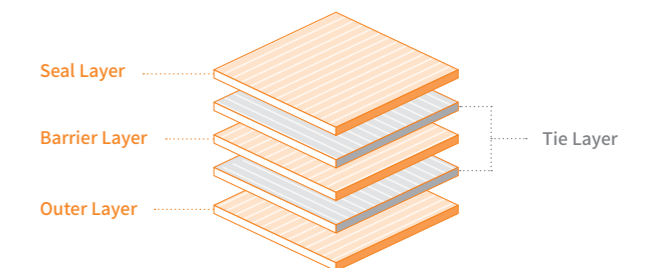
Major Business Activities

In 2017, SK global chemical successfully acquired Dow Chemical's Ethylene Acrylic acid (EAA) business and Poly Vinylidene Chloride (PVDC) business, thereby moving a step closer to become a global packaging chemical company. Both EAA and PVDC are core materials in multilayer packaging film. The market entry barrier is high and currently only limited numbers of suppliers exist in this area. Therefore, this business is expected to grow continuously with the increasing packaging demand in China and other emerging markets.

EAA is a type of tie layer material that is primarily used as packaging adhesive for polyethylene. As part of this M&A deal, SK global chemical acquired production facilities in Freeport, Texas, U.S.A. and Tarragona, Spain. PVDC is a type of barrier layer material that is used in processed meat refrigeration and freezer packaging, which requires a superior water-tight and oxygen-tight matter property. The production facility is located in Midland, Michigan, U.S.A..

Through strategic investment in future growth business, namely high functional packaging materials and automotive materials, SK global chemical aims to create synergy with existing business, and to become a global market leading player by securing advanced core technologies.

• Structure of Multilayer Film Material for Packaging



Material	Use	SKGC Products	Product Market Status and Characteristics
Seal Layer	Prevents content contamination, and high seal strength of film	m-LLDPE ¹⁾ / POP ¹⁾	High performance grade/ Technological barrier exists
Tie Layer	Acts as adhesive to two layers of different materials	EAA ²⁾	Functional product/ High entry barrier/ small number of suppliers
Barrier Layer	Barrier to O ₂ , CO ₂ , water, oil, aroma	PVDC ³⁾	High entry barrier/ small number of suppliers
Outer Layer	Maintains packaging shape and printing	LLDPE/ HDPE/PP	Commodity grade/ low technical barriers/ large number of suppliers

Note 1) Nexlene™
 Note 2) PRIMACOR™
 Note 3) SARAN™

• SK lubricants

SK lubricants has gradually expanded its global presence, resulting in its high-quality lubricant products being exported to over 50 countries. In joint venture partnerships with global companies, it has also built base-oil production facilities in Europe and Asia to underscore its position as a leader in the global premium base-oil market. Furthermore, the company continuously strengthens its marketing competitiveness with major customers.

Premium lube oil SK ZIC, the company's leading brand in the lubricants business, has solidified itself as the No. 1 lubricant brand in Korea, by ranking top in the brand power survey for twenty consecutive years, and was awarded the Global Green Management Excellence Award. In addition, ZIC was recognized internationally by receiving the top-quality levels from two major quality assessment institutions: American Petroleum Institute (API) and International Lubricants Standardization and Approval Committee (ILSAC). Due to tighter environmental regulations in the global market, demand for premium lube oil is on the rise. SK lubricants plan to take advantage of this opportunity to expand our presence in target markets of China, Russia, and others, and accelerate growth by pursuing a wide range of partnerships.



Base oil plant in Cartagena, Spain

Business Overview

— Base Oil

SK lubricants began operation of its first VHVI (Very-High Viscosity Index) base oil plant in 1995. Currently the company's Group III global base-oil market share is estimated to be 39.3%.

The company will continue to proactively invest and build capacity to solidify its position as the Global No. 1 Group III Player.

— Lubricant Oil

SK ZIC, the company's leading brand in the lubricants business, has firmly positioned itself as the No. 1 lubricant brand in Korea, by ranking No. 1 in the brand power survey for twenty consecutive years. In the international market, the company employs a tailor-made marketing and localization strategy, reflecting the characteristics of each market to support the growth of the business. The company is also the first Korean energy company to build an independent lubricant plant overseas (Tianjin, China) to meet the rising demand for premium lubricant oil. In addition, we have increased supply to global auto manufacturers to expand our marketing network, and have been recognized for our technical expertise.



Major Business Activities

— Lubricant Sales in Global Market Posts 6.3% Growth

SK lubricants' business recorded a 6.3% growth in 2017, compared to the previous year, using its global growth acceleration strategy. In the Chinese market, the company expanded its business field by starting supply to China's largest diesel engine manufacturer, which resulted in over 21% growth, thereby demonstrating the potential for this market to become a sound source of growth for the business. This is especially notable considering the fact that annual growth in the major global lubricant market including China is less than 1%.

In addition, the company added Spanish company Repsol's global top tier synthetic motorcycle oil brand to the product line. SK lubricants also developed new distribution channels, enacted improvements to the existing business model, and established a production base in Germany to expand business into the European market. The company will continue to adopt new business opportunities and expand infrastructure for the company's sustainable growth.

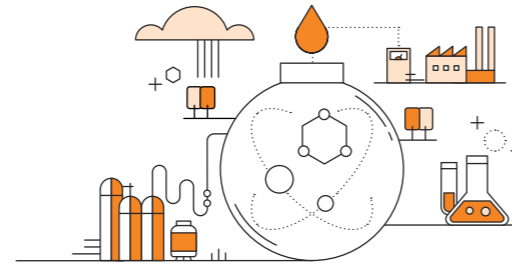


Finished Lubricant product process

• SK incheon petrochem

SK incheon petrochem has grown into one of the top Korean energy and petrochemical companies over the last half century, as Korea has successfully developed its industries. In July 2014, the company invested KRW 1.6 trillion to expand production with enhanced facilities that could produce condensate-based high-value-added products such as paraxylene (PX), which is the raw materials used in PET plastic bottles and synthetic fibers.

In addition, SK incheon petrochem will continue to become the most productive company in Korea through fast and flexible decision-making processes and decisive action to enhance competitiveness and production optimization.



Business Overview

— Petroleum Business

With the focus on its management philosophy of “customer satisfaction” and “quality first,” SK incheon petrochem provides customers with eco-friendly and high-quality products by improving its production facilities and precision, and continuing technological innovation.

— 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) via naphtha catalytic reforming processes. This creates a stable profit base for the company, which enhances the competitiveness of the business.

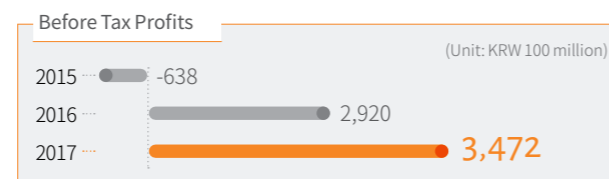
	Petroleum Business	Petrochemical Business
Process	Atmospheric distillation, gas recovery unit, hydrogen desulfurization, vacuum distillation, and sulfur recovery process	BTX unit, PX unit
Major Products	Gasoline Kerosene Jet Fuel Diesel LPG Asphalt	Aromatics

Major Business Activities

— Highest Financial Performance in Corporate History

In 2017, SK incheon petrochem recorded its highest financial performance in its history. This record was the result of the company's commitment to Speed & Flexibility (increase purchase of low-cost spot crude oil through work process improvement, etc.) and to increase production of high-value-added productions through innovations in production efficiency, and to engage in cost savings.

In addition, the company has continued to engage in innovative ways to realize social contribution and shared growth with the local community in order to create a sustainable business operation based on the trust and support of the local community.



• SK trading international

The global market is becoming ever more complex, with new environmental regulations, export market contract, and competition with China and India, resulting in new demands on product specifications. To mitigate risk and navigate this rapidly changing environment, SK trading international has established a differentiated global trading business model based on an advanced risk-management framework. In addition, the company monitors the market on a real-time 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 with the goal of developing into a global trading company.



Business Overview

SK trading international provides a global trading platform for SK innovation. The company imports crude oil and exports petroleum products for SK energy and SK incheon petrochem, and also sources naphtha for SK global chemical. Going beyond the import and export of goods, the company has established a branch in Dubai and three

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

SK energy Americas, Inc. (Houston)	SK energy Europe, Ltd. (London)	SK energy International Pte. Ltd. (Singapore)	SK trading International Co. (Dubai)
<ul style="list-style-type: none"> Responsible for oil trading in the Americas Trading products from the U.S.A. West Coast distillates 	<ul style="list-style-type: none"> Sourcing and marketing for SK energy's petroleum products in Europe 	<ul style="list-style-type: none"> Procuring crude oil and petroleum products used in Korea Exporting petroleum products produced in Korea Singapore local trading and bunkering 	<ul style="list-style-type: none"> Procuring crude oil and petroleum products used in Korea Trading business focused on the Middle East

SK energy

Imports crude oil and naphtha
Exports products, including gasoline, jet fuel and diesel



SK global chemical
Imports naphtha

SK incheon petrochem

Imports crude oil and naphtha
Exports products, including jet fuel and diesel

Major Business Activities

In order to assume the role of the No. 1 global trading company, SK trading international is expanding its expertise in the trading market through change and innovation. We are exploring new business opportunities by leveraging storage in major trading hubs and developing new cooperation models through partnerships with global trading companies. Through these efforts, we are developing sustainable trading models and increasing global trading volume.

In addition, we are enhancing our business models based on new trading methods that utilize scientific techniques and Big Data. Meanwhile, we are diversifying our suppliers for condensate and naphtha, in order to take a more proactive approach in dealing with the volatile petrochemical market. We are also building an advanced risk management system to effectively mitigate risks and optimize our management environment.



Business Review

More Growth and Profit

93,392 Sales of Chemical Business
(Unit: KRW 100 million)

30,475 Sales of Lubricant Business
(Unit: KRW 100 million)

Sales of Petroleum Business
(Unit: KRW 100 million) 327,712

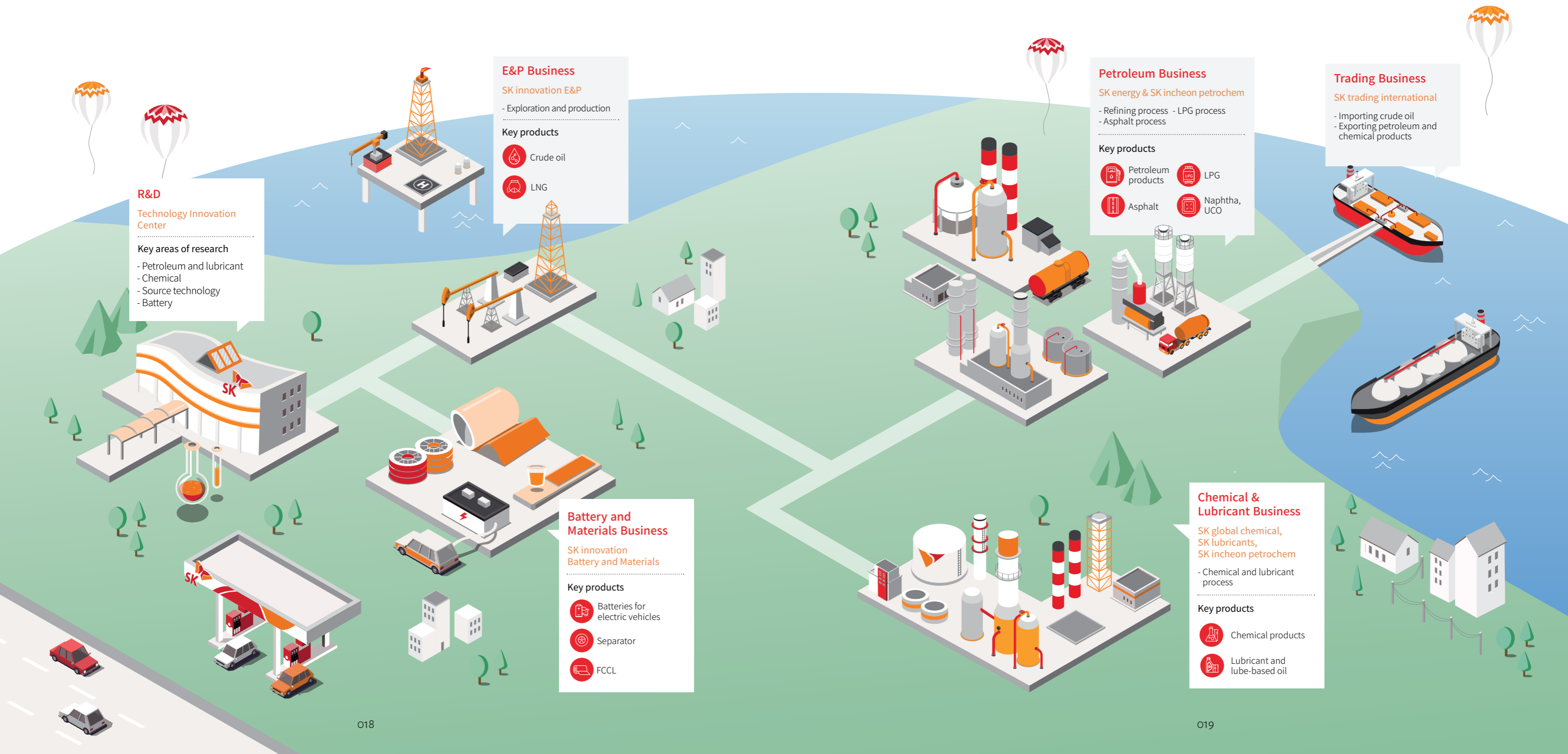
Sales of E&P and Other Businesses
(Unit: KRW 100 million) 11,030

- 018 Value Chain
- 020 Our Strategy
- 024 Research & Development
- 026 Market Outlook
- 028 Business Performance

Value Chain

SK innovation focuses on overseas resource development projects for crude oil, natural gas, and shale gas, paving the way towards the energy independence and economic growth of our country. Based on our superior crude oil refining technology, we produce petroleum products such as gasoline, diesel oil and kerosene, premium lube-based oil and lubricants, basic chemical products, chemical solvents, and synthetic rubber, all of which are widely used in daily life.

In response to the fast-changing business environment, we are increasing our investment in the development of the battery and materials business as growth engines for the future, and we are committed to creating synergy in our value chain through the development of growth drivers and global partnerships.

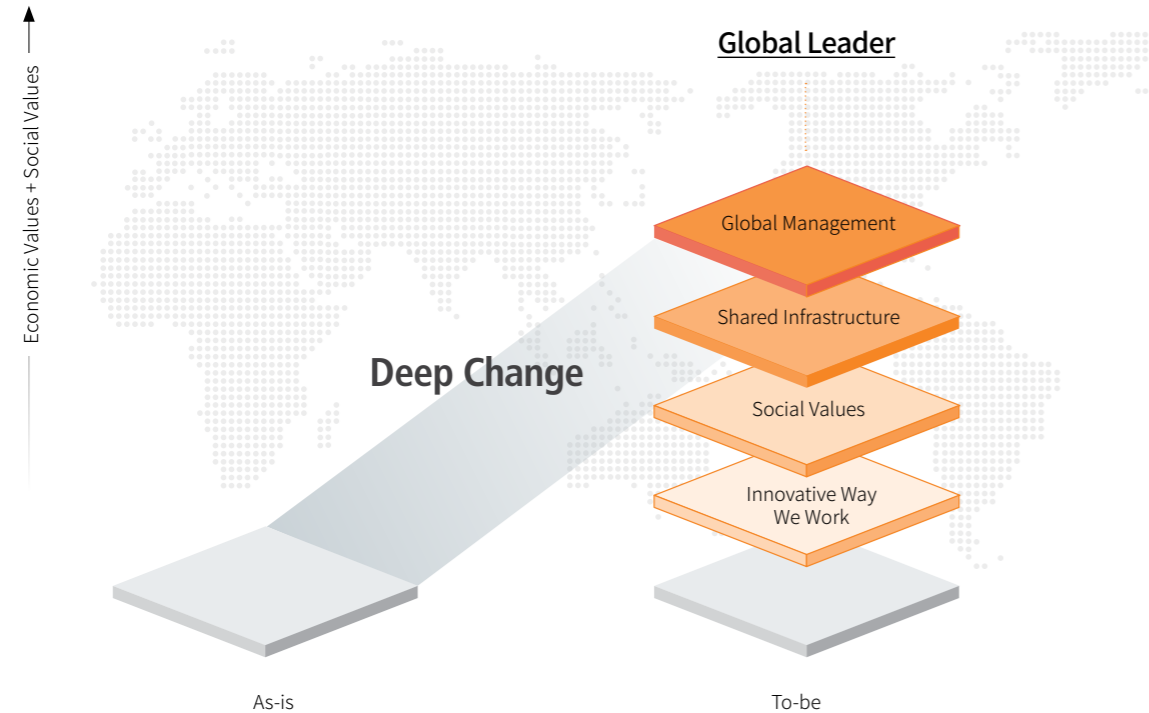
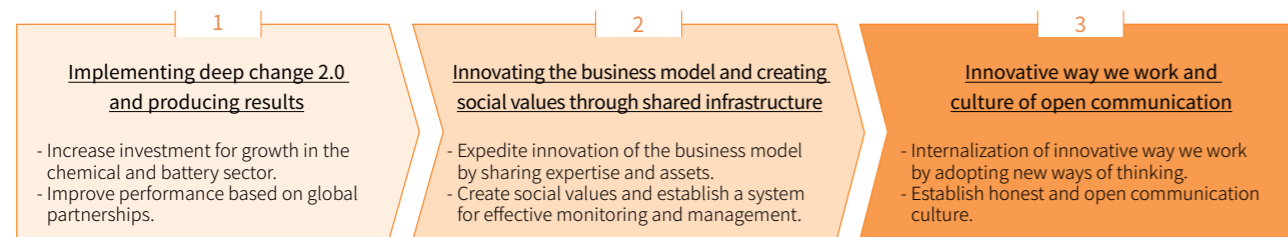


Our Strategy

Accelerating Implementation of Deep Change 2.0

The business environment is growing more uncertain, with the volatility of the Refining and Petrochemical industry increasing and the Fourth Industrial Revolution underway. As a result, it is essential to establish a strategy of focusing our resources on our strengths and to explore and develop new options for growth. To this end, we are working on increasing our corporate values by promoting innovation and strategic investment through global partnerships and M&A.

— Strategy in Place



Deep Change: Challenge conventional practices in terms of business, organization, and culture, and innovate to respond to the changing business environment. This work involves improving the corporate culture (upgrading the management system, innovative way we work, etc.) and improving the efficiency of assets and business structure.



Establishing battery production facilities in Hungary (Expected to be completed by 2020)

— Creating Growth Engine and Strengthening Existing Businesses in the Global Market

Increasing Investment for the Next Generation Growth Engine in the Global Market

At SK innovation, all employees are working on innovating the company's portfolio to build a foundation for global expansion and secure new growth engines for the future. In response to the growth of the electric vehicle market, we are focusing our resources on building a business hub in Europe. In 2017, we built new production facilities in Hungary and expanded the battery production line in Seosan, as well as the production line for battery separators in Jeungpeyong. In the E&P business, we acquired Longfellow, a U.S.A. shale company, in 2018, to support global growth centered on North America, Southeast Asia, and China, while expanding our presence in the U.S.A. market.

SK global chemical acquired the EAA and PVDC business sectors of Dow-DuPont, a global chemical company, in 2017. In order to build a strong foundation for growth, we are going to focus on securing high-value-added products and growth in the Chinese market through M&A.

Strengthening Business Competitiveness and Values

In response to the increasingly strict global regulatory requirements and to strengthen our business competitiveness, we decided to invest in a VRDS (Vacuum Residue Desulfurization Unit) and acquire the petroleum product wholesale business of SK networks to improve our domestic distribution and marketing performance in 2017.

In addition, we are enhancing the competitive advantages of Ulsan CLX and SK incheon petrochem, while SK lubricants is strengthening its global leadership based on partnerships and competitive products in the premium base oil and lubricant markets.

Our Strategy

Optimization

As a leader in the energy and petrochemical industries, we are committed to maximizing the value of our raw materials and products, as well as the synergistic effect of our businesses, to improve our corporate values based on our superior business expertise, data, and optimization capability. Furthermore, by integrating our capability with ICT technology to systemize our optimization process, we are able to make decisions in all areas of our value chain in a more scientific and efficient way. This will help us continue to enhance our corporate value and innovate our profit structure.

— Optimization-Based Value Management

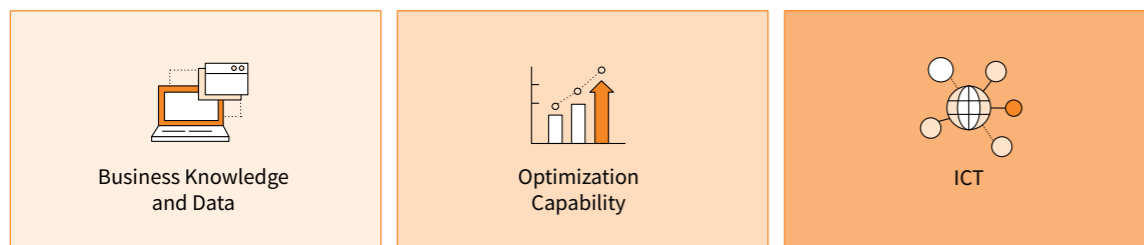
As a leader in the energy industry for more than 50 years, we have accumulated extensive knowledge and data on various areas, ranging from crude oil and energy refining processes to market information and a deep understanding of the global business environment. Since 2012, we have established business units dedicated to optimization in order to create a more advanced optimization system. This system includes technology capable of systematically managing and analyzing data, developing mathematical algorithms and engaging in modeling to further evolve the company's optimization capability. By combining all of our expertise, we are able to more accurately assess the inherent value of raw materials and products that are appropriate for our business model. Through this process, we can more easily identify opportunities and risks associated with changes to our business environment and take necessary measures to maximize our corporate value.

— Enhancing Corporate Value by Spreading Value Management

As we are expanding our presence in the global market, it is more important than ever for us to improve the efficiency of our decision-making process. To this end, we are strengthening our value management process by integrating our business expertise, data, optimization process, and ICT. We are in the process of upgrading our optimization-based value management in all our business areas to create synergy throughout our decision-making process. We will continue to enhance our corporate value by upgrading the optimization system and taking advantage of it to innovate our profit structure.

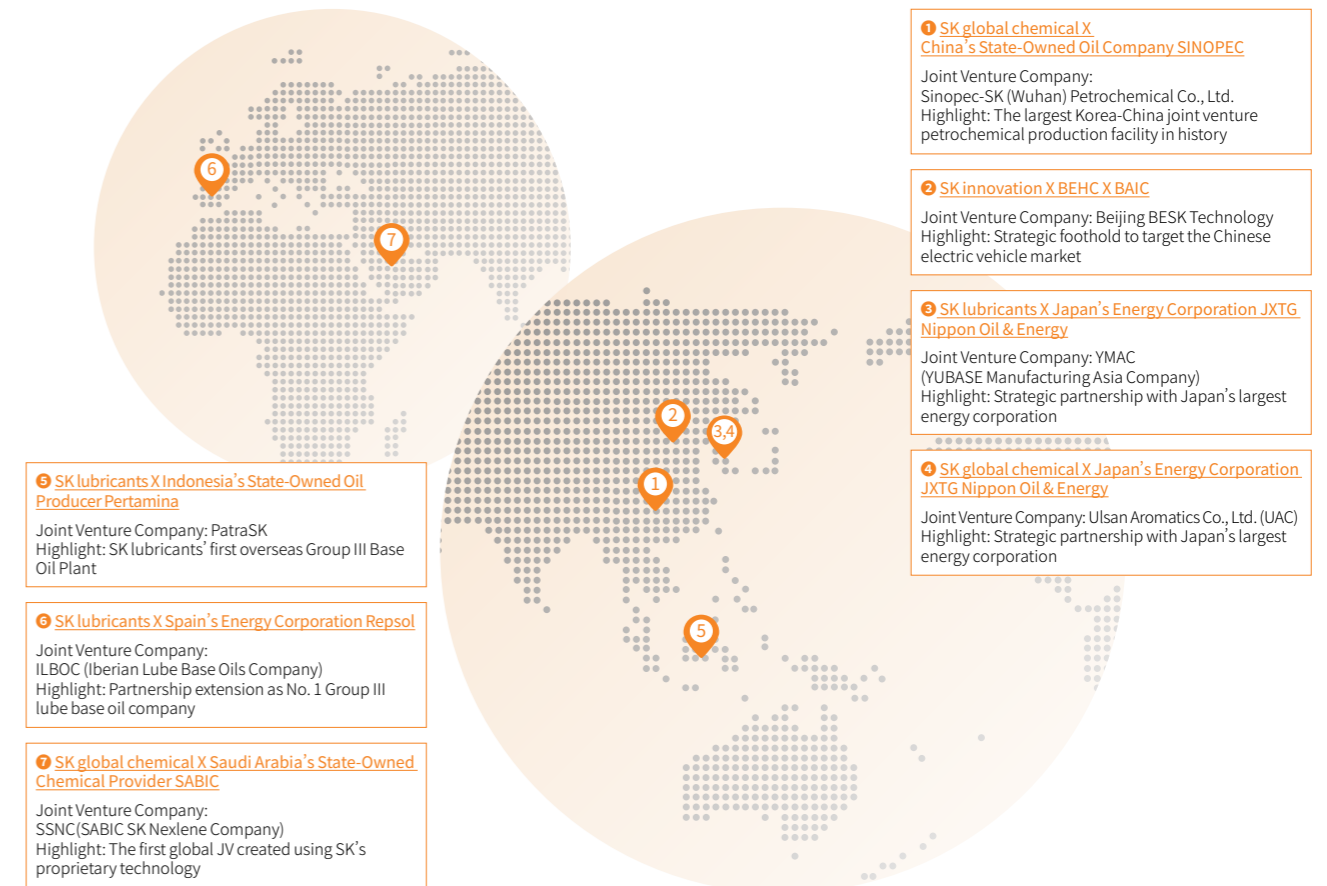
Optimization-based Value Management

Optimization System



Global Partnership

SK innovation maintains strategic partnerships with global leading companies in each industry for mutual growth. As we learn expertise from them to make our businesses more successful, we strive to enhance our competitiveness in the global market. We will continue to build partnerships with top companies around the world and maximize our potential for growth.



Global Business Sites

Crude oil production block Peru, Vietnam, U.S.A., Libya	SK energy Subsidiaries in China and Singapore
Crude oil exploration block China, Vietnam, Australia	SK global chemical Subsidiaries in China, Singapore, Japan, and U.S.A., and branch offices in Dubai and Germany
LNG projects Yemen, Peru, Oman, Qatar	SK lubricants Subsidiaries in the USA, China, India, Russia, Japan, Netherlands, Indonesia, and Spain, and branch offices in the UK and China
Seosan Plant Lithium-ion battery production lines	SK incheon petrochem Refinery and petrochemical plant
Jeungpyeong, Cheongju Plant LiBS and FCCL production lines	SK trading international Subsidiaries in the Singapore, UK, U.S.A., and branch office in Dubai
Ulsan Complex Refinery plant, middle distillates crackers plant, petrochemical plant, polymer plant, lube base oil and lubricant plant	
Technology Innovation Center Daejeon R&D Center	

Research & Development

Innovation through R&D is a key to gaining a competitive advantage. At SK innovation, we are strengthening our competitive edge based on our technological expertise acquired in the energy and petrochemical sectors. In addition, we are focusing on developing new technology through open innovation as a growth engine for our sustainable future.

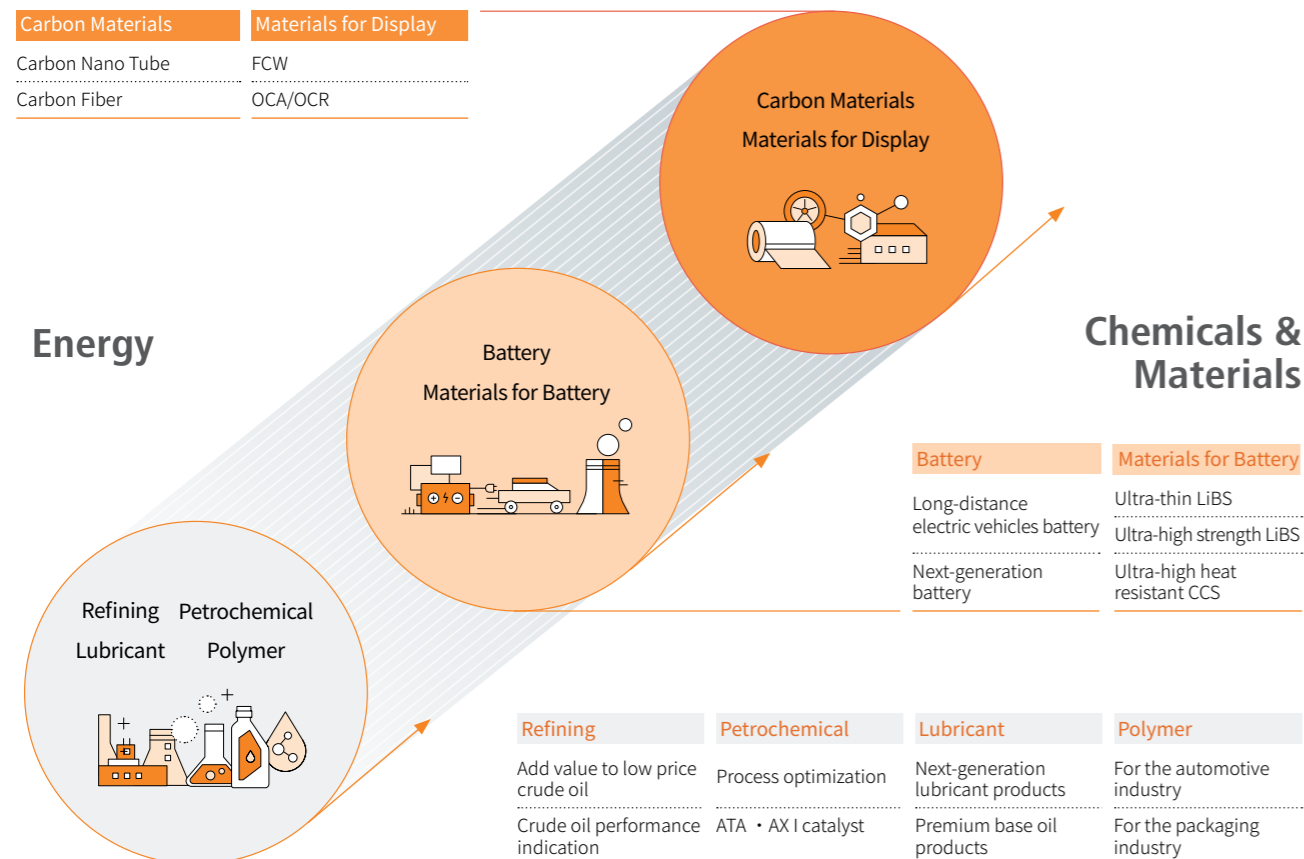
— Institute of Technology Innovation

Since the establishment of SK Daedeok R&D Park as a foundation for technological leadership in 1995, we have been committed to technological innovation. Inside the facilities, there are Institute of Technology Innovation¹⁾, which is in charge of our R&D projects, and the Battery R&D Center, which supports the battery business. The Institute of Technology Innovation consists of the Energy R&D Center, the Chemicals R&D Center, and the Platform Tech. R&D Center and

has established an R&D cooperation ecosystem through integration with external infrastructure based on its technological expertise and resources. Through this, we are strengthening our competitive advantages in petroleum, chemical and lubricant sectors and securing next-generation technologies for a sustainable future.

