

# S-OIL

## Sustainability Report 2010



Every single drop of oil we produce is to realize dreams  
of the world while securing its sustainable development.

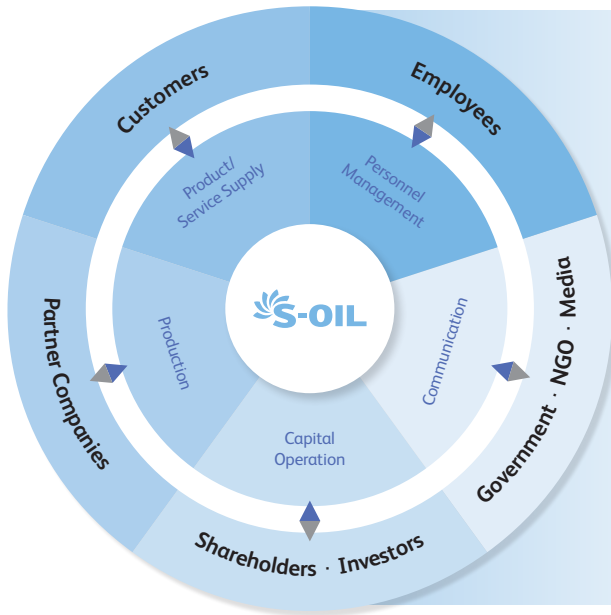
JAN. 2010\_ DEC. 2010

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*S-OIL consistently makes efforts to fulfill its responsibility as a corporate citizen by satisfying the expectations of our C.E.O. (Customers, Employees, Owners and other stakeholders).*

## S-OIL's Operations & Stakeholders



### Video Clip: Introduction of S-OIL

S-OIL, established in 1976, is Korea's first joint corporation between an oil-producing country and an oil-consuming one. It is one of the most competitive refiners in the Asia-Pacific region.

**Number of Executives and Employees** 2,589

**Total Assets** KRW 10 trillion

#### Business Sites

- Head Office: Marketing, finance, general administration, etc.
- Onsan Refinery: Production and shipments
- 11 Product terminals/Depots: Product storage and shipments
- 4 District sales HQs/25 Sales offices: Product sales

#### Affiliated Companies

- Hankook Silicon: 33.4 % share (the 2<sup>nd</sup> largest shareholder)
- S-OIL Total Lubricants Co., Ltd. (STLC): Shared 50:50 with Total Lubricants of France
- S-International Ltd.: 100%-owned overseas subsidiary

### Fuel Business

Crude Distillation	669,000 BPD
Bunker-C Cracking	148,000 BPD
Bunker-C Desulfurization	149,000 BPD
Diesel and Kerosene Desulfurization	120,000 BPD

KRW  
17.4  
trillion

### Petrochemical Business

Benzene	560,000 tons/year
Paraxylene	1,700,000 tons/year
Propylene	200,000 tons/year

KRW  
1.5  
trillion

### Lube Business

Ultra-S Base Oil	26,000 BPD
Super Base Oil	5,100 BPD
Premium Base Oil	8,600 BPD

KRW  
1.6  
trillion



## ABOUT THIS REPORT

**Report Scope** S-OIL has annually published a sustainability report outlining its business activities at its Seoul Head Office and the Onsan Refinery. This one is our fourth sustainability report covering the period January 1 – December 31, 2010. The performance indicators that have been used are based on data from 2008 to 2010, allowing readers to see trends more clearly. In addition, important management changes include some data that extend into 2011 (the year of publication). Data that change every year, such as information on human resources, have been given as of December 31, the last day of the fiscal year, while special cases have been marked with asterisks.

**Guidelines** The S-OIL Sustainability Report 2010 is based on our seven strategic imperatives, and is in accordance with the AA1000APS (2008)<sup>1)</sup> In addition, the GRI G3 Guidelines<sup>2)</sup> and the IPIECA/API Guidance<sup>3)</sup> have been applied to the main indicators. Notes have been used to indicate cases where the company's management standards have been applied instead.

**Assurance** The reliability of the report was verified by an independent and objective assurance group based on the AA1000AS<sup>4)</sup> (2008) and ISAE3000<sup>5)</sup> international assurance standards. The assurance report can be found in the appendix to the report.

**Further Information/Suggestions** The report and further information on S-OIL's sustainability management is available on S-OIL's homepage, at [www.s-oil.com](http://www.s-oil.com). If you have questions or need further information, please contact the S-OIL Sustainability Management Team at +82 2 3772 5234 or email us at [sustainability@s-oil.com](mailto:sustainability@s-oil.com).

- 1) AA1000APS (2008) provides a framework for an organization to identify, prioritize and respond to its sustainability challenges.
- 2) GRI (Global Reporting Initiative) G3 Guidelines provides sustainability report guidelines that were written and revised by the GRI in 2006. The GRI was established by CERES and UNEP.
- 3) IPIECA/API (International Petroleum Industry Environmental Conservation Association/American Petroleum Institute) Guidance refers to sustainability report guidelines governing the performances reported by companies in the petroleum industry.
- 4) AA1000AS provides international verification standards that are used to evaluate the inclusivity, materiality, and responsiveness of sustainability reports.
- 5) ISAE3000 provides international verification standards governing the reliability of information other than financial data.

## 7 Strategic Imperatives (SI)



## CONTENTS

02	<b>CEO's Message</b>
04	<b>Sustainability</b>
05	<b>Stakeholders and Key Issues</b>
06	<b>Major Sustainability Performances</b>

08	<b>SI 1 ENHANCE CUSTOMER-CENTRIC MANAGEMENT</b>
	· Reasonable Price
	· Differentiated Service
	· Enhancement of Brand Value

16	<b>SI 2 PROVIDE BEST-IN-CLASS WORK ENVIRONMENT</b>
	· Talent Education and Capability Development
	· Human Rights Protection and Enhancement of Life Quality
	· Communicating Corporate Culture

24	<b>SI 3 ACHIEVE OPERATIONAL EXCELLENCE</b>
	· Response to Climate Change and Energy Conservation
	· Safety First Management
	· Preventative, Eco-Friendly Governance

38	<b>SI 4 CONTRIBUTE TO SOCIETY</b>
	· Contributing to National Economy
	· Employees' Social Contribution

47	<b>SI 5 PURSUE GLOBAL BEST PRACTICES OF CORPORATE GOVERNANCE</b>
	· Practicing Ethics Management
	· Strengthening Transparency

53	<b>SI 6 ATTAIN HIGHEST LEVEL OF CAPITAL EFFICIENCY</b>
	· Efficient Capital Management
	· Enterprise Risk Management
	· Communication with Shareholders and Investors
	· Financial Achievements

60	<b>SI 7 DEVELOP PLATFORM FOR SUSTAINABLE GROWTH</b>
	· Development of Oil Refining Business as a High-Value-Added Business
	· Launching and Nurturing of New and Renewable Energy Business

64	<b>APPENDIX</b>
	· Independent Assurance Report
	· GRI/IPIECA Content Index
	· UNGC Index
	· S-OIL Recognitions and Memberships in Associations

*"Intent on satisfying its stakeholder's expectations, S-OIL is mobilizing all its capacity and wisdom to establish its unique growth model on a solid foundation."*

## Key Points

Safety our top priority  
Differentiated business growth model  
Growing together with our society  
People fundamental to our competitiveness

The chapter covers the answers by Ahmed A. Subaey, the Representative Director and CEO of S-OIL, to the questions by stakeholders about S-OIL's sustainability management.

### Q. The 2010 oil spill in the Gulf of Mexico involving BP raised safety and environmental issues throughout the oil industry. What kind of measures does S-OIL take to prevent such accidents?

Generally, companies speak of sustainability management in terms of its economic, environmental and social impacts. But we add safety to it as another axis of sustainability. This is not only because of the BP oil spill. In the oil industry, a minor mistake can lead to a huge accident, resulting not only in the loss of life and company property, but also in significant damage to the local community. We have long recognized this. In striving to implement its safety management policies, S-OIL constantly speaks of the following: a safety-prioritizing corporate culture, strict safety management, preemptive risk management and regular emergency drills. We do so to promote our own development, and moreover to contribute to the sustainable development of the local community and of the humanity. Management always emphasizes that safety comes first and that nothing is worthwhile if safety is sacrificed. There is a Korean proverb: "Look before you leap." In other words, you have to consider and undertake even the easiest of tasks very carefully. S-OIL keeps this saying in mind, reminding every employee to be mindful of the possibility of accidents. This helps to promote a corporate culture in which safety management is strictly adhered to in each one's work place. In addition, we operate a companywide risk management system which defines organization, process, rules and operations to manage potential risks in advance. Moreover, we schedule regular safety drills so as to be fully prepared for an emergency. S-OIL also maintains a policy of transparency when communicating with the local community and with relevant organizations in case of an accident.

### Q. Companies are required to actively respond to climate change. Can you elaborate on your efforts to counter the issue while securing a stable energy supply for the national economy?

Climate Change is a challenge that forces the energy industry, including us. We make sure that we are doing our part by responding to it proactively in full consideration of humanity's sustainable development and of our future. We have made multi-faceted efforts in the area of petroleum products, the foundation of our profitability and a main energy source, and petrochemical products, the source of many consumer goods. Along with





energy efficiency improvement efforts, which we have been engaged in for a long time, we are strictly managing and reducing GHG emissions by introducing and putting into operation the GHG management system which monitors, reports on, and verifies company-wide GHG emissions in real time. Meanwhile, climate change presents us with new growth directions. Under the “three strategic directions,” S-OIL is reinventing itself as a comprehensive energy company guaranteeing a stable energy supply for the national economy well into the future. For the past year, we have carefully reviewed various ways to start a new and renewable energy business, which is one of our “three strategic directions.” To satisfy our long-cherished wish to secure a future growth engine and the people’s wish to have a sustainable source of the energy for the next generation, we have established a partnership with HanKook Silicon, one of the world’s eight producers of high purity poly silicon, an essential material in the photovoltaic power generation business. The photovoltaic business is expected to have the biggest growth potential in the new and renewable energy area in the future. This fruitful partnership also satisfies the desire of the local community to grow with mid-sized companies’ by fostering their advanced technology.

**Q. A lot of attention is being paid to the domestic oil refining industry’s social responsibility amidst rising oil prices. What activities has S-OIL undertaken to fulfill its social responsibilities, including its responsibility to mutual growth?**

All S-OIL employees believe that a strict and transparent work process based on ethics as well as the fostering of a corporate culture which is faithful to basic principles is the foundation of corporate social responsibility. We have a firm belief that profitability requires the observance of social norms and the maintenance of market order. We also prevent collusion, unfair trade, and other misconducts damaging fair transaction orders and unfair pricing. We are always fully aware that such unfair conduct can tear down our reputation and credibility among the people.

S-OIL aspires to become a company which grows in harmony with society and which is respected by its stakeholders for making them happy. The impacts of our economic performance will continue to be felt by shareholders, employees, local communities, and the nation. Thus, S-OIL will continue to enhance its environmental management, which is far stricter than legal requirements, and expand its social contributions as S-OIL’s board of directors has encouraged management to take greater interest in the needs of the less fortunate and to strengthen the company’s social contributions with genuineness. Also, our employees’ voluntary CSR activities, including donations, will consistently contribute to society in addition to varied company programs.

We are very attentive to stakeholders’ opinions that such activities should be longer-term, direct, and more community-oriented. As explained before, we decided to invest in HanKook Silicon to satisfy the local community’s expectation that S-OIL grow in concert with mid-sized companies that are with outstanding technological capabilities. We are also trying to come up with substantial measures to promote “win-win growth” with our partners, which is currently being emphasized in Korea. In particular, managers

of service stations are both our customers and our partners at the same time. We will continue to play our fundamental economic role of providing service stations with quality goods and services at a reasonable price. In addition, we will provide additional value to them as well as substantial assistance to strengthen “win-win” cooperation. And in the end this will benefit the end-users.

**Q. How does S-OIL regard its talents in regard to future growth leaders?**

Our employees are of S-OIL’s core assets. Their combined capabilities are the source of our competitiveness. Therefore, we pay attention to their quality of life and implement many activities to improve it. For example, we introduced the intensive holiday program in 2010 to make sure that employees have sufficient time to rejuvenate themselves. In addition, we provide employees with many opportunities to strengthen their own capabilities by accumulating experiences in various areas through the Job Rotation and Job Posting Programs. We have introduced various recruiting methods to secure a talented workforce and outstanding future leaders. We have also introduced the Dynamic Rookies Program to help new employees adapt to the company. By making continuous institutional improvements, we are doing everything we can to provide the kinds of support that our employees need in order to enjoy a balance between their home and work life. This is all in pursuit of our fundamental goal of enhancing productivity and creating the best possible working environment.