Note 1) Global Technology was renamed to Institute of Technology Innovation in 2017.

● R&D Growth Plan



— Key Research Activities

Flexible Cover Window (FCW)

“Flexible Display”, which is expected to create new value in the stagnant display market, is in the process of commercialization. We developed a technology to fold or bend a flat display by replacing the glass used for the outermost window cover materials of the display with transparent PI film. Currently, we are working on the development of coating technology to create the best solution to meet the target properties and managed to achieve a superior level of bending, strength, and anti-scratch quality by applying our own hard coating technology to the transparent PI. Because of these efforts, the quality of our products has been recognized by panel makers for its excellent properties and now, we are focusing on the development of this technology for commercialization.



Flexible Cover Window (FCW)

Technology to Increase Gasoline Production through Adsorption Separation Process

As a company with series of production processes for refining, petrochemical products, and solvents, it is important for us to offer competitive prices as well as increase productivity. To this end, we have expanded the application of our own adsorption separation process (SK-SIV) to low-cost naphtha and developed technology to increase gasoline production that is commercially viable. By using the byproducts of this technology, we expect to secure competitive advantages in our prices while working on complementary research for technical perfection, such as long-term performance assessment.



Pilot plant for adsorption separation process

— Core Mid- and Long-Term Projects

Project	Goals	Deadline
Developing a total solution to relieve crude oil constraints	Reduce crude oil import costs	2019
Expanding the product portfolio in the automotive and packaging sectors	Improve product properties and expand the product portfolio	2020
Developing materials for display	Provide total solutions tailored to the needs of customers	2020
Developing base oil feedstock conversion and assessment technology	Secure Group III base oil feedstock Expand Group III plus base oil feedstock	2021
Developing next-generation technology	Secure prospective technologies in the chemical, materials and battery sectors	2023

— Future Plans

The Institute of Technology Innovation provides technological solutions taking advantage of its expertise in a timely manner, while also strengthening its alignment to the strategies of our affiliates. We are working to identify the mechanism of crude oil constraint factor and ensure mitigation measures while conducting research on the expansion of chemical products for new applications, as well as the development of raw materials for advanced premium base oils and yield prediction models. Furthermore, we are continuing to explore new growth engines and carry out R&D projects to improve our business performance, based on open innovation, mergers, and development processes.

Market Outlook

Despite steady economic growth in developed countries in 2017, uncertain factors, including volatile oil prices, have been increasing: thorough analyses on domestic and overseas markets will be needed. SK innovation analyzes a variety of factors that impact our business operations and implement measures to adapt to a changing environment and secure a competitive advantage.

— E&P Business

Industrial Trends

A surge in oil production from unconventional sources in the U.S.A. and low international oil prices have led to many changes within the E&P sector. Most companies are reducing or postponing investments in high-cost projects such as deep-water, LNG, arctic, and oil sands, and restructuring their asset portfolios based on profitability. Furthermore, investment in unconventional resources in the U.S.A. is expected to increase due to rising oil prices and the restructuring of the U.S.A. tax system.

Oil Price Trends

Oil prices (Dubai Crude Oil), which were above USD 100 per barrel and reached USD 115 in June 2014, have declined and dropped to USD 26 per barrel in January 2016. Since then, the prices begun to recover and averaged USD 64 per barrel in December 2017.

— Battery & Materials Business

Mid- and Large-Size Battery Business Trend

The mid- and large-sized battery business is producing and selling large capacity lithium-ion batteries for electric vehicles and ESS (Energy Storage System). With the technological development of electric vehicles and improved economical efficiency, as well as new regulatory demands regarding the environmental impact of automobiles, the electric vehicle market is expected to rapidly expand.

Materials Business Trends

The LiBS (Lithium-ion Battery Separator) is a core materials for lithium-ion batteries: it prevents direct contact between the anode and cathode of the battery, and also provides a passage for the lithium-ions. Its market is growing steadily along with the battery market.

Manufactured by combining copper foil and polyimide, FCCL (Flexible Copper Clad Laminate) is a key materials in flexible circuit boards. The demand is increasing due to the growing market for smart devices and smaller, better-performing IT devices.

— Chemical Business

Basic Chemical Business Trend

The basic chemical business has high entry barriers compared to other industries because it requires high initial investment and technological expertise and is subject to economies of scale. It is sensitive to the global supply and demand and economic conditions, as well as oil prices, due to the nature of the industry and dependence on naphtha for producing basic materials.

In addition, the increase in low-cost unconventional resources such as shale gas and coal is expected to play a major role in changing market conditions.

Chemical Materials Business Trend

The profitability of the chemical materials business depends on oil prices as well as the economy of other industries as it supplies products to such industries as automobiles, electronics, construction, pharmaceuticals, and textiles. Chemical companies that started in the domestic market have shifted their focus to the export business, and growth is and therefore closely related to the global economy, especially China, due to strong demand. We are expanding our business in emerging markets such as South America, Southeast Asia and India.

As petrochemical products are mainly based on universal products, price is the most important factor in the market, and it is essential to realize economies of scale, improve processes, and reduce costs through efficiency. Product development and production technologies are considered key to success, as companies focus on new product development and differentiation to increase product value.

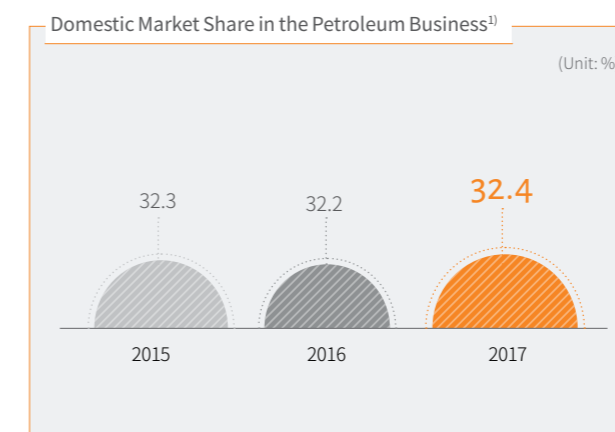
— Petroleum Business

Characteristics of Petroleum Business

The value chain of the petroleum business consists of crude oil import → production → transportation and storage → sales, and the crude oil stage accounts for the largest portion of petroleum product costs. As we have to import from the Middle East, their sales policy and exchange rates have a huge impact on our business.

Petroleum Product Consumption Trends

The domestic demand for major petroleum products declined by 2.3% from the previous year, and the demand for transportation fuel such as gasoline, diesel, and jet fuel increased in December 2017.



Note 1) Based on the domestic sales of light oil provided by the Korea Natural Oil Corporation's Petroleum Information System (Types of oil: gasoline, diesel, kerosene, jet fuel)

— Lubricant Business

Base Oil Business Trend

The key markets for our base oil products include Europe (EU), North America (U.S.A., Canada) and Japan, all of which have high demand for high-quality lubricants for automobiles, due to strict regulatory requirements in terms of fuel consumption and environmental impact. Other emerging markets such as China and major developing countries are also growing rapidly.

The base oil business is closely related to the automobile and machinery industries, which affects the demand for lubricants. When it comes to engine oil, which comprises the largest portion of demand, it has a high correlation with the distance traveled by automobiles and ships in the transportation industry. In general, demand is subject to the laws of supply and demand, the economic cycle, and growth rates.

Lubricant Business Trend

In the lubricant business, our major markets include Korea, China, the U.S.A., Russia, Pakistan, and India, with a focus on high-quality motor fuel. As a result of regression analysis over the past 20 years, lubricant demand growth tends to fall to 3.5% of GDP growth, which means that demand for lubricants is directly proportional to the economy.

Engine oil, which accounts for the largest portion of demand, has a high correlation with the distance traveled by automobiles and ships in the transportation industry. As a result, the industry positively correlates with economic growth rates. Low operation rates in the manufacturing industry in hot and cold weather cause its overall sales to decline, and demand picks up in the spring and autumn seasons when people change their engine oil after vacations. Other factors that may affect the demand include the domestic economy in the automobile and shipbuilding industries, market penetration of electric vehicles, and extended lifecycles from improved fuel efficiency and high product quality.

Business Performance

Financial stability is integral for sustainable business practice and growth. In 2017, SK innovation achieved the best business performance in our history by aggressively improving our profit structure and corporate value. We will continue to strengthen our competitive advantages and develop new growth engines for the future to ensure that we become a trusted energy and petrochemical company for all stakeholders, including shareholders and investors.

— Creating Economic Values

At SK innovation, we reached KRW 46.2609 trillion in consolidated sales through innovation in distribution channels, investment in VRDS, our strengthened leadership position in the premium base oil and lubricant market, and improved operational efficiency of Ulsan CLX and SK incheon petrochem. In addition, we built a foundation for global growth by acquiring EAA and PVDC business units from Dow.

— Key Performance by Business

Petroleum Business

Our petroleum business recorded an operating profit of KRW 1,502 billion based on global economic recovery, increased demand, and OPEC's continued efforts to improve supply and demand. We are committed to taking our business to the next level through improved cost efficiency by developing strong flexibility in our purchase system, optimizing production operations, increasing the domestic market share, and strengthening trade performance and strategic partnerships.

Chemical Business

Despite the concerns over the new operation of the ECC business in the U.S.A., our chemical business recorded an operating profit of KRW 1.3772 trillion, thanks to heavy demand in chemical products mainly in olefins. Through the acquisition of Dow's EAA and PVDC divisions, we secured key materials for a next-generation packaging business, which serves as another option for sustainable growth in the global market.

● Sales (Unit: KRW 100 million)

Classification	2015	2016	2017
Total	483,563	395,205	462,609
Petroleum Business	352,997	283,699	327,712
Chemical Business	92,880	76,865	93,392
Lubricant Business	26,188	25,358	30,475
E&P and Other Businesses	11,499	9,283	11,030

We also expanded our battery business and LiBS facilities to ensure sustainable growth and take proactive measures in response to changing market conditions. Because of these efforts, our corporate value has increased by 40% from early 2017.

Lubricant Business

Raw materials prices rose due to steady increase in oil prices, but our lubricant business reached an operating profit of KRW 504.9 billion, thanks to increased demand for our Group III high quality base oil products, and our continued efforts to improve the premium and optimized production process.

E&P Business

Our E&P business recorded an operating profit of KRW 188.4 billion, up from the previous year, as oil prices kept rising from the 2nd quarter. We are strengthening our position as a global E&P company through direct operation of the U.S.A. production blocks and continuous exploration in 13 countries worldwide.

● Operating Profit (Unit: KRW 100 million)

Classification	2015	2016	2017
Total	19,796	32,283	32,344
Petroleum Business	11,261	16,256	15,020
Chemical Business	6,039	12,322	13,772
Lubricant Business	2,947	4,683	5,049
E&P and Other Businesses	-451	-978	-1,498

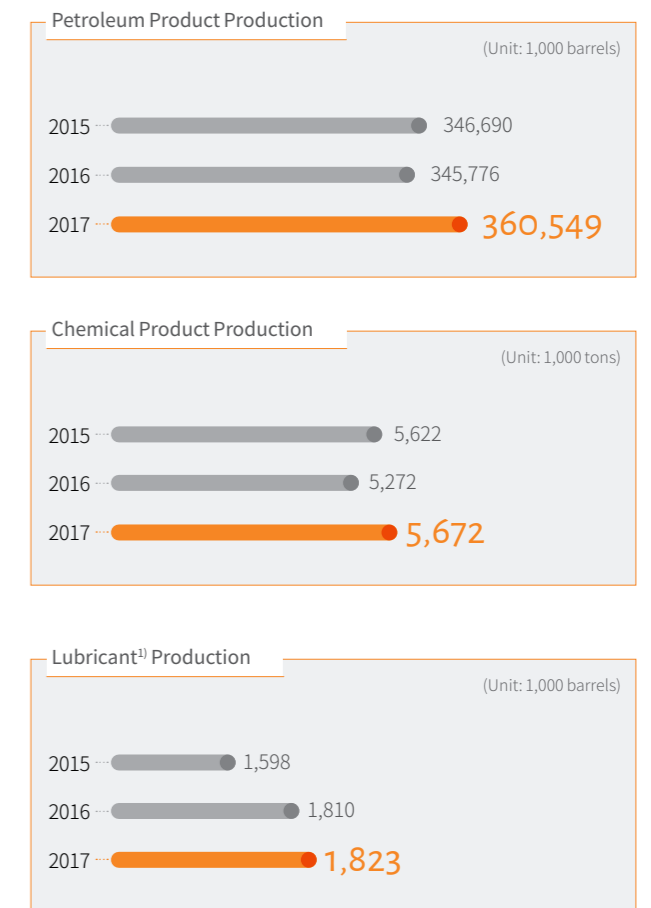
— Production Capacity & Volume

At SK innovation, we are strengthening our global market leadership by optimizing our production processes and operation of production facilities.

● Production Capacity

Amount Confirmed Amount of Crude Oil Secured 530 million barrels	Battery Supply for Electric Vehicles 40,000 units per year
Annual Petroleum Product Production Capacity (Ulsan Complex) 290 million barrels	Annual Petroleum Product Production Capacity (SK incheon petrochem) 137 million barrels
Annual Chemical Product Production Capacity (Ulsan Complex) 7.693 million tons	Annual Chemical Product Production Capacity (SK incheon petrochem) 1.467 million tons
Annual Lubricant Production Capacity 2.15 million barrels	Annual Lube Base Oil Production Capacity 25.84 million barrels

● Production Volume



Note 1) SK lubricants' own production capacity, excluding the toll processing volume

— Credit Rating

Through diversification of our business models in petrochemical, lubricant, E&P and EV battery businesses, we innovated our profit and financial structure.

As a result of implementing a healthy financial policy and maintaining a stable cash flow, S&P rated our financial position as stable (BBB+) in 2017, which is the highest credit rating we have earned so far.

Domestic Credit Rating AA+	Rated by Korea Investors Service
Overseas Credit Rating BBB+ (stable)	Rated by S&P

Sustainability Material Issues

Towards Sustainable Growth

0.57 Lost-Time Incident Rate (LTIR)
(Unit: Number of cases per million working hours)

Total GHG Emissions
(Unit: tCO₂eq) **12,903,207**

11,866 Amount of Procurement
(Unit: KRW 100 million)

- 032 Creating a Safe and Healthy Workplace
- 036 Paris Agreement and Climate Change
- 039 Creating Value for Mutual Growth
- 042 UN SDGs
- 044 SK Double Bottom Line (SK DBL)



Material Issue 01

Creating a Safe and Healthy Workplace

How does it affect SK innovation?

Stakeholders' Impact Evaluation¹⁾

Issue	Financial Impact	Reputational Impact	Operational Impact	Strategic Impact
Occupational Safety and Health			●	
Environmental Pollutants Management			●	

Note 1) Selected the most frequently indicated impacts after conducting surveys with stakeholders

Why is it important?

Significance of the Issue

Neglecting SHE (Safety, Health and Environment) may result in direct damage to business management with serious consequences, including the loss of manpower or productivity. It may also tarnish corporate image and reputation, causing indirect damage. Moreover, social interest in safety accidents has increased not only in Korea but also around the world. Governments in many countries have tightened regulations on safety and the environment and impose penalties on companies that fail to meet the regulatory standards.

How did we respond?

Strategic Approach

- Operate a SHE compliance management system
- Conduct activities to promote SHE awareness which reflect the features of workplaces
- Strengthen industrial safety management in the supply chain

How do we manage performance?

Performance Measurements

- Achieve the goal for Unplanned Capacity Loss (UCL)
- Achieve the goal for Lost Time Incidents Rate (LTIR)

Link to SDGs



Goal 3. Ensure healthy lives and promote well-being for all at all ages

SHE Compliance Management

With an increasing number of new and restricted safety and environment regulations in Korea, legal standards to follow at workplaces and relevant risks are continuously increasing. In order to minimize these risks, SK innovation identifies the legal requirements regarding SHE applying to workplaces, and manage them with our IT system (SHE Compliance Management System¹⁾). The system enables us to manage risks related to SHE compliance through the entire process from enactment and revision of legislations to implementation. We plan to apply the system at all our workplaces in the future.

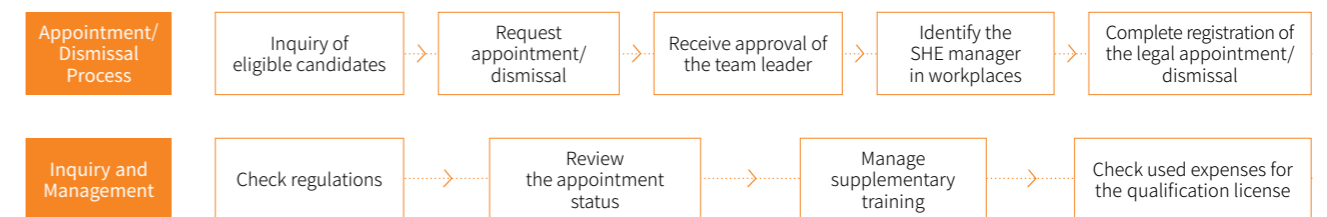
Establishment of SHE Compliance Management System



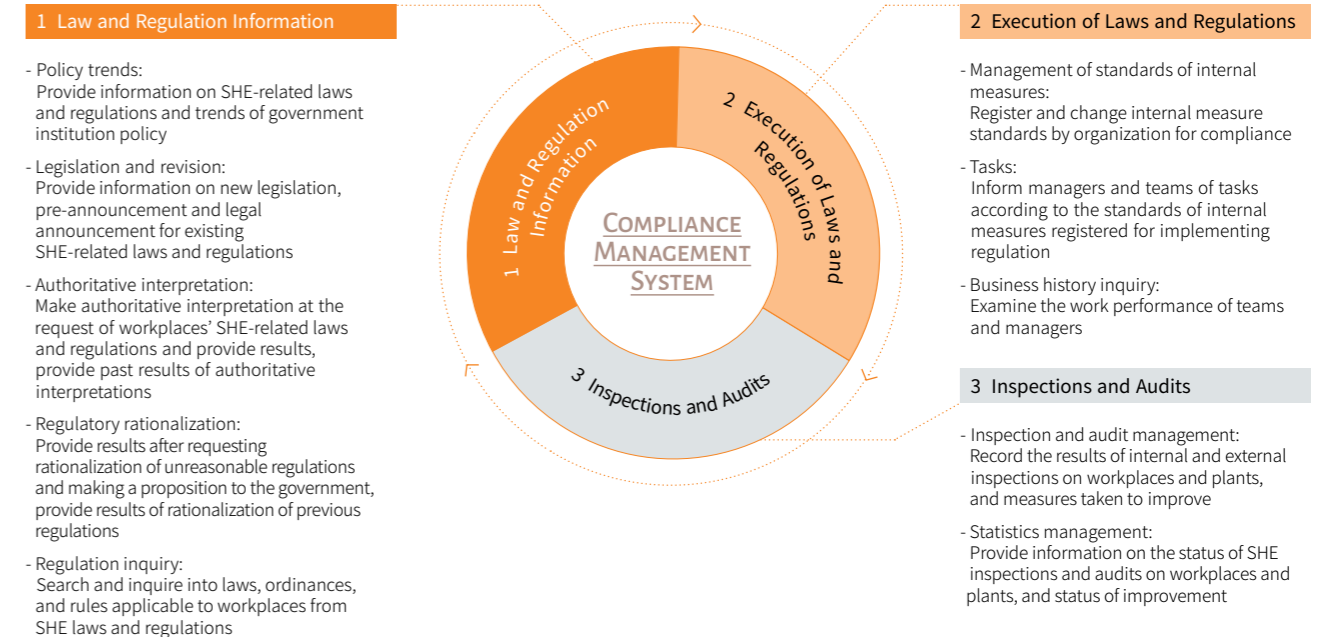
Furthermore, we established another IT system (SHE Manager Management System²⁾) to systematically administer SHE managers. A SHE manager must be appointed to comply with any requirements in laws and regulations. They must meet eligibility requirements, and properly perform all necessary duties. Thus, we utilized all members' credentials and personnel information to manage the appointment status in real time, and thoroughly manage all relevant legal information and supplementary training history.

Note 1) SHE Compliance Management System
Note 2) SHE Manager Management System

SHE Manager Management System



SHE Compliance Management System



— Promotion of SHE Awareness
Reflecting the Features of Workplaces

SHE Champion Contest at Ulsan CLX

At the Ulsan complex, we hold a “Challenge! Ulsan CLX SHE Champion Contest” every year to create zero-accident and revitalized workplaces. The contest offers a variety of programs to increase employees’ knowledge of safety and raise awareness of safety, thereby preparing for accidents. We expect that the contest will contribute to recognizing the importance of SHE management, internalizing innovative SHE culture, and prevent accidents at workplaces.

SHE Champion Contest Programs

Booth for Sharing Safety Knowledge

In the booth set up to sharing safety knowledge, a total of 13 suppliers and executives-based organizations from plants and departments of SK Ulsan CLX participated. They held exhibitions of exemplary cases of SHE management, which served as an opportunity to learn about preventing accidents and SHE management. They also operated the “Marketplace to Share Accident Cases” to display information about dangerous situations which occurred at workplaces.

SHE Champion Contest Programs



Booth for Safety and Health Experience

In the safety and health experience booth, various programs were held to encourage employees to participate in training for earthquake evacuations and fall prevention, and for wearing chemical protection suits.

Emergency Response Drills

We conducted emergency response drills to ensure that employees respond promptly in case of safety incidents and to reduce casualties and minimize property damage. Employees of Ulsan CLX conducted emergency evacuation drills in preparation for earthquakes, fires, explosions, and oil leakages, and took life-saving training courses.

Challenge! SHE Golden Bell

Challenge! SHE Golden Bell is a quiz program aimed at increasing knowledge of SHE management. A total of 120 employees who participated in the event from plants and departments received the opportunity to understand SHE knowledge in a friendly way, such as safety and health regulations and SHE procedures.



1 Fall preventing training 2 Response drill for fire and explosion 3 Challenge! SHE golden bell

— Industrial Safety Management
in Supply Chain

Enhance Suppliers’ Capability to Operate Occupational Safety & Health Management System

SK innovation supports our suppliers to raise their level of SHE management beyond just following laws and regulations to a level that evokes pride in their employees. We collaborate with the Korea Occupational Safety and Health Agency on a project for supporting suppliers in their efforts to obtain KOSHA and OHSAS 18001 joint certifications. We also provide financial support for establishing Occupational Safety & Health Management Systems, receiving consultations, and obtaining certifications. As a result, 40 suppliers were certified, and the number of suppliers eligible for support increases every year.

We plan to improve our system and infrastructure so that suppliers can efficiently process SHE management tasks and minimize the burden of SHE management.

- Enhancement of Occupational Safety & Health Management System

2015	Establish Occupational Safety & Health management system
2016	Develop suppliers’ capabilities to operate the system
2017	Enhance suppliers’ capabilities to implement the system at workplaces

Suppliers’ Occupational Safety & Health Management System Certification (KOSHA·OHSAS 18001)



Explore 120 issues to Improve upon by Organization Set Up Action Plans



SHE Risk Management of Global Business

SK innovation is actively engaged in M&A, joint ventures, and overseas plant constructions in the U.S.A., Europe, and China to become a global leader in the energy and petrochemical industries. For safe and competitive global business, it is critical to practice SHE management. Thus, we thoroughly conduct business inspections and environmental impact assessments from the start of projects to identify potential SHE risks and reflect the results in our decision-making.

In addition, we help newly incorporated workplaces to comply with local regulations and establish their own SHE management systems by developing capabilities after conducting a systematic M&A. At existing overseas workplaces, we prevent accidents and establish law-abiding management by conducting on-site inspections of the SHE management system, level of awareness and capabilities of SHE compliance, and facility safety and requests for improvement.

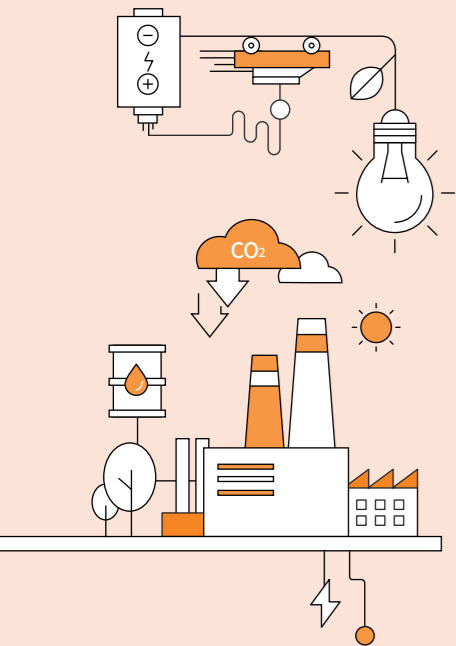
Workplace Safety Culture Improvement

In order to strengthen competitiveness in SHE management, SK innovation conducted surveys of all employees at workplaces and on-site safety inspections. Based on the results, we conducted a comparative analysis of the safety cultures of domestic and overseas advanced companies, derived implications, explored 120 issues to improve for each organization, and set up action plans. Every organization has its own actions plans, and SK innovation provides support such as consultations with external experts through on-site visits.

SK innovation will continue to conduct inspections on a regular basis to improve the safety culture. We will also practice various activities at workplaces to secure SHE leadership, and to develop employee capabilities.

Material Issue 02

Paris Agreement and Climate Change



How does it affect SK innovation?

Stakeholders' Impact Evaluation¹⁾

Issue	Financial Impact	Reputational Impact	Operational Impact	Strategic Impact
Responding to Climate Change				●
Eco-Friendly Energy Technology				●

Note 1) Selected the most frequently indicated impacts after conducting surveys on stakeholders

Why is it important?

Significance of the Issue

Under the Paris Climate Treaty of 2015, Korea proposed a 37% reduction in greenhouse gas emissions by 2030 compared to BAU, of which 11.7% was allocated to the industrial sector. Thus, the role of companies in fulfilling environmental responsibility has become more important. Moreover, as the government recently tightened its regulations on greenhouse gas emissions, factors such as the purchase of carbon credits and rising energy costs are recognized as potential risks for business activities. In particular, the oil refining and petrochemical industries are in need of more active measures since energy consumption and greenhouse gas emissions are high due to the nature of the industries.

How did we respond?

Strategic Approach

- Establish strategies for emission trading
- Expand investment in renewable energy
- Increase energy efficiency throughout production process

How do we manage performance?

Performance Measurements

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

Link to SDGs



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

Respond to the Emission Trading Scheme

SK innovation, along with SK energy, SK global chemical, SK lubricants, and SK incheon petroleum, is subject to the government's allocation of the greenhouse gas emission allowance. Thus, we are committed to meeting our legal obligations under the Act on the Allocation and Trading of Greenhouse-Gas Emission Permits which was implemented in 2015. Dealing with a new system stably, we reduced emissions during the first phase of the emission trading scheme (2015-2017) by calculating the optimal amount of emissions for each company, introducing external waste heat, and investing in greenhouse gas reduction measures.

Moreover, we established strategies and procedures for emission trading to cope with the market environment and regulations for the introduction of the emissions trading scheme and have enacted and operate the procedures to operate the emission trading system. Our strategies for emissions trading include measures by phase for securing budgets, executing, and purchasing, as well as measures to cope with the potential increase in the price of carbon credits resulting from the companies' purchase, and measures to secure additional carbon credits in case of a production increase. Our procedures for emission trading 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.

We drew up investment guidelines to assist in prioritization based on the price of carbon credits.

In 2017, when the first phase ended, SK innovation and affiliates sold some of our surplus carbon credits that resulted from internal and early-stage reductions and optimized emissions calculation methods. In 2018, after the government's carbon certification is completed, we will decide on the amount to be sold and sell off carbon credits on time in consideration of governmental restrictions on carryover.

Improve Energy Efficiency of the Production Process

In order to optimize the production process at workplaces, SK innovation replaced existing equipment with new and high-efficiency equipment; introduced new processes and catalysts; utilized waste heat to generate power and produce steam; and adopted effective energy management strategies.

Replacement of Air Preheaters

Invested
KRW **3.7** billion



Reduced
7,000
tonnes of CO₂

Installation of Flat Heat Exchangers

Invested
KRW **6.1** billion



Reduced
17,000
tonnes of CO₂

Recycling Energy through Waste Heat Recovery

7,501TJ



GHG Reduction through Efficiency Improvement of Furnace

SK innovation invests in various areas to minimize greenhouse gas emissions throughout the manufacturing process. In 2017, we invested a total of KRW 3.7 billion in the replacement of air preheaters, cutting CO₂ emissions by about 7,000 tonnes, and invested KRW 6.1 billion in the installation of flat heat exchangers, reducing CO₂ emissions by 17,000 tonnes.

Reduction in Power Consumption

In 2015 SK innovation implemented a master plan for energy efficiency to reduce power costs for fuel, steam and electricity, which account for the largest portion of operating costs. Our master plan concerns the supply and consumption aspects of fuel, steam, and electricity. When we put the plan into practice, we consider the effects and timing of investment by item. Through this master plan, we saved about KRW 25 billion in energy costs by 2016. In addition, we established an investment plan for 2017 and 2018 by continuously searching for any aspects for potential improvement. We also determined which parts of the plan are in need of improvement by evaluating technical feasibility, field applicability, and economic feasibility of the investment business. We expect to save KRW 21.7 billion in total from 2017 to 2018.

Waste Heat Recovery

SK innovation recovers waste heat generated from high-temperature water, steam, and gas, and recycles them into energy. In 2017, a total of 7,501TJ of waste heat was recovered at the Ulsan Complex (SK energy, SK global chemical, SK lubricants), saving KRW 96.8 billion in energy costs.

As a result of our efforts to use energy efficiently at our workplaces, total CO₂ emissions have decreased by 380,831 tCO₂.

Monitoring Energy Usage with Energy Intensity Index (EII)

SK innovations saves energy not only through facility replacement such as investment and process improvement, but also by utilizing EII¹⁾ to monitor energy usage every two years. Based on the EII, we set and manage energy intensity targets that reflect the optimal conditions for each process. The results of each week's energy analysis are shared with each production team to encourage more specific energy saving activities. These efforts enabled us to reduce EII by 1.1 in 2016 compared to 2014, which is the equivalent of KRW 12 billion of savings. Currently, we are preparing for a re-evaluation in 2018.

Note 1) Energy Intensity Index: Indicates the amount of actual energy consumption per process compared to standard energy consumption per process. The indicator is used to benchmark domestic and foreign industrial peers.

Installing Solar Power Generators



— Investment in Renewable Energy

SK innovation is expanding investment in renewable energy and introducing renewable energy technologies. This includes investment of KRW 2.31 billion in the installation of 0.936MWh of solar power generators, and management of the power load in workplaces by using fuel cells.



Jeungpyeong solar power plant

Efforts to Reduce Greenhouse Gas Emissions around the World

Project to Restore Mangrove Forests in Vietnam

Mangrove, a subtropical plant, is capable of storing 34 tons of CO₂ per 1 ha of forests, and thus is called a CO₂ storage warehouse. This is why the plant attracted global attention as a major countermeasure for global warming. However, marine pollution, development of tourist attractions, and other factors have destroyed 66% of the world's mangrove forests.

In order to respond to climate change and preserve biodiversity on a global scale, SK innovation launched a project to restore mangrove forests in Vietnam. These forests are highly vulnerable to climate changes such as the rises in sea level. The project aims to create a 5ha mangrove forest in Zhebin province in Vietnam by 2018, and the Vietnamese government will join the project.

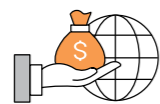


Mangroves in Vietnam

Plan for the Use of Donations

Donation Amount

80 million (KRW)



Donation Item

a 5ha forest with

15,000 trees



Material Issue 03

Creating Value for Mutual Growth



How does it affect SK innovation?

Stakeholders' Impact Evaluation¹⁾

Issue	Financial Impact	Reputational Impact	Operational Impact	Strategic Impact
Creating Value for Mutual Growth		●		
Utilization of Social Responsibility in the Supply Chain		●		

Note 1) Selected the most frequently indicated impacts after conducting surveys on stakeholders

Why is it important?

Significance of the Issue

The importance of a sustainable supply chain has increased along with stakeholders' demand for corporate social responsibility, as well as strengthened regulations for the mutual growth of large, medium and small enterprises. Thus, SK innovation aims to create social value by managing the risks of suppliers and ensuring the sustainability of the industrial ecosystem associated with the company's value chain.

How did we respond?

Strategic Approach

- Create a synergistic effect of mutual growth with suppliers
- Enhance capabilities and competitiveness of supply chain
- Identify and eliminate possible risks in the supply chain

How do we manage performance?

Performance Measurements

- Maintain the highest index grade for mutual growth (target year: 2020)
- Enhance supply chain ESG management by extending supply chain evaluation and strengthening management
- Minimize purchase-related compliance risks (target year: 2020)

Link to SDGs



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

—Mutual Growth Activities

SK innovation is pursuing the sustainable growth of suppliers by providing educational programs, along with technical and financial support.

Technical Support

SK innovation conducts joint technology development with suppliers to achieve the localization of facilities, and also cooperatively pursued joint patent applications, the development of high-value-added products, and entry into overseas markets. Joint product development and patent applications, in particular, served as examples of win-win cooperation that enabled suppliers to increase sales by selling new products to SK innovations and other related companies, while SK innovation secured a cost advantage by localizing previously imported products.

Support for Capacity Building

SK innovation provides various capacity-building programs to reinforce fundamental competitiveness of suppliers. SK innovation tries to build a win-win partnership with our suppliers by running “CEO Seminar on Mutual Growth” and “MBA Program on Mutual Growth” to teach supplier CEOs management know-how such as management strategy, finance and leadership in addition to the subdivided curriculum¹⁾ to give actual help for each position and job.

Note 1) e.g., safety education on toxic chemicals, as defined by the Toxic Chemicals Control Act, training to improve SHE management capabilities, education on plant processes, etc.

Supplier Recruitment Fairs
Program
Job fair with suppliers to promote mutual growth
Content
- Set up booths for employment consultation - Special lectures on employment, etc.
Participating Suppliers
20 suppliers
Held
Once (Nov 27, 2017)

SK Employment Stepping Stone Program
Program
Employment Stepping Stone Program (SK innovation company-wide)
Content
- Recruit interns - Provide education programs and support education fee
Participating Suppliers
41 companies
Participating People
95 people

Furthermore, we held the “Supplier Recruitment Fairs” for young people in Ulsan to contribute to the recruitment of highly competent talent from small- and mid-sized suppliers, address youth underemployment, and revitalize the local economy. At the fair, we provided support for job seekers, including personalized employment consultations, a vocational aptitude test, and a photography service. In 2017, a total of 112 job seekers were employed by our small- and mid-sized suppliers. In addition, we helped young job seekers to develop their capabilities through the SK Employment stepping stone Program, which provides job training and internship opportunities.



CEO seminar on mutual growth



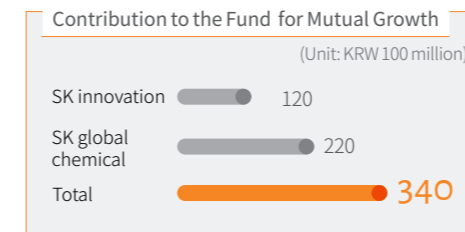
Completion ceremony of the MBA program on mutual growth

Financial Support

SK innovation also accompanies with our suppliers by ensuring the supplier’s financial stability. In this regard, when we perform regular maintenance at the Ulsan Complex, which requires a large amount of manpower and equipment, we pay half of the construction cost of some major projects in cash within one week of the start of construction and pay the rest within one week after completion. We also provide a program to support funds in a multi-dimensional way, including support through direct fund lending; indirect support through network loans; and agreed-upon credit support through mutual growth guarantee agreement. In addition, we created a fund for mutual growth to provide low-interest financing for suppliers that are in need of immediate operating funds.

In 2017, SK innovation contributed KRW 12 billion and SK global chemical KRW 22 billion to the fund. SK innovation and affiliates established and operate a total of KRW 85 billion¹⁾ worth of funds for mutual growth.

Note 1) Including amount of investment in the financial sectors, etc.



SK global chemical Achieved the Highest Grade in the Evaluation of Win-Win Index for the Fifth Consecutive Year.



— Performance of Mutual Growth Implementation

Evaluation of Win-Win Index

SK innovation is providing practical support to meet suppliers’ needs and invigorating communication with suppliers in order to build a partnership focused on enhancing happiness.

In particular, SK global chemical was recognized for its activities to promote mutual growth in 2017. The company was awarded the highest grade in the evaluation of Win-Win Index, as announced by the Korea Commission for Corporate Partnership for the fifth consecutive year, being selected as the most exemplary company.

Joint Patent Acquisition through Technical Cooperation with SMEs

Through collaboration with Dongyang Corrosion Engineering, SK innovation developed a mobile management system that can prevent the corrosion of underground pipes. In this collaboration, Dongyang Corrosion Eng., an SME that has the electric anticorrosion technology of underground pipes, took charge of technology and instrument development, while SK innovation conducted on-site experiments and verifications. As a result, Dongyang and SK innovation was able to acquire joint ownership of patent rights successfully.

This accomplishment enabled SK innovation to improve the efficiency of plant operations, and to use the technology at SK energy, SK global chemical, SK lubricants, YMAC, and Ulsan Aromatics, resulting in an annual sales increase of KRW 100 million. Dongyang Corrosion Eng. demonstrated its technical prowess, overcoming the reality that SMEs find it difficult to achieve recognition for technological innovations. The company saw sales increase both at home and abroad and was able to generate steady profits by selling products to SK innovation.

SK innovation will continue to collaborate with technologically capable SMEs and make new business propositions, thereby promoting shared growth with SMEs.

Introduction of Wage Sharing Model

In 2017, SK incheon petroleum became the first company in the region to introduce a wage sharing model for mutual cooperation and signed the Agreement for Happy Sharing. According to this system, which aims to promote mutual growth with suppliers, employees share a portion of their wages while the company contributes the same amount to the funds.

When the system was first implemented in May 2017, 95% of employees volunteered to participate, delivering a total of KRW 200 million to 16 suppliers.



Agreement ceremony of happy sharing

UN SDGs



— UN SDGs(Sustainable Development Goals)

At SK innovation, we support the principles of UN SDGs and its goals, and aligned our sustainability practice to some of the 17 Sustainable Development Goals. In the future, we plan to increase the aligned goals as part of our corporate responsibility programs.

SDGs Goals	Our Activities
Goal 1 End poverty in all its forms everywhere	- Support agricultural technology development and created profit models for local farmers in Peru.
Goal 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture	- Support the Houston Food Bank to improve nutrition for underprivileged children and the homeless. - Donate lunch boxes for senior citizens living alone.
Goal 3 Ensure healthy lives and promote well-being for all at all ages	- Help reduce emotional stress (e.g. isolation from society, lack of self-respect) of senior citizens living alone. - Promote occupational safety and health in the workplace. - Support children with developmental disabilities for social adaptation.
Goal 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	- Support study programs for underprivileged students in Incheon. - Support education programs of the local community in the U.S.A. - Organize science and energy education programs (e.g. science mentor for growing children, job experience programs).
Goal 5 Achieve gender equality and empower all women and girls	- Organize the W-Network, a council to promote women's rights and growth in workplace.
Goal 7 Ensure access to affordable, reliable, sustainable and modern energy for all	- Optimize the work process and develop new technology for saving energy.
Goal 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	- Support a talent recruitment program for small- and medium-sized suppliers. - Help young job seekers through the "SK Employment Stepping Stone" program.
Goal 13 Take urgent action to combat climate change and its impacts	- Establish an emission-trading strategy in response to climate change and incorporate it into business operations.
Goal 14 Conserve and sustainably use the oceans, seas and marine resources for sustainable development	- Establish standards and procedures and strengthen on-site monitoring for prevention of marine pollution. - Organize emergency response training against marine pollution.
Goal 15 Protect terrestrial ecosystems and halt biodiversity loss	- Monitor the level of soil pollution and organize clean-up activities. - Remove plants that are harmful to the ecosystem.

Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture



Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

At our E&P North America Business Division, we actively engage in various social responsibility programs to contribute to harmonizing with local communities. First, we volunteered at the Houston Food Bank, which provides food for the homeless and underprivileged children to address the issues of unstable meals and undernutrition. For two days, all employees packed and delivered food packages for starving children and homeless people. We also donated USD 50,000 to TRSA education programs and the Korean Studies Scholarship Program at Rice University to support academic excellence in the fields of science, technology, engineering, and mathematics as part of our efforts to provide opportunities for quality education.



Volunteer activities at Houston food bank

Our local community programs were covered by local media outlets, including broadcast and newspaper, and recognized as a great example of practicing our management philosophy of "We grow together with our local community".

Goal 1. End poverty in all its forms everywhere Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture



We became the first member of SK Group to assist in efforts to solve global social issues as a social company by establishing ProSynergy, a dedicated social organization in Lima, Peru, where we operate our E&P business. In order to promote the development of agricultural technology and create business models for farmhouses, we established social enterprises, Yachaiwasi¹⁾ No. 1 and No. 2, through which we provide agricultural know-how and information, and training and consultation programs for local farmers. We also generate profit through joint sales of agricultural products while cooperating with a local financial service, Finca, and Catholic University to improve the quality of life.

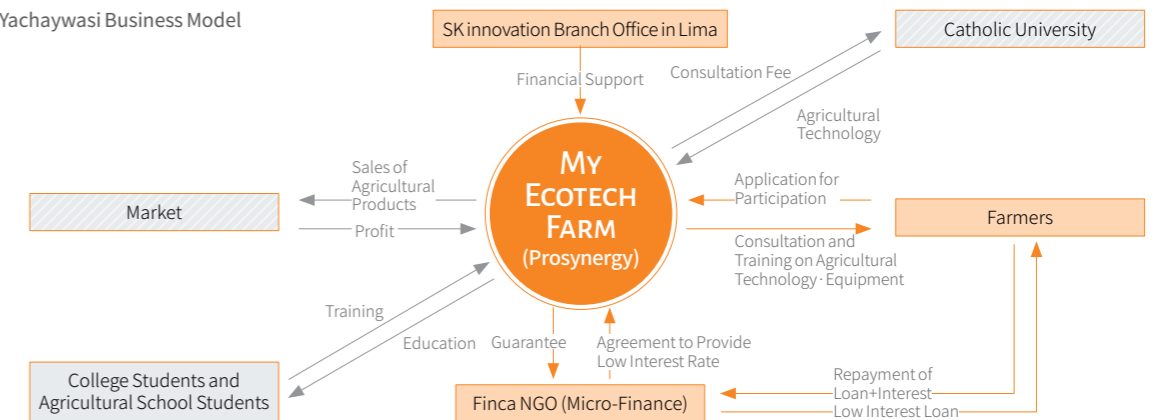
Yachaiwasi technology training sessions for more than 520 local residents and students, and over 4,000 farmers responded that they were satisfied with our service and products.

In addition, we supported a quality education service using the web-based education and information platform known as "My School Program" for parents and students from low-income families, as well as teachers. The Peruvian APURIMAC local government received investment from the World Bank in March 2018 to set up Yachaiwasi No. 3 in Cotabambas, while ProSynergy helped them prepare for the foundation and initial operation. In the future, we are going to expand the Yachaiwasi project to contribute to rural development in Peru.

Because of these efforts, we received USD 239,302 as financial support for the IICA Fund²⁾ from the Ministry of Foreign Affairs of Finland in 2015 and used this fund to promote renewable energy and increase energy self-sufficiency rate in the local community. In 2017, we organized

Note 1) Yachaywasi: place of teaching in Runa Simi (Yachay (Teaching)+Wasi(Place))
Note 2) IICA (International Institute for Cooperation in Agriculture) Fund: a social contribution fund raised to support the distribution of renewable energy in low-income farms around the world

Yachaywasi Business Model



Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development



At SK innovation, we organize emergency response drills on a regular basis to minimize environmental, human and property damage caused by marine pollution and environmental disasters and to conserve marine resources. The drills consist of reporting, summoning emergency response organizations, communication on the situation, disaster prevention, and recovery. Through this process, prevention facilities are supplemented by drawing any improvement. Meanwhile, we maintain emergency communication channels between business sites (Logistics Center) and government offices (e.g. Korea Marine Environment Management Corporation, fire department), and enhance the performance of emergency equipment to minimize damage such as to the oil fence. We will continue to develop various scenarios to strengthen our responses to emergency situations in our workplaces.

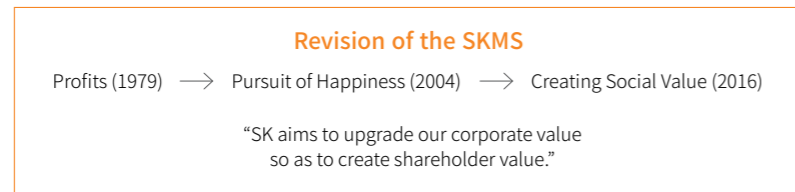


Marine emergency drill at logistics center

SK Double Bottom Line(SK DBL)

“SK Double Bottom Line principle aims to prosper with society by boosting both economic and social value in every business activity.”

SK innovation incorporated the DBL principle into its management philosophy to manage both economic and social value creation, breaking away from the conventional single bottom line principle to focus only on economic value. Through these efforts, we aim to achieve sustainable growth and stability.



SK Management System (SKMS): SK Group’s management philosophy

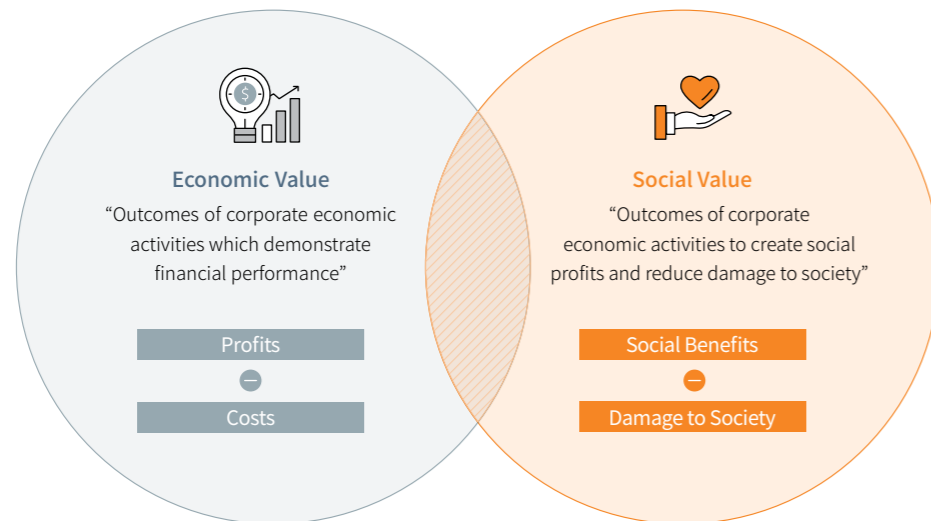
— Introduction of the DBL Principle

- To pursue stakeholders’ happiness by delivering social value
- To respond to changes in the social role of companies
- To establish strategies for sustainable growth by innovating business models

— Content of the DBL Principle

The DBL principle deals with both economic and social value. Economic value describes financial performance that is generated from corporate economic activities. Social value describes the outcomes of corporate economic activities that aim to create social profits and reduce damage to society.

• SK Double Bottom Line



— SK DBL Strategy



— Measurement of SK innovation’s Social Value

SK innovation considers creating social value as a major business objective for sustainable growth. To manage social value creation systematically, we quantitatively measured the social performance of our every business activity regarding the environment, society, and governance. In the future, we will supplement and improve social performance measurement methods, and will utilize the results when developing business strategies.

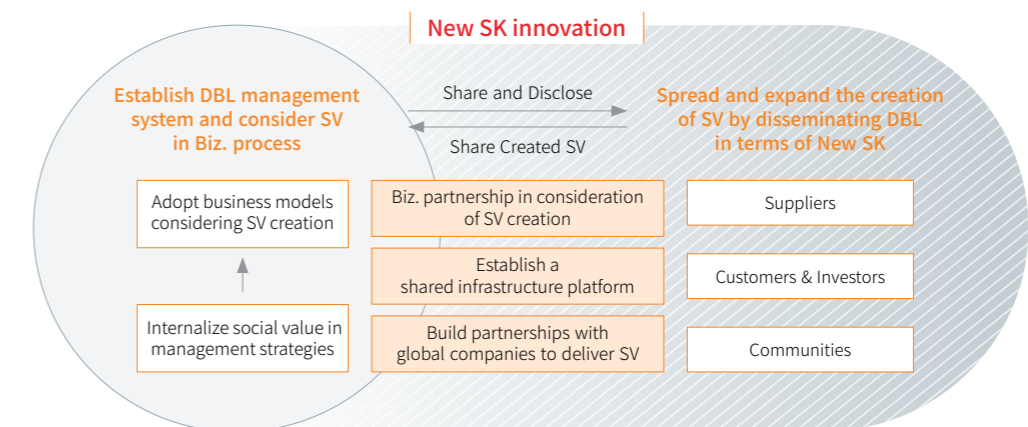
Through the measurement of social value and analysis of social performance, we identified our roles and responsibilities that we hadn’t performed, and found areas where we can create social values. Based on those results, we will actively communicate with our stakeholders.



— Mid-and Long-Term Plans for the DBL Principle

SK innovation will develop more sophisticated methods to measure social value, in both qualitative and quantitative form based on the existing method and we will share them. This will allow us to encourage all employees to actively engage and participate in exploring management activities that can increase social benefits and reduce social costs throughout all value chains.

Furthermore, we will create new business models by taking into account various factors such as social issues regarding corporate assets and capabilities, and opportunities and crises faced by enterprises, thereby establishing mid- and long-term strategies to promote evolving together with society.



— Major Achievement of Social Value

SK innovation’s Battery for Electric Vehicles

The manufacturing of batteries for electric vehicles, one of our businesses for future growth, is a representative eco-friendly business that can reduce carbon emissions. According to data released by the Korea Energy Economics Institute, electric vehicles do not emit carbon dioxide during use, and emit 53% less carbon dioxide than conventional gasoline internal combustion engines, when taking into account its electric power generation process. Considering this, the effect of greenhouse gas reduction during the battery warranty period (10 years) is estimated to be 11 tons per electric vehicle.

Last year, SK innovation sold batteries for more than 15,000 electric vehicles, accomplishing 165,000 tons of reduction in carbon dioxide emissions based on electric vehicles. This demonstrates that our battery contributed to about 30,000 tons of carbon dioxide emissions. SK innovation will strive to develop high-density batteries for electric vehicles. Moreover, as the electric car market grows, we will increase our production capacity to over 10GWh per year by 2020. In this case, it is expected to deliver social value equivalent to KRW 100 billion.

Social Problem	Increase of social concern about fine dust and carbon dioxide from internal combustion engine vehicles
Approach and Impacts	1. Increase of investment and production costs due to the reduction in greenhouse gas emissions 2. Tightened environmental regulations due to the increase of fine dust in the atmosphere
Performance	Social Outcome : - Open new production lines to expand the spread of electric vehicles
Goal	Reduce greenhouse gas emissions compared to existing internal combustion engines to decrease CO ₂ emission per mileage



Cells used for batteries of electric vehicles

SK energy’s Netruck House

SK energy is working to improve truck drivers’ working environment. First of all, we operate Netruck Houses at 19 logistics hubs nationwide, with facilities to promote drivers’ convenience. Netruck Houses have spacious parking lots with low parking fees, providing spaces which are more convenient compared to other parking lots in the downtown area. There are also facilities, such as showers and restaurants, where drivers can rest and refresh themselves after long hours of driving. On average, about 1,500 drivers use Netruck Houses every day.

Furthermore, SK energy operates Netruck Friends, a service to provide information on freight and available trucks in real-time. The company also utilizes Netruck Plus service to ease the burden for gas expense on truck drivers.

Social Problem	1. Increase in car accidents caused by drowsy driving due to a lack of rest areas 2. Increase in traffic problems in nearby urban areas due to an insufficient number of parking lots
Approach and Impacts	1. Listen to the opinions of truck drivers, one of SK energy’s major stakeholders, and develop participatory programs 2. Fulfill CSR by operating Netruck House, and develop programs tailored to truck drivers and local situations
Performance	Social Outcome : - Operate Netruck House with facilities to promote truck drivers’ convenience at 19 logistics hubs nationwide
Goal	1. Provide rest areas to reduce drowsy driving and car accidents 2. Provide parking spaces to improve the quality of life in nearby areas



Netruck house at Busan new port

SK global chemical’s Development of an Eco-Friendly Foaming Agent

SK global chemical is committed to reducing the use of environmentally toxic substances by developing eco-friendly foaming agents. As the Montreal Protocol²⁾ prohibited the use of freon gas (CFC), a foaming agent formerly used in construction, and the new regulations required the industry to reduce the use of HCFC-141b starting in 2013. Thus, the need for the development of a CFC substitute became urgent.

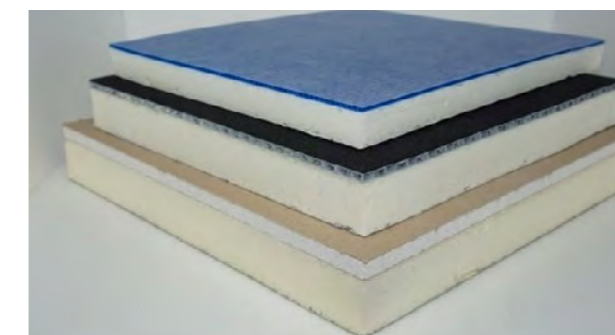
SK global chemical collaborated with customer companies to develop and test alternate materials that can substitute for the foaming agent used in PU board for the construction industry and applied them to commercial production. As a result, we began selling cyclopentane products as eco-friendly foaming agents for construction and sold 660 tons in 2017.

Social Problem	Rise of environmental problems such as ozone depletion due to CFC
Approach and Impacts	1. Environmental regulations necessitated the development of alternatives 2. Change of the construction law ¹⁾ resulted in the market expansion for the PU foaming agent for construction → Used the regulations as an opportunity
Performance	Social Outcome: - Collaborated with customer companies to develop and test alternate materials - Succeeded in entering the market
Goal	Minimize the use of toxic substances by developing eco-friendly foaming agents

Note 1) In September 2014, the government decided to integrate the standards for energy-saving design with the standards for environmentally friendly housing construction.

- Expanded the application range of building insulation: All buildings with a total floor area of 500m² or more
- Encouraged energy saving: Increased standard for the thickness of outer insulation materials to reduce the heat transfer rate

Note 2) Montreal Protocol: A protocol enacted in January 1989 to regulate the production and use of chlorofluorocarbons (CFCs), ozone-depleting substances. Korea began reducing the second specific substance (HCFC) from 2013.



Products using an eco-friendly foaming agent

SK lubricants’ High-Quality Lube Base Oil and Lubricants

SK lubricants developed high-quality lube base oil that can improve fuel efficiency and is selling them worldwide. Generally, using engine oil made with high-quality lube base oil can improve fuel efficiency by 2-3% compared to conventional products, and reduce the amount of carbon dioxide emission per vehicle by 38kg per year.

The global sales volume of high-quality lube base oil, which sells in the global market such as the U.S.A. and Europe, is over 1.5 million tons, and the resultant reduction in carbon dioxide emissions amounts to 730 thousand tons. This is equivalent to the amount that would be reduced by planting 300,000 trees.

Social Problem	Growing concerns over environmental pollutions due to CO ₂ emissions and fossil fuel consumption by using internal combustion engine vehicles
Approach and Impacts	1. Necessity for the development of high- quality lube base oil and lubricants that can reduce fossil fuel consumption and CO ₂ emissions
Performance	Social Outcome : - Mitigated environmental pollution through sales of high-quality lube base oil and lubricants
Goal	Improve fuel efficiency and reduce CO ₂ emissions through sales of high-quality lube base oil and lubricants



ZIC, a high-quality lubricant



Sustainability Performance Review

Investment for the Future

Expenses for Social Contribution Activities
(Unit: KRW million)

26,977

3,886 Hours of Ethical Training
(Unit: Hour)

52,763,776 Total Energy Consumption
(Unit: MWh)

- 050 Board of Directors
- 054 Risk Management
- 056 Ethical Management
- 060 Employees
- 065 Supply Chain Management
- 068 Social Contribution
- 076 SHE (Safety, Health, Environment) Management

Board of Directors

The Board of Directors is the highest decision-making body that provides direction to the company, and at the same time ensures balance between the internal and external stakeholders. The Board of Directors plays a key role in the company's sustainable growth. SK innovation is committed to ensuring that the Board is independent, and the directors have a thorough understanding of the business and possess expert knowledge, so that the decision-making process is comprehensive, well-informed, and balanced.

— Composition of the Board of Directors

Majority of SK innovation's Board of Directors is composed of independent directors who are recommended by the Nomination Committee, to ensure that the Board fulfills its role in providing checks and balances to the management. Of the eight directors, five are independent directors, representing 62.5% of the Board¹⁾, and the average attendance rate by the directors is 91.3%.