**Q. There are all sorts of issues involved in sustainability management. How do you identify these and how are they reflected in your management strategies? Also, what is your future plan?**

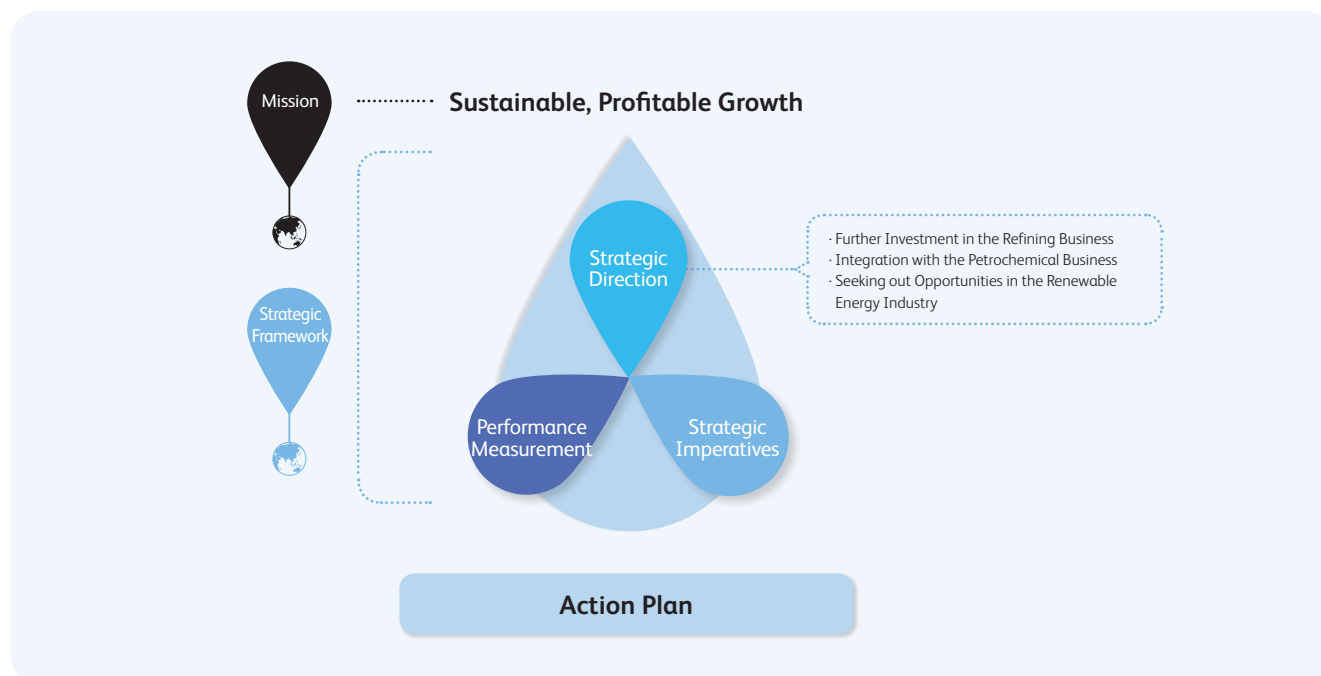
S-OIL’s approach to sustainability management starts with our stakeholders, our ultimate reason to exist. It starts by gathering all our collective capacity and wisdom and then establishing a differentiated strategic framework as a solid foundation for satisfying our stakeholders’ expectations. Rather than focusing only on a specific stakeholder’s expectations, we have been supporting the UN Global Compact and its ten principles in human rights, labor, environment, and anti-corruption. We have been making efforts to satisfy our various stakeholders’ expectations in a balanced way in respect to the need to promote global sustainable development. I meet face-to-face with stakeholders every day and receive reports from many organizations in order to identify sustainability management issues and understand stakeholders’ expectations. We launched a new sustainability management team in the first half of 2011. Through these efforts, we will be able to respond to sustainability issues more proactively and faithfully fulfill our obligations.



**Ahmed A. Subaey**

Representative Director and CEO

# SUSTAINABILITY



## C.E.O.

S-OIL's sustainable growth starts with the C.E.O.'s expectations. C.E.O., in this case, stands for Customers, Employees and Owners as well as other stakeholders. S-OIL makes efforts to achieve sustainable, profitable growth—the mission of the company—by understanding what the C.E.O. expects from S-OIL and then making sure that these expectations are reflected in the company's management policies so that the values of the C.E.O. are maximized—economically, environmentally and socially.

## Strategic Framework

S-OIL has established a strategic framework to accomplish this mission. The framework consists of three axes. The first axis is strategic direction, which indicates what the long-term growth directions for the future of S-OIL should be. The second axis is strategic imperatives. This refers to the management principles that S-OIL needs to adopt to arrive at the highest possible position, irrespective of which strategic directions we choose to

pursue. The last axis is performance measurement, which is to assure that the first two axes are implemented effectively.

## 7 Strategic Imperatives

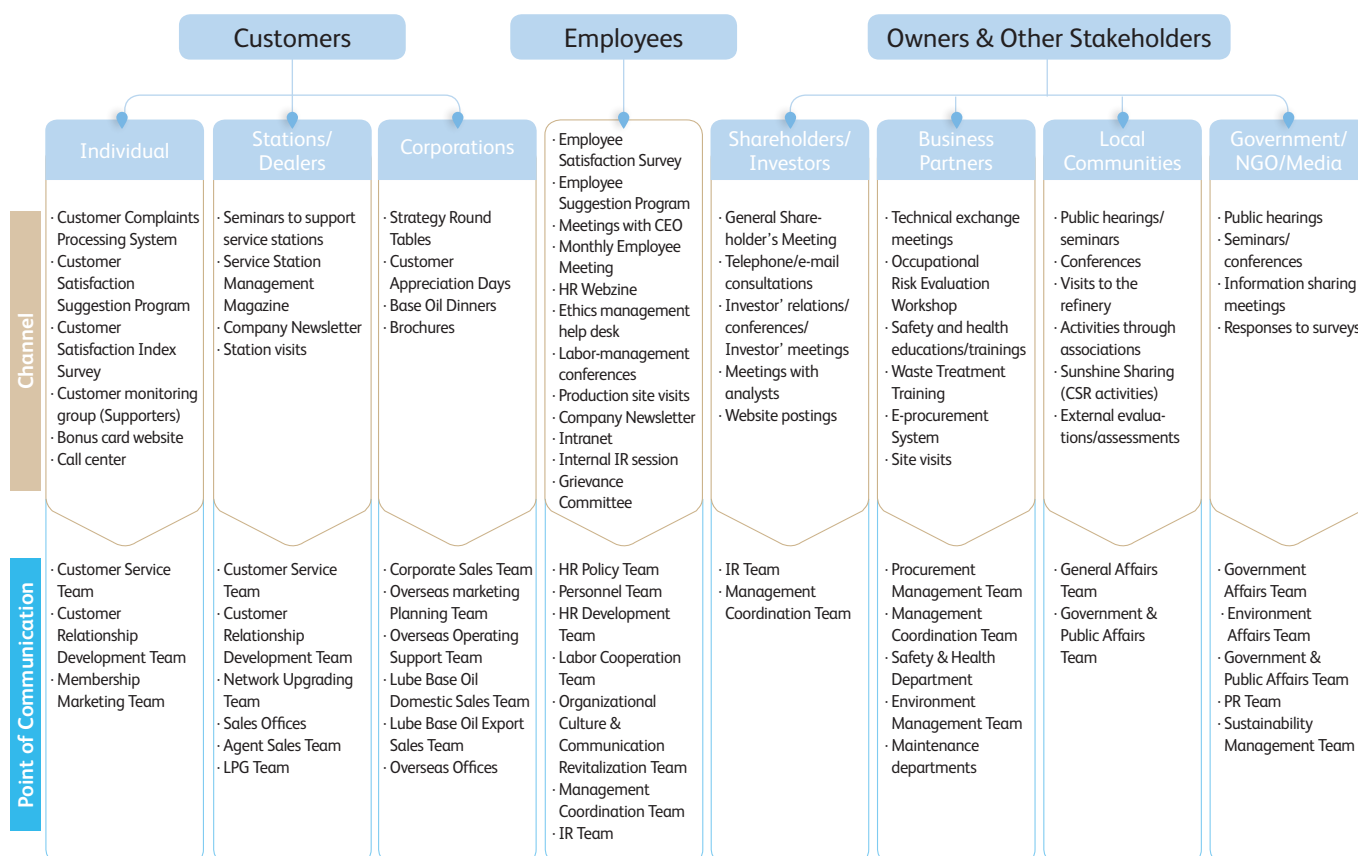
With this strategic framework in place, what the C.E.O. expects from S-OIL and what the company should do to satisfy these expectations and achieve sustainable growth are encapsulated in its 7 Strategic Imperatives.

1. Enhance Customer-Centric Management
2. Provide Best-in-Class Work Environment
3. Achieve Operational Excellence
4. Contribute to Society
5. Pursue Global Best Practices of Corporate Governance
6. Attain Highest Level of Capital Efficiency
7. Develop Platform for Sustainable Growth

# STAKEHOLDERS AND KEY ISSUES

## Stakeholder Engagement

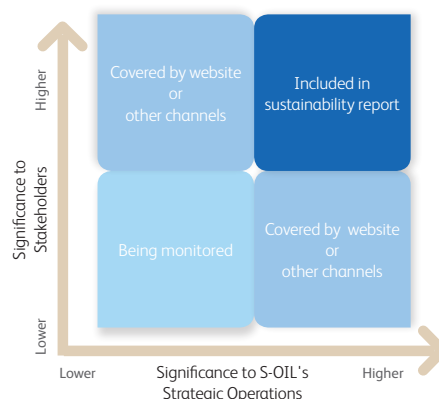
S-OIL operates a variety of C.E.O. engagement channels, considering each group's characteristics, in order to identify what their expectations are. We establish action plans to fulfill these expectations by correlating them with our own strategic directions and imperatives; the results are applied to our management activities through analyses and reviews.



## Key Issues and Reporting Contents

This sustainability report covers the major concerns of the C.E.O., from economic, environmental, and social viewpoints, in accordance with the global guidelines for such publications and the company's seven strategic imperatives. In addition, through the following materiality test, S-OIL identifies major subjects and indicators that might influence the C.E.O.'s decision-making and covers them in detail in its sustainability report.

- Find common issues among C.E.O.'s expectations identified through engagements and global standards and guidelines, such as Global Compact, GRI, and ISO 26000
- Add the latest issues to the list of common issues by analyzing news articles in 2010
- Prioritize common issues through an online stakeholder survey
- Select reporting contents for each strategic imperative by considering their significance to the C.E.O. and to S-OIL's strategic operations
- Build and review the materiality of the reporting contents by 3 steps; team leaders, division heads, and top management in consecutive order
- Have outside experts verify the materiality of reporting contents



# MAJOR SUSTAINABILITY PERFORMANCES



	2008	2009	2010
Sales (KRW million)	23,000,291	17,423,951	20,529,523
Net Income (KRW million)	474,614	273,246	705,068
Dividend Per Share	Common (KRW)	1,350	2,500
	Preferred (KRW)	1,375	2,525
Return on Equity (%)	13.0	7.5	16.6
Total Liabilities to Equity Ratio (%)	125.9	130.1	121.1



	2008	2009	2010
Fuel Usage (TOE)	1,686,899	1,663,298	1,659,016
Electricity Usage* (MWh)	1,437,455	1,420,921	1,461,082
Greenhouse Gas Emissions (thousand tonnes_CO2e )	7,418	7,262	7,183
Water Usage (thousand tonnes)	21,027	21,420	20,687
Waste Discharges (thousand tonnes)	29.4	31.0	26.0
Waste Recycling (thousand tonnes)	21.7	21.1	17.4
Environmental Investments (KRW million)	8,039	22,993	9,820

\* Except for self-generation



	2008	2009	2010
Number of Employees	2,455	2,511	2,589
Number of Newly Hired Employees	135	132	181
Annual Average Training Hours Per Employee	71	56	56
Sunshine Sharing Donations (KRW million)	6,775	4,041	5,234
Employees' Volunteer Hours	16,123	22,693	22,596



	2008	2009	2010
Ratio of Occupational Injury (%)	0.2	0	0.1
Number of the Injured	3	0	2
Number of Lost Work Days	86	0	52
Safety Management Training for Employees	Number of Trainees	2,287	5,505
	Number of Trainings	83	91
Safety Management Training for Partner Companies	Number of Trainees	15,245	15,030
	Number of Trainings	334	319

**Sales and Profit** | Sales increased by 17.8% compared with 2009 as economic recovery increased demand and product prices across all our business areas. Operating profit reached KRW 813.3 billion, an approximate 133% increase, compared with the 2009 figure thanks to gradually improved product margin and efficient process operation despite the drop in exchange rates. Net income reached KRW 705.1 billion, 158% increase from 2009.

**Profitability** | S-OIL saw the highest ROE among the domestic refiners (average of the other three refiners 13.2%), which indicates that S-OIL executed highly efficient management activities compared with its competitors.

**Stability** | S-OIL has the lowest total liabilities to equity ratio among the domestic refiners as of end of 2010 (average of the other three refiners 178.2%). This implies that S-OIL's capital structure is healthier than other competitors.

#### Return on Equity (Unit: %)



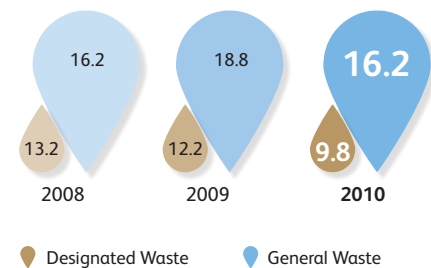
**Energy Usage and GHG Reduction** | Direct emission decreased by approximately 99 thousand tonnes CO<sub>2</sub>e compared to 2009 thanks to decreased fuel consumption following investment in energy efficiency improvement projects and routine, large-scale turnaround activities including a residue fluidized catalytic cracker. However, indirect emission increased by approximately 19 thousand tonnes CO<sub>2</sub> due to a decrease in self-generation caused by routine turnaround and as the Alkylolation process, which has been operated since September 2009, increased power supply from the Korea Electric Power Corporation.

**Water Usage** | Water usage decreased from 2009 due to a decrease in the volume of crude oil processed and the utilization rate.

**Waste** | Total waste discharge and recycling decreased as the discharge of recyclable spent catalyst decreased fundamentally due to the facility improvement of processes that spend catalyst.

**Environmental Investment** | S-OIL's environmental investment decreased significantly in 2010 compared to 2009 thanks to focused investment in air pollutant reducing facilities, such as a De-NO<sub>x</sub> facility, and energy reducing facilities in 2009.

#### Waste Discharges (Unit: thousand tonnes)

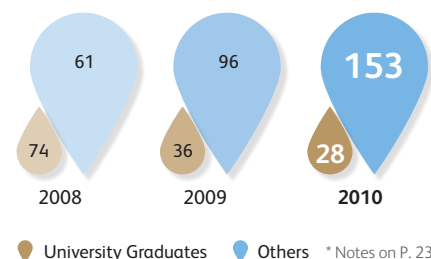


**New Employment** | We newly hired 181 employees, a 37% increase compared to 2009 and a huge increase over the past 2 years. It is for the stable operation of the expanded Onsan Refinery, with a bigger workforce in production. However, we have never had early retirement for business rationalization or transfer and retirement of our core workforce.