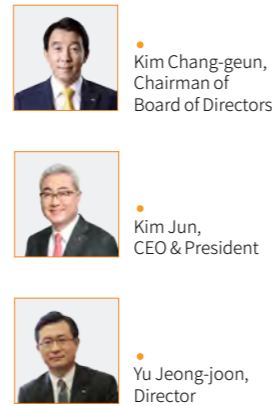
Note 1) As of May 2018

• Board Members

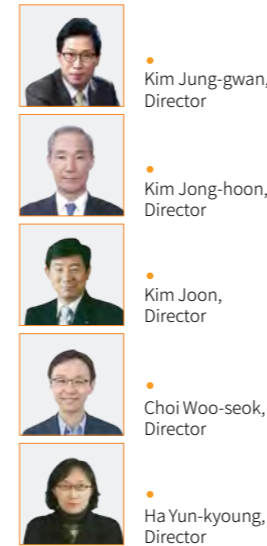
Position	Name	Term	Career Highlights	Committee Membership
Executive Director	Kim Chang-geun	March 2016 - March 2019	Current) Chairman of Board of Directors, SK innovation Former) Chairman, SK SUPEX Council	-HR Committee member
	Kim Jun	March 2017 - March 2020	Current) CEO & President, SK innovation Former) CEO & President, SK energy	- Nomination Committee member -Strategic Planning Committee member
Non-Executive Director	Yu Jeong-joon	March 2017 - March 2020	Current) CEO & President, SK E&S Former) President, SK Global Growth Committee	- Transparent Management Committee member
Independent Director	Kim Jung-gwan	March 2018 - March 2021	Current) Advisor, Bae, Kim & Lee LLC Former) Executive Vice Chairperson, KITA Former) Deputy Chair person, FEZ Committee Former) Visiting Professor, Dept. of Energy Resources Engineering, SNU Former) 2 nd Vice Minister, Ministry of Knowledge Economy	- Nomination Committee Chair (expected) - Strategic Planning Committee and Transparent Management Committee member
	Kim Jong-hoon	March 2017 - March 2020	Current) Honorary ambassador and chairman of the International Relations Commission, KSOC Former) Member of the 19th National Assembly (Trade, Industry and Energy Committee) Former) Minister for Trade, Ministry of Foreign Affairs and Trade Former) Chief Delegate for the Korea-US FTA Former) Consul-General at the Korean Consulate General in San Francisco	- HR Committee and CSR Committee Chair - Audit Committee member
	Kim Joon	March 2016 - March 2019	Current) CEO & President, Kyungbang Co. Current) Director, East Asia Foundation Current) Chairman, Spinners & Weavers Association of Korea Former) President, Korea YEO (Young Entrepreneurs' Organization)	- Strategic Planning Committee Chair - Audit Committee and HR Committee member
	Choi Woo-seok	March 2018 - March 2021	Current) Professor of Accounting at Korea University Business School Current) Advisor, Korea Deposit Insurance Corporation Current) CPA/ CTA Former) Executive Director, Inspiring Insight in Business Society Former) Advisor, Ministry of the Interior and Safety	- Audit Committee Chair - Nomination Committee and CSR Committee member
	Ha Yun-kyoung	March 2016 - March 2019	Current) Professor, Department of Basic Science at Hongik University Current) Vice Chairman, Korean Chemical Society Current) Advisor, Korean Chemical Society Korean Chemistry Olympiad Former) Director, Association of Korean Woman Scientists and Engineers	- Transparent Management Committee Chair - CSR Committee member

Average Tenure: 3.3 years

Executive Director/ Non-Executive Director



Independent Director



Director Appointment Process

SK innovation has established an objective and fair process for the appointment of executive directors and non-executive 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).

For independent directors, the Nomination Committee defines the plans and process for recommendations, selects the candidate pool, and after a series of discussions, selects a final candidate to be recommended at the GSM. During the candidate selection discussions, the Committee not only reviews the independence of the candidate, but also scores the candidate on a range of factors by the evaluation standard established by the company, including specialty, commitment, managerial mindset, social reputation and morality. Impersonal 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

Expertise	Expertise and experience in corporate management, and experience as an executive or independent director
Commitment	Able to attend over 90 percent of BOD & Committee meetings, and make real contributions and advice on current issues
Managerial mindset	Leadership acquired from experience in serving as the CEO of a large company or head of an organization
Independence	No conflicts of interest with management and shareholders; can make thoughtful, independent decisions
Social reputation	A strong reputation recognized by many company stakeholders
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
Other	Current business environment and issues at the time of nomination

Standard of Independence for Independent Director

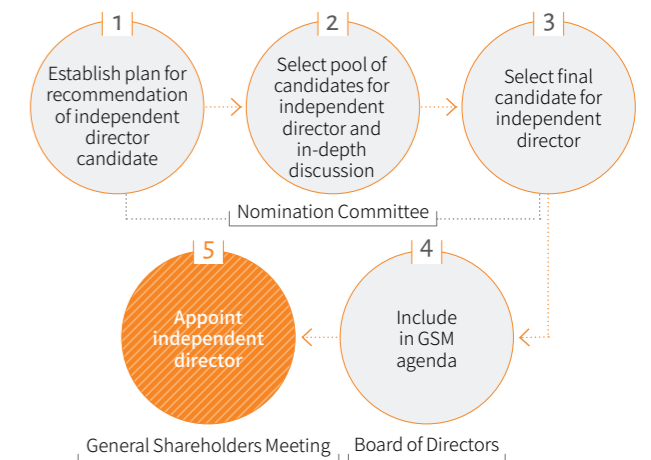
SK innovation ensures the independence of its independent directors to guarantee shareholder interests are reflected in a balanced manner and a fair and transparent decision-making process is followed. To this end, the company establishes and complies with the independent standards for major disqualification 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 a related company, or directors, auditors, executive directors and employees who have engaged in the regular business of a related 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 a related 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 a related company serve as directors and executive directors.

* Referred to Article 382 Clause 3 and Article 542 Clause 8-2 of the Commercial Act of Korea

• Independent Director Appointment Process



— Expertise of the Board of Directors

Independent directors actively participate in training programs on the business and governance structures to enhance their expertise. They enhance their understanding of the business and the company by visiting key business sites and production facilities, and participating in orientation sessions for new independent directors at each business location. The directors also participate in governance-focused conferences, such as the NACD (National Association of Corporate Directors) and ICGN (International Corporate Governance Network).

In addition, SK innovation's Board of Directors considers possible risks through thorough reviews of audit reports and holds an annual strategy session to improve expertise in issue and risk management. The strategy session involves updates on company-wide and key business strategies and implementation trends, and key risks and ways to manage risk. This includes materials to support the decision-making process on these issues. In addition, external experts on legal and communication matters are invited to present key issues that are relevant to the internal and external business environment.



Board of Directors' visit to production site (April 2017)

— Activities of the Board of Directors

SK innovation’s 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 oil, petrochemicals, and EV batteries. The Board holds regular monthly meetings. To ensure that directors can sufficiently 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 also holds ad-hoc meetings for agenda items that require a quick decision. The Board aims to lead the way in the company’s professional and transparent business activities. In 2017, 70 agenda items were put forth to the Board in 13 meetings, and Committees discussed 42 agenda items over 20 meetings.

Proactive On-site Management

SK innovation’s Board of Directors makes regular visits to business sites in Korea and overseas to make sure decision-making is based on expert information and accurate understanding of the business sites. Board meetings are sometimes held on-site during these visits to gain a more accurate understanding of the activities at the location, and to listen to opinions directly from employees and implement on-site management practices.

In 2017, an on-site BOD Meeting was held at SK incheon petrochem and in Ho Chi Minh City, Vietnam. The directors were able to better understand key issues of the business, and improved communication with employees through volunteer activities and Independent Directors’ special lectures for SK innovation’s executives and team leaders.

Operation of Board Communication Sessions

SK innovation’s Board of Directors is committed to coordinating various stakeholder views and fulfilling its role and responsibility as the highest decision-making body in the company. The Board holds CEO Sessions and Strategy Sessions attended by the CEO, key senior management, and independent directors. At the sessions, the participants freely discuss business philosophy, vision, and strategic fit, as well as issues that were raised during the communication process.

In 2017, communication session topics included “Deep Change 2.0”, a new key topic; shared infrastructure; and strategy of the company and key divisions.

— Board Performance Evaluation

The Board conducts an annual self-evaluation on composition, role, responsibility, and operation-related matters. The results of this assessment are published 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. Furthermore, to ensure fair compensation, the HR Committee thoroughly reviews the remuneration limit for directors, which is presented for Board approval and final GSM approval.

In addition, the company annually participates in the ESG assessment conducted by Korea Corporate Governance Service, in order to receive a more objective assessment of the company’s governance structure. In 2017, the company received a grade A in the area of corporate governance, recognizing the strong achievements of the BOD.



On-site BOD meeting in Ho Chi minh City, Vietnam (November 2017)

— Board of Directors’ Subcommittees

SK innovation operates six subcommittees under the Board of Directors. All chairs of the Committees are independent directors, and over half of the members of each committee are independent directors¹⁾ in order to ensure independence and transparency in the operation and decision-making of the Committees.

In addition, each committee conducts preliminary reviews and discussions prior to any decision-making by the Board of Directors, thereby ensuring full understanding of the topics and enhancing the efficiency of the Board of Directors.

Note1) Audit Committee and CSR Committee are comprised of independent directors only

• List of Committee Activities in 2017

Committee	Director (person)			Meetings Held	2017 Key Activities	
	Executive	Non-Executive	Independent		Agenda Items (Preliminary Review)	Key Agenda Items
Audit	-	-	3 ¹⁾	5	15	- Audited performance and results of external audit - Audit performance - Audit team planning
Nomination	1	-	2	2	2	- Independent director nomination process - Independent director nomination
Strategic Planning	1	-	2	4	5(5)	- 2017 short-term business plan - Battery business investment - LiBS business investment
Human Resources	1	-	2	2	6(3)	- Executive director nomination compensation - Set limit of director’s remuneration - Revise executive policy regulations
Transparent Management	-	1	2	5	9(9)	- Additional acquisition of Happynarae Co. Ltd shares - SK China (Hong Kong) rights issuance - Brand usage agreement renewal
CSR (Sustainability)	-	-	3	2	5	- BOD activity evaluation - CSR plans - Publishing Sustainability Report

Note 1) As of March 2018

CSR Committee

The CSR Committee’s objective is to provide direction for the company’s sustainable management and operations and to implement effective CSR (Corporate Social Responsibility) activities. The committee discusses and reviews all relevant issues. The CSR Committee is composed solely of independent directors, in order for the Committee to have a more objective and comprehensive view of issues. The Committee regularly participates in the company’s social contribution activities and contributes to the execution of CSR plans.

Key Agenda Topics of CSR Committee

- 1 Schedule and progress of the Sustainability Report
- 2 Progress of CSR activities
- 3 Support for CSR-related communication to stakeholders
- 4 Review of company’s policies, programs, practices that impact safety, health, environment, and other social issues
- 5 CSR activity participation by the BOD
- 6 Status of and action on any other key CSR issues
- 7 Improvements in BOD and Committee operations



BOD volunteer day (November 2017)

Risk Management

Risk management is a prerequisite for creating corporate sustainability performance in a rapidly changing business environment. Currently, energy and petrochemical companies around the world are being asked to develop strategies to cope with climate change. In addition, social interest in employees' human rights and safety is increasing.

Thus, SK innovation manages major risks systematically and has established mid- and long-term strategies tailored to each risk.

— Risk Classification and Reporting System

In order to manage risks more systematically, SK innovation classified various risks related to our management activities into three categories: operational, business and financial. Operational risk refers to risks related to ethics, compliance with government regulations, human resources, safety and the environment. Our management departments comprehensively manage operational risks, and issues in need of decision-making by our management and subsidiaries are submitted to chief executives' meetings with consideration paid to the type of risk. Business risks include changes in the external environment, such as oil prices, national or local situations, and governmental regulations that affect business performance or new investment decisions. These are managed by departments in our affiliates, and issues in need of decision-making by each subsidiary's management are discussed in

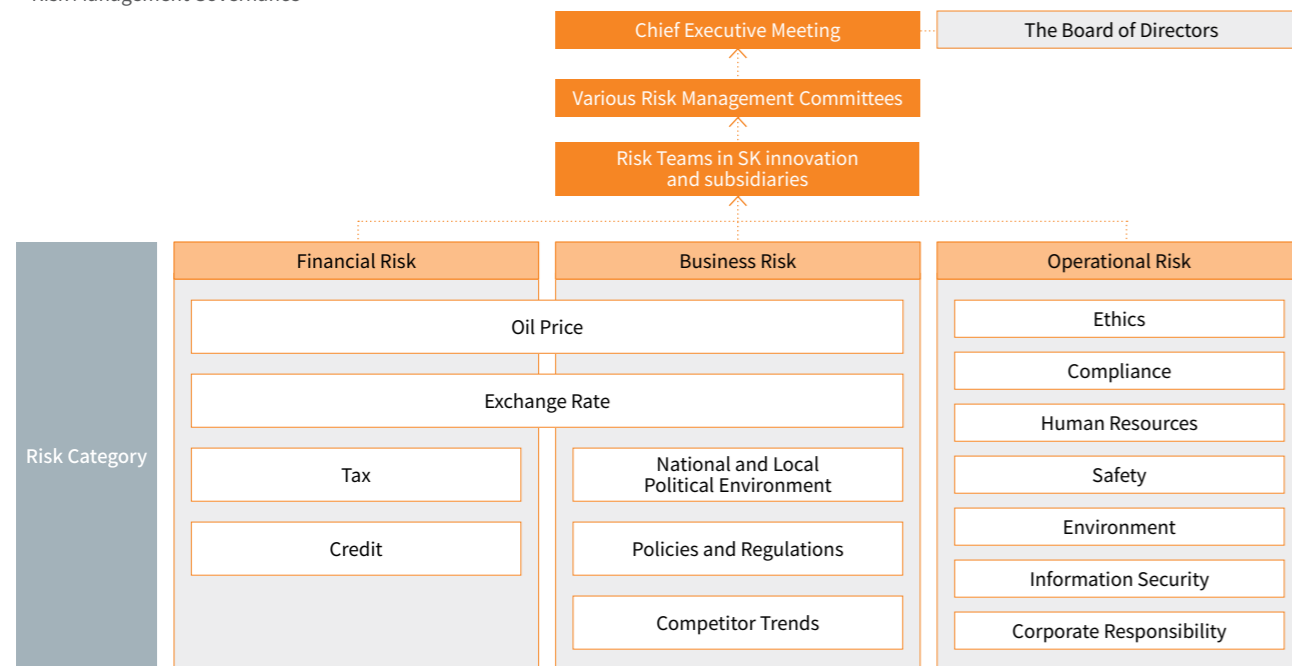
a council on risk management which is attended by the CEOs of the subsidiaries and the executives of related departments. Financial risk includes risks associated with oil prices, exchange rates, tax accounting, and credit.

In addition, some major risks arising from SK innovation's involvement with our subsidiaries are discussed at the chief executives' meeting, which is attended by our CEO and the CEOs of five subsidiaries. Some issues may be reported to the board of directors if necessary.

— Risk Monitoring

SK innovation conducts monitoring tailored to the background and features of the risks in order to preemptively respond to risk factors. In the case of operational and business risks, we continuously monitor laws and regulations, policy trends, and major stakeholders' opinions. We also share risk-related trends with all employees through the intranet and newsletters, thereby encouraging employees to prevent risks from occurring. In case of financial risks, which have an immediate effect on business performance, we analyze short-term changes and mid- to long-term trends based on various economic indicators with the help of subsidiaries. After analysis, we set the maximum level of risks that we can endure to manage relevant risks.

● Risk Management Governance



— Emerging Risk

SK innovation analyzed environmental and social changes on a regular basis to determine long-term risk factors for the overall business and came up with measures to respond effectively to such risks.

Emerging Risk	Business Context	Risk Impacts	Mitigation Actions
 <p>Global Regulations and Unstable Oil Prices</p>	<p>Oil prices continued to rise after the first half of 2015, reaching an average of USD 64 per barrel in December 2017. It is still difficult to predict changes in oil prices due to deepening protectionist policies, and unstable geopolitical situations in the Middle East. Oil prices generally fluctuate as demand and supply change due to global economic conditions, natural disasters such as weather, and problems arising from business operations. In addition, the opinions of local governments largely affect oil prices.</p> <p>Thus, countries with a high dependence on crude oil imports, such as Korea, may be more affected by these local governments. The local government policies are projected to have greater impact on businesses, especially as the governments strengthen regulations.</p>	<p>Changes in oil prices and production costs of petroleum products affected by global economic conditions may lead to unstable profits, cash flow, and profit structure. In particular, high dependence on crude oil imports can significantly affect corporate finance, as crude oil prices change during the period between shipment and arrival.</p> <p>In addition, governmental regulations and standards for petrochemicals products should be considered while doing business. Violation of environmental regulations may also lead to significant financial consequences. Tightened regulations in the U.S.A., Europe, and emerging markets, including China, can serve as an opportunity in business areas such as lubricant production.</p>	<ul style="list-style-type: none"> Enhance competitiveness to become a global trading company by adopting operational optimization techniques that effectively utilize market dynamics. Adopt desulfurization equipment in response to tightened global regulations on petroleum products, and develop high-quality lubricants that meet global standard requirements.
 <p>Fair Trade and Sales of Products</p>	<p>Ethical management, including fair trade, is critical to operate businesses. Currently, the importance of executing fair trade between oil refineries and gas stations, as well as calculating reasonable oil prices has increased.</p> <p>In the case of SK innovation, 30.7% of domestic gas stations belong to SK, and our market share was recorded at 32.4%. This indicates that various risks may occur as we execute a large amount of transactions.</p>	<p>In the process of establishing business relations with subsidiaries and affiliates, there were some cases of violations of the Monopoly Regulation and Fair-Trade Act.</p> <p>We have not received any legal sanctions for the past five years, since these issues have not occurred. However, activities such as restricting competition to secure gas stations in order to maintain market share may result in corrective actions, penalties, and fines, thereby negatively affecting corporate finance and reputation. In addition, consumers' distrust of domestic oil prices can have a negative impact on brand loyalty. Thus, it is necessary to actively communicate with customers.</p>	<ul style="list-style-type: none"> Require affiliates to cooperate with our business compliance team in headquarters to check whether illegal support is provided when transactions are made. Strengthen monitoring for unfair trade practices with suppliers, including abuse of trade superiority, as regulations on unfair trade practices between large and SMEs are expected to be tightened.
 <p>Climate Change</p>	<p>Following the adoption of the Paris Climate Change Agreement in December 2015, social interests in climate change increased in multiple areas, including the environment.</p> <p>Recently, Korean society has faced growing concern about the fine dust generated from fossil fuel consumption. Accordingly, the government announced the development of an incentive system to promote the sale of electric vehicles, and carmakers announced a reduction in the sales of internal-combustion engine vehicles.</p>	<p>Investment and production costs are rising, as reduction of greenhouse gas emissions is required in the petroleum refining, transportation and distribution industries. Attracting investment in the long-term is projected to be difficult since the World Bank announced it would stop investing in the oil drilling business starting in 2019.</p> <p>In Korea, as the government tightens environmental regulations on fine dust, facility investment costs may increase. Furthermore, the government's announcement to expand subsidies for the purchase of EVs, and the subsequent launch of EVs, hydrogen powered vehicles, and hybrid vehicles to replace gasoline and diesel vehicles can have a negative financial impact. On the other hand, strengthened global regulations and the advancement of EV technology are expected to contribute to the market expansion of eco-friendly EVs.</p>	<ul style="list-style-type: none"> Establish strategies and procedures for emission trading scheme to comply with regulations and respond to market changes. Increase R&D and investment (i.e. develop next-generation batteries of electric vehicles for long-distance driving, etc.), and construct new production facilities. Mitigate greenhouse gas emissions (e.g., reduce by 60,000 tons a year by promoting various projects at workplaces).

Ethical Management

Stronger legal regulations on ethical management in the global business environment and 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 established its Code of Ethics and Guidelines based on SK Group's management philosophy SKMS (SK Management System) and continues to make updates as necessary. Moreover, the company plans to upgrade the company's ethical management system by establishing an ethical management training platform and a supplier ethics training plan, and continues to supplement the company's management of the compliance program.

— Ethical Management Principles

SK innovation has enacted a Code of Ethics specifying the 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 (last update completed in April 2017). All employees of SK innovation, as well as its investment companies, including overseas subsidiaries, are obligated to observe the Code, and the company also recommends that companies that SK innovation partially owns, or business partners that the company does business with or have a contractual relationship with the company, adopt and follow the Code.

In addition, the Business Conduct Guidelines include case studies which provide practice guidelines, and FAQ section on the Code of Ethics Guideline for any questions employees may have.

— Internalizing the Ethical Awareness Company-Wide Ethical Management Workshop

SK innovation hosts an annual Ethical Management Workshop led by leaders to discuss ethical dilemmas and risk case studies. The workshop is autonomously held by each division, and the first and second workshops are led by executives and team leaders respectively. In 2017, the workshop's topic was case studies from audits over the past three years and cases of ethical dilemmas. The attendance rate for this workshop was 93%.

Strengthening Employee Ethics Training

SK innovation holds ethical training year-round in order to strengthen employees' commitment ethics. In 2017, training was expanded to cover all employees, including international employees. In addition, the company has enhanced employees' ethics compliance by sharing key issues they may face during the course of their work.

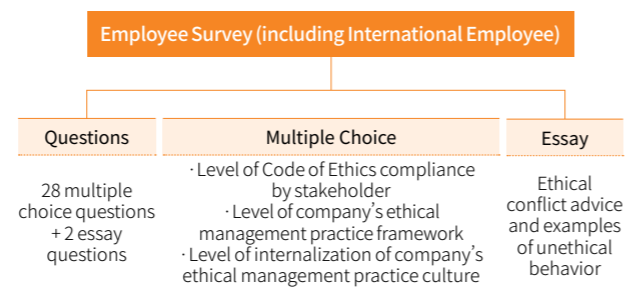
● Ethical Training Performance

Classification	Number of Participants	Hours of Training
Offline training	1,121persons	939hours
Online training	5,893persons	2,947hours

Ethical Management Survey

To understand employee's level of awareness of, and identify weak areas in, the ethical management framework, the company conducts an annual ethical management survey. In 2017, 80% of all employees participated in the survey for ethical management. 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.

● Composition of Ethical Management Survey



— Strengthening Ethical Management Communication

To increase management and oversight of ethics management within the company, SK innovation has opened communication channels, including the Ethics Consultation Center and Ethical Management website, through which it receives reports and requests for consultations on unethical behavior. In May 2017, we added ethical management pages to our intranet to ensure accessibility for employees. We also provide a reward program for informants, in order to encourage active participation from employees and stakeholders. The identity of the informant and the content of the information received are strictly kept confidential to prevent any possible backlash.

As of 2017, a total of 95 reports and consultations were filed. After excluding inquiries, mistaken reports, double-counted cases, and reports on other companies, there was a total of 60 cases. All reported content was investigated and sent to the related department for follow-up measures, while answers were provided for consultations. Customer complaints were referred to the customer service department. In 15 reported cases that were investigated, one was a violation of the Employee Code of Ethics (Receipt of entertainment by suppliers). Follow up for the employees involved were done by HR.

● Number of Ethical Management Related Reports and Consultation Cases

Number of Cases by Stakeholder (Unit: Case)

Type	Report	Consultation	Complaint	Total
Customer	-	-	13	13
Business Partners	1	-	2	3
Employees	-	7	-	7
Others & Anonymous	14	2	21	37
Total	15	9	36	60

Breakdown of Cases by Follow-up (Unit: Case)

Investigation (Audit)	Cases Transferred to Relevant Department	Others (Unconfirmed or Dismissed)
15	16	29



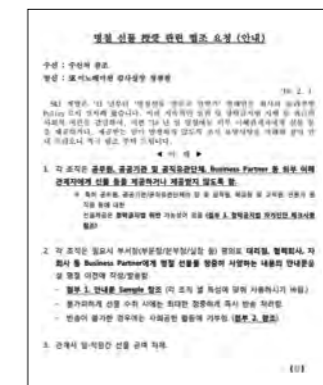
— Creating a Transparent Supply Chain Survey on Abuse of Position of Power

As it is expected that regulations on unfair trade practices between large corporations and small companies will be stricter going forward, the company is continuing to strengthen monitoring of any unfair practices with suppliers, such as an employees' abuse of power. As part of this effort, the company conducts surveys on abuse of position of power of all domestic suppliers every two years¹⁾, and assesses carefully whether there have been any cases that the company abuses the superior status unfairly or infringes on ethical management. In addition, in the case that an in-depth investigation is required, some suppliers will be visited for in-person interviews.

Note 1) The latest survey was conducted in 2016, next survey to be conducted in 2018

Establishing a Culture of Fair Trade

SK innovation has embarked on a campaign with its suppliers and other external stakeholders to not give or receive holiday or congratulatory gifts in order to strictly prevent any possibilities of unfair transactions. Employees who receive gifts are required to submit a description of the gift to his/her reporting team at their 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.



Official letter of request for cooperation to not give or receive holidays or congratulatory gifts

— Compliance Organization

SK innovation and three subsidiaries (SK energy, SK global chemical, SK lubricants) have each appointed a Chief Compliance Officer (CCO) to oversee and manage each company's Fair Trade Compliance Program (CP). The CCO establishes the CP implementation plan, oversees the implementation process, and reports the CP performance and plan to the Board of Directors semiannually.

— Compliance Management System

SK innovation has established a Fair Trade Compliance Program (CP) to enhance transparency in transaction and to promote fair competition within the supply chain. The company also defines seven major elements and establishes detailed management guidelines for each element to manage SK innovation and five subsidiaries strictly.

— Reinforcing Internal Compliance Monitoring

SK innovation obligates consultation from the HQ Business Compliance Team before engaging in inter-company transactions with affiliated companies to monitor for any possibility of unfair support, and has provided fair trade consultations in over 200 cases.

In 2017, the company has established a virtuous circle of 「compliance risk diagnosis by organization → examination → training → performance measurement and improvement」 to enhance risk management measures. As the first step, the company has diagnosed compliance risk by division and type for 110 business departments of SK innovation. Based on this diagnosis, issues related to each division were identified to conduct training and make improvements. In 2018, the company will operate and improve the framework, and continue to oversee all subsidiaries of SK innovation.

— Strengthening Employee Awareness of Compliance

Providing Compliance Information

In order to provide specific fair trade guidelines to employees, SK innovation has published and distributed a Compliance Guidebook, which covers the work process for all transactions and related fair trade issues. In addition, the company continues to issue the Fair Trade News Brief and Compliance Letter on a regular basis to raise awareness of compliance.

Compliance Training

In 2017, the company conducted an internal compliance training session, which covered regulations and issues that employees will have to consider in their work, with the goal of increasing awareness of the compliance with fair trade regulations. In terms of offline training, the courses are not only related to fair trade in general, but rather specific topics for each organization's business. Similarly, there is a basic online course for all employees, as well as advanced courses designed for employees in marketing departments.

In addition, practicing professionals in fair trade are encouraged to participate in Compliance Research Association activities and external courses to develop their expertise.

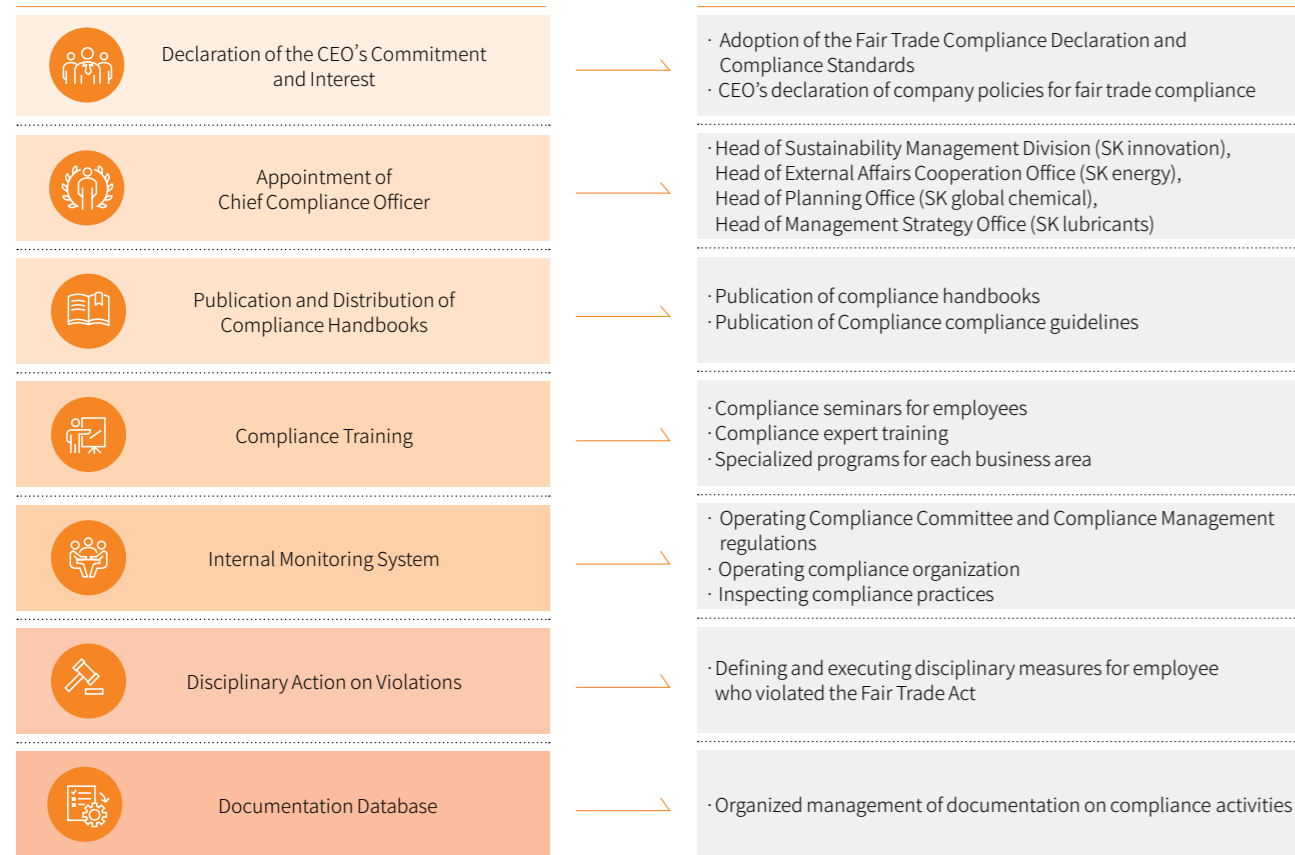
— Responding to External Regulations on Compliance

In January 2017, the Fair Trade Commission legislated guidelines on the “Prohibition of Provision of Inappropriate Benefit to Persons with Special Interest (Article 23-2, Monopoly Regulation and Fair Trade Act),” in order to strengthen standards of inspection of conglomerates' inter-company trade. SK innovation has rebuilt its inspection process on internal transactions that may be subject to investigate and applied stronger standards in order to mitigate risks in advance.

Furthermore, since the regulatory body is expected to strengthen surveillance on large-scale internal transactions between the affiliates of large conglomerates, the company has reviewed inter-company transactions of the past five years and improved the monitoring processes of inter-company transactions.

In addition, in light of the increased cooperation among competition regulatory authorities across jurisdictions, as well as strengthening regulations on company mergers, the company has conducted monitoring and training for the overseas marketing organizations and subsidiaries, and provided training on the reporting procedures for company consolidation employees involved in M&A and company merger work.

● The Seven Factors of the Compliance Program



● Compliance Training Course

Subject	Target	Timing
Transportation Manager Training	SK energy transportation managers	April
Online Training: Fair Trade Basic Course	All SK innovation affiliated employees	May
Online Training: Fair Trade Advanced Course	Divisions related to the Fair Trade Act	May
Company Merger Control Regulations and Practice	Employees in the M&A departments at SK innovation subsidiaries	October
European International Cartel Training	SK lubricants' overseas marketing department and employees at the Amsterdam subsidiary	October
Fair Trade Act Training	SK innovation Materials Division	November
Unfair Collective Practice and Agency Act Training	SK global chemical's Chemical Market Development Department	November
Fair Trade Training for the Oil Pipeline Business	SK energy Logistics Management Department	November



Knowledge-sharing seminar regarding pre-merger filing reporting

Employees

For an organization to achieve change and innovation, it is important to establish a capacity-building system for employees, who are the foundation of the business, and to create a sound organizational culture.

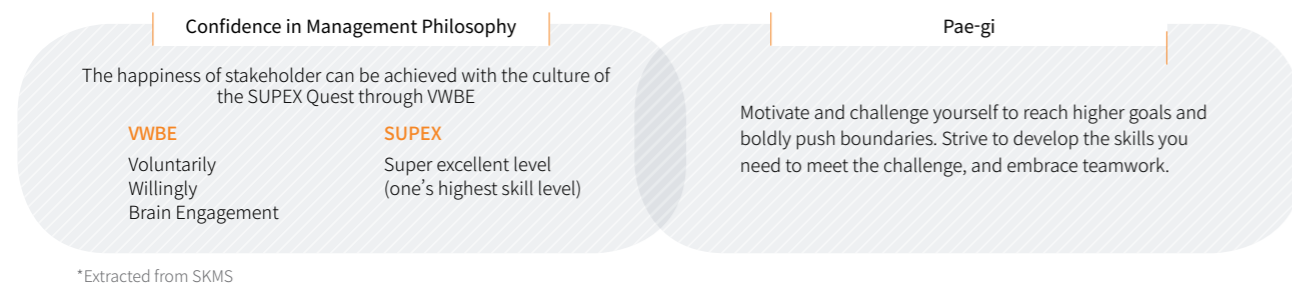
SK innovation aims to be a stronger, better company and not only be better at what we're good at, but be good at things we have never done. To achieve this, we foster employees who can lead "Deep Change". Furthermore, in order to promote Deep Change 2.0 in earnest, we will continue to strengthen communication with employees. And through this, we will internalize 'Innovative Way We Work' and 'culture of open communication' in early between leader and employees.

— Talent Development System

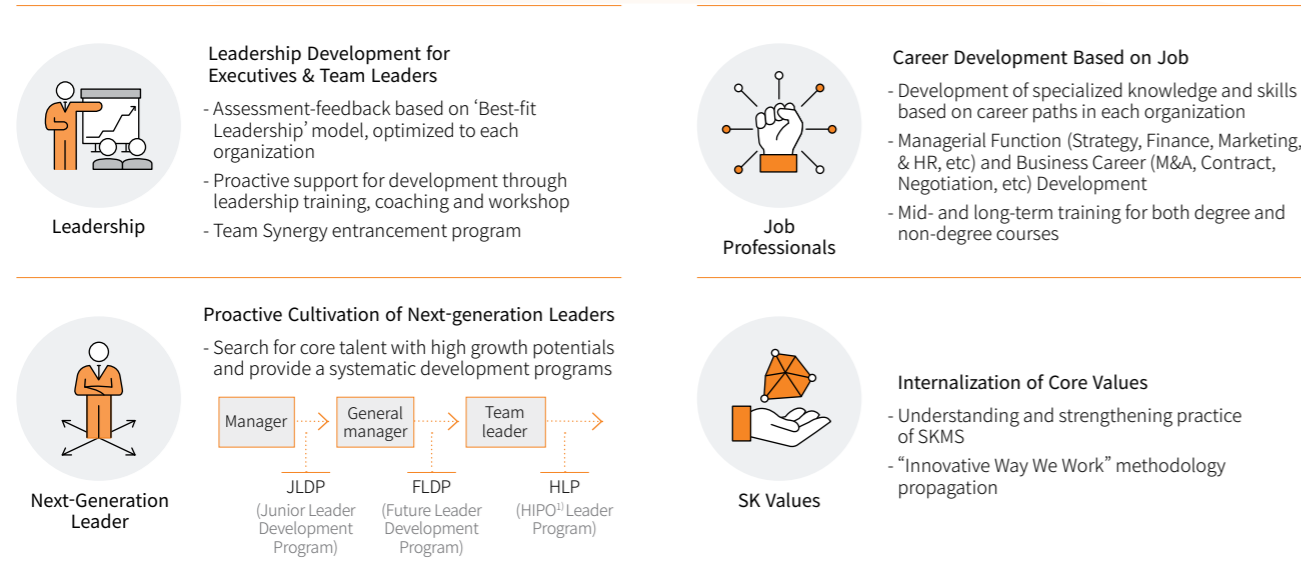
SK innovation's Human Resource Development System

SK innovation pursues our employees to challenge themselves by setting higher goal and take progressive actions based on our management philosophy. We believe that leadership, job professionals, and understanding of SK values are the core values in order to foster our employees and our HR development system will ultimately lead our employees to achieve this goal.

● HR model



● HR Cultivation System



Note1) High Potential

Major Human Resource Development Programs

Virtuous Cycle of 'Best-Fit-Leadership' Assessment-Feedback-Development

SK innovation's Human resource team annually defines the 'Best-fit Leadership' that is optimized for each business unit and characteristic of each organization and provides assess and feedback to each team leaders and executives. Through this system, all leaders are offered customized leadership development guidance and they are able to participate into a customized programs to improve their leadership skills.

High Potential Leader Development Program

SK innovation selects employees with high potential for future growth as candidates for the next-generation leadership program and provides proactive training. We help them to develop the skills required to be a proactive leader, such as strategic and financial understanding, as well as skills in organization and HR management, from early in their careers.

Define Job Competency and Career Paths for Each Organization

Each organization has implemented its own career paths to create of VWBE learning culture. For especially Engineers and Researches, team leaders support their own Individual Development Plan with the curriculum.

SK energy's Ulsan CLX factory runs an in-house system, CLX University, to reach the objective of developing globally competitive engineers. CLX University's annual program is composed of basic engineering skills (70 subjects), technical seminars (15 topics), core skills (258 subjects), a new engineer course (5 months), and Leader Initiative special lectures by leaders (once a quarter). The curriculum and textbooks are created based on the company's 56 years of production facility operational experience and the curriculum implementation process is strictly managed.

Career Development with Leaders and Subject Matter Experts

Focused on various topics that can contribute to the team's professionals, leaders and SME provide knowledge and skills transfer development. Leaders & Experts can learn by teaching, as it gives them the opportunity to organize their experience, while the employees have the chance to learn from actual knowhow.

Biz Insight Seminar

The Biz Insight is an educational seminar which shares knowledge and information on global market trends and business activities. The seminar is held twice a month at lunch time, and an average of 5,000 employees participate in the seminar every year. Thus, the seminar services as a source of inspiration for employees.

— Fair Performance Evaluation and Compensation

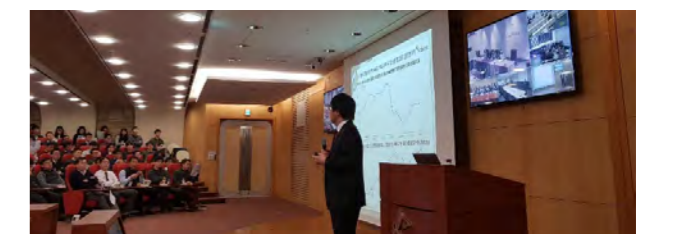
SK innovation requires team leaders to have an interview with employees on a regular basis, and launches mid-year sessions for teams to develop employees' skills and manage their performance. Based on these activities, we operate a systematic and fair evaluation system to assess employees' skills, talents, and achievements. In order to help employees to have faith in the evaluation results, we double-check the results, and provide opportunities to raise objections.

The evaluation results are applied not only to promotion assessment and talent development, but also to compensation. We provide compensation to employees, taking into consideration their achievements and company's short- and long-term objectives to improve sustainability. In addition, we do not conduct any unfair assessments or engage in discriminatory compensatory practices when it comes to gender, age, academic background, or other personal factors.

In 2017, SK innovation became the first Korean conglomerate to agree to adopt the wage index system. We adopted the system in March 2018, and expect that this will serve to resolve labor-management conflicts concerning wages, and to enhance the productivity of employees.



Note1) SK Values



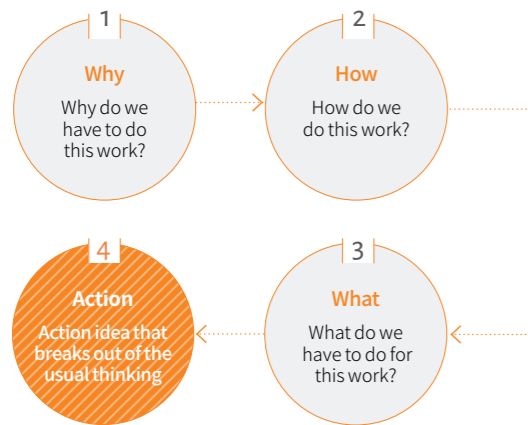
Biz Insight Seminar lecture

— Innovative Way We Work

Based on SK innovation’s belief that acting on SKMS starts from Deep Change of fundamentals, we are launching “Innovative Way We Work”.

“Innovative Way We Work” means changing the way employees think about daily tasks. To encourage Innovative Way We Work on-site, we have developed workshop programs to use for organizational and position-level workshops, making real, positive contributions to the company’s competitiveness. In addition, the company identified some positive cases of Innovative Way We Work, and rewarded the employees by sharing the cases through company newsletters and the internal broadcasting service. This kind of promotion helps all employees internalize the Innovative Way We Work.

● Process of Innovative Way We Work



“Innovative Way We Work” workshop

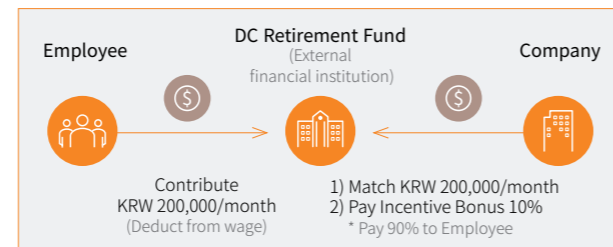
— Creating Great Corporate Culture to Work

Welfare Benefits for Employees

SK innovation runs various programs for our employees, not only to improve their work environment but also to increase their satisfaction with and convenience in their personal life. The company sponsors regular medical check-ups and supports medical expenses, and operates a severance pay system, as well as a loan system for housing purchases (which includes a reward system for long-tenured employees, as a token of appreciation for loyalty). In addition, under the belief that vacations are one’s personal right, the company has abolished the existing vacation approval process and developed a “vacation notification system,” which allows employees to use their holidays at their own discretion. We encourage employees to take at least two weeks for a proper break, and to take days off when a public holiday falls in the middle of the week. We also provide support for family occasions such as weddings and funerals, and provide use of company-owned resort and vacation condominiums for our employees’ convenience.

In November 2017, the company instituted Happy Pension System in addition to the existing Happy Retirement Fund in order to support the employees’ comfortable and happy retirement years. Every month the company matches the employees’ contribution into the pension fund account to support stable retirement fund management.

● Happy Retirement Fund Management Method



● Benefits System

 Financial Support SK Happiness card, personal pension support etc.	 Health Management Regular medical checkup, medical fee support (including spouse, children)	 Household Support Loans for buying or renting homes, financial support for dormitory or accommodation expenses when working in regions outside of Seoul (including spouse, children)
 Home and Childcare Support Holidays and financial support for family occasions, maternity/child care leave, childcare facility, tuition fees for children	 Hobby/Leisure Activities Resort, condo, fitness center, in-house group activity support	 Other In-house lunch and dinner service, SK Family card, long-tenured employee reward

Increasing Communication with Employees

SK innovation operates online and offline communication channels to encourage communication among all members of the company, including CEOs, leaders, and employees. To improve its effectiveness, the company utilizes both on-and offline channels to provide interesting contents, created for diverse purposes and audiences. The company also operates IT system, and holds events to gather employee opinions and incorporate them into company management policies and practices. In addition, the company frequently hosts discussion sessions where the CEO and employees engage in communication about the future direction of the company. Another key feature is “iCON (innovation Communication ON)”, which is composed of 250 employees selected by the company to be the bridge between leaders and employees and the Change Facilitator, who helps meaningful, employee- led communication.

The company also holds regular executive, team leader, and employee workshops in order to ensure that the CEOs, leaders, and employees are all working towards the same goals, and to enable swift and flexible review of objectives and implement improvements in each organization.

Moreover, the company conducts interviews and surveys on a regular basis to monitor the level of innovation of corporate culture and actively reflects the opinions and ideas from employees by utilizing collected results to management activities and improvement of internal system.



CEO-Employee conversations



Happy Walk

● Online and Offline Communication Channels

Communication Channel	Description
Online	tong tong: An online bulletin board in which employees suggest ideas for the company, such as suggestions regarding organizational operations and systems, or make inquiries, and are given replies on a real-time basis to reinforce two-way communication. Leader’s Blog: CEO’s blog, which covers multiple topics, including major management philosophy and policy, and messages for employees about each theme to enhance employees’ understanding. Company Broadcasting System (gbs): A multi-directional communication channel that utilizes internal broadcasts to simultaneously share information on management activities, current status of major business activities by each group, and news for employees in all workplaces 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, shares various thoughts on current management issues through frequent communication with leaders, and suggests ideas for facilitating change (about 250 iCONs as of 2017). CEO-Employee Conversations: Expand point of contact between employees and CEOs of SK innovation affiliate companies, hold Comm. Days (Well-Comm. Day, chats) for CEO and employees to have direct conversations, and create a culture of “freedom to speak”. Happy Walk: Happy Walk is a program where the CEO and employees participate in various cultural and outdoor activities together outside the workplace, communicate freely with each other, and share meaningful leisure time (CEO of each company sponsors the walk each month and employees and their family members can participate voluntarily). Role-Specific Workshop: Role-specific workshops allow for sharing of management targets and tasks for change in each group, and provides an opportunity for discussion and task proposal. Leaders Forum: The Leaders Forum is a lecture conducted by internal and external specialists on major business issues, change, and innovation, and shares current issues on a monthly basis with the CEO, 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.

— Respect for Human Rights

Human Rights Protection and Due Diligence Policy

With the aim of preventing any infringement of human rights in conduct of business or business relations, SK innovation enacts recruitment and cultivation strategies while taking human rights issues into consideration, as well as a Safety, Health, and Environment (SHE) policy and a Code of Ethics. SK innovation also strictly complies with human rights protection principles in business activities.

We joined the UN Global Compact (UNGC), a global sustainability management initiative, in October 2007, in order to fulfill social responsibilities and demonstrate our commitment to corporate citizenship. We also clarified support for ten principles in four sectors, including human rights, labor, environment, and anti-corruption.

• Human Rights Policy and Scope of Application

- First, SK innovation shall respect all its employees' dignity and value as humans in order to achieve sustainable happiness.
- Second, SK innovation shall do its best to maintain a good work environment on the basis of good morale, so that all its employees can pursue happiness.
- Third, SK innovation shall support and respect the human rights protection and labor standards of labor-related international organizations such as the UN and ILO, and shall not discriminate on the basis of any grounds including gender, race, nationality, religion, or age.
- Fourth, SK innovation shall comply with its human rights policies and the labor laws of the relevant country or region where it has work sites, and affirm that this policy is the basic duty of all suppliers and business partners having business relations with SK innovation.

Fair Opportunity for Recruitment

SK innovation ensures socially equal recruitment, which is open and fair for everyone. Evaluation by documents and written examination is thoroughly conducted independently in cooperation with an external specialized institution. With the introduction of blind review, the company strictly blocks any disadvantage for specific reasons such as academic background or gender and operates transparent recruitment principles and procedures.

We also give additional points to people with disabilities, patriots, and veterans to create social value and reinforce recruitment for disadvantaged people in employment. Since 2016, the company has formally operated the process of open recruitment for people with disabilities. We will add open recruitment for men of national merit (patriots and veterans) to expand socially fair employment beginning in 2018.

Support for the Growth of Female Employees

SK innovation operates W-Network, an in-company female council, to prevent any unfair practices which can be experienced by female employees, and promotes a female-friendly corporate culture. W-Network focuses on discussing issues such as the improvement of female-

friendly policies and systems, expanding recruitment of female employees, support for skill development, and creation of a female-friendly working environment. For these efforts, SK innovation received a presidential citation for "Fair Employment of Men and Women" in 2018.

• Activity System for Addressing Female Issues in Each Position

	Staff – Assistant Manager	Assistant Manager – Manager	Director – Team Director
	Expansion of female workforce	Minimization of career interruption	Promotion of leader growth
HR system	Expansion of open recruitment for new employees (30% maintained)	Exemption of evaluation for employees on career break (6 months or over)	Recruitment of HIPO (High Potential) female employees
Development of female employees		Female leadership workshop for managers/directors (group course)	Female team director candidate course (group course)
Work-life balance	Automatic conversion system for childcare leave Expansion of in-company daycare center		
Improvement of awareness and culture	Reflection of diversity module in training for workers in charge (included in case of training for a newly appointed team director)		

Securing Work and Life Balance

SK innovation creates a flexible working environment to help employees maintain a balance between work and life. For the first time in the industry, we have implemented a "flexible work system," where employees are autonomously allowed to adjust their commuting times, and adopted a smart work system to simplify the procedure of meeting and reporting to improve work efficiency. The company also runs an automatic conversion system for childcare leave to allow employees to apply for one-year childcare leave automatically when they apply for parental leave so that any employee with a child can carry out childcare without burden. In addition, we operate a nursing room/female lounge for women during pregnancy and contribute to ensuring work and life balance by expanding an in-company daycare center in 2016.

In 2017, we received family-friendly company certification from the Ministry of Gender Equality and Family in recognition of these efforts.

Prevention of Sexual Harassment

SK innovation provides sexual harassment prevention training to improve employees' awareness of sex-related human rights and strictly prohibits any sexual harassment in the company. In addition to annual online education, we routinely offer the values process for promoted employees and offline education programs for both new and experienced employees. The company also operates an in-company sexual harassment grievance consultation center; when a sexual harassment case is reported, we organize an investigative committee, including a female lawyer, and strictly deal with in-company sexual issues by evicting the perpetrator once their guilt is verified.

Supply Chain Management


Considering the current global business environment, supply chain management is becoming significantly important for the operation and reputation of company. In particular, with increased demand from stakeholders for corporate compliance with social responsibility, it is crucial to deal with potential risks in the overall company's value chain in advance. A company should enhance competitiveness by securing stable suppliers and pursue sustainable growth by managing any risks from suppliers.

SK innovation has established a supply chain management system and managed the sustainability of suppliers through continuous evaluation and monitoring.

— Supply Chain Management Policy

SK innovation's supply chain management strategy entails comprehensively considering various aspects for total cost ownership, reliability, on-time delivery and customer service level, SHE (Safety, Health, Environment) management and risk management for financial and non-financial elements (ESG).

In addition, with the aim of creating a fair and transparent trade environment and ensuring sustainability management for suppliers, the company enacted the Supplier Code of Conduct and Purchase Code of Ethics in 2017 and conducted systemic management for the entire purchasing process, including the registration and evaluation of suppliers and the purchase contract management by through e-Procurement System (BiOK).

 Major Contents of the Purchase Code of Ethics	Compliance with fair trade, transparent transaction, laws and international agreements (human rights proclamation, UNGC, etc.)
 Major Contents of the Supplier Code of Conduct	Human rights and labor issues, safety and health, management of environment-friendly business sites, compliance with corporate ethics, prohibition of the use of conflict minerals, establishment of management system, etc.



Screen of e-Procurement System (BiOK)

— Current Status of the Supply Chain

SK innovation classifies and manages its critical suppliers by comprehensively considering various factors such as transaction size, substitute products/service, the core technology possession, and the possibility of risks for non-financial elements (ESG).

Critical suppliers of SK innovation are companies which handle core raw and subsidiary materials (battery raw materials, additives, catalysts, etc.), and which are related to the business or performance of large-scale construction or services at major production plants, such as Ulsan, Incheon, Jeungpyeong, Cheongju and Seosan. As of 2017, 295 companies are classified as critical suppliers, from a total of 3,030 suppliers. Also, we are expanding the scope of the supply chain management to secondary suppliers (Non-Tier 1), in the case of large-scale construction, service and some equipment suppliers at major production plants and suppliers with a high possibility of having issues related to fair transaction.

• Current Status of Suppliers in 2017

(Unit: Number of company, %)

Classification	Number of Suppliers	Percentage of Purchase
Tier1 Total Suppliers ¹⁾	3,030	100
Critical Suppliers	295	85
Non-Tier 1 Critical Suppliers ²⁾	57	-

Note 1) Suppliers with recorded transaction performance within the past three years
Note 2) Intermediate contractors with regard to large-scale construction and services at a major production plant, or items of a certain scale (data from SK E&C and HappyNarae)

• Amount of Procurement

(Unit: KRW 100 million, %)

Classification	2015	2016	2017
Amount of Procurement	7,436	9,536	11,866
Amount of Local Procurement ¹⁾	3,767	4,833	7,371
Ratio of Local Procurement ¹⁾	51	51	62

Note 1) Limited to Korea

— Sustainable Supply Chain Management

SK innovation conducts economic, social, safety and environmental risk assessment and monitoring both new and existing suppliers. In particular, we monitor economic risk elements on a real-time basis based on the materials of major credit-rating institutions and also manage non-financial risk elements by evaluating human rights/labor and environment issues on a regular basis for any suppliers with a high-risk possibility. For suppliers which acquire excellent outcome

through regular monitoring and audit, we provide them with numerous benefits, such as exemption from deposits and qualification of participating in the maintenance unit. For those suppliers which fail to meet the evaluation criteria, we take various measures such as requesting corrections and ending transaction relations.

● Process of Sustainable Supply Chain Management

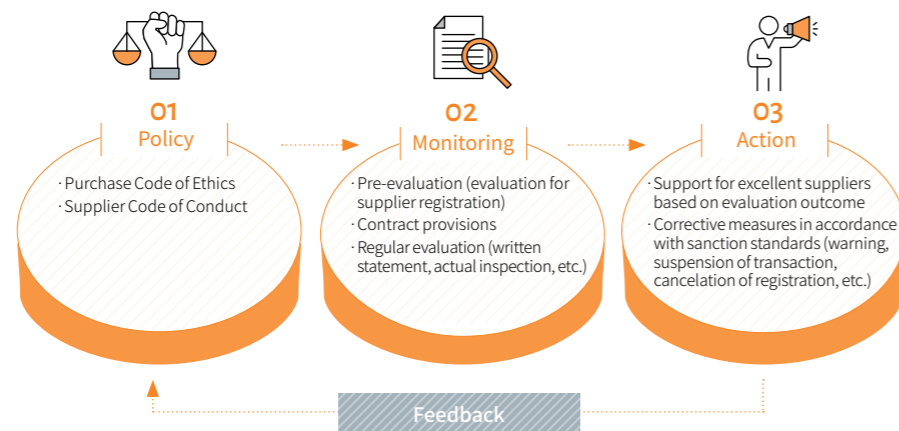
Global Guidelines

- UNGC Principle
- OECD MINE Guidelines
- ⋮

Internal Criteria

- Enhancement of Competitiveness
- Risk Management

Consideration of economic, social, safety and environmental aspects



Preventive Actions for Sustainable Supply Chain

SK innovation conducts a pre-evaluation of suppliers in terms of economic, social, safety, and environmental aspects in pursuit of the goal to carry out sustainable supply chain management. In particular, the company ensures compliance with the Supplier Code of Conduct through the e-Procurement System (BiOK), and registers and evaluates new suppliers. If a supplier fails to meet a certain standard, the supplier is excluded from the list of registered SK innovation suppliers in order to mitigate risks from the stage of supplier registration.

In 2017, the number of newly recruited suppliers was 384, all of which were registered after pre-evaluation was completed.

● Pre-Evaluation for Supply Chain (Unit: Number of company, %)

Classification	2015	2016	2017
Number of Newly Registered Suppliers	304	335	384
Number of Suppliers for Economic, Social, Safety and Environmental Evaluation	304	335	384
Ratio of Pre-Evaluation	100	100	100

Target for 2020

To maintain a ratio of **100%** for pre-evaluation of newly registered suppliers

Evaluation of Risks in the Supply Chain

SK innovation identifies major risk elements, which can occur in the economic, social, safety and environmental aspects and conducts regular evaluations for suppliers which have potential ESG risk factors.

In particular, when it comes to high-risk suppliers, we conduct third-party audit and visit-based investigations to reinforce monitoring and manage ESG risks.

● Supplier Risk Evaluation Results in 2017 (Unit: Number of company, %)

Classification	Major Risk Elements	Target Company	Number of High Risks (Ratio ¹⁾)
Economy	Financial risk such as financial rating and financial information change, etc.	Total suppliers	3,030 (100) 46 (1.5)
	Unfair transactions such as collusion, violation of ethics laws and regulations, etc.		
Society	Human rights, labor, etc.	Business site	
	Conflict minerals	- Construction and service, - Chemicals handling companies,	832 (27.4) 201 (24)
Environment	Large-scale safety and environmental accidents (oil leakage in the sea, gas leakage, etc.)		
	Violation of environmental regulations and laws	Battery - Raw and subsidiary materials, etc.	
	Level of establishment and management of SHE management system		

Note 1) The high-risk ratio is calculated by % compared to evaluation target companies.

Case of Risk Evaluation in the Supply Chain

SK innovation fundamentally prohibits the use of conflict minerals based on the Supplier Code of Conduct. Under the principle, the company strengthens the management for major raw materials suppliers with a high level of risk for using conflict minerals. In particular, we prevent human rights infringement such as child exploitation in trade of cobalt, raw materials for batteries, by reinforcing monitoring for suppliers.

● Supplier Risk Evaluation Results in the Method (Unit: Number of company, %)

Classification	2017
Tier 1	
Total Suppliers	3,030
ESG Evaluation	3,030
- Written Inspection	2,886
- On-Site Inspection ¹⁾	92
- Third-Party Audit ²⁾	52
Ratio of Evaluation	100
Non-Tier 1	
Critical Suppliers	57
ESG Evaluation	57
Ratio of Evaluation	100

Note 1) Includes companies for regular annual evaluations, especially those which conduct large-scale construction projects and service at major production plants, such as Ulsan and Incheon
Note 2) Includes target companies for annual evaluation by a government-led mutual growth committee as a company with a high possibility of risk in fair trade.

Target for 2020

To maintain **100%** of suppliers' evaluation rate

Total suppliers (Tier 1) and critical Non-Tier1 suppliers are included.

Corrective Measures

For any suppliers which need improvement based on the diagnosis and evaluation results, SK innovation requests them to establish a plan for corrective measures and improve risk elements (including ESG risks). Through these efforts, approximately 30% of suppliers with a high possibility of risk have improved risk management.

Despite this outcome, in 2017, the total number of suppliers under sanctions based on diagnosis and evaluation results was seven; of them, two suppliers faced permanent suspension of transactions due to severe policy violations when it comes to ethical issues and infringement on fair and transparent trade.