**Nurturing Workforce** | We maintained an average of 56 training hours per administrative employee by developing various education programs to improve job competency and requiring that they receive more than 40 hours of training a year.

**Donation and Employees' Volunteer Activities** | We plan and operate our budget with the aim of maintaining a steady donation level regardless of our company's profits. Moreover, with the aim of maintaining employee volunteer participation above 80%, we have developed various volunteering programs and award special prizes to outstanding employees.

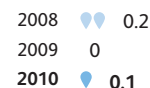
#### No. of Newly Hired Employees (Unit: persons)



**Accident-free Effort** | Our occupational injury rate is significantly lower than the average for the manufacturing sector (1.07%); however, due to two minor worksite injuries, it has increased slightly compared to 2009, which was accident free. In order to prevent recurrence of even minor accidents, we have set up a safety management improvement plan and have carried out a safety accident prevention campaign. Since the two accidents, we recorded 235 accident-free days and 2,349,278 accident-free person-hours as of December 31, 2010.

**Safety Management Training** | We saw a huge increase in the number of safety management trainees compared with 2009 as we provided three sessions of online training through the SHE (Safety, Health and Environment) system to all employees of the Onsan Refinery in addition to the existing safety management training.

#### Occupational Injury Rate (Unit: %)





# SI 01

## ENHANCE CUSTOMER-CENTRIC MANAGEMENT

### *Voice of Stakeholders*

"I was impressed by kind service of the customer center. I will look forward to continuous customer-centric service."

Jong-Ho Yoon (Customer, Team Leader of Gangneung Police Station)



**Bong-Soo Park**  
Executive Vice President  
Marketing B/L Head



"We deeply value our relationship with our customers. S-OIL believes that continuously satisfying customers' expectations serves as a foundation for the sound growth of our society. With this faith, we observe the principle of fair competition and seek to provide quality products at a reasonable price. This policy and these efforts will never change. We will continue to listen to our customers and respond to their needs with differentiated services. Also, we will carry out efforts to enhance our brand value while providing substantial benefits to our customers."

### *Performance Summary*

Plan for 2010 (Sustainability Report 2009)	Achievements in 2010	Future Plan
<ul style="list-style-type: none"> <li>Selected loyal customer group and collected various ideas from them to reflect their opinions on our sales strategies.</li> </ul>	<ul style="list-style-type: none"> <li>Launched S-OIL Supporters and recruited 500 supporters both in the first and the second half of the year</li> </ul>	<ul style="list-style-type: none"> <li>Expand the role of supporters from monitoring to participation in the company policy as well as events like Prosumer</li> </ul>
<ul style="list-style-type: none"> <li>Establish a warm and reliable corporate image by communicating with customers through creative corporate image ads</li> </ul>	<ul style="list-style-type: none"> <li>Communicated with customers and enhanced corporate image by conducting effective ads with the highest TOM (top of mind) among ads of refiners</li> </ul>	<ul style="list-style-type: none"> <li>Continue to execute diagnosis on the company's brand through outside professional organizations</li> </ul>
<ul style="list-style-type: none"> <li>Increase the number of Trustworthy Service Stations</li> <li>Inspect all the Trustworthy Service Stations in 2010</li> </ul>	<ul style="list-style-type: none"> <li>The number of Trustworthy Service Stations increased to 1,524, an 3.9% increase</li> <li>Conducted inspection on all Trustworthy Service Stations</li> </ul>	<ul style="list-style-type: none"> <li>Expand the Quality Manager System to include corporate customers</li> </ul>
<ul style="list-style-type: none"> <li>Improve customer data protection system</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened control on customer data</li> <li>Launched upgrade of customer data system (introduced access control solution to customer database and strengthened encryption of customer data)</li> </ul>	<ul style="list-style-type: none"> <li>Upgrade customer data system</li> <li>Establish customer data impact assessment system and strengthen integrated log analysis system</li> </ul>

# Reasonable Price

*In pursuit of ethics management with the motto, “fair and transparent pricing”, S-OIL is opposed to all forms of dishonest and unethical behavior, including price-fixing, collusion, and other unfair trading practices.*

## Reasonable Pricing Policy

The price of the company’s products is based on objective data, including international petroleum product prices (MOPS\*), the current exchange rate, our supply and demand situation, and domestic market trends. S-OIL has led fair and reasonable pricing in the domestic market with its independent pricing system.

In order to guarantee pricing fairness, a pricing committee composed of executives and employees from relevant departments meets to determine exclusive standard prices for our domestic light oil products (i.e., gasoline and kerosene). These prices reflect changes in cost adjustment factors such as the price of petroleum products, exchange rates, etc. When setting prices for our customers, we take into consideration the comprehensive situation, including current market conditions and competition based on the standard price.

The transparency of our pricing practices are enhanced as the petroleum product prices at over 95% of its service stations across the nation are publicized. This is done through the Opinet ([www.opinet.co.kr](http://www.opinet.co.kr)), which has been operated by the Korea Oil Corporation since May 2009.

\*MOPS (Means of Platt’s Singapore): Standard price in the Asian region announced by Platt’s, the most noteworthy journal in the oil market.

## Fair Competition

S-OIL has also published a “fair trade self-observation guide.” It illustrates the company’s commitment to free and open competition, enhances its employees’ understanding of fair trade, and helps to prevent them from breaking industry-related rules and regulations. For practical use, the guide includes explanations of laws relating to the regulation of monopolies and fair trade, actual cases that have been taken before the Korea Fair Trade Commission, and ancillary matters to be considered in the workplace.

Despite these efforts, the fact that domestic petroleum product prices must always reflect international ones, along with the extremely high costs involved in entering the industry, have made S-OIL an easy target for allegations of price fixing and unfair trade. In 2004, for example, the company, along with three other domestic refiners, was fined by the Korea Fair Trade Commission for allegedly conspiring to fix the price of domestic light oils. We filed an appeal in April 2007, asking for the decision to be declared null and void. The Supreme Court of Korea ruled in our favor in February 2010.

In December 2009, S-OIL and LPG importers and refiners were fined KRW 668.9 billion in total by the Korea Fair Trade Commission for allegedly conspiring to fix the price of LPG. S-OIL paid KRW 38.5 billion as it was fined for its portion; however, since it had committed no wrongdoing, it launched an appeal right away, and legal proceedings are currently underway.



# Differentiated Service

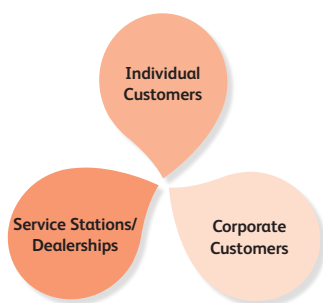
*Since customers' needs are constantly changing, S-OIL devotes itself to always keeping in tune with them and to providing differentiated services.*

## Understanding Customers' Needs

S-OIL identifies customers' needs through a wide range of channels in order to provide differentiated services by reflecting customers' opinions on sales policies. This includes an annual survey to gather opinions about our brand, products and services as well as heeding their words through our customer center and by ARS and e-mail. We also carry out brand marketing activities such as ads, promotions, events, cards, and alliances, proactively taking into account customers' suggestions.

**Launching Supporters** | S-OIL's customer service starts from listening, promptly and correctly, to the voices of our customers. S-OIL openly recruits loyal customers across the country and has launched "S-OIL Supporters," a group of 1,000 customers who will monitor the company's products, services, and marketing. These supporters are expected to play a leading role in growing the company's brand by swiftly providing not

## S-OIL Customer Types



## Customer Data Protection

The number of S-OIL bonus card members has reached to 4.6 million. As a result, the company has added hardware such as additional security infrastructure and has upgraded operation technology to ensure the safety and security of its customers' private data. These improvements include a customer data management system and enhanced data security awareness.

In 2010, we advanced the bonus card operation system by establishing a bonus card-based customer relations management system and upgraded the customer data security function. We also strengthened the customer data management system further by additionally building up the network-based DLP (Data Loss Prevention) system. We only allow access to customer data to authorized persons who have to pass through an internal control system for added security. In addition, permission from the department head in charge is required to utilize any customer data even for a legitimate business purpose. Information on customer data protection is also included in the Code of Business Ethics and Conduct for executives and employees to recognize the importance of information security. The Ministry of Public Administration and Security carried out a special inspection of our private information management infrastructures and systems in April 2010. No improvements were needed. S-OIL has never experienced a case of customer data leakage, theft, or loss.

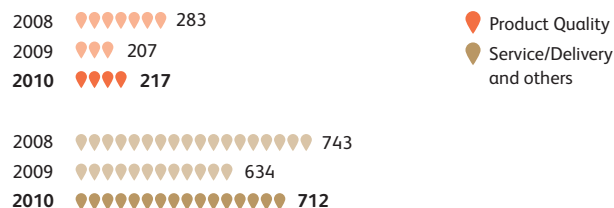
only opinions about the products, but also suggestions and ideas about our overall operation. Moreover, we plan to have a meaningful engagement, inviting supporters to the “Sunshine Sharing” activities, S-OIL’s social contribution activities.

**Customer Relations Management System** | S-OIL, through its enhanced bonus-card customer relations management system, maintains a service environment in which differentiated services can be provided to customers by subdividing them. Using this system, we plan to carry out more effective marketing, provide better service, and increase sales.

**Customer Satisfaction Suggestion Program** | S-OIL invites all its customers to participate in its Customer Satisfaction Suggestion Program through which they can directly deliver their ideas and suggestions. All customer suggestions will be examined quarterly and evaluated according to feasibility, effectiveness, creativity, and cost, with a small gift being given to all participants. Excellent suggestions will be included in our detailed action plan for customer satisfaction management, providing customers with improved services.

**Customer Complaints Processing System (CCPS)** | The speedy and accurate handling of customer complaints and difficulties is the first step of customer satisfaction management. S-OIL adds to its customers’ satisfaction through its CCPS. As soon as a complaint has been categorized and registered, the concerned team investigates its cause or causes.

#### CCPS Performance: Customer Complaints Handled (Unit: cases)



\* Complaints about alliance services, such as bonus cards, affiliated credit cards, gift certificates, promotion, etc., are not included.

**Happy Call Program** | S-OIL was the first domestic refiner to submit its customer complaint system to customer evaluation. Through its “Happy Call Program,” adopted November 15, 2010, a counselor makes a phone call to customers to check how they were treated during the complaint treatment processes and to solicit suggestions about how the process might be improved in the future. Through this program, customers evaluate their satisfaction with the complaint treatment process using a 10 point scoring system. The team in charge collects and analyzes this data and then shares the result with relevant departments in order to continue improvement activities for customer satisfaction.

Cases Improved by CCPS	
Complaint Prevention	Produced customer satisfaction training materials by analyzing the data of registered complaints and provided training to service station owners to prevent re-occurrence of similar cases and complaints
	Provided intensive trainings to service stations with many complaints
	Provided tips for prevention/post-treatment of oil mix-ups
	Visited service stations which are under intensive management and highly likely to receive complaints about quality of diesel from customers before winter; inspected facilities and trained how to manage them
Complaint Resolution	Strengthened training to prevent and respond to complaints about the quality of diesel fuel due to sudden drops in temperature during winter
	Resolved disputes when the actual amount of fuel pumped was larger than a vehicle’s specifications and addressed complaints by checking whether the gas pump provided the right amount of oil
	Came to an amicable settlement between concerned parties based on court cases when oil mix-up occurred
	Collected and analyzed a sample from a customer’s vehicle and the service station to accurately find the cause of a complaint

## 2010 Korean Service Quality Index (KSQI)-Selected Best Refiner



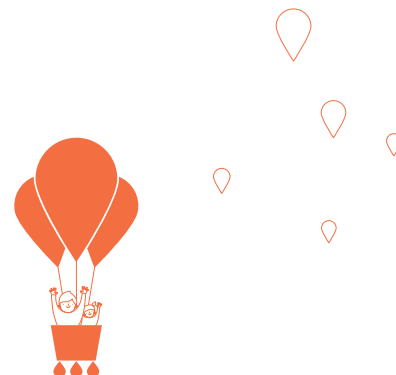
S-OIL offers its customers a wide range of additional services to increase their level of satisfaction. Customized services through bonus cards, affiliated credit cards, gift certificates, and mobile coupons are developed and distributed by customer type to better reflect their characteristics and needs. S-OIL designs its services in a way which is valued by its customers. As a result, it is constantly adding to its number of bonus point member shops, such as online shopping malls, portal sites, car repair chains, movie theaters, and airlines. We also plan to continue our affiliation programs, including providing the best fueling benefits in affiliation with the credit cards that are most preferred by our customers.

**Trustworthy Service Station Program** | Based on customers' trust on S-OIL brand, S-OIL operates a "Trustworthy Service Station" program to fulfill customers' needs to purchase safe and trustworthy products.

can patronize it with confidence. By the end of 2010, 1,524 of our affiliated service stations had signed a Trustworthy Service Station Agreement allowing them to participate in the program.

**Quality Manager System** | Our “Quality Manager System” ensures that service station facilities have been carefully inspected for purposes of quality control. Quality control managers visit each service station to examine their products and inspect their quality control facilities. During these visits, the service station manager learns the results of holding-tank moisture inspections, gas pump meter inspections, and the recent sample analyses, so that the right amount of a product with best quality can always be provided to his or her customers. They also promptly respond to customers’ complaints regarding product quality with abundant experiences and expert knowledge and give them detailed explanations about the problem-solving process, thereby achieving high trust from customers. As of 2010, S-OIL had inspected all its Trustworthy Service Stations, and plans to expand the system so that corporate customers, in addition to Trustworthy Service Stations, can receive various services required for quality management in 2011. S-OIL has always provided its customers with accurate product information and has never been penalized for breaking any relevant laws.

2008		1,282
2009		1,467
2010		1,524





# Enhancement of Brand Value

*S-OIL strengthens its brand recognition and its customer base through differentiated ads, promotion, and card marketing. In addition, we are committed to providing our customers with substantial benefits by strengthening our cooperative relationship with them.*

## Ads Communicating with Customers

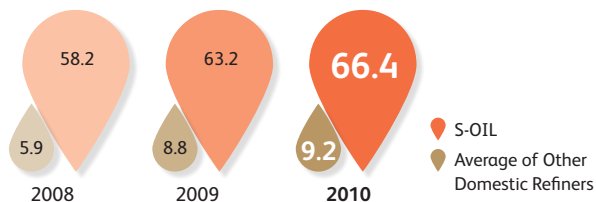
**TV Ads Winning over Customers** | S-OIL has drawn on customers' desire for "good" (high quality) oil, the essence of the refining industry since 2006, and has expanded its meaning to include "the good life" and "good driving" through advertising campaigns. With its slogan of "Good Oil Good Driving," S-OIL has championed good driving habits through creative, public interest advertising such as those which aired in 2010 encouraging people to drive safely in school zones and to come to a full stop at intersections. This ad campaign was well-received by both government and the public, with the Ministry of Public Administration and Security as well the National Police Agency selecting it as an example of a "good ads campaign" and customers sending letters in praise as well. In 2011, S-OIL will continue to send meaningful messages in a pleasant and lively manner.

**Print Ads Emphasizing Corporate Citizenship** | In 2010, S-OIL ran a print ad outlining its contributions to the national economy through petroleum product exports and

the production of value-added products under the slogan "Good People, Good Oil." The illustrated ads, which were intended to soften the company's image, were part of a series that ran in Korean newspapers and magazines (The "Fill the tank!" Series). All of these ads received positive feedback, since they portrayed the company as a leader in the drive for environmental protection and as a strong believer in the need for social contribution activities, such as a natural monument protection campaign, supporting heroic firefighters, etc. S-OIL will continue to burnish its corporate image as a charitable and trustworthy company by communicating with the public through additional creative advertising.

**Marketing Contest for Potential Customers** | S-OIL hosted the first marketing contest '2011 S-OIL Brand Awards' from December 2010 to March 2011 in order to strengthen communication with university students, who are its future customers. Although it was the first time this event had ever been held, 1,408 students (690 teams) participated in three areas (ads, sales promotion, and future service station image),

TOM Among Ads of Refiners (TOM: Top of Mind) (Unit: %)



\* Ad Tracking Survey Results by Nielsen Company Korea



Video Clip:  
TV Com-  
mercials

"Good Oil  
Good Driving"  
Campaign

demonstrating high interest. The contest served as a precious opportunity for university students to practice what they have learned in school while at work and to give full scope to their imaginations as would-be office workers. S-OIL believes that what is most important is people's *energy*, and so it intends to host this marketing competition regularly in order to provide a space where university students can unleash their creativity and passion.

## Differentiated Event/Promotion

**Sports Marketing** | S-OIL burnishes its image of being first-rate, active and friendly to customers by hosting and sponsoring a variety of sports events. This also helps to facilitate and popularize sports by boosting the public's interest in them. In addition to being the title sponsor of the KLPGA Tour Champions Invitational golf tournament every year since 2007, S-OIL also backs professional golfers and racing teams. We also provide premium services to satisfy and favorably impress customers, such as inviting them to golf pro-ams and various other sporting events. S-OIL will continue to expand its sports marketing efforts in order to increase its brand attractiveness among both existing and potential customers.



KLPGA Tour  
S-OIL Champions  
Invitational



Invitation to  
Musical/Concerts

**Cultural Event** | S-OIL invites customers to a variety of cultural events to provide special cultural experiences. These allow us to not only repay our customers, but to let our customers truly get to know us.

### Instant Winner Free-Gift Event 'S-5 Day Festival' |

S-OIL hosted an instant winner free-gift event, the S-5 Day Festival, to provide customers with substantial benefits and to increase customer satisfaction. On the 5th, 15th and 25th of each month starting in October and ending in December 2010, approximately 30,000 customers who visited service stations for refueling or filling were given receipts upon which were listed various prizes such as a 2-year gas coupon or an overseas trip, like an instant lottery. In 2011, S-OIL plans to carry out a new type of promotion which will provide benefits in conjunction with customer records.

**Visiting Yellow Concert** | S-OIL offers "Visiting Yellow Concerts" as part of its campaign to bring opportunities to enjoy high-quality cultural events to regions/organizations which are culturally and emotionally marginalized.

**Invitation to Musicals/Concerts** | S-OIL invites its customers from all over the country to enjoy musicals and concerts in order to enhance its reputation as a corporate sponsor of cultural events and strengthen its relationship with its customers. In 2010, we carefully selected customer preferred performances such as Musical Mozart, Monte Cristo, concerts by Kim Bum-Soo and Whee-Sung, etc., and then distributed tickets to 5,000 of our customers. S-OIL will continue to identify cultural performances preferred by our customers and expand its cultural services.

## Solid Partnership with Customers

**Station Awards System** | Service stations, an essential component of S-OIL's domestic sales network, are both its customers and its partners. We offer a wide variety of support activities to facilitate long-term and mutually beneficial relationships with the managers of our affiliated service stations and to enhance both their competitiveness and the quality of their operations. S-OIL rewards and encourages managers of its service stations who have excellent performance records in terms of service, quality of management (such as facility manage-

ment), sales, and profitability by offering them memberships in the S-OIL Champions Club. This promotes competition and the sharing of best practices among our stations, thus enhancing operations at all of our service stations.

### Communication Channels with Overseas Customers |

S-OIL is strengthening its long-term cooperative relationships with its overseas customers by recognizing that they are crucial partners in its efforts to expand into overseas markets. As part of this ongoing endeavor, we continue to establish multiple and differentiated channels of communication. Since 2007, we have hosted the annual reception for attendees of APPEC (Asia-Pacific Petroleum Conference), held in Singapore, to expand the overseas market for refined petroleum products. In this way, we have helped to facilitate worldwide exchange opportunities be-

tween industry experts and 800 current and potential customers in 2010. In addition, we continue to strengthen our customer relations programs by hosting events for customers of refined petroleum and petrochemical products.



APPEC Reception

#### Activities to Support Service Station Managers

<b>Presentations on Marketing Policy and Support System</b>	<ul style="list-style-type: none"> <li>• Introduce sales policy and support system by visiting service stations by region and provide special lectures by outside lecturers as well as meetings</li> <li>• Managers of around 1,000 affiliated service stations nation-wide participated</li> </ul>
<b>Service Station Management Magazine</b>	<ul style="list-style-type: none"> <li>• Publish every two months to share information on station management and exemplary cases and to introduce service station support system</li> </ul>
<b>Cyber Education</b>	<ul style="list-style-type: none"> <li>• Operate an online site (<a href="https://ebiz.s-oil.com">https://ebiz.s-oil.com</a>) to provide information about sales policy, service station management manual and laws and regulations related to service stations and to provide trainings</li> </ul>
<b>Service Station Management Consulting</b>	<ul style="list-style-type: none"> <li>• Company-employed professional consultants visit service stations to address and support issues regarding service station operations including start-up, sales management, promotion, facility renovations and supplementary businesses</li> </ul>
<b>YES Team</b>	<ul style="list-style-type: none"> <li>• YES Team, the service improvement team, visits service stations to provide customer service trainings and to support promotional activities</li> </ul>

#### Communication with Overseas Customers

<b>Refined Petroleum Products</b>	<ul style="list-style-type: none"> <li>• APPEC (Asia-Pacific Petroleum Conference) Reception for Attendees               <ul style="list-style-type: none"> <li>- Hosted in Singapore every year since 2007</li> <li>- Engagement with main customers and world-wide potential customers</li> </ul> </li> </ul>
<b>Petrochemical Products</b>	<ul style="list-style-type: none"> <li>• Hold regular strategy round tables with main customers</li> <li>• Maintain solid cooperative relations with customers</li> </ul>
<b>Lube Base Oil</b>	<ul style="list-style-type: none"> <li>• Events for domestic customers               <ul style="list-style-type: none"> <li>- Hosted for main customers since 2007</li> </ul> </li> <li>• Events for overseas customers               <ul style="list-style-type: none"> <li>- Customers from USA, Europe and Japan</li> </ul> </li> <li>• Others               <ul style="list-style-type: none"> <li>- Strengthening face-to-face contact with main customers including quarterly review meetings and video conferences</li> </ul> </li> </ul>



# SI 02

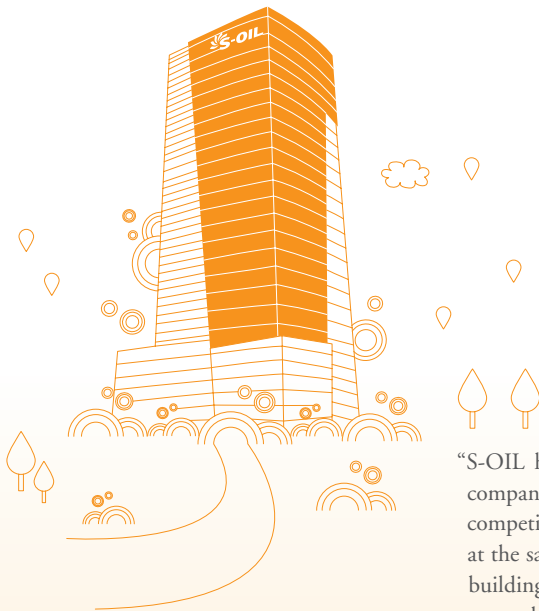
## PROVIDE BEST-IN-CLASS WORK ENVIRONMENT

### *Voice of Stakeholders*



"We hope investment continues in training to improve corporate culture for communication, to facilitate organization and to strengthen the capabilities of employees."

S-OIL employee (Internal Survey)



**Dong-Cheoul Kim**

Executive Vice President  
Administration B/L Head



"S-OIL helps employees demonstrate their potential to the fullest, having total confidence in their company. We operate customized training programs, use a fair performance evaluation system, offer competitive rewards and an intensive holiday program to help employees develop their capabilities and, at the same time, enjoy work-life balance. Moreover, the new cutting-edge and eco-friendly company building, which will be open in June, 2011, will provide a convenient and pleasant work environment to employees. S-OIL will provide the best-in-class work environment based on the belief that the future of the company rests on the shoulders of each employee."

### *Performance Summary*

Plan for 2010 (Sustainability Report 2009)	Achievements in 2010	Future Plan
<ul style="list-style-type: none"> <li>Introduce the specialist management system to help employees requiring specialties to concentrate on their job in 2010</li> </ul>	<ul style="list-style-type: none"> <li>Introduced the specialist management system and selected specialists</li> </ul>	<ul style="list-style-type: none"> <li>Adopt personnel system and a nurturing program appropriate for the various specialties so as to successfully implement the specialist management</li> </ul>
<ul style="list-style-type: none"> <li>Implement the intensive holiday program for all employees and conduct company-wide performance management to facilitate the program</li> </ul>	<ul style="list-style-type: none"> <li>Introduced the intensive holiday program and conducted company-wide performance management so that 100% of applicants utilized the intensive holiday program</li> </ul>	<ul style="list-style-type: none"> <li>Consider adaptation of programs to effectively address employees' work-related stress</li> </ul>
<ul style="list-style-type: none"> <li>Expanded performance-based differential annual salary system for performance-oriented corporate culture</li> </ul>	<ul style="list-style-type: none"> <li>Studied ways to better link team and individual performances with rewards</li> </ul>	<ul style="list-style-type: none"> <li>Continue to improve the system so that individual performance is more fairly connected with rewards while maintaining existing competitive rewards level</li> </ul>
<ul style="list-style-type: none"> <li>Enhanced employee welfare, as the new company building is equipped with a pleasant office area, a cafeteria, a fusion restaurant, a fitness center, a financial institution and a coffee shop</li> </ul>	<ul style="list-style-type: none"> <li>Reflected on plans for the completed new company building in 2011</li> </ul>	<ul style="list-style-type: none"> <li>Make sure employee preferences and suggestions are reflected in the new work environment</li> </ul>

# Talent Education and Capability Development

*S-OIL's ideal employee is a world-class professional. Our training and career development programs are geared to each worker's abilities and interests. Also, we cultivate global talents through our state-of-the-art leadership program.*

## Integrated Training System

As competition becomes more globalized, S-OIL is fostering the development of experts who can shoulder the future of S-OIL. We offer all our employees both company-wide and individualized training options to further develop their work behavior, work expertise, and leadership abilities. Our office workers must undergo at least forty hours of training each year in order to maintain the continuity of learning.

Our office workers spent an average of 56 hours in training in 2010—about the same as the previous year. In an effort to nurture valued specialists, however, this year, instead of focusing on the development of common work proficiencies, we hired outside experts to train our staff in more specialized job skills and capabilities. For example, to provide work-oriented education in order to enhance performance, we provided our staff with training aimed at strengthening salesmanship by developing a marketing academy curriculum. In addition to providing new, short-term training courses, we also made available various types of job-oriented cyber curriculums.

## Global Training Program

S-OIL supports its employees' participation in outside, work-related seminars and conferences to increase their ability to contend with global issues such as the energy crisis and climate change. Our very best workers can even study abroad to receive an MBA or another advanced degree in the natural sciences or engineering at the IFP School in France, thus gaining world-class expertise. Moreover, we provide overseas training to all our employees, and 150 people are selected each year for overseas training in countries such as China. We also provide various foreign language courses. Our newly opened courses for specialists include English writing, English negotiation, as well as Japanese and Chinese in order to enhance the foreign language abilities of our overseas sales force.