● Corrective Measures for Supplier Risks (Unit: %, case)

Classification	2017
Ratio of the Establishment of an Improvement Plan for High-Risk Suppliers	30
Ratio of ESG Performance Improvement in the 12 Months after an Improvement Plan is Made	100
Measure for the Suspension of Transaction	7 ¹⁾
- Temporary Suspension	5
- Permanent Suspension	2

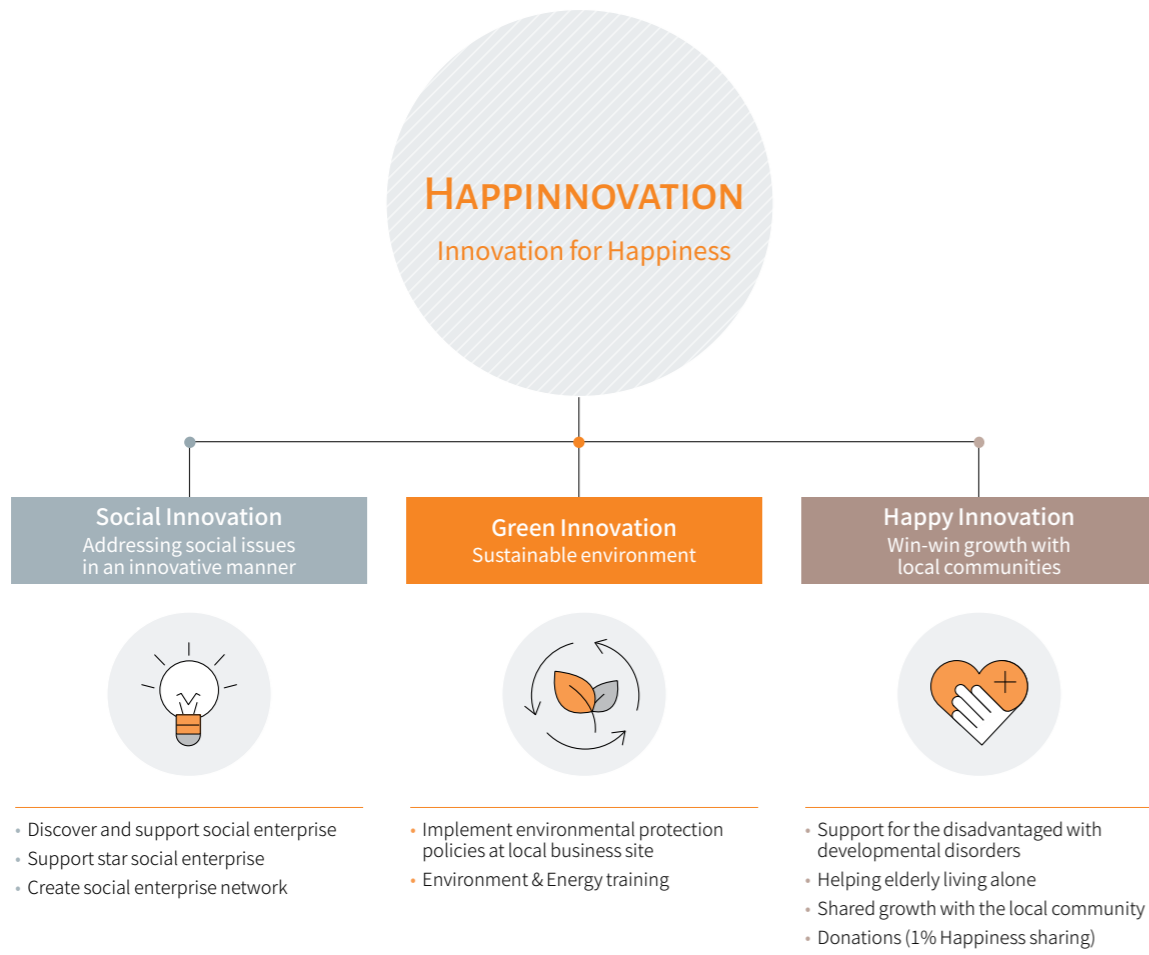
Note 1) Decisions made by Sanction Review Committee

Social Contribution

As a leading energy and petrochemical company, SK innovation's objective is to create not only economic value but also social value, and to spread and recreate that value and help generate happiness for all our stakeholders. Our guiding principle for our social corporate responsibility is "company creating and sharing sustainable happiness". Under this principle, the company strives to find innovative ways to help resolve some of society's most fundamental problems, and engage in meaningful activities that we believe help the socially vulnerable.

SK innovation will continue to share all our resources to create social value and create sustainable happiness for all our stakeholders and grow into a respected and beloved company.

• SK innovation CSR Framework



— CSR Implementation System

Under the slogan of "HappInnovation (Happiness + Innovation)", which is a combination of the company's name 'Innovation' and the company's core value 'Happiness', SK innovation's CSR implementation system is composed of three core activities, with the aim of becoming a company creating and sharing sustainable happiness. The three areas are Social Innovation, which involves creating a network of social enterprises to help create jobs for the socially disadvantaged and to help social enterprises to become more competitive; Green Innovation, creating sustainable environmental value focused on our regional workplace; and Happy Innovation, where everyone recognizes and takes part in the company's social responsibilities and works together for the development of the local community.

— Value Creation by Fostering Social Enterprises

SK innovation provides support for social enterprises, and fosters high-potential social enterprises to contribute to addressing diverse social issues. In addition to domestic sites, we operate a social enterprise in Peru where the company operates a business site to promote development of the region's agriculture¹⁾.

Note1) Refer to p.43

Objective: Job creation for socially disadvantaged people and support independence through conversion to social enterprise

Project overview: select business through open RFPs and provide infrastructure investment and consulting to the selected business for three years

- First round (2013~2015), Second round (2014~2016), Third round (2015~2017)
- Total 238 institutions submitted proposals, 13 businesses selected
- First and second round projects were focused on seniors, third round expanded to disabled/women/multicultural backgrounds

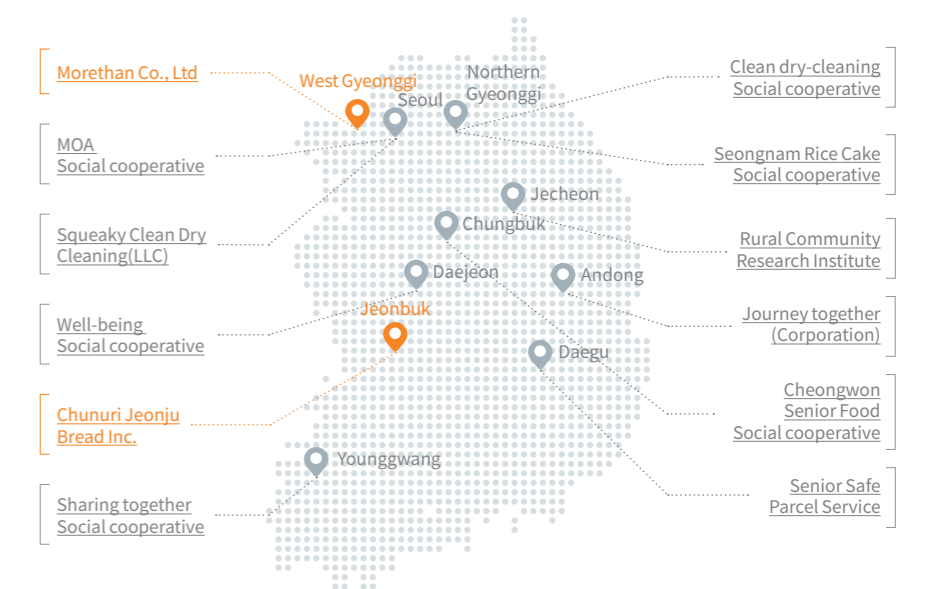
Support provided: facilities investment, legal · labor relations · accounting · marketing training, consulting for social enterprise conversion, job capacity-building training for socially disadvantaged employees, developing markets, pro bono support

Results:

- 11 business were converted into social economic institutions
- jobs created: 260 (211 seniors, 24 disabled people, 12 North Korean defectors)

Projects to Discover and Support Social Enterprises

SK innovation has selected 13 Biz. Model for from five consecutive 2013 to 2017, and helped them to turn into social enterprises or social co-operatives by sharing infrastructures for tangible and intangible assets. Of the 13, 11 companies completed transformation into social enterprises or co-operatives as of the end of 2017. A total of 260 people of the vulnerable in society—the elderly, North Korean defectors, women on a career break, the disabled, etc.—were hired.

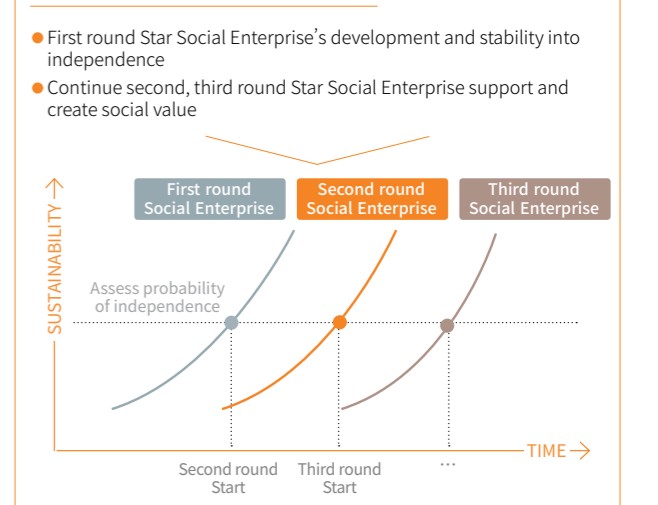


Star Social Enterprise Project

SK innovation recognized that there is a need for strong social enterprises that can exist and survive independently, as social enterprises are generally less competitive with less chance of survival compared to profit companies due to the fact that they are non-profit and hire socially disadvantaged people.

In 2017, the company selected Chunuri Jeonju Bread Inc. and Morethan Co., Ltd as 'Star Social Enterprise' and provided focused support. These two companies were selected based on growth potential, job creation effect, and social values of the business. We shared the company's resources and infrastructure including business consulting, advice on strengthening product competitiveness, pro bono activity support, advertising and marketing, developing sales networks, and impact investing. This support helped improve the company's sales, employment, brand recognition and other performances for the company to successfully develop into a star social enterprise. The company is creating such social ecosystem to help local community development, first focusing on Ulsan, Incheon, Seosan, Jungpyeong and other areas where our facilities are located.

Star Social Enterprise Fostering Plan



Star Social Enterprise 1. Chunuri Jeonju Bread Inc.

Jeonju bibim bread is a representative product of Chunuri Jeonju Bread Inc., a earning recognition as a local specialty of Jeonju. The bibim bread had a backstory as ‘not a profit making bread’ and became famous from word of mouth and sales skyrocketed. SK innovation was an initial investor in 2013, and since then we have established a shared infra open platform by cooperating with the Group and relevant parties, and provided all-round support to foster this bread company as a Star Social Enterprise, which has become a successful case of a social enterprise. Jeonju bibim bread’s growth contributes to the regional economy by using local agricultural products and outsourcing production to new social enterprises in the region to support job creation and increased revenues, and by revitalizing Jeonju’s commercial area. As of end 2017, Jeonju Bread opened a shop in Jeonju Hanok Village and is expanding its bibim bread by helping establish Jeonbuk economy revitalization platform through the ‘Jeonbuk Social Economy Alliance’.

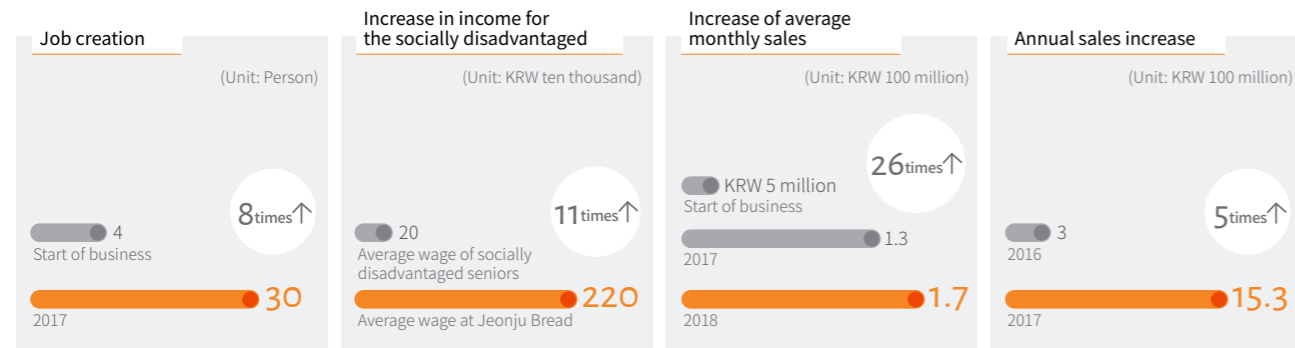


Jeonju bread's employees

• Open Platform for Shared Infrastructure



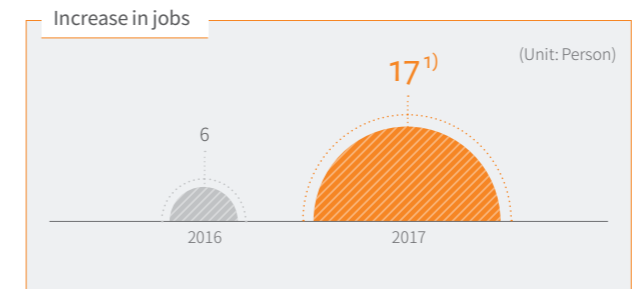
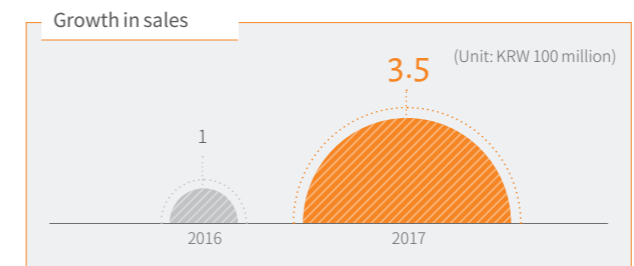
• Jeonju Bread Business Performance



Star Social Enterprise 2. Morethan Co., Ltd (Brand: CONTINEW)

Morethan Co., Ltd, a social enterprise selected in the third round SE project in 2015, manufactures bags, wallets and other fashion accessories from upcycled discarded materials from automobiles such as leather seats and airbags. The company creates not only eco-friendly value, but also social value by employing socially disadvantaged people such as North Korean defectors and women after career interruption. In 2017, Morethan was selected and is being cultivated as the second Star Social Enterprise, following Jeonju bibim bread. SK innovation is utilizing the shared infrastructure platform to enhance brand recognition and expand sales networks. In 2018, we anticipate further growth of the business through sales via home shopping and duty-free shops, expanding into the global market, starting production in Vietnam, and additional creation of jobs.

• Performance of Fostering a Morethan Co., Ltd. (Star Social Enterprise)



Note 1) Includes 7 vulnerable people



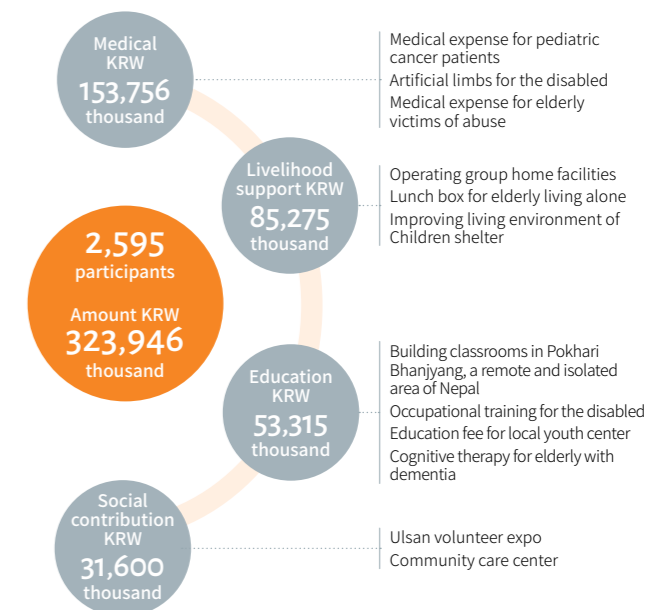
Morethan CONTINEW store

— Support for the Socially Disadvantaged

Employee donation program (Sharing Up and Happiness Up)

Since 2007, SK innovation has supported medical, education, livelihood of disabled and socially disadvantaged and other welfare programs through donations from the employees. Initially the program was structured for one employee to donate to their desired project (one sponsorship account for one employee). Examples of projects include support for children with leukemia and cancer, medical expenses for elderly people and emergency support for children both victims of domestic abuse, construction of a classroom in a remote area of Nepal, and a project to repair the artificial legs of disabled people in remote and isolated areas. Since October 2017, it was agreed that 1% of the base salary of employees will be donated for the shared growth and welfare support for local communities. This program, now renamed 1% Happiness Sharing Fund, is structured for the company to match the amount of donations given by the employees to lay a foundation for forward-looking, innovative new employee relations culture. Approximately 90% of employees participate in 1% Happiness Sharing Fund, and proceeds will be used to support the disadvantaged, including medical fee support for children with pediatric cancer, independence for the developmentally challenged, livelihood for low-income families, and creation of social jobs.

• 2017 Employee Donation Program





Receiving the presidential prize for Volunteer Work Awards

Happiness Sharing and Bridging Love (Volunteer Activity by Employees)

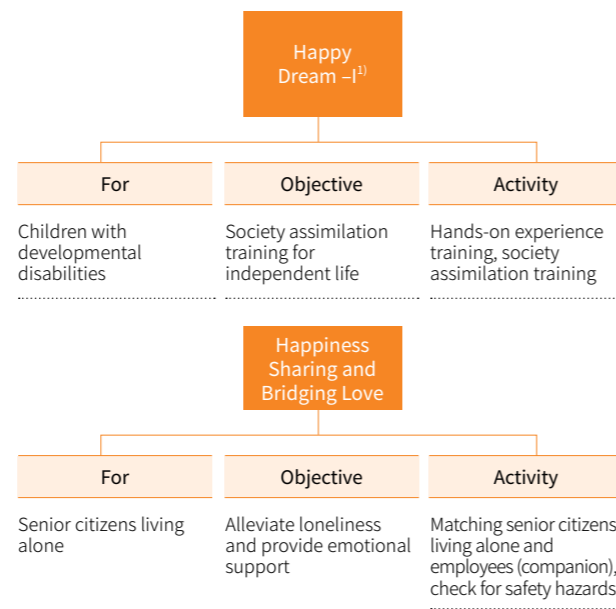
In 2004, SK innovation organized “SK Angels (1004) Volunteer Group” and operates 68 volunteer teams involving every employee as members. The main areas of volunteer work provide emotional support to the elderly living alone, and support independence for children with developmental disabilities. We focus on conducting in-person activities in the form of a 1:1 Caring program, so that our activities are not limited to simple financial support or superficial activities. In 2017, all employees participated in the volunteer program, 88% said that the opportunity gave them a better understanding of the disadvantaged, and 84% said that they felt an increased sense of pride and belonging as an employee of the company¹⁾. Through this activity, the company has formed partnerships with 40 institutions and schools for kids with developmental disabilities and 16 senior welfare organizations in local areas of business sites across the country and engages with more than 4,000 children and 2,100 seniors on an annual basis.

This effort was recognized and the company was awarded the Presidential Prize for Volunteer Work Awards and the Prime Minister of Health & Welfare Prize selected by Senior Protection Association.

Note 1) Survey results from 2,900 volunteers in 2017



Employee Volunteer Program



Note 1) Kids dreaming of happiness



Happiness sharing and bridging love activity for senior citizens living alone

— Regional Mutual Growth Program

Ulsan

SK innovation has held the Rose Festival at the Ulsan Grand Park Rose Garden since 2006 when the company created and donated the Ulsan Grand Park to promote happiness for residents of Ulsan. In 2017, we held the 11th Rose Festival in partnership with the Ulsan Metropolitan Government and created memorable experiences for the approximately 240 thousand visitors from across the country. In addition, the company supported six enterprises to help create jobs, and carried out various other activities such as supporting the “Bunch of Happiness” to help the socially disadvantaged, providing rice, renovating houses for the senior citizens living alone and sharing kimchi.

Incheon

SK incheon petrochem has organized a mutual-growth community group with local residents and regularly carries out activities such as education and HR cultivation, culture and welfare, and community environment improvements to help the local community. We are working toward the goal, by 2020, for approximately 30% of local residents to experience high-quality education programs. As a results, this program helped resolve issues with local residents regarding factory operations, and 100 local residents and 219 employees participated together in five SK incheon petrochem sponsored volunteer activities.

Major programs at Incheon

	<ul style="list-style-type: none"> · Educational facilities improvements (elementary/ middle school) · After-school class for elementary school · Academic mentoring for middle-school students · Science media summer camp for middle-school students · Sharing school uniforms of love · Mentoring through human book program 'Sonagi'
	<ul style="list-style-type: none"> · Community music concert · Community Happy Cultural Center · Shingles vaccination for seniors
	<ul style="list-style-type: none"> · Community environment refurbishment program

Seosan and Jeungpyeong

Seosan Plant actively carries out volunteer work for children with developmental disabilities. From 2016, the plant has engaged with children with developmental disabilities at Issac Special Nursery Center, attending social and cultural events such as musical concerts and performances. Through these activities, Seosan Plant aims to form a sense of empathy with the children and help them to prepare to adapt to society. Other social community activities include cleaning the surrounding areas of the plant, participating in a blood drive, and Green PC Donation of Love (300 of the company's PCs were refurbished and donated).

At Jeungpyeong Plant, the company offers scholarships to students from low-income and disadvantaged families every year and holds an event for sharing kimchi for the senior citizens living alone to take the lead in social contributions in the local community.

Global Social Contribution Program

As a leading energy and petrochemical company, SK innovation continues to prioritize SK Group's management principle of pursuing happiness for all our stakeholders not only in Korea but at our overseas business sites. In the US, we volunteer at the food banks in Houston and donate to the Tulsa TRSA Education Program¹⁾, and in Singapore, we sponsored twice a year out for thirty wheelchair-bound senior citizens living alone.

Note 1) Refer to p.42

— Giving Back with Sports

Jeju Youth Soccer Council

SK energy runs the Youth Soccer Council with the Jeju United professional soccer team to vitalize sports for kids and to support disadvantaged children. The Council sponsors youth soccer camp and youth soccer tournaments to provide access to the sport and foster a new generation of young soccer players in Jeju. In 2017, jointly with the Jeju Free International City Development Center (JDC), we ran the JDC United Soccer Academy for children from low-income families, and in 2018, we will acquire a social enterprise certification through which we will launch more diverse programs.

JDC UNITED Soccer Academy

- Period of activity: From 2017
- Target: Children from low-income and disadvantaged families in Jeju (40 participants in 2017)
- Cooperative institution: Sharing Happiness Local Youth Center, Saesoon Local Youth Center
- Activities: Soccer programs led by club leaders in the Jeju Youth Soccer Council as part of talent donation. Twice a month per local youth center
- Future plans: Select two additional local youth centers in Jeju to continue soccer programs in 2018

SK Sugar Gliders

SK Sugar Gliders, SK sponsored female handball team, has expanded its “Exciting Handball Class with SK Sugar Gliders” from their hometown of Uijeongbu Gyeonggi to Seoul Metropolitan Area, as part of its talent donation program. The classes have become more structured to make it easier to learn and teach, and we plan to continue expanding the program in the future.

Exciting Handball Class with SK Sugar Gliders

- Period of activity: From 2013
- Target: Elementary and middle-school students in Uijeonbu, Seoul, Seoul Metropolitan Area (1,110 students participated in 2017)
- Activities: handball theory and basics, recreation, handball team tournament and other programs

SPECIALITY SOCIAL CONTRIBUTION ACTIVITIES

2,500

Accumulated number of people for the job experience class for middle-school students
(Unit: Person)



Science and Energy Education Projects

SK innovation operates education programs to help growing young people to satisfy their curiosity in the science and energy sector and seek a future career path through various experiences.

Science Mentors for Growing Children

- Period of activity: From 2013
- Cooperative institution: Yuseong-gu District Office of Daejeon Metropolitan City
- Target: Elementary and middle-school students and students with disabilities in the region (100 students a year)
- Activities:
 - Introduction of research technology, visit to the exhibition hall and provision of science experience such as riding an electric vehicle
 - Science mentoring activity to solve curiosity for science with researchers through a science class

Job Experience Class for Middle-School Students

- Period of activity: From 2012
- Cooperative institution: Incheon Seo-gu Education Office
- Target: Middle-school students in the free semester system (892 students of 2017; 2,500 students in total)
- Activities:
 - Introduction of knowledge and work related to energy industry, occupations in the oil-refining industry, visit to plant facilities
 - Connection to the future job and company exploration program by the Ministry of Employment and Labor

Sustainable Environmental Projects

SK innovation conducts continuous environmental protection activities based on the responsibilities for neighboring natural environment to business sites. In the process, we enhance a sense of solidarity in cooperation with local residents and contribute to harmony in the region.

Environmental Protection Activity for Ulsan Forest of Life

- Period of activity: From 2005
- Cooperative institution: Ulsan Forest of Life
- Activities:
 - Activity of saving pine trees at Ulsan Daewangam Park
 - Activity of planting tea trees at Dajeon Ecological Park
 - Removing harmful plants disturbing the ecosystem (Ulsan Grand Park, Taehwagang River, Dongcheongang River)
 - Cultivating Rose of Sharon trees
 - Cultivating and taking care of big and old trees

Activity of purifying the environment by one-company-mountain-stream in Incheon

- Period of activity: From 2006
- Activities:
 - Activity of collecting various wastes in the Simgokcheon Stream and on Wonjeoksan Mountain

Activity of purifying the environment near Incheon business site

- Period of activity: From 2006
- Activities:
 - Collecting waste in the village streets and alleys with a group of local residents near the business site
 - 5 rounds of activities in 2017 (100 local residents and 219 employees participated in the event)

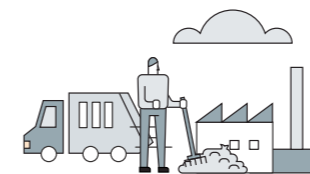
1,143

Number of participants of Great Music Festival
(Unit: Person)



319

Number of participants of Incheon Business Site Environmental Purification in 2017
(Unit: Person)



Support for Improvement of Sociability and Self-Reliance for People with Developmental Disabilities

SK innovation contributes to physical and emotional development and sociability improvement for people with developmental disabilities through support for cultural and art activities such as music and sports and conducts various activities to improve awareness of developmental disabilities.

Great Music Festival

- Period of activity: From 2017 - Cooperative institution: Heart-Heart Foundation
- Target: Music-related groups for people with disabilities in the country
- Activities:
 - Held the 1st Great Music Festival (GMF) in 2017 as a musical contest for people with developmental disabilities
 - 38 teams (343 people) and about 800 audiences attended
 - 1 team for grand prize (Dream with Ensemble), 1 team for top prize (Sugar Sugar Band), 3 teams for excellent prize and 5 teams for participation prize
 - Provided the opportunity to hold a concert in a major event such as in-company concert and bazaar

Raising Hope Baseball Class

- Period of activity: From 2017 - Cooperative institution: SK Wyverns
- Target: Special class students in elementary and middle schools of Incheon (90 students participate in 2017)
- Activities:
 - Operation of a baseball class to help children with developmental disabilities to promote physical development and improve sociability with SK Wyverns
 - In 2018, the class expands to the 'Raising Hope Sports Class' with the participation of professional teams such as Incheon-originated soccer team (Incheon United FC) and basketball team (Shinhan Bank S-Bird)

Environmental and Forest Experience Class

- Period of activity: From 2017
- Cooperative institution: Ecological education center Irang, Incheon Center for Disabled Children and Developmental Disabilities, Incheon Chamber of Commerce
- Target: Elementary school students with developmental disabilities in Incheon (163 students participated in 2017)
- Activities:
 - Operation of a nature-experience class to create the environment for physical and mental development and promote sociability for children with developmental disabilities
 - In 2018, the class expands to the seasonal forest experience class (Rainbow Forest School), which is customized for children with developmental disabilities.

SHE (Safety, Health, Environment) Management

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 regulation.

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

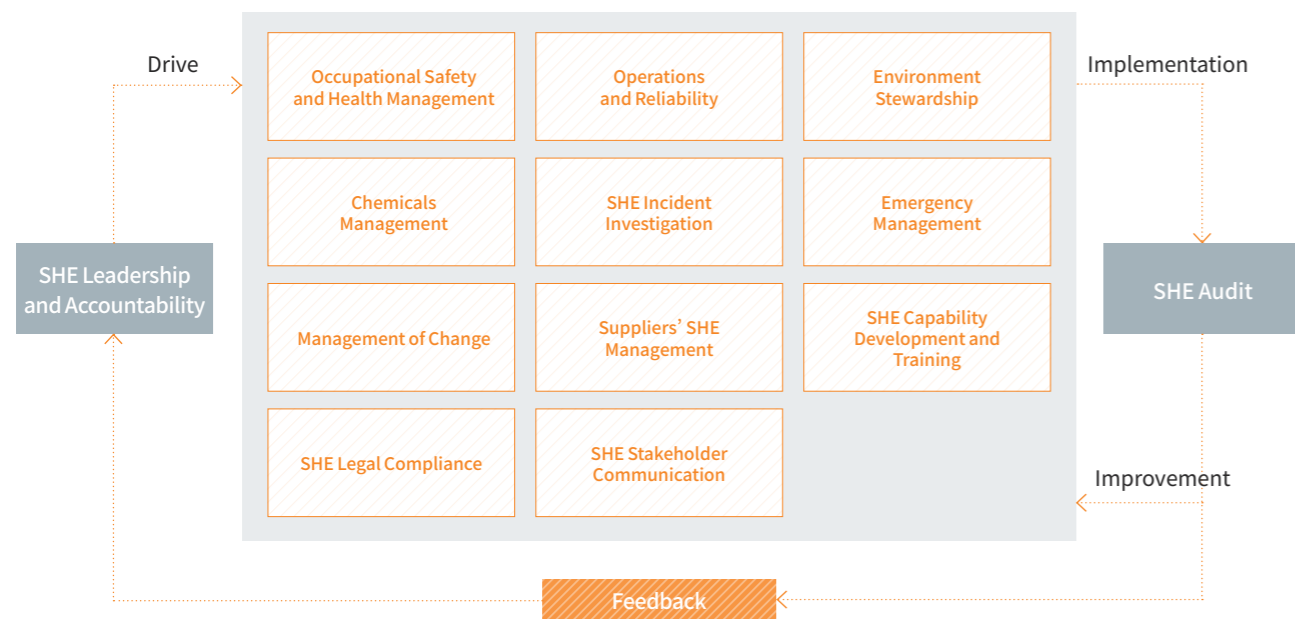
— Chemicals Management System

With increased social awareness of the risk of chemicals and greater needs for seeking practical management measures, the government has revamped the existing legal system for managing chemicals, handling chemical accidents and providing relief and reinforced the level of supervision of chemicals. To deal with these changes, a company is required not only to identify and collect data for the current status of chemicals used, but also to manage chemicals more systemically through the entire process from the introduction of chemicals to the manufacturing, storing, transporting, selling and disposing of chemicals.