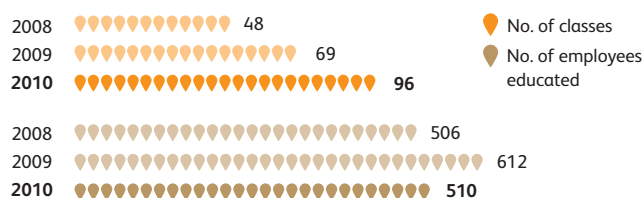
## Individual Development Plan

S-OIL encourages all of its employees to set their own career goals in relation to their capabilities and interests. Through the Individual Development Plan (IDP), employees pursue professional skill development through a carefully planned

Yearly Average Training Hour Per Office Worker (Unit: hours)



Cyber Education (Except for foreign language and book reading)  
(Unit: classes, persons)





job rotation system which provides them with pertinent skill-building job experiences while tracking their training history and systematic advancement. We are currently expanding this system company-wide by considering the IDP of all applicants, starting with outstanding workers with long-term careers in the same job. In 2010, 173 office employees (15%) rotated their jobs. In addition, we employ a job posting system every quarter in order to help employees develop their careers as well as facilitate better communication within the organization. When the company has a job opening, an employee who wishes to assume that position can, upon successful evaluation, transfer. In 2010, a total of 11 employees transferred to other departments.

### Core Workforce Nurturing System

Because S-OIL recognizes the importance of its core, next-generation leaders, we operate systematic programs in order to nurture them. In consideration of the specific competencies and needs of the employees who are selected to assume future leadership roles, we systematically nurture their talents through S-OIL's exclusively developed training programs as well as commissioned training programs. Those who successfully complete these programs are selected to become S-OIL's future leaders, thus assuming a leading role in pursuing the company's continued sustainable growth.

In 2010, we conducted an assessment of our executives in an effort to help them develop into our next-generation of leaders. In 2011, we intend to implement different types of individualized development programs depending upon the results of these assessments as well as conduct team leader assessments to nurture their capabilities.

### Specialist Management System

In 2010, S-OIL introduced a program that specifically focuses on the development of specialists to prevent them from facing any disadvantages in promotions and job rotations. The purpose of this new initiative is to create an environment in which employees with special assignments are encouraged to concentrate on their work and thus contribute to the company through the enhancement of their expertise. In the case of office workers, their career development and management plan will be subdivided into two tracks: general occupations and specialized ones. Those who are classified as professional workers will be nurtured as specialists through a variety of special programs, including external job skills curriculums, and will be given support for acquiring job-related certificates and degrees.

### Fair Performance Assessment and Promotion System

S-OIL's merit-based personnel policy takes into account each employee's personal achievements as well as his or her unit's performance in order to fairly reward his or her capabilities and overall effectiveness and, in so doing, improve each employees' concentration and efficiency. All executives and employees are evaluated in terms of their personal achievements and competencies, and they are provided with feedback so they can improve both the company's performance and their own. Evaluation results at the level of manager or above are used to determine salary rates which are fair and equitable. In the case of promotions, we have introduced a scoring system so that employees with excellent performance and competencies can be promoted in advance. We also accept and make use of the opinions of employees on a regular basis in order to create a broad common ground and enhance reliability.



# Human Rights Protection and Enhancement of Life Quality

*S-OIL respects its employees' human rights and diversity and provides a pleasant work environment. In addition, we make efforts to fundamentally improve our employees' quality of life by providing fair assessment according to individual ability and performance. We also offer comparable rewards and welfare benefits.*

## Pleasant Work Environment

A pleasant working environment is a basic requirement to improve employee satisfaction and work efficiency. S-OIL provides various facilities and work spaces in order to create a pleasant work environment.

**Onsan Refinery** | For the added convenience of our employees and visitors, we constructed both underground and ground-level parking lots at our main gate (accommodating 261 cars). In addition to employee facilities for after work self-development, we have also enhanced the working environment of our partner-employees while they are visiting our work sites, offering them facilities such as restaurants and showers. This is to foster to better relations with our partners. In addition, we have revamped some of our outmoded facilities and we hire outside experts to assess our working environment on a regular basis in order to create safe and pleasant working conditions.

**Head Office** | Slated for occupancy by the middle of June 2011, S-OIL's new head office building in Mapo-gu, Seoul, is equipped with an automated and eco-friendly intelligent building system. All of its lights are LED, and it has a water saving system, thus optimizing energy use to minimize CO<sub>2</sub> emissions. It was certificated as outstanding environmentally friendly building by the Land and Housing Institute of the Korea Land and Housing Corporation. It also boasts convenient access to public transportation such as subways and airport railway, promoting the use of public transportation and reducing air pollution. Its amenities will include pleasant work spaces, staff restaurants, fusion restaurants for business meetings, a fitness center, financial institutions, and coffee shops for

meetings and relaxing, which will enhance employees' welfare. The auditorium will be used to host various cultural events including plays and concerts as part of our corporate social responsibility efforts for the surrounding community and to facilitate communication with local residents.



New Head Office Building in Seoul

## Intensive Holiday Program

S-OIL introduced the intensive holiday program in 2010 so that employees can take a 2 consecutive-week holiday at any time of the year. This contributes to the enhancement of workplace concentration and improves employee satisfaction by providing work-life balance including sufficient rest. While executives/team leaders are away on their intensive vacations, executives/team leaders of other departments substitute for them according to a pre-established schedule. This significantly enhances inter-departmental understanding and communication.

## Best-in-Class Compensation and Employee Benefit System

S-OIL seeks to provide the highest-level compensation rates in the industry, and our employee benefits package is equally generous. This makes our workers feel proud to work for us and increases their dedication to their jobs based on financial stability. We pay newly-hired university graduates 340 % of the country's minimum wage, the highest compensation offered by any company in our field in Korea. Our pay and benefits packages are gender-neutral. Managers and executives receive base pay and merit-based pay according their unit's performance and individual achievements. S-OIL will expand the system company-wide to create a performance-oriented corporate culture. S-OIL's employee benefits policies have been reasonably designed according to life cycle, meaning that they are based on an employee's age and length of service. In addition to such benefits as health insurance, employment insurance, workers' compensation insurance, and the national pension plan (all of which are mandated under Korea's labor laws and regulations), we provide support for housing loans and related support, health care expenses, tuition fees, congratulations and condolences, as well as pension and leisure activities through our leading welfare benefits system.

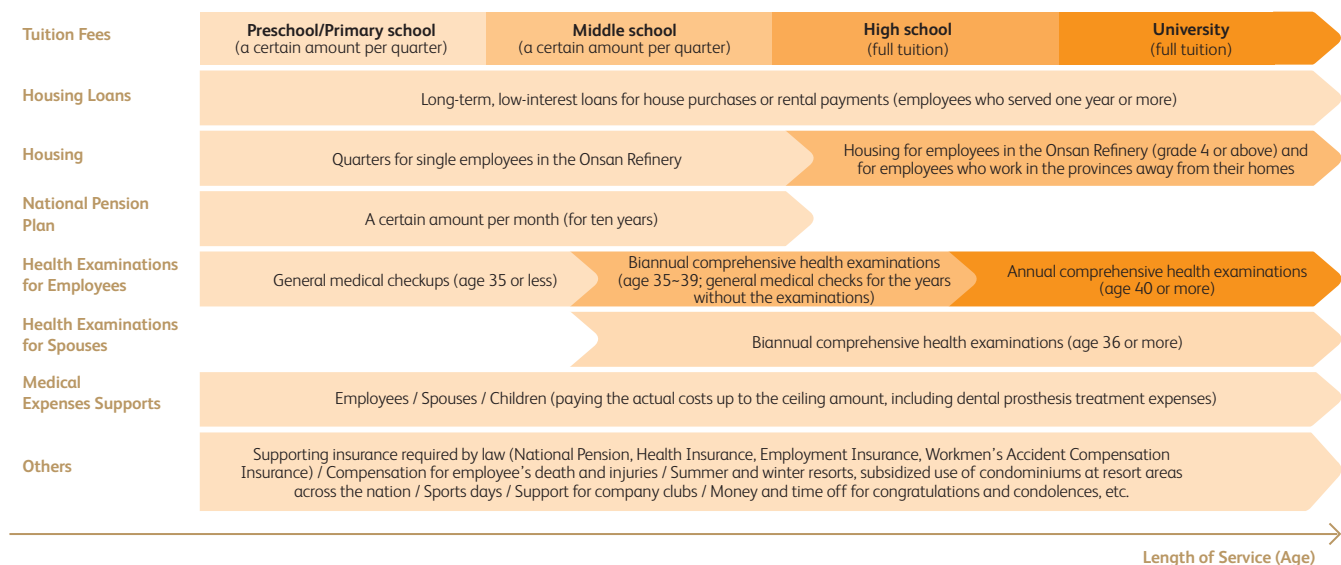
**Regular Checkups for Employees/Spouses** | To promote the health of our employees and their spouses, S-OIL provides regular health checkups. We offer various types of checkups

including general checkups and more comprehensive ones depending upon an employee's age and type of occupation. This helps employees identify severe diseases earlier and hence better manage their health. Also, we operate a post-management program so that employees who are diagnosed with health issues can have one-on-one customized health consulting with an industrial physician and health official.

## Job Security Guaranteeing System

S-OIL efficiently manages its workforce and guarantees its employees' job security at the same time. In 2007 we launched a successful new program which enables retired employees to return to work for up to two additional years under the same working conditions that prevailed when they retired. In 2011, we plan to introduce a system to promote non-regular workers who have job skills which are required by the company to regular status once they pass an internal review. This system provides an excellent opportunity not only for employees, but also for the company which requires an outstanding workforce. S-OIL observes all domestic laws and regulations including standards stipulated in international guidelines regarding working conditions of non-regular workers. S-OIL classifies non-regular workers from regular workers according to their job and function and we never discriminate against non-regular workers even though a particular worker might carry out the same tasks as regular workers.

### Employee Benefits



# Communicating Corporate Culture

*We believe that a first-class workplace is perfected when members act with professionalism and come together to create a warm corporate culture. S-OIL fosters such a corporate culture by maintaining harmonious and constructive labor-management relations, thus permitting vibrant communication.*

## Positive and Harmonious Labor-Management Relations

S-OIL boasts an exemplary labor-management relationship, with no labor disputes since the establishment of its union in 1980. This is the result of genuine trust and cooperation between labor and management. Both sides have worked together to ensure that all labor-related rules and regulations are obeyed, that the union's activities are respected, and that the opinions of the union's members are taken seriously.

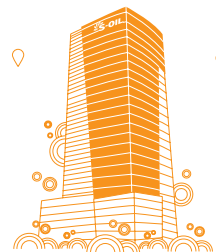
S-OIL guarantees its workers the right to engage in collective labor union activities, and all its labor terms and benefits are outlined in its personnel policies and in the collective agreement with the union. We observe all labor-related laws and principles and prohibit any unjustifiable interference with our human resources or infringements of our management activities including prohibiting unfair labor practices. The union belongs to the Federation of Korean Chemical Workers' Union, under the auspices of the Federation of Korean Trade Unions. Employees at the rank of foreman or below are free to join or leave the union. As of the end of 2010, its membership was 1,435, with 3 full-time union officers.



**Byung-Ho Lee**

Senior Vice President  
Head of Human Resources &  
Employee Relations Office

"S-OIL believes that fostering a corporate culture in which employees trust and respect one another and concentrate on their work energetically is the core of the company's competitiveness in achieving its mission. S-OIL assesses its corporate culture, including the quality of workplace communication, on a regular basis and, when necessary, takes measures to improve it. After all, we want our employees to go about their work in high spirits and for S-OIL to be the best company to work for in all of Korea."



## Activities to Improve Corporate Culture

S-OIL has been carrying out various activities in order to create a corporate culture in which the company's strategies are effectively executed and employees are more committed to their jobs. Based on the corporate culture survey conducted in 2009, we carried out workshops to improve work processes and facilitate communications among employees and therefore to improve corporate culture. We created a better work environment through company-wide corporate culture improvement activities. In 2011, we will dedicate ourselves to creating a harmonious and warm corporate culture through vibrant communications by newly establishing a corporate culture department and more systematically conducting corporate culture improvement activities.



Head Office Workshop to Improve Corporate Culture

## Expansion of Internal Communication Channel

S-OIL develops and operates various communication channels to facilitate vibrant communications among its employees and to enhance the accessibility of information. In 2010, we published the web magazine "IT Tong Tong" to provide information about the fast-changing IT environment and to introduce the company's new IT systems and strategies. The monthly web magazine serves as an internal communication channel and helps enhance the work efficiency of employees by providing IT-related information.

In 2011, we plan to publish a periodic HR Webzine to introduce HR-related programs, to cover complaint consultation, and then utilize it as a communication channel so that employees can learn about the company's HR policies and operations.



Executive Workshop for Leadership and Communication

### 📍 Labor-Management Communications Channels

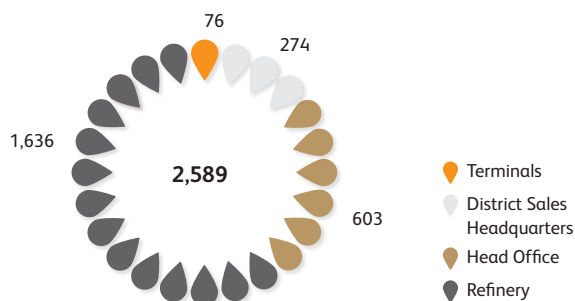
Category	Channel	Cycle	Description
Handling Complaints	Monthly Conferences	Monthly	A team-building activity in which employees from each department gather together to have candid discussions about problems and interests and to seek solutions to them.
	Labor-Management Conferences	Quarterly	10 representatives from each party discuss issues regarding improvement of productivity, work environment, and employee benefits.
	Production Site Visits	Weekly	Executives visit to production sites to check the work environment and listen to workers' complaints.
Labor-Management Negotiations	Salary Adjustments	Annually	Negotiations on salary adjustments
	Collective Bargaining	Annually	Negotiations on working conditions, except salary
	Industrial Safety and Health Committee	Quarterly	Meetings are held to discuss industrial safety issues, including dangerous work conditions and health risks.
Understanding Business Environment	Labor-Management Joint Workshops	Semi-annually	Labor and management join together to discuss management conditions and labor issues and offer their opinions.



**Communication with New Employees** | S-OIL operates a mentoring program to help new employees adjust to their new workplace by having veterans show them the ropes and introduce them to the new corporate culture. In 2010, we established the Dynamic Rookies Program to help new

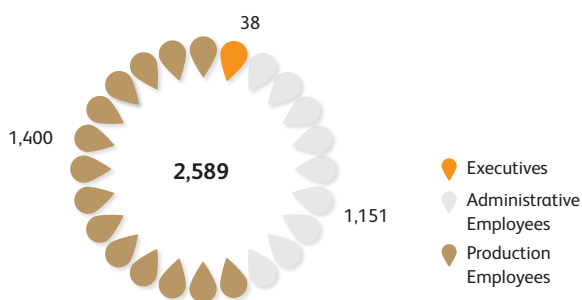
employees who have been with the company for less than four years further adapt to it. In addition, new employees are welcome to transfer to other departments in consideration of their interests and aptitudes provided they serve a full year at the department where they were initially assigned.

**Employment Status by Business Site** (Unit: persons)

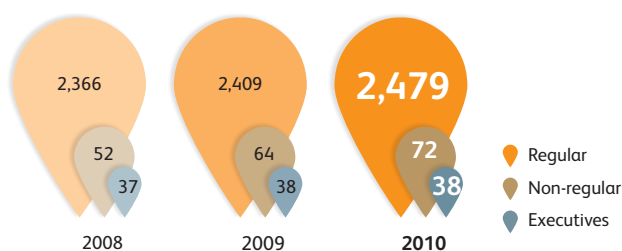


Dynamic Rookies Program

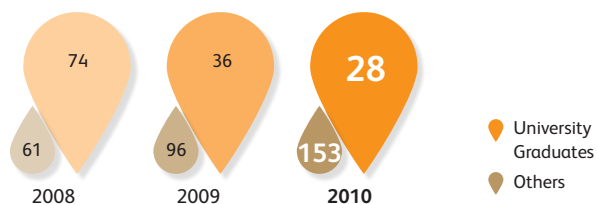
**Employment Structure** (Unit: persons)



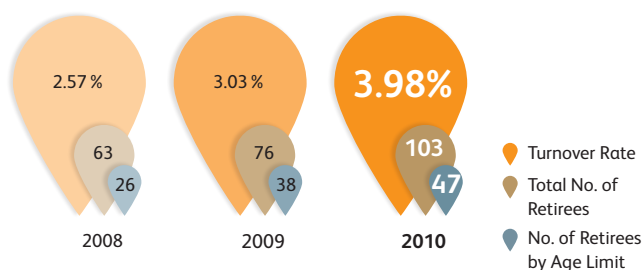
**Employment Status: Regular/Non-regular** (Unit: persons)



**Recruitment Status for the Last 3 Years** (Unit: persons)



**No. of Retirees and Turnover Rate** (Unit: persons, %)



\* Two times of recruitment of university graduates were conducted in the first and the second half of 2008.

\*\* "Others" refers to all the employment including junior college graduates, experienced workers, and non-regular workers except for university graduates.

\* 33 former employees who were transferred to STLC in 2008 are excluded.

# SI 03

## ACHIEVE OPERATIONAL EXCELLENCE

### *Voice of Stakeholders*

"Climate change adaptation is a must, not an option."

Ministry of Environment (Press Release July 11, 2010)



**Sung-Ki Ha**

Executive Vice President  
Refining B/L Head



**Yong-Hee Lee**

Senior Vice President  
Head of Operations

"Climate change response is a must, not an option. S-OIL has long been interested in improving energy efficiency and has achieved GHG reduction as a result of its efforts. S-OIL will proactively respond to climate change through strict management and reduction of GHG by reflecting carbon cost and values on our processes from the planning stage. Along with the environment, safety is a value S-OIL refuses to compromise on. S-OIL conducts accident-free campaigns and preventive environmental preservation activities not only with its employees, but also with its business partners. We will continue to make efforts for the sustainable development of our present and future stakeholders based on company-wide operational excellence."

### *Performance Summary*

Plan for 2010 (Sustainability Report 2009)	Achievements in 2010	Future Plan
<ul style="list-style-type: none"> <li>Set energy consumption target through discussion with the government and make efforts to achieve this target</li> </ul>	<ul style="list-style-type: none"> <li>Prepared to report GHG emissions to the government according to National MRV (GHG Measurement, Reporting and Verification) guidelines</li> </ul>	<ul style="list-style-type: none"> <li>Establish strategies to faithfully execute the Negotiated Agreement</li> <li>Establish IT infrastructure for efficient management of energy usage and GHG emissions</li> </ul>
<ul style="list-style-type: none"> <li>Realized 100% of the double-hulled ship usage rate until March 2010</li> </ul>	<ul style="list-style-type: none"> <li>Since March 2010, 100% double hulled ships have been used.</li> </ul>	
<ul style="list-style-type: none"> <li>Improved capabilities to prevent environmental pollution and respond to emergencies through proactive investment and continuous emergency drills</li> </ul>	<ul style="list-style-type: none"> <li>Introduced Intelligent Diagnostic Alert System and conducted contingency drills on a monthly basis</li> </ul>	<ul style="list-style-type: none"> <li>Improve safety management procedures and accordingly continue to implement various safety management measures</li> <li>Introduce safety education e-learning system to enhance safety knowledge and awareness of business partners</li> </ul>
<ul style="list-style-type: none"> <li>Operate legitimate emission facilities based on strict environmental management, responding to local community's demands for information and increase investment in environmental improvement</li> </ul>	<ul style="list-style-type: none"> <li>Invested around KRW 9.8 billion in existing refinery's environment/energy facilities</li> <li>Invested around KRW 28 billion in environment/energy facilities along with the expansion of the Onsan Refinery</li> <li>Spent environment-related expenses of around KRW 223 billion</li> </ul>	<ul style="list-style-type: none"> <li>Continue to make environmental investments, both mid-term and longer-term</li> </ul>

# Response to Climate Change and Energy Conservation

*S-OIL has established an advanced environmental management system to respond to climate change and the energy crisis. It is also committed to utilizing energy efficiency practices to reduce greenhouse gas emissions. In addition, we are taking a leading role in registering GHG reduction businesses.*

## Response to Climate Change

At the 16th UNFCCC COP, held in Cancun, Mexico at the end of 2010, the parties failed to reach an agreement on specific solutions to climate change the world is facing but agreed to jointly reduce GHG. Although Korea, where S-OIL's business sites are located, has not yet been included in the list of countries subject to reduction obligations, S-OIL is playing a leading role as a corporate citizen by joining with the international effort to cut greenhouse gases.

### Establishment and Verification of GHG Inventory |

A GHG inventory system is a systematic and efficient method for corporate entities to manage all stages ranging from calculation of the amount of GHG generated by their activities to reports made. S-OIL established an international-standard GHG inventory in 2009, and an audit of our inventory was carried out by a UN-designated external expertise organization. We also appointed departments and employees to manage the data on our activities, calculate and verify our emissions amounts, and produce a report to enhance efficiency of inventory management and reliability of GHG emission calculation. Moreover, we will report GHG emission to the government according to the national MRV (GHG Measurement, Reporting and Verification) instruction to actively participate in the Negotiated Agreement which will take effect in Korea according to the Framework Act on Low Carbon Green Growth. We will set the GHG emission reduction target through discussion with the government and make efforts to achieve the target.

**Voluntary GHG Reduction** | While conducting systematic research to establish a mid- and longer-term CO<sub>2</sub> reduction target, S-OIL has taken the initiative in reducing GHG by pursuing reduction projects which can be implemented immediately. In 2005, we became Korea's first oil refiner to participate in the Korean Energy Management Corporations' GHG Reduction Registry program. Since then, we have been approved for our GHG reduction results every year. As of April 2011, we registered 16 GHG reduction projects with the Korean Energy Management Corporation's registry. This represents approximately 5.3% of the registered domestic projects (304 projects) and 4.6% of CO<sub>2</sub> emission reduction of the total amount (331,221 tonnes\_CO<sub>2</sub>) S-OIL reduced through the projects. Our efforts to reduce GHG emissions will continue into the future.

### Amount of GHG Emissions (Unit: thousand tonnes\_CO<sub>2</sub>) - Head Office and Onsan Refinery



\* The data for the last three years were all re-calculated according to the government emission estimation standards including exclusion of emissions generated by incineration of waste gas

## Energy Conservation

Cutting the amount of energy used also means lowered GHG emissions. S-OIL takes initiative in reducing its energy use both internally and externally by making improvements to its production environment and its operating processes. As part of its internal activity, we established an energy management department in June 2009 to provide technological support regarding climate change and to carry out general tasks regarding GHG reductions. In addition, we established an Energy Management Committee and an Energy Administrative Committee which analyze, assess and report on energy use on a monthly basis and develop and discuss ideas for new energy reduction projects. The Energy Management Committee is engaged in formulating mid- and long-term energy saving plans while approving energy reduction businesses developed by the Energy Administrative Committee.

S-OIL is also continuing its energy-saving activities with the assistance of local and international consulting bodies so as to identify categories for energy savings and facilities improvements. In particular, we identified a total of 35 implementable ideas by signing an energy conservation consulting contract with AspenTech in 2010. It is expected that approximately KRW 35 billion will be saved annually. In addition, we have been improving our facilities in conjunction with the profit improvement program to reduce our energy consumption; this includes improvements to outdated facilities as well as the addition of new facilities. As a result, we have accomplished energy saving as well as enhanced production efficiency. From our analysis, we believe that we saved approximately KRW 19 billion in 2010.

### Fuel Use (Unit: TOE) - Head Office & Onsan Refinery

2008	1,686,899
2009	1,663,298
2010	1,659,016

\* Data for 2008 and 2009 were revised.

## Establishment of Energy Monitoring System

To identify energy expense saving opportunities, which amounts to more than 70 % of production operating costs, we began construction of an energy monitoring system in July 2010, to monitor the status of energy use during production. Construction will be complete in May 2011. This monitoring system keeps track of the energy used by each specific equipment as well as their incumbent expenses. It is expected to improve overall energy management efficiency as well as provide useful information for making future improvements.

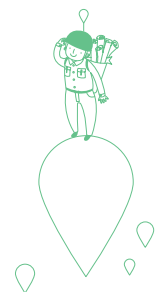
## Participation in the Negotiated Agreement Pilot Project

In December 2009, S-OIL signed an agreement with the Ministry of Knowledge and Economy to participate in a Negotiated Agreement pilot project, which was part of the government's effort to achieve the nation's GHG reduction target. Under this accord, S-OIL agreed to analyze and report its energy reduction performance from 2010 through 2012, as compared with the base year (2005-2007). By November 2010, we had already exceeded our 2012 target, and in so doing, we have an excellent chance of being recognized for our early GHG reductions, an achievement which will put us in compliance with the Negotiated Agreement with the government when it goes into effect starting in 2012.

### Electricity Use (Unit: MWh) - Head Office & Onsan Refinery

2008	1,437,455
2009	1,420,921
2010	1,461,082

\* Except for self-generation



# Safety First Management

*S-OIL emphasizes that safety should be its highest priority in all its business activities. Safety is taken seriously by top management, including the CEO, all the way down. Everybody is involved in a variety of ways in creating a safe working environment., acknowledging our motto that 'Safety is not a slogan, but a practice.'*

## Safety Management

All of S-OIL's employees participate in the company's health and safety activities, setting clear goals for how to improve environmental safety as well as deciding on the organization, responsibilities, as well as the procedures required to achieve these goals. Both material and human resources are effectively distributed and managed by the Safety and Health

Management System. This system was set up to create profit for the company and to systematically manage employee health and safety by looking in advance and preventing potential danger at worksites with the participation of all employees, including the CEO and stakeholders. We receive post-management assessment every year by the certification body to get the effectiveness of the system approved. In 2010, the implementation of this system was recognized for its excellence in the assessment for certification renewal which is conducted every three years following its initial assessment.

### CEO's Emphasis on Safety

"What makes a job risky is not what you do but how you do it."

"Unlike quality, air and cost, safety can not be compromised. When safety is not guaranteed, all achievements are meaningless."



### Convention for Accident-Free in the SEP (S-OIL Expansion Project) Construction Site

As part of ongoing efforts to achieve an accident-free business site, which was emphasized by the CEO in his 2010 New Year's Speech, the accident-free convention was held on January 22, 2010 to reduce accidents at the SEP Project site. A total of 140 people, including CEOs of constructor and partner companies, participated in the event. At the convention, the CEO of S-OIL emphasized that safety should come first in business; thus, it is necessary to treat accidents of partner companies' employees in the same manner as we treat our employees'.

### Labor-Management Cooperative Safety Management System

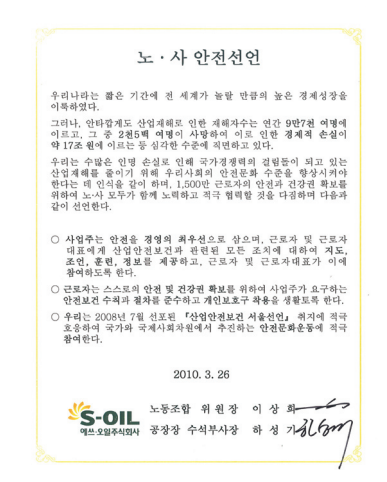
S-OIL announced a labor-management safety declaration to achieve an accident-free worksite based on trust, unity and mutual cooperation between labor and management. It also decided on cooperation among the two parties to secure rights to safety and health. Therefore, based on the declaration, the company will instruct, advise,



train and provide information to employees about industrial health and safety issues. Also, when at work, employees declared that they must observe health and safety rules and procedures and wear safety gears at all times. Since the labor-management safety declaration, labor and management has conducted a joint site safety inspection with the common goal of realizing an accident-free workplace, laying a foundation for cooperation. We have inspected the production site and workplace safety of our partner companies' employees' as well, and we have listened to employee complaints in order to enhance company-wide awareness about safety. Labor and management have jointly declared their dedication to the creation of worksite safety management with the faith that they should join together in matters of safety.