Integrated Chemicals Management System

SK innovation aims to protect the safety and health of stakeholders and minimize environmental impacts from business. The company establishes and operates the Integrated Chemicals Management System so that chemicals can be managed in a safe and systemic manner through the entire process from adopting raw chemicals and manufacturing new chemicals to transporting and selling the materials.

• SHE Management System Framework



Operation of Occupational Safety and Health Commission

SK innovation runs the Occupational Safety and Health Commission at each business site in accordance with the Occupational Safety and Health Organization. The commission is composed of equal numbers of labor union members and managers, and includes the representatives of workers and workplaces.

In the Occupational Safety and Health Commission, both labor union and company discuss and decide important safety and health issues such as raising safety awareness and improving working clothes to prevent any occupational accidents and improve the working environment for employees.



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 on-site 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, Authorization and Restriction 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.

— Occupational Safety and Health Activities

Emergency Response System

SK innovation operates an emergency response system to strictly cope with any emergency situations such as fire, explosion, leakage of toxic gas or natural disaster. With the aim of disseminating and coping with any incident swiftly, the company has an in-company emergency response group and establishes and operates safety facilities suitable for the characteristics of the process in each process to focus on preventing the spread of the incident through early response.

In particular, the Ulsan Complex organizes its 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 and expanded the existing emergency response drill, which was previously site-based, to the entire company. With regular and repetitive implementation, all members of management, including the CEO, fully acknowledge the roles of each functional group and emergency response process in the case of an emergency. These efforts contribute to dealing with any emergency immediately.

Introduction of the Company-Wide Safety Talk

SK innovation emphasizes the importance of safety and implements the company-wide Safety Talk system to make safety culture one of the daily requirements. Before a regular meeting starts, all SK innovation members are required to share safety-related cases, which enhance the level of all members' awareness of safety.

Health Management for Employees

SK innovation prepares health-related facilities and operates various health programs to allow employees to commit themselves to work more smoothly in a healthy condition through systemic health management. In particular, the Ulsan Complex runs an in-company medical center and provides a support program to present the right direction for health management and improve daily routines for health. In 2017, the company provided training for weight management and appropriate exercise and health education to prevent lifestyle diseases and operated the health experience promotion hall; 2,822 employees, including those from suppliers, participated in health management programs.

— Respond to Climate Change

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 the Greenhouse Energy Management System. This system is currently being redeveloped after the integration of the OIS (Operation Information System) and will be upgraded to the system, which is optimized to collect the amount of energy use and GHG emissions at a business site.

Energy Use

SK innovation affiliates established the target of reducing the amount of energy use by 7.8% compared to BAU by 2025 through enhancing energy consumption efficiency at major business sites with high energy consumption such as Ulsan and Incheon. In 2017, 52,763,776MWh was used in total, a decrease of 0.5% compared to the target of energy use.

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, including Ulsan Complex (SK energy, SK global chemical, SK lubricants), SK Incheon petrochem's Incheon workplace, as well as the R&D, logistics, other business sectors; overseas workplaces and the supply chain are excluded. In 2017, total GHG emissions by SK innovation were 12,903,207tCO₂eq. To deal with the Emission Trading Scheme more effectively, which has been implemented since 2015, the company has set and managed a GHG emissions target and a basic energy use target.

SK innovation affiliates established the target of GHG emissions based on the NDCs (Nationality Determined Contributions) and aim to reduce emissions by 7.8% compared to BAU by 2025. In 2018, when the secondary allocation plan led by the government is determined, the company will modify the reduction target to align with the national target.

— Reduction of Environmental Impacts on Business Sites

Water Resource Management

Major sources of water for SK innovation include the Daechong Dam, the Daeam Dam, and Asan Bay. Water usage is calculated based on the water bills for headquarters and major domestic business sites. In 2017, the total usage of water was 53,071,840m³.

● Current Status of Water Pollutants Management

Business Site	Wastewater Treatment Facility	Treatment Method	Emission Site
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 Air Pollutants

SK innovation operates odor-prevention facilities to sustain a pleasant air environment in the local communities and business sites, and also runs a channel for reporting civil complaints regarding environmental issues.

In addition, the company applies an LDAR²⁾ system at arsenic acid discharge facilities, including pumps, flanges, and valves, and monitors such facilities at least once per year to prevent any damage by hazardous air pollutants (HAPs¹⁾). We also monitor the current status of air pollutants from major discharge facilities at business sites, such as a heating furnace and boiler by using TMS³⁾ on a real-time basis to eradicate any possibility of air pollution.

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

Water Pollution Management

SK innovation has installed and operates a high-efficiency biological wastewater processing facility which uses remote water quality monitoring technology and a control system. Polluted wastewater from the production process is finally discharged through an activated carbon tower, and a more stringent wastewater discharge concentration level than the legal standards is applied for strict management. We also strive to minimize the wastewater discharge by partially recycling processed wastewater to be used for fire extinguishing and landscaping.

Waste Management

SK innovation manages the amount of waste discharge by using an independently developed waste management system. Any generated waste is processed by consigning the task to a specialist company whose consignment ability is verified, while 60% of the total waste (approximately 0.1 million tons) is recycled. In particular, in 2017, the company reduced the amount and cost of waste oil generated by partially disposing of waste oil collected from waste treatment facilities and re-inputting waste oil to a crude oil tank.

In preparation for the Framework Act on Resource Circulation, which is supposed to be implemented from 2018, we are deliberating measures for recycling about 25,000 tons of waste, which is reclaimed and incinerated, to prevent as much waste as possible and ensure circulated use and appropriate waste treatment. We also proactively implement waste reduction activities by reinforcing separate collection for existing waste and finding recycling companies.

Activity of Reducing Benzene in Ulsan

According to the results of measuring the concentration level of benzene in Yecheon-dong, Ulsan where a business site is located, the level exceeded the environmental standard of 5µg/m³ for six consecutive years from 2011 to 2016. Under these circumstances, SK energy and SK global chemical participated in the 'Committee for Benzene Air Quality Improvement in Namgu, Ulsan', which was organized with the Environmental Office for Nakdonggang River and 16 business sites and implemented activities to reduce air pollutants. Through such efforts, the company contributed to meeting the environmental standards, according to the Ulsan Yecheon-dong Measurement Station in 2017.

To continue pollutants reduction activities, the company additionally concluded the "Voluntary Agreement for Benzene Air Pollutants Reduction for Sustainable Development" with the Office of Nakdonggang River in the presence of the Minister of the Environment in February 2018. Through this, we have organized the environmental management improvement task force and gradually implemented facility improvement for improvement items.

— Efforts for Preventing 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. With monthly marine emergency response drills, we strive to minimize accident damage and have appointed a marine pollution prevention manager for each shift group in marine facilities (buoy, Dolphin, crude oil tank and petroleum product tank) to prevent accidents even on the nighttime shift.

Soil Environment Management

SK innovation voluntarily purifies contaminated soil with according to the agreement of “Voluntary Agreement for the Preservation of Soil Environment” in order to prevent and manage soil contamination. We also consign a soil contamination survey to a specialized institution every two years to determine whether soil is contaminated. If any site is found to be contaminated, the soil is purified immediately by a specialized purification company.

● Current Status of Prevention Equipment Purchase in 2017

2,000

Split Oil Treatment Agent
(Unit: ℓ)

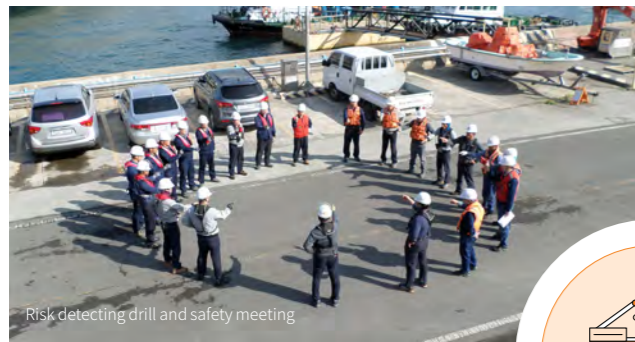


800

Split Oil Absorbent
(Unit: kg)



● Current status of oil fence establishment



Risk detecting drill and safety meeting



Emergency mobilization



Prevention by external oil fence



Prevention by installed oil skimmer in the oil fence

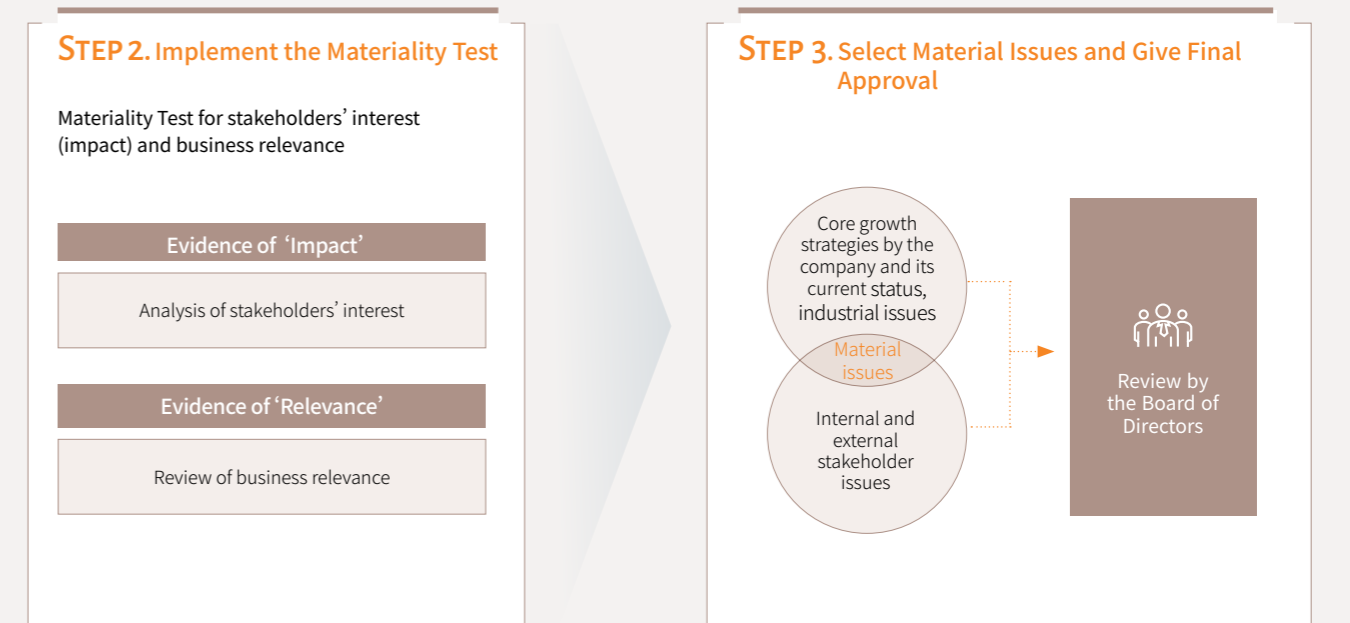
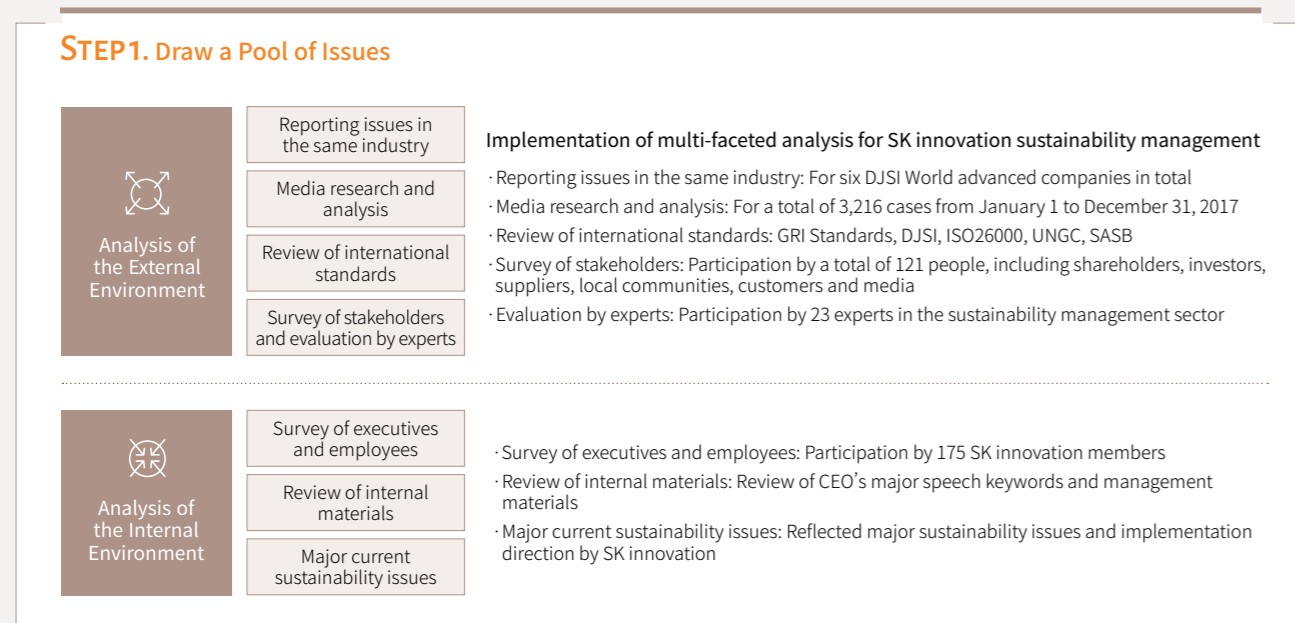
Appendix

- 082 Materiality Test
- 084 Stakeholder Engagement
- 085 ESG Data
- 094 GRI Index
- 096 Independent Auditor's Report
- 097 Financial Statements
- 098 Independent Assurance Statement
- 100 Greenhouse Gas Verification Statement
- 101 Membership Status
- 102 Publication History of Sustainability Report
- 103 About This Report

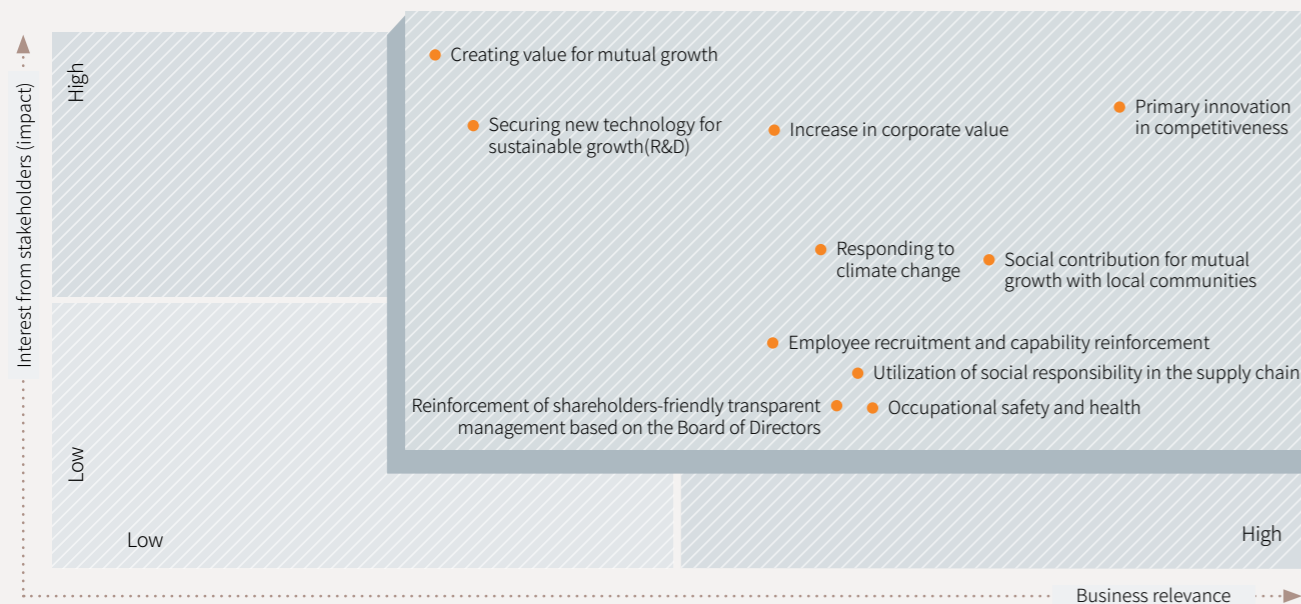
Materiality Test

SK innovation conducted internal and external environmental analysis for global sustainability trend, major industrial reporting issues and current management issues in the company to draw company's material sustainability issues and identified stakeholders' opinions and needs by conducting a survey for core stakeholders.

In the pool of issues identified by multi-faceted analysis, SK innovation identified material issues by considering stakeholders' interest (impact) and business relevance, and a final review was conducted by the Board of Directors. As a result of the materiality test process, three material issues from a total of 35 were selected in 2017.



Materiality Test Matrix








Reporting of Material Issues

Classification	GRI standards Topic	Issue	Stakeholder Impact Assessment				Page
			Finance	Reputation	Operation	Strategy	
Material Issue	Emissions	Responding to climate change				●	36-38, 78p
	Procurement practice	Creating value for mutual growth		●			39-41, 65-67p
	Occupational safety and health	Occupational safety and health			●		32-35, 76-78p
General Issue	Economic performance	Primary innovation in competitiveness				●	20-25p
	Local community	Social contribution for mutual growth with local communities		●			68-75p
	Economic performance	Increase in corporate value	●				06-15p
	Supplier social assessment	Utilization of social responsibility in the supply chain		●			65-67p
	Economic performance	Securing new technology for sustainable growth (R&D)				●	24-25p
	Employment, training and education	Employee recruitment and capability reinforcement			●		60-61p
	Governance	Reinforcement of shareholder-friendly transparent management based on the Board of Directors		●			50-53p

Stakeholder Engagement

At SK innovation, we divide our stakeholders into five groups: customers, employees, shareholders, the local community, and suppliers, and maintain communication channels for each group. While building trust through communication, we incorporate their feedback and needs into our business practices and use it as a basis for sustainable growth.

Stakeholder Communication

Stakeholders	Communication Channels	Areas of Interest	
 Customers	<ul style="list-style-type: none"> Operation of the "Customer Happiness Call Center" Operation of EnClean.com Annual meeting and events Website (SK innovation), blog (SK innovation), Facebook (SK innovation, SK lubricants), etc. 	<p>2016</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 	<p>2017</p> <ul style="list-style-type: none"> Creating value through mutual growth Maintaining a healthy work-life balance Securing sustainable technology (R&D)
 Employees	<ul style="list-style-type: none"> Intranet (tong tong, etc.) In-house broadcast (gbs) and newsletter by each company iCON (internal communication messenger, Change Facilitator) CEO-Employee communication (Well-Comm. Day) and meetings; Happy Walk 	<p>2016</p> <ul style="list-style-type: none"> Reinforcing essential competitiveness Policy on mutual growth Social contribution for shared growth with the local community 	<p>2017</p> <ul style="list-style-type: none"> Increasing corporate value Reinforcing essential competitiveness Creating value through mutual growth
 Shareholders and Investors	<ul style="list-style-type: none"> General Shareholders Meetings, Earnings Releases Domestic and overseas NDR (Non-Deal Roadshow) and conference 1:1 meeting, e-mail/phone counseling Disclosures, etc. 	<p>2016</p> <ul style="list-style-type: none"> Strengthening transparent management based on the Board of Directors Reinforcing essential competitiveness Preventing unfair trade 	<p>2017</p> <ul style="list-style-type: none"> Strengthening shareholder-friendly transparent management based on the Board of Directors Communication with stakeholders Creating value through mutual growth
 Local Community	<ul style="list-style-type: none"> Meeting with local organizations Participation in local community committees near business sites Participation in the living and safety commissions of police precinct offices Engagement in welfare facilities and group operating commissions in the adjacent region 	<p>2016</p> <ul style="list-style-type: none"> Communication with stakeholders Social contribution for shared growth with the local community Promoting social responsibility in the supply chain 	<p>2017</p> <ul style="list-style-type: none"> Reinforcing communication with and capabilities of suppliers Increasing corporate value Communication with stakeholders
 Suppliers	<ul style="list-style-type: none"> Regular meetings with suppliers Supplier CEO Meeting Regular meetings regarding logistics, machines, equipment inspections 	<p>2016</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 	<p>2017</p> <ul style="list-style-type: none"> Creating value through mutual growth Securing sustainable new technology (R&D) Reinforcing communication with and capabilities of suppliers

ESG Data – Economy

Sales and Operating Income by Business Segment

(Unit: KRW 100 million)

Classification	2015		2016		2017		
	Sales	Percent of Sales	Sales	Percent of Sales	Sales	Percent of Sales	
Sales	Total	483,563	100%	395,205	100%	462,609	100%
	Petroleum business	352,997	73%	283,699	72%	327,712	71%
	Chemical business	92,880	19%	76,865	20%	93,392	20%
	Lubricant business	26,188	6%	25,358	6%	30,475	7%
	E&P and other businesses	11,499	2%	9,283	2%	11,030	2%
	Operating Profit	Percentage of Operating Profit	Operating Profit	Percentage of Operating Profit	Operating Profit	Percentage of Operating Profit	
Operating Profit ¹⁾	Total	19,796	100%	32,283	100%	32,344	100%
	Petroleum business	11,261	57%	16,256	50%	15,020	46%
	Chemical business	6,039	30%	12,322	38%	13,772	43%
	Lubricant business	2,947	15%	4,683	15%	5,049	16%
	E&P and other businesses	-451	-2%	-978	-3%	-1,498	-5%

Note 1) As petroleum and chemical businesses by SK incheon petrochem are divided, percent of sales and operating profit data for 2015 and 2016 are changed.

Distribution of Economic Value

(Unit: KRW 100 million)

Sector	Recipient	Expenditure/Investment	2015	2016	2017
Economy	Corporation	R&D ¹⁾	1,701	1,482	2,003
		Acquisition of tangible assets ²⁾	4,609	6,345	9,135
	Investors	Total cash dividend	4,474	5,965	7,456
Society	Employees	Salaries ³⁾	11,653	11,116	13,036
	Suppliers	Amount of procurement	7,436	9,536	11,866
	Local communities	Social contribution investments	84	416	269
	Government	Corporate tax ⁴⁾	4,072	5,193	6,513

Note 1) Based on Annual Report 2017 (Data for 2015 and 2016 are revised due to the change in the standard for data collection).

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

Note 3) Based on each year's consolidated audit report, note 23 refers to the item under cost by category labeled 'employee wages'.

Note 4) Based on Annual Report 2017's consolidated cash flow statement in consolidated financial statement.

CEO Compensation

(Unit: KRW, times)

Classification	2017	Note
Total CEO Compensation ¹⁾	2,442,000,000	Reflects earned income for the term of the former and current CEO by considering the change of the CEO in March 2017
Mean Annual Compensation of All Employees, Except CEO and Executives	111,000,000	-
Ratio of the Mean Employee Compensation and the Total Annual Compensation of the CEO	22	-

Note 1) Incentive compensation for the CEO is determined by comprehensively considering company's financial profits (pre-tax profits, EVA), relevant financial indicators (increase in stock price) and external recognition indicators.

ESG Data – SHE

Energy Consumption⁴⁾

(Unit: MWh, KRW million)

Energy target for 2025
Reduction by **7.8%** compared to BAU by 2025

Classification		2015	2016	2017
Total Energy Consumption ³⁾	Petroleum, chemical and lubricant business sector (Incheon, Ulsan) ¹⁾	50,749,501	49,200,966	51,675,143
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics) ²⁾	1,049,949	992,839	1,088,633
	Total	51,799,450	50,193,805	52,763,776
Fuel	Petroleum, chemical and lubricant business sector (Incheon, Ulsan)	38,775,641	38,124,951	39,430,674
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	827,383	900,466	294,416
	Total	39,603,024	39,025,417	39,725,090
Electricity	Petroleum, chemical and lubricant business sector (Incheon, Ulsan)	10,085,110	9,920,453	10,335,068
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	715,626	733,489	794,217
	Total	10,800,736	10,653,943	11,129,285
Steam	Petroleum, chemical and lubricant business sector (Incheon, Ulsan)	7,408,675	6,975,123	7,548,986
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	-	-	-
	Total	7,408,675	6,975,123	7,548,986
Non-Renewable Energy Sold	Petroleum, chemical and lubricant business sector (Incheon, Ulsan)	5,519,925	5,819,561	5,639,585
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	493,060	641,116	-
	Total	6,012,985	6,460,678	5,639,585
Total Costs of Energy Consumption	Petroleum, chemical and lubricant business sector (Incheon, Ulsan)	2,254,674	1,789,042	2,198,689
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	47,052	43,332	47,181
	Total	2,301,727	1,832,374	2,245,871

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

Note 2) R&D, logistics and other business sector: Seorin Building (Seoul), Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

Note 3) Total energy consumption: Calculated in accordance with the guidelines for the reporting and certification of emissions in the Korean emission trading system (fuel, electricity and steam purchase – non-renewable energy sales)

Note 4) Due to the change in the standard for data collection, data for 2015 and 2016 are revised.

GHG Emissions

(Unit: tCO₂e)

GHG emissions target for 2025
Reduction by **7.8%** compared to BAU by 2025

Classification		2015	2016	2017
Total GHG Emissions	Petroleum, chemical and lubricant business sector (Incheon, Ulsan) ¹⁾	12,742,702	12,550,646	12,708,356
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics) ²⁾	291,274	293,185	194,851
	Total	13,033,976	12,843,831	12,903,207
Total Direct GHG Emissions ³⁾ (Scope1)	Petroleum, chemical and lubricant business sector (Incheon, Ulsan)	10,386,561	10,358,002	10,460,652
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	152,634	164,675	55,255
	Total	10,539,195	10,522,677	10,515,907
Total Indirect GHG Emissions (Scope2)	Petroleum, chemical and lubricant business sector (Incheon, Ulsan)	2,356,141	2,192,644	2,247,704
	R&D, logistics and other business sectors (Seosan, Jeungpyeong, Cheongju, Daedeok, Logistics)	138,640	128,510	139,596
	Total	2,494,781	2,321,154	2,387,301

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

Note 2) R&D, logistics and other business sector: Seorin Building (Seoul), Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

Note 3) Reflected based on the Korean emission trading system

Water

(Unit: m³)

Total volume target of water usage for 2020

57,850,483 m³

Classification		2015	2016	2017
Total Volume of Water Usage ³⁾	Petroleum, chemical and lubricant business sector ¹⁾	49,867,406	51,534,293	52,000,420
	R&D, logistics and other business sector ²⁾	914,648	941,523	1,071,420
	Total	50,782,054	52,475,816	53,071,840
Usage of Municipal Water Supplies ⁴⁾	Petroleum, chemical and lubricant business sector	49,867,406	51,534,293	52,000,420
	R&D, logistics and other business sector	904,883	926,839	1,063,262
	Total	50,772,289	52,461,132	53,063,682
Usage of Groundwater (Freshwater)	Petroleum, chemical and lubricant business sector	0	0	0
	R&D, logistics and other business sector	8,969	13,768	7,658
	Total	8,969	13,768	7,658
Usage of Rainwater	Petroleum, chemical and lubricant business sector	0	0	0
	R&D, logistics and other business sector	796	916	500
	Total	796	916	500

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

Note 2) R&D, logistics and other business sector: Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

Note 3) Figures in 2015 and 2016 are revised due to errors in previous data collection.

Note 4) Figures in 2015 and 2016 are revised due to errors in previous data collection.

Waste

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

Target of total waste for 2020		Target of recycling ratio for 2020		
111,666 metric tonnes		69.0 %		
Classification	2015	2016	2017	
Total Volume of Waste Generated	Petroleum, chemical and lubricant business sector ¹⁾	84,661	96,021	97,992
	R&D, logistics and other business sector ²⁾	13,547	15,193	14,010
	Total	98,208	111,214	112,002
Discharge Volume by Treatment Method				
In-House Treatment (Landfill)	Petroleum, chemical and lubricant business sector	0	0	0
	R&D, logistics and other business sector	0	0	0
	Total	0	0	0
Outsourced Volume (Incinerator/Landfill)	Petroleum, chemical and lubricant business sector	31,058	38,233	39,563
	R&D, logistics and other business sector	1,867	1,361	2,587
	Total	32,925	39,593	42,150
Outsourced Volume (Recycled)	Petroleum, chemical and lubricant business sector	53,603	57,788	58,429
	R&D, logistics and other business sector	11,680	13,833	11,423
	Total	65,284	71,621	69,852
Waste Recycling Rate	Petroleum, chemical and lubricant business sector	63.3%	60.2%	59.6%
	R&D, logistics and other business sector	86.2%	91.0%	81.7%
	Total	66.5%	64.4%	62.4%
Discharge Volume by Type				
Designated Waste ³⁾	Petroleum, chemical and lubricant business sector	33,338	29,835	38,818
	R&D, logistics and other business sector	11,045	12,525	11,405
	Total	44,383	42,360	50,224
General Waste ⁴⁾	Petroleum, chemical and lubricant business sector	51,323	66,186	59,174
	R&D, logistics and other business sector	2,502	2,668	2,605
	Total	53,825	68,854	61,778

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

Note 2) R&D, logistics and other business sector: Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

Note 3) Designated waste: As waste stipulated by Presidential Decree from the Korean government, designated waste refers to any hazardous materials that may 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.