## Safety Management of Partner Companies

S-OIL has signed a partnership agreement with 12 other companies by joining the mother company/partner win-win program hosted by the Korea Industrial Safety and Health Corporation and the Ministry of Labor. This is to prevent accidents at partner companies which lack the capacity to implement industrial accident prevention activities due to poor management conditions. S-OIL has provided partner companies with safety and health education, transferred safety and health technologies and shared technological data through the safety management computing system. Therefore, it has significantly reduced safety accidents of partner companies through its active support for the establishment of a safety management system.



Labor-  
Management  
Safety Declaration

## Support for Partners

(Oct. 2009 – Oct. 2010)

- Organize promotion conference and host safety meeting
- Establish a safety/health information sharing system (SHE System)
- Host Occupational Risk Evaluation Workshop
- Execute emergency drill for administrators
- Support safety and health educations/trainings
- Provide technological assistance jointly with the Ministry of Labor and the Korea Industry Safety and Health Corporation
- Provide industrial health assistance

## Encouraging Partners with Excellent Safety Management Records

To encourage pride and voluntary safety management, S-OIL evaluates the safety management of all of its on-site partners on an annual basis and offers rewards to the best ones. The results of these evaluations are used to encourage those with an excellent result to do better and to discourage bidding by companies with a poor low safety management record level. This enhances the safety management capability of partner companies working on-site.

## Partner Companies' Joint Accident-Free Convention

S-OIL recognizes that safety awareness of not only its own employees but also of its partner companies is important to realizing an accident-free worksite. S-OIL therefore hosted an accident-free convention on January 7, 2010, which was attended by S-OIL employees as well as all the safety managers of its partners. Employee representatives from all participating companies jointly read the resolution and all partner companies signed the agreement to participate in the accident-free campaign, resolving to dedicate themselves to the prevention of industrial accidents.

## Accident-Free Achievements

S-OIL has operated an accident-free campaign to award those who have achieved their accident-free target hours, thus en-

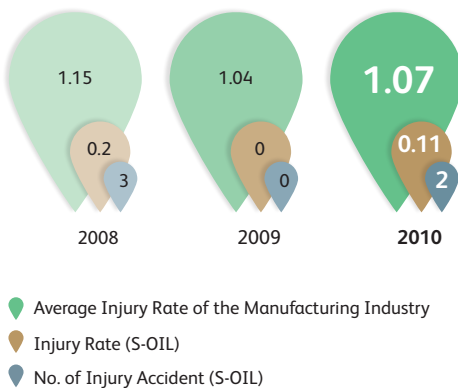


couraging employees to engage in voluntary safety activities. We recorded 235 accident-free days since May 9, 2010 (except for two minor previous accidents), therefore reaching 2,349,278 accident-free person-hours as of December 31, 2010. In addition, we recorded a 0% occupational disease rate. Since the incidence of two minor accidents, we have established safety improvement plans and have continued our quarterly safety accident prevention campaign while selecting tasks with a high incidence possibility. In 2010, we carried out hand safety and fall accident prevention campaigns. We plan to conduct quarterly campaigns about dangerous elements such as chemical substance treatment safety and electric shock prevention.

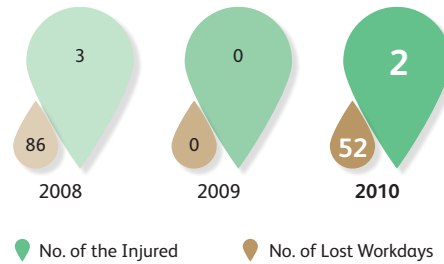
## Safety Education

S-OIL has conducted health and safety capability improvement trainings not only for our employees but also for partner companies', which has included self-safety and health education designated by the Occupational Safety and Health Acts, special education on 39 dangerous tasks including oxygen depletion, training for new employees and administrators, and basic safety training for employees of partner companies. We have also provided on-line special safety education through the SHE system to all employees at the refinery. In 2010, we provided three training sessions about the process safety management system, a basic element of process safety management to a total of 4,494 employees. In 2011, we plan to implement 6 sessions of training to attain facility safety standards. S-OIL plans to provide regular, carefully chosen safety

### Occupational Injury (Unit: %, cases)

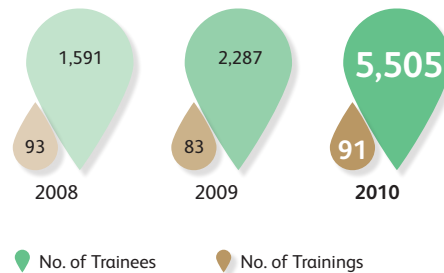


### No. of the Injured and Lost Workdays (Unit: persons, days)



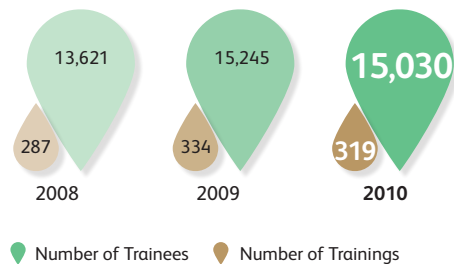
\* Source of the average injury rate of the manufacturing sector: e-National Indicators ([www.index.go.kr](http://www.index.go.kr))

### Employee Safety Management Education (Unit: persons, cases)

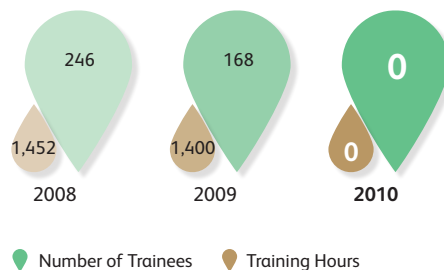


\* Note on P.7

### Safety Management Education for Partner Companies (Unit: persons, cases)



### Health Education (Unit: persons, cases)



\* Health education was not conducted in 2010 as all employees already took the course. The education is scheduled to be resumed in 2011.

education to its refinery employees, thereby enhancing their safety awareness and establishing a safe and accident-free work environment.

## Safety Management Assessment

### Safety Inspection by External Expert Organizations |

S-OIL consigned safety inspection on all its facilities and equipment, including the refinery's safety management system, to the external safety consulting firm Korea Gas Safety Corporation (KGS) to establish fundamental solutions to matters to be improved in terms of safety-related rules and regulations and facility guidelines. We have continuously made improvements according to short and long-term planning in thorough review of the results of the inspection. Also, we held a briefing session regarding the inspection results, attended by refinery management and administrators, to execute better advanced safety management by exploring the root causes of accidents in order to develop a systematic response rather than simple measures.

### Acquisition of the Highest Grade in Process Safety Management |

In accordance with its regulatory responsibilities, the Ministry of Employment and Labor has implemented a comprehensive safety management system which requires it to conduct regular inspection of relevant business sites and classify them into 4 grades. According to the system,



KGS Safety Inspection

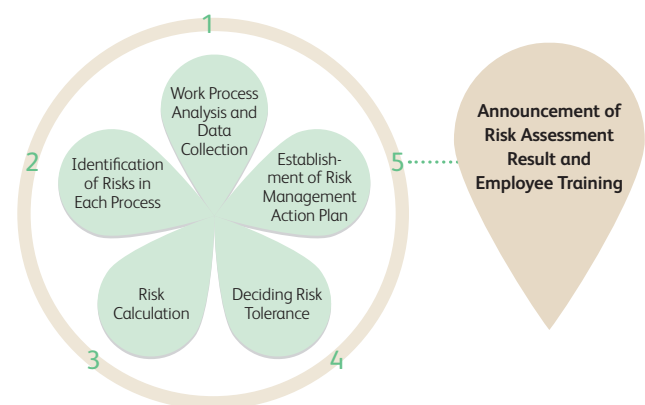
S-OIL has systematically managed 12 elements, thus preventing the leakage, fire, and explosion of hazardous substances which might harm employees or do damage to local communities. In 2010, the Onsan Refinery received the grade P, the highest grade in the process safety management evaluation. (As of the end of December, 2010, only 12% of domestic business sites received a similar grade.) This confirms the excellence of our business site's safety management level, both internally and externally.

## Emergency Preparedness Drill

S-OIL has introduced the Intelligent Diagnostic Alert System (IDAS) in order to minimize impact on the other production processes and stabilize them by responding accurately and appropriately during emergencies. In addition, we hold a monthly drill to exercise emergency response measures and ways to cooperate with the relevant departments utilizing the IDAS system.

**Evaluation of Risks in Process |** With the process risk evaluation, S-OIL looks for potential risks and operational defects in new and existing processes and then takes measures to reduce or eliminate them. There are two phases in this process. Periodic evaluations are conducted on the entire production process every five years and frequent evaluations are carried out whenever major changes are made to any part of the produc-

### Evaluation of Risks in Process

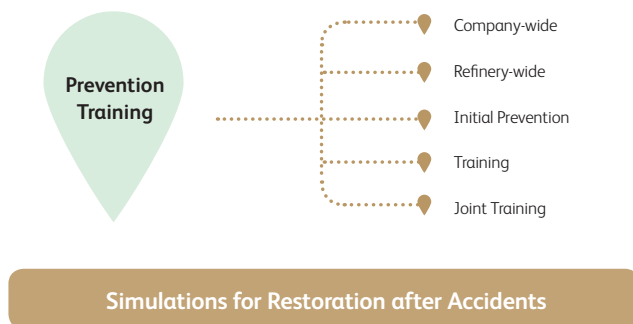


tion process. We conduct a quantitative risk evaluation on any section found to be at risk during these inspections. We have developed scenarios with emergency procedure plans for what to do in each production process and how to extinguish fire by predicting the range of damage. Accordingly, each employee is given emergency related responsibilities and participates in drills on a regular basis.

## Oil Spill Prevention

Marine pollution caused by oil spills can damage both the environment and the economy of the local community. It also takes much time and effort to recover from such an accident depending on its scale. To fundamentally lessen the possibility of this happening, S-OIL has established a vetting system for evaluating and managing the safety of its tankers, and it prescribes safe loading and unloading procedures for all its ships. To prevent oil spills caused by aging tankers, the maximum age of any tanker is limited to twenty years. In addition, we use only double-hulled ships—which means that there are two complete layers of watertight hull surface that should hold most or all of the leaking oil in case a ship becomes stranded. Due to the nature of the petroleum business, S-OIL is constantly on guard against the possibility of marine oil spills. In case such incidents do occur, however, S-OIL has developed a prevention and early detection protocol for managing marine pollution which it shares with outside groups and agencies.

### Oil Spill Prevention Training



S-OIL provides training on a regular basis and carries out oil spill drills to ensure speedy and proactive responses to any and all incidents. The company also has a drill assessment team in place to evaluate and improve its contingency plans continuously after each exercise and scenario.

To further these endeavors, we have dispatched a 70-tonne oil spill response vessel which is equipped with an oil fence, high-pressure water sprayers, dispersants, absorbent materials, and oil skimmers 24 hours around our SPM. This prevents collisions between ships as they pass as well as the company's facilities, while minimizing the spread of marine pollution through mounting a speedy response.

To achieve safe shipping, our tanker trucks are inspected periodically for potential leaks, and safe driving guidelines are established and taught to tanker truck drivers through periodic education and by sharing of accident case studies. In addition, we are minimizing the possibility of potential accidents by upgrading our safety and protection facilities for drivers in order to protect them from accidents during the loading process. We have also improved our protection facilities to prevent environmental pollution.



Oil Spill Prevention Drill

# Preventative, Eco-Friendly Governance

*S-OIL believes that future generations have a right to enjoy the beauty of nature that we ourselves enjoy today. We therefore have made multi-faceted efforts to minimize the environmental impact of all our business activities under preventative, eco-friendly management.*

## Abiding by Environmental Laws

S-OIL is committed to preventative green governance of the SHE integrated management policy and does so to respond proactively and preemptively to environmental regulations. We have established environmentally-friendly management by introducing an optimal prevention system starting from the early plant construction stage, and we have strived to minimize environmental impacts from management activities by abiding the laws and by setting up strict internal standards. Due to its operation of preventative facilities designed to minimize its environmental impact as well as its effective communication with local communities, S-OIL received not a single citation for violation of environmental laws over the past three years. We have insisted that preventive internal inspections be practiced on a daily basis and that elements that fail to meet guidelines are improved immediately, thus strengthening the environmental self-management system. S-OIL will increase its investment in the operation of legitimate emission facilities and environmental improvement based on strict eco-friendly management while respecting the local community's right to receive information.

## Environmental Performance Evaluation System

S-OIL has established and operated the Environmental Performance Evaluation (ISO 14031, EPE) System to objectively evaluate environmental investment and eco-friendly management performance, thus practicing eco-friendly management more proactively. The environmental performance evaluation is a regular review and improvement process in which a company selects indicators, collects and analyzes

data, evaluates its environmental performance, and then turns all of this information over to the CEO for use in the decision-making process. Companies can provide more accurate and objective data to stakeholders by quantifying their environmental investment results.

All of this is part of an effort to be prepared for the Ministry of Environment's environmental information disclosure system as well as our stakeholders' need for information disclosure. The environmental performance evaluation system has become a foundation for practicing an eco-friendly management philosophy through satisfying both internal and external stakeholders' demands for information disclosure and also by providing information on the decision-making process such as environmental investment. In particular, we secured reliable information about the system by completing the KFQ (Korean Foundation for Quality) objectivity review on the entire system. S-OIL has shown continuous and outstanding environmental operational performance with an increasing EPE result for two consecutive years compared with the base year (2008) as a result of executing its environmental performance evaluation system. In 2010, an EPE result of 128 implies that its green governance performance has improved by approximately 28% compared with the base year (2008). In particular, in

### Environmental Performance Evaluation Results (ISO 14031)

(Unit: points)

2008		100
2009		119.6
2010		128.2

2010 we achieved performance in reduction of air and water pollutants per input, facilitation of environmental education, legal observance, energy consumption, and GHG reduction per input. Going forward, we intend to practice green governance through continuous improvement and target management.