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

Air Pollutant Emissions Volume

(Unit: metric tonnes)

Classification		2015	2016	2017	Note
NOx Emissions ³⁾	Petroleum, chemical and lubricant business sector ¹⁾	8,546	8,188	7,908	
	R&D, logistics and other business sector ²⁾	0	0	1	Insignificant volume generated
	Total	8,546	8,188	7,909	

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

Note 2) R&D, logistics and other business sector: Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

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

(Unit: metric tonnes)

Classification		2015	2016	2017	Note
SOx Emissions ³⁾	Petroleum, chemical and lubricant business sector ¹⁾	3,911	4,085	3,950	
	R&D, logistics and other business sector ²⁾	0	0	0	Insignificant volume generated
	Total	3,911	4,085	3,950	

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

Note 2) R&D, logistics and other business sector: Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

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

(Unit: metric tonnes)

Classification		2015	2016	2017	Note
VOC Emissions ³⁾	Petroleum, chemical and lubricant business sector ¹⁾	385	359	332	
	R&D, logistics and other business sector ²⁾	0	0	0	Insignificant volume generated
	Total	385	359	332	

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

Note 2) R&D, logistics and other business sector: Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

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

(Unit: metric tonnes)

Classification		2015	2016	2017	Note
Amount of Hydrocarbon Emissions	Petroleum, chemical and lubricant business sector ¹⁾	0	0	0	Insignificant volume generated
	R&D, logistics and other business sector ²⁾	0	0	0	Insignificant volume generated
	Total	0	0	0	

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

Note 2) R&D, logistics and other business sector: Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

(Unit: metric tonnes)

Classification		2015	2016	2017	Note
Methane Emissions	Petroleum, chemical and lubricant business sector ¹⁾		1,995	2,024	2,031
	R&D, logistics and other business sector ²⁾		7	6	5
	Total		2,002	2,030	2,306

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

Note 2) R&D, logistics and other business sector: Battery production line (Seosan), Battery and circuit materials production line (Jeungpyeong, Cheongju), Institute of Technology Innovation (Daedeok R&D Park), Logistics Center

Occupational Safety and Health

(Unit: Case, Number of cases per million working hours)

Lost-Time Incident Rate (LTIR) target for 2020¹⁾

0.32

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

Classification		2016	2016	2017
Number of Fatality	Employees	-	-	-
	Suppliers	-	-	-
	Total	-	-	-
Lost-Time Incident Rate (LTIR) ¹⁾	Employees	0.39	0.32	0.16
	Suppliers	0.71	0.54	0.92
	Total	0.56	0.46	0.57
Total Recordable Incidents Rate (TRIR) ²⁾	Employees	0.86	0.64	0.40
	Suppliers	1.27	0.68	1.50
	Total	1.08	0.66	1.01
Occupational Illness Frequency Rate (OIFR) ³⁾		-	0.08	-
Industrial Accident Rate (%) ⁴⁾		0.08	0.09	0.04

Note 1) Lost Time Incidents Rate (LTIR): Number of lost time Incidents x 1,000,000/Total working hours

Note 2) Total Recordable Incidents Rate (TRIR): Total number of accidents x 1,000,000/Total working hours

Note 3) Occupational Illness Frequency Rate (OIFR): Number of occupational illness cases x 1,000,000/Total working hours

Note 4) Reporting standard based on the Industrial Safety and Health Act, (Number of injured persons/Total number of employees)x100

Process Safety

(Unit: %, Number of cases per million working hours)

Classification	2015	2016	2017
Unplanned Capacity Loss (UCL)	0.07	0.24	0.16
Rate of Safety Accidents in the Process (Tier 1)	-	0.03	0.11

ESG Data – Society

Employee Status by Category¹⁾

(Unit: Person)

Classification	2015		2016		2017					
	Number of people (ratio)	Number of people (ratio)	Total	SKI	SKE	SKGC	SKL	SKIPC	SKTI	
Total Number of Employee ²⁾	5,820(100%)	6,045(100%)	6,284(100%)	1,671(27%)	2,610(42%)	1,002(16%)	278(4%)	602(10%)	121(2%)	
Employment Type	Regular	5,744(98.7%)	5,915(97.8%)	6,134(97.6%)	1,624(97.2%)	2,546(97.5%)	990(98.8%)	273(98.2%)	583(96.8%)	118(97.5%)
	Temporary	76(1.3%)	130(2.2%)	150(2.4%)	47(2.8%)	64(2.5%)	12(1.2%)	5(1.8%)	19(3.2%)	3(2.5%)
Gender	Male	5,171(88.8%)	5,388(89.1%)	5,579(88.8%)	1,298(77.7%)	2,440(93.5%)	926(92.4%)	242(87.1%)	581(96.5%)	92(76.0%)
	Female	649(11.2%)	657(10.9%)	705(11.2%)	373(22.3%)	170(6.5%)	76(7.6%)	36(12.9%)	21(3.5%)	29(24.0%)
Management ³⁾	Male	-	96%	2,101(92.4%)	902(88.8%)	679(97.1%)	243(93.1%)	104(93.7%)	100(97.1%)	73(88.0%)
	Female	-	4%	172(7.6%)	114(11.2%)	20(2.9%)	18(6.9%)	7(6.3%)	3(2.9%)	10(12.0%)
Age	Under 30	589(10.1%)	522(8.6%)	533(8.5%)	139(8.3%)	183(7.0%)	85(8.5%)	28(10.1%)	83(13.8%)	15(12.4%)
	30 to 50 years of age	3,826(65.7%)	3,687(61.0%)	3,702(58.9%)	1,339(80.1%)	1,236(47.4%)	535(53.4%)	159(57.2%)	336(55.8%)	97(80.2%)
	50 years or older	1,405(24.1%)	1,836(30.4%)	2,049(32.6%)	193(11.5%)	1,191(45.6%)	382(38.1%)	91(32.7%)	183(30.4%)	9(7.4%)
Minorities	Disabled	94(1.6%)	94(1.6%)	111(1.8%)	34(2.0%)	44(1.7%)	17(1.7%)	6(2.1%)	10(1.7%)	-
	Patriots and veterans	301(5.2%)	265(4.4%)	288(4.6%)	38(2.3%)	151(5.8%)	63(6.3%)	12(4.3%)	23(3.8%)	1(0.9%)

Note 1) Advisors excluded

Note 2) Local recruited employees at an overseas business site excluded

Note 3) Manager or higher position

Education Performance

(Unit: Hour)

Classification	2017	Target of education hours per employee for 2020
Education Hours per Employee	55.3	80 hours

Employee Engagement

(Unit: %)

Classification	2014	2015	2016	2017
Employee Engagement	87	87	88	91
Data Coverage	100	100	100	100

Use of Childcare Leave and Rate of Return

(Unit: Person)

Classification		2015		2016		2017				
		Total	SKI	SKE	SKGC	SKL	SKIPC	SKTI		
Number of Employees who Used Childcare Leave	Male	4	2	5	-	4	1	-	-	-
	Female	65	65	71	38	27	1	3	2	-
Number of Employees Returning from Childcare Leave who Worked at Least 12 Months Following Return	Male	1	2	2	1	-	1	-	-	-
	Female	39	48	65	42	10	7	4	-	2

Ratio of Labor Union Membership

(Unit: %)

Classification	2017						
	Total	SKI	SKE	SKGC	SKL	SKIPC	SKTI
Ratio of Labor Union·Collective Bargaining Applied	46.54	9.92	61.22	62.74	33.88	74.63	-

Performance of Volunteer Groups

(Unit: Case, Hour, Team, Person)

Company	Number of Activities	Hours	Number of Volunteer Teams	Participants
SK innovation	3,440	14,344.5	19	1,436
SK energy	6,366	20,791.5	31	2,387
SK global chemical	1,419	5,082.5	7	926
SK lubricants	381	1,452.5	3	246
SK incheon petrochem	1,751	5,965.5	7	598
SK trading international	81	393.0	1	73
Total	13,438	48,029.5	68	5,666

Social Contribution Activities

(Unit: KRW million)

Classification	2017
Average Hourly Salary on Volunteer Activity	4,405
Cash Donations	25,907 ¹⁾
In-kind Donations	69

Note 1) The amount of community investment is equivalent to 70.58%.

Target of local community investment rate for 2020

75.0%

(Unit: KRW million)

Classification	2015	2016	2017
Expenses for Social Contribution Activities	8,431	41,606	26,977

Current Status of Major Donations

Institution for support	Program	Institution for support	Program
Korea Handball Federation	Supporting training for the Olympics and reinforcing the capabilities of instructors and athletes	Korea Association of Senior Welfare Centers	Supporting a volunteer program for senior citizens living alone
Community Chest of Korea	Donation for helping neighbors	The Happiness Foundation	Supporting underfed children, vitalizing the ecosystem for social enterprises and cultivating social entrepreneurs
UN Global Compact Korea	Paying UNGC annual fee	Prosynergy	Social enterprise for developing local communities in Peru
Incheon Human Resource Development & Scholarship Foundation	Local human resources cultivation program	Ministry of Land, Infrastructure, and Transport	Construction and operation of a residential welfare unit for improving living conditions for the elderly
Korea Disaster Relief Association	Supporting the restoration of flood damage in Ulsan	Heart-Heart Foundation	Enhancement of the ability of interpersonal relations and improvement of sociability for people with developmental disabilities through group musical activities
ChildFund Korea	Campaign to find lost family members	Korea Disaster Relief Association	Relief for victims and their family members in Pohang earthquake
Korean Foundation for Advanced Studies	Providing academic support and fostering human resource development		

Supply Chain Evaluation

(Unit: Number of company, %)

Classification	2015	2016	2017
Number of Newly Registered Suppliers	304	335	384
Number of Suppliers for Economic, Social, Safety and Environmental Evaluation	304	335	384
Ratio of Pre-Evaluation	100	100	100

Target of suppliers' evaluation rate for 2020¹⁾

To maintain a 100%

Note 1) Total suppliers (Tier 1) and critical Non-Tier1 suppliers are included.

Current Status of Corporate Tax Payment¹⁾

(Unit: KRW 100 million)

Classification	Region	Sales	Operating profit	Corporate tax paid	
Country	Korea	636,889	50,867	6,345	
	Netherlands	5,865	8	4	
	U.S.A.	8,105	△23	△29	
	Spain	4,505	174	40	
	Singapore	227,704	△295	64	
	U.K.	39,061	△108	-	
	Indonesia	2,936	177	24	
	Japan	6,015	12	4	
	China	14,953	8	57	
	Russia	576	23	-	
	Others (consolidated)	△483,999	△18,499	4	
	Total	462,610	32,344	6,513	
	Region	Korea	636,889	50,867	6,345
		Asia	251,607	△98	149
Europe		50,007	97	44	
Others		△475,893	△18,522	△25	
Total		462,610	32,344	6,513	

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

Classification	2016	2017	Average (note)	Classification	2016	2017
Pre-tax Profit	2,423,379	3,220,824	-	Nominal Tax Amount vs. Actual Tax Amount	182,677	424,447
Nominal Tax Amount	701,945	1,075,722	Income statement	Difference in Reversion Period		
Nominal Tax Ratio	28.97	33.4	31.2	- Period of corporate tax payment: March to May in the following year	129,999	159,153
Actual Tax Amount	519,268	651,275	Statement of cash flow	Temporary Difference		
Actual Tax Ratio	21.43	20.2	20.8	- Reflected gains on valuation by subsidiary company	-	150,069
				- Increase in domestic tax ratio (24.2% → 27.5%)		
				Permanent Difference		
				- Damage in the subsidiary company not recognized	50,892	35,812
				Tax Amount Exemption and Reduction Difference		
				- Tax amount exemption and reduction, non-exempt overseas paid tax amount	35,705	56,482
				Other Differences		
				- Tentative and fixed difference	△33,919	22,931

Current Status of Contributions for Membership Associations and Groups¹⁾

(Unit: KRW)

Total contributions	2013	2014	2015	2016	2017
Total Annual Contributions	885,634,000	761,240,000	510,297,000	376,944,000	104,876,000

Note 1) In accordance with the Political Fund Act of Korea and SK innovation Code of Ethics Guidelines, it is strictly prohibited to provide donations and sponsorship for the political purpose by using corporate assets and budgets.

Major groups for contribution	Contributions				
	2013	2014	2015	2016	2017
Korea Business Council for Sustainable Development (KBCSD)	70,000,000	0	50,000,000	50,000,000	50,000,000
Korean Institute of Hazardous Materials	20,000,000	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	14,000,000
Korea Industrial Technology Association (KOITA)	7,400,000	7,400,000	7,400,000	7,400,000	7,400,000
Korea Economic Research Institute	752,758,000	698,364,000	398,421,000	268,068,000	0

GRI Index

Classification	Disclosure	Indicators	Page
Universal Standards(GRI 100)			
Organizational Profile	102-1	Name of the organization	5
	102-2	Activities, brands, products, and services	6-15
	102-3	Location of headquarters	103
	102-4	Location of operations	23
	102-5	Ownership and legal form	103
	102-6	Markets served	18-19
	102-7	Scale of the organization	85, 91
	102-8	Information on employees and other workers	91, Annual report
	102-9	Supply chain	93
	102-10	Significant changes to the organization and its supply chain	No significant changes
	102-11	Precautionary Principle or approach	54-55
	102-12	External initiatives	42-43, 101
	102-13	Membership of associations	101
Strategy	102-14	Statement from senior decision-maker	2-3
	102-15	Key impacts, risks, and opportunities	54-55
Ethics and Integrity	102-16	Values, principles, standards, and norms of behavior	56
	102-17	Mechanisms for advice and concerns about ethics	56-57
Governance	102-18	Governance structure	50-53
	102-19	Delegating authority	50-51
	102-20	Executive-level responsibility for economic, environmental, and social topics	53
	102-22	Composition of the highest governance body and its committees	50-51, 53
	102-23	Chair of the highest governance body	50
	102-24	Nominating and selecting the highest governance body	51
	102-25	Conflicts of interest	51
	102-26	Role of highest governance body in setting purpose, values, and strategy	52
	102-27	Collective knowledge of highest governance body	51
	102-28	Evaluating the highest governance body's performance	52
	102-31	Review of economic, environmental, and social topics	53
	102-32	Highest governance body's role in sustainability reporting	53
	102-33	Communicating critical concerns	52
	102-35	Remuneration policies	52
102-36	Process for determining remuneration	52	
Stakeholder Engagement	102-40	List of stakeholder groups	84
	102-41	Collective bargaining agreements	92
	102-42	Identifying and selecting stakeholders	84
	102-43	Approach to stakeholder engagement	84
	102-44	Key topics and concerns raised	84
Reporting Practice	102-45	Entities included in the consolidated financial statements	Annual report
	102-46	Defining report content and topic boundaries	82-83
	102-47	List of material topics	83
	102-48	Restatements of information	103
	102-49	Changes in reporting	No significant changes
	102-50	Reporting period	103
	102-51	Date of most recent report	103
	102-52	Reporting cycle	103
	102-53	Contact point for questions regarding the report	103
	102-54	Claims of reporting in accordance with the GRI Standards	103
	102-55	GRI content index	94-95
	102-56	External assurance	98-99

Classification	Disclosure	Indicators	Page
Topic-specific Standards(GRI 200)			
Procurement Practices	103-1	Explanation of the material topic and its Boundary	39
	103-2	The management approach and its components	39
	103-3	Evaluation of the management approach	39
	204-1	Proportion of spending on local suppliers	65
Anti-Corruption	205-2	Communication and training about anti-corruption policies and procedures	56-59
	205-3	Confirmed incidents of corruption and actions taken	57
Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	58-59
Topic-specific Standards(GRI 300)			
Energy	103-1	Explanation of the material topic and its Boundary	36
	103-2	The management approach and its components	36
	103-3	Evaluation of the management approach	36
	302-1	Energy consumption within the organization	38, 86
Water	302-4	Reduction of energy consumption	78, 86
	303-1	Water withdrawal by source	87
	303-2	Water sources significantly affected by withdrawal of water	79
	Emissions	103-1	Explanation of the material topic and its Boundary
103-2		The management approach and its components	36
103-3		Evaluation of the management approach	36
305-1		Direct (Scope 1) GHG emissions	87
305-2		Energy indirect (Scope 2) GHG emissions	87
305-5		Reduction of GHG emissions	87
Effluents and Waste	305-6	Emissions of ozone-depleting substances (ODS)	89
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	89
	306-1	Water discharge by quality and destination	79
Environmental Compliance	306-2	Waste by type and disposal method	88
	307-1	Non-compliance with environmental laws and regulations	Not applicable
Supplier Environmental Assessment	103-1	Explanation of the material topic and its Boundary	39
	103-2	The management approach and its components	39
	103-3	Evaluation of the management approach	39
	308-1	New suppliers that were screened using environmental criteria	66
	308-2	Negative environmental impacts in the supply chain and actions taken	66-67
	Topic-specific Standards(GRI 400)		
Employment	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	62
	401-3	Parental leave	91
Occupational Health and Safety	103-1	Explanation of the material topic and its Boundary	32
	103-2	The management approach and its components	32
	103-3	Evaluation of the management approach	32
	403-1	Workers representation in formal joint management-worker health and safety committees	100%
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	90
	403-4	Health and safety topics covered in formal agreements with trade unions	76(Percentage of covered by the agreements: 100%)
Training and Education	404-1	Average hours of training per year per employee	91
	404-2	Programs for upgrading employee skills and transition assistance programs	61
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	91
Human Rights Assessment	412-2	Employee training on human rights policies or procedures	64
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	66
Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	92
	Supplier Social Assessment	103-1	Explanation of the material topic and its Boundary
103-2		The management approach and its components	39
103-3		Evaluation of the management approach	39
414-1		New suppliers that were screened using social criteria	66
Customer Privacy	414-2	Negative social impacts in the supply chain and actions taken	66-67
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Not applicable
Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	57

Independent Auditor's Report

Independent Auditor's Report on Consolidated Financial Statements



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

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, 2017 and 2016, 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, 2017 and 2016, respectively, and their financial performance and their cash flows for the years then ended, in accordance with the K-IFRS.

Deloitte Anjin LLC,
10, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul
CEO Lee Jeong-hee
March 2, 2018

Financial Statements

Condensed Income Statement

(Unit: KRW 100 million)

Classification	2015	2016	2017
Sales	483,563	395,205	462,609
Cost of goods sold	441,968	345,617	409,052
Gross margin	41,595	49,588	53,557
SG&A expenses	21,799	17,305	21,213
Operating income	19,796	32,283	32,344
Financial income	22,505	17,924	18,828
Financial cost	25,706	20,824	20,526
Gains or losses from equity method (loss)	2,570	(1,240)	3,113
Non-operating income	2,259	1,027	799
Non-operating expenses	4,884	4,937	2,210
Continuing operations income before income taxes	16,541	24,234	32,348
Continuing operations income or loss tax expenses	6,566	7,019	10,791
Continuing operations net income	9,975	17,214	21,557
Discontinued operations net income	(1,299)	0	(106)
Net income	8,677	17,214	21,451
Other comprehensive income (loss)	861	(102)	(2,670)
Total comprehensive income	9,538	17,112	18,781

Condensed Statement of Financial Position

(Unit: KRW 100 million)

Classification	2015	2016	2017
Current assets	128,422	149,877	162,192
Non-current assets	185,177	175,936	180,244
Total assets	313,598	325,813	342,436
Current liabilities	74,940	87,365	99,548
Non-current liabilities	68,195	55,397	49,795
Total liabilities	143,135	142,763	149,343
Capital attributed to owners of the parent company	158,897	171,031	180,858
Capital	4,686	4,686	4,686
Other paid-in capital	57,481	57,481	56,297
Consolidated retained earnings	94,496	106,708	120,417
Other capital	2,234	2,157	(542)
Non-controlling interests	11,566	12,019	12,236
Total shareholders' equity	170,463	183,050	193,093

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 2017 (the “Report”). The directors of SK innovation have sole responsibility for the preparation of the Report. The responsibility of DNV GL in performing the assurance work is to the management of SK innovation in accordance with the terms of reference. DNV GL’s assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been prepared in good faith.

Scope of assurance

The scope of assurance includes a review of non-financial data and sustainability activities and performance data over the reporting period from 1st January to 31st December 2017. This also includes:

- > Evaluation of the principles for defining sustainability report content and the principles for defining sustainability report quality in accordance with the Global Reporting Initiative (GRI) Standards.
- > Evaluation of the process for determining material topics for reporting and the management approach to material topics and the process for generating, gathering and managing the quantitative and qualitative data in the Report.

Basis of our opinion

We’ve performed our work using DNV GL’s assurance methodology VeriSustain™¹, which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000). We applied the limited level of assurance. The audit was carried out from May and till June 2018. The site visits were made to the headquarters of SK innovation in Seoul and Ulsan Complex. 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 and reporting subsidiaries;
- > 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 (SK energy, SK global chemical and SK lubricants) 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 5 major subsidiaries (SK energy, SK global chemical, SK lubricants, SK incheon petrochem and SK trading international). DNV GL did not interview external stakeholders as part of this Assurance Engagement. Economic performance based on the financial data is cross-checked with internal documents, the audited consolidated financial statements and the announcement disclosed at the website of Korea Financial Supervisory Service (<http://dart.fss.or.kr>) as well as SK innovation’s website (<http://www.skinnovation.com>). These documents, financial statements and the announcements are not included in this Assurance Engagement. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organization were applied. The baseline data for Environmental and Social performance are not verified, while the aggregated data at the corporate level are used for the verification. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Conclusion

On the basis of the work undertaken, nothing comes to our attention to suggest that the Report does not properly address the adherence to the Principles for defining report content in GRI Standards nor is prepared ‘in accordance’ with GRI Standards Core option. Further opinions with regards to the adherence to the Principles are made below;

Stakeholder Inclusiveness

SK innovation has identified internal and external stakeholder groups such as Customers, Employees, Shareholders/Investors, Local communities 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 the selected stakeholders and relevant organizations are described in the Report. In addition, SK innovation reports on key issues of interest to stakeholders in 2017 and their changes.

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

Sustainability Context

The Report shows the strategic direction of SK innovation to stakeholders. In addition, the Report presents the stakeholder impact assessment on the material topics, reasons for selecting material topics, SK innovation’s management approach and performance indicators. SK innovation addresses in the Report what was the key performances achieved in 2017. These would help the stakeholder understand the management approaches toward the material topics. In addition, SK innovation reports its contribution to achieve UN SDGs and the Double Bottom Line (DBL) strategy with which SK innovation pursues to create not only economic values but also social values. The report explains its efforts to increase social value (SV) in all management activities.

Materiality

SK innovation has conducted the materiality assessment to prepare the Report. The relevant 35 issue pool is formed by analyzing the material topics 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. SK innovation used the internal and external stakeholder survey to prioritize the issues to the most relevant 10 issues out of which 3 material topics are selected at the end. SK innovation has considered the relevance and significance with the core growth strategy, the current management status, industry issues, and internal and external stakeholder issues in the assessment. In additional, SK innovation has presented the relevance of SK innovation’s financial, reputation, operational, and strategic aspects to the selected material topics. The assurance team reviewed the materiality assessment process and confirmed that the material topics 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 (SK energy, SK global chemical, SK lubricants, SK incheon petrochem, SK trading international) which have headquarters in Seoul and production plants in Jeungpyeong, Cheongju, Seosan, Ulsan and Incheon, and Daejeon Global Technology. The assurance team has not noted any intentional omission of the performance results on material topics within the reporting boundary.

Balance, Comparability, Accuracy, Timeliness, Clarity and Reliability

The audit team has sampled data and tested accuracy and reliability. Especially DNV GL reviewed the reliability of the subject data - water consumption, waste volume, air emissions (NOx, SOx, VOC and Hydrocarbons), Occupational 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 assurance team interviewed the responsible for the subject data handling and reviewed the data gathering process with the supporting documents and records. The depth of data verification is limited to the aggregated data level. Based on the test, the intentional error or misstatement is not noted. Data owners were able to demonstrate to trace the origin of the data and to interpret the processed data in a reliable manner. The data was identifiable and traceable.

Competence and Independence

DNV GL applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2011 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the DNV GL Code of Conduct² during the assurance engagement and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV GL was not involved in the preparation of statements or data included in the Report except for this Assurance Statement. DNV GL maintains complete impartiality toward stakeholders interviewed during the assurance process. DNV GL has provided services such as sustainability report verification, greenhouse gas emission verification, ISRS evaluation and management system certification to major subsidiaries of SK holdings Co., Ltd. in 2018. In our opinion, this does not affect the independence or impartiality of our work.

2) DNV GL Code of Conduct is available from DNV GL website (www.dnvgl.com)



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

Greenhouse Gas Verification Statement

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.

2017 GHG Emissions (Unit: tonCO_{2eq})

Subject	SCOPE 1	SCOPE 2	Total
SK innovation Co., Ltd.	52,454	133,557	186,008
SK energy Co., Ltd.	6,599,700	930,442	7,530,132
SK global chemical Co., Ltd.	2,503,822	752,362	3,256,182
SK incheon petrochem Co., Ltd.	1,248,580	463,954	1,712,534
SK lubricants Co., Ltd.	111,352	106,527	217,878

※ 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.)

March 30, 2018



KOREAN STANDARDS ASSOCIATION

Membership Status

SK innovation participates in various associations and groups in each economic, social and environmental sector to identify major internal and external trends, as well as to reinforce networking with diverse stakeholders. We will strengthen the executive power and professionalism in sustainability management further through proactive external initiative activities.

Economy	SHE	Society
Korea Economic Research Institute	Mae Kyung Safety & Environment Institute	UN Global Compact
Korea Business Council for Sustainable Development (KBCSD)	Korea Institute of Hazardous Materials	
Korean Fair Competition Federation	Korean Society for Marine Environment and Energy	
Korea Industrial Technology Association (KOITA)	Korean Environmental Preservation Association	
Association of Energy Future Forum	Korea Environmental Policy and Administration Society	
World Petroleum Council (WPC) Korean Member Committee	Korea Chemicals Management Association	
	Korea Fire Safety Association	
	Oil Refining Safety and Environment Committee	



Ten Principles of United Nations Global Compact (UNGC)

As the UNGC is the world's largest voluntary corporate citizenship initiative, SK innovation supports the philosophy of UNGC and faithfully complies with each of the ten principles through company's sustainability management activities.

Classification		Policies and activities by SK innovation
Human rights	Principle1	Businesses should support and respect the protection of internationally proclaimed human rights.
	Principle2	Make sure that they are not complicit in human rights abuses.
	Principle3	Should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Labor	Principle4	The elimination of all forms of forced and compulsory labor.
	Principle5	The effective abolition of child labor.
	Principle6	The elimination of discrimination in respect of employment and occupation.
Environment	Principle7	Businesses should support a precautionary approach to environmental challenges.
	Principle8	Undertake initiatives to promote greater environmental responsibility.
	Principle9	Encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Principle10	Businesses should work against corruption in all its forms, including extortion and bribery.

Based on the philosophy of "human-centered management," SK innovation commits 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, wastewater 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.

ESG Assessment by Korea Corporate Governance Service for 2017

Integrated grade	Corporate governance	Environment	Society
B+	A	B	A

Publication History of Sustainability Report



Cover Story

SK innovation creates economic and social value through open innovation. The cover image symbolizes SK innovation's management philosophy and how the company is growing in the global energy and petrochemical industries.

2010's



2000's



About This Report

At SK innovation, we have published an annual sustainability report since 2005 in order to share insights into our business plan and the progress we have made towards sustainable growth. We are committed to incorporating your feedback into our business practice through this sustainability report.

Reporting Standard

This report was prepared in accordance with the Standards (Core Option) of the GRI (Global Reporting Initiative) as well as Oil & Gas Sector disclosure and SASB (Sustainability Accounting Standards Board) to cover important industrial issues. It also reflects the Ten Principles of UNGC (UN Global Compact) and UN SDGs (Sustainable Development Goals).

Reporting Period

This report covers our sustainability performance during the fiscal year (January 1, 2017 to December 31, 2017). Some of the highlights over the first half of 2018 are included in this report to ensure their prompt disclosure. Certain indicators for the past three years are included for continuous trend analysis.

Reporting Scope

As for the scope of this report, financial data has the same consolidation criteria as K-IFRS (Korea International Financial Reporting Standards). Non-financial data are limited to 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, Daejeon Global Technology Institute and major subsidiaries and sub-subsidiaries of overseas corporations. This scope includes 99% of sales by the main body of SK innovation and subsidiaries having 100% of shares (except for SK mobile energy and SK battery systems). Some environmental quantitative performance indicators were based on major domestic operations except for overseas corporations; the detailed scope of such data is indicated separately.

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.

Major Department for Sustainable Management

Internal Audit Team, Procurement Planning Team, CSR Team, Safety & Health Planning Team, HR Planning & Partner Team, Office of the Board of Directors, Sustainability Management Planning Team, Environment Planning Team



Published in	June 2018	Contact Info.	Tel: +82.2.2121.5114
Published by	SK innovation Sustainability Planning Team		Mail: ski_sr@sk.com
Address	26, Jong-ro, Jongro-gu, Seoul	Designed by	Reddot Branding

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