## Environmental Accounting System

By clearly identifying and measuring environmental cost (operational cost of environmental facilities), financial benefits, and environmental investment which are generated during the activities of reducing in advance or treating environmental impacts caused by companies' management activities, environmental accounting provides information to stakeholders and decision makers, thus allowing them to make sound decisions. In 2010, S-OIL established an environmental accounting system to systematically manage all of its environmental costs, as well as environmental investments, and to accurately designate and integrate its own classification system. Its objectivity was verified by the KFQ.

## Environmental Cost and Investment

In 2010, S-OIL's environmental costs amounted to a total of KRW 223 billion. This included the cost of operating environmental facilities, post-treatment costs (including waste treatment), prevention activity costs for maximizing resource recycling and reuse, stakeholder expenses supporting environ-

mental CSR and relevant organizations, and legal response activity costs (even though we have not any environment-related citations or fines).

Through its recently introduced environmental accounting, S-OIL has reviewed the benefits generated through its environmental activities and discovered that it achieved an environmental benefit of approximately KRW 57 billion in 2010. This includes sales of byproducts (including wastes), cost reductions as a result of decreased energy consumption, and improved energy cost savings due to MOU among our partner companies—all efforts of ours to save energy and preserve the environment. S-OIL plans to continue its improvement activities, including the establishment of a company-wide cooperation system with the introduction of environmental accounting.

Rather than view its environmental investments as mere temporary measures, S-OIL has been executing a systematic mid- and longer-term investment plan in order to maximize benefits within a mid- and longer-term time framework. In particular, along with a budget of KRW 9.8 billion for the existing production environment/energy investment, we have made an additional investment of approximately KRW 28 billion in environmental and energy facilities, such as introducing the optimal prevention facility in the newly expanding SEP process starting from the construction stage. S-OIL will continue to make mid- and longer-term environmental investments.

2010 Environmental Accounting (Unit: KRW 100 million)

Category	Sub-category	Cost	Execution
Environmental Cost	Post-activity management	1,408.4	Operation cost for prevention facilities, etc.
	Prevention activity	804.2	Environmental management and R&D, etc.
	Stakeholder activity	2.1	External cooperation, etc.
	Legal response	17.0	Voluntary management, etc.
	Total	2,231.7	
Environmental Benefit	Direct/indirect benefit	572	Sales of byproducts and energy saving, etc.
Environmental Investment	Environmental investment	98	Environmental facility installation, etc.

Environmental Investment (Unit: KRW million)

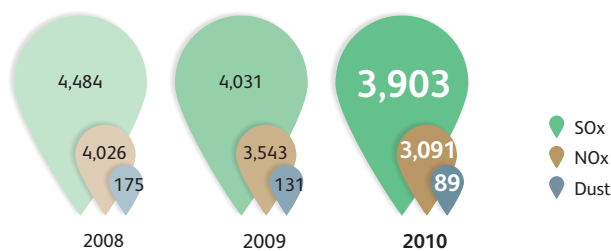
Category	2008	2009	2010
Air Quality/ Offensive Odors/VOC	5,111	14,801	5,452
Water Quality	1,179	1,090	1,484
Soil	23	648	2,076
Wastes	167	0	0
Energy Savings/ Technical Assistance	1,313	6,342	708
Landscaping and Others	246	112	101
Total	8,039	22,993	9,821

## Eco-Friendly Management

**Air Pollutants** | Reflecting its strong commitment to the environment, S-OIL works hard to reduce air pollutants. We have adopted internal emissions standards that are even stricter than legally-mandated ones. We have successfully reduced the level of our SOx emissions by using clean off-gas and low-sulfur fuels. In addition, we have invested to protect the environment through the operation of electronic precipitators, and continuous investment such as the installation of ultra-low-NOx burners and selective catalytic reduction facilities, and we've maintained a consistently high level of pollutant emission reductions. In 2010, we satisfied even stronger government emissions standards through proactive investment in the environment and strict business site management.

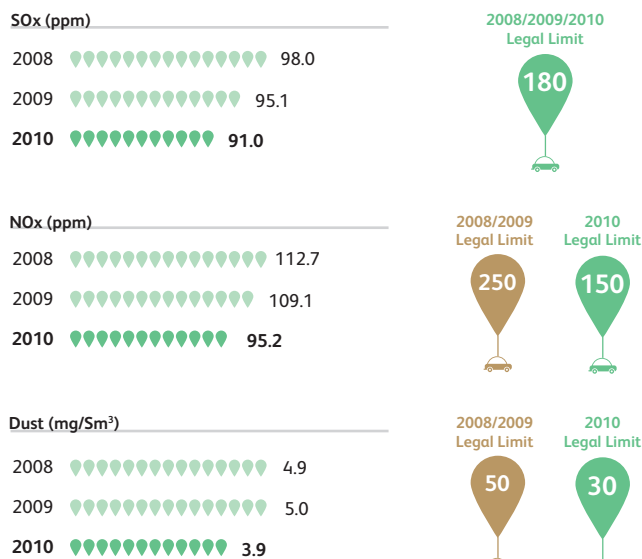
### Voluntary Agreement for Air Pollutant Emission Reductions

(Unit: ton) - Onsan Refinery



### Air Pollutant Emissions

(TMS\* Heater/Boiler Average Annual Rate) - Onsan Refinery



\*Tele-Metering System

**VOC - Offensive Odor** | S-OIL has implemented strict internal emissions standards to minimize the environmental impact of VOCs (Volatile Organic Compounds) and offensive odors generated from production, storage and loading facilities. To manage arsenic acid emission sources more systematically (i.e., pollutants such as chemical substances that are emitted into the air without a legally designated passing point source), we constructed and have stably operated an LDAR (Leak Detection and Repair) system. Moreover, to effectively manage the VOCs and offensive odors generated from our waste water processes, we installed an RTO (Regenerative Thermal Oxidizer) in 2010. We have been contributing to the improvement of air quality and employee health by building adsorption towers to reduce offensive odors and VOCs generated from 9 asphalt tanks. LDAR (Leak Detection and Repair)

### Installation of RTO (Regenerative Thermal Oxidizer)

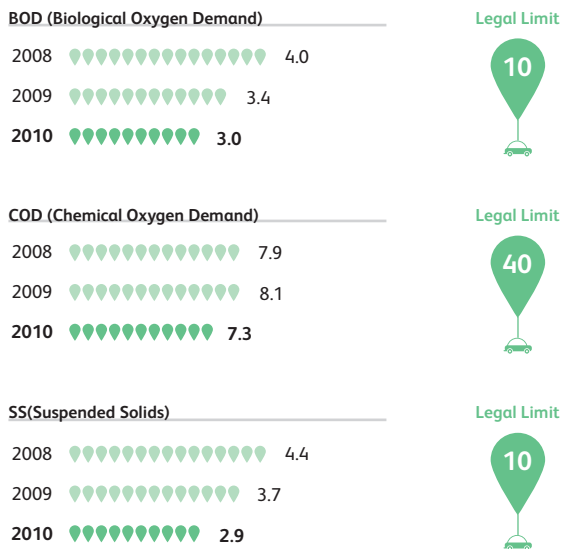
The RTO incinerates VOCs and malodorous substances discharged by the refinery to make them odorless and harmless. It also reduces energy consumption and CO<sub>2</sub> emissions by minimizing energy use through heat storage materials and by maintaining energy recovery efficiency of 95% or more. Since completing the RTO facility with an investment of approximately KRW 5.2 billion in September 2010, we have maintained stable operation with 99% or more of VOCs and offensive odor treatment efficiency.

**Water Quality** | S-OIL's water comes from the Nakdong River. We strictly control our water discharge into nearby waters to minimize our impact. We are the only plant in the Onsan Industrial Complex that has its own expertise in water quality management and that uses its own wastewater treatment system instead of the municipal sewage treatment plant. This ensures more thorough wastewater management with discharge below the standards of the municipal sewage



treatment plant. To monitor the status of our released water in real time, we installed a tele-metering system that transfers its information to an administrative center of the government. Wastewater generated from our production facility undergoes physical, chemical, and biological treatments, resulting in the highly effective removal of pollutants. We then reuse this treated wastewater from each operation process to reduce our water usage and minimize the generation of more wastewater.

#### Discharge Density of Water Pollutants (Unit: ppm)

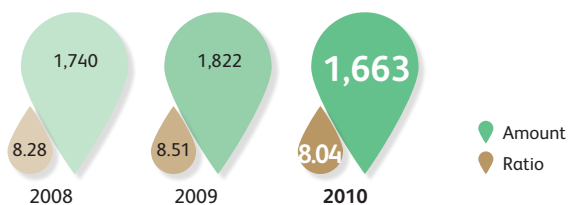


#### Water Usage (Unit: thousand tonnes)



#### Reused Water Amounts and Ratios (Unit: thousand tonnes, %)

- Onsan Refinery



\* The 2009 data was revised from 1,880

#### Amount of Wastewater Discharges (Unit: thousand tonnes)

- Onsan Refinery



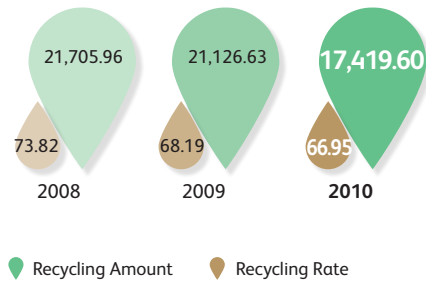
\* In 2009, the amount of wastewater discharges increased as S-OIL started up newly invested Alkylation Unit.

**Waste** | For environmentally friendly circulation of resources, S-OIL has continuously decreased its generation of waste while increasing our recycling rate through a separate collection process. S-OIL established the waste management system within the SHE system, helping each department monitor waste generation. We thoroughly review the qualifications of the licensed waste management contractor and supervise its treatment of wastes, from the initial phase to the follow-up phase, through actual inspections of the treatment in view of all relevant laws. We perform general waste management (i.e., monitor for proper storage and conditions) and do periodic on-site inspections for items subject to special management, such as large-scale expansion construction. We also train all employees and business partners about waste treatment procedures and inspectors about waste treatment. In 2010, the waste recycling rate slightly decreased as processes have been improved to generate less spent catalyst (which we recycle). We will further carry out eco-friendly resource circulation activities through proactive technological review.

#### Amounts of Waste (Onsan Refinery) (Unit: ton)

	2008	2009	2010
<b>Classified Waste</b>	13,207	12,176	<b>9,787</b>
<b>General Waste</b>	16,197	18,804	<b>16,233</b>
<b>Total</b>	29,404	30,980	<b>26,020</b>

### Waste Recycling (Unit: ton, %) - Onsan Refinery



Information Sharing  
about Chemical  
Substance  
Emission Reductions

**Hazardous Chemical Substances** | S-OIL carefully manages hazardous chemical substances by regularly carrying out systematic on-site inspections in accordance with internal management procedures which reflect all relevant domestic and international laws and agreements. In May 2005, we signed a voluntary agreement with the Ministry of Environment to reduce chemical substance emissions, establishing a goal of reducing them 30% by 2007 and 50% by 2009 compared with 2001 emission levels. In addition, we installed a steam recovery facility and an LDAR system. In 2009, these efforts resulted in an 84% drop in emissions compared to the base year of 2001. For its environmental investment to reduce chemical substance emissions and its outstanding overall performances which exceeded targets, S-OIL was selected as the best business site and received an award by the Environment Minister at the information sharing session on chemical substance emission reductions hosted by the Ministry of Environment. In

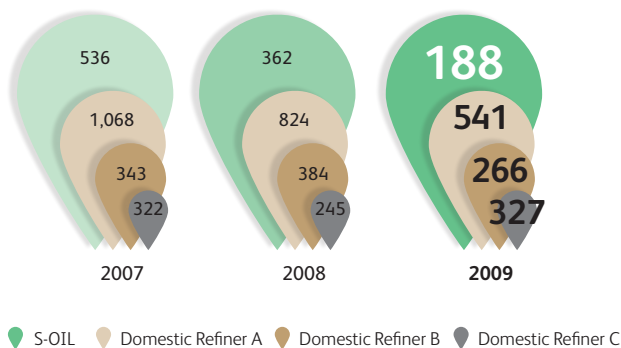
2011, in order to minimize VOC emissions in advance, we plan to apply the LDAR system as soon as the newly expanded SEP starts operation.

**Soil Contamination** | In December 2002, S-OIL signed a “VA on Soil Contamination Inspections and Restoration” with the Ministry of Environment and has faithfully adhered to it. We therefore have conducted regular inspections to prevent and restore soil contamination. In addition, we carried out oil contamination and leakage inspections, according to the relevant laws, along with systematic self-monitoring on soil contamination.

### Environmental Impact Assessments

S-OIL conducts strict environmental impact assessments. These include procedures and standards that flow from our own environmental management policies as well as those mandated by law (such as ex-post-facto reports). We carry out environmental improvement activities after conducting regular environmental impact evaluations and analyses of our activities, products, and services through our own internal environmental impact assessment system based on the ISO 14001 system. We then share the results of these assessments with our employees through the SHE system. This adds to their environmental awareness and assists concerned departments in carrying out their own improvement activities in real time.

### Amount of Chemical Substance Emissions (Unit: ton)



\* Source: Announcement by the Ministry of Environment (2011)  
\* The 2010 data will be released in 2012.

## Environmental Education

To increase employee environmental awareness and execute eco-friendly management more efficiently, S-OIL offers all of its employees a variety of environmental training programs according to their tasks. For key personnel involved in our environmental programs, we hold regular training programs, as required by law, and encourage them to attend external seminars and hold in-house training sessions in environmental technology to help them respond to internal and external environmental issues and to improve their expertise. In addition, we provide all our employees with regular training on the treatment of hazardous chemical substances through the SHE system. Furthermore, we provide training to our partner companies in the separation and disposal of wastes, the prevention of soil and water contamination, and in observance of the relevant laws so that our strict environmental management policies can reach all the way down from our worksites. In particular, in 2010, we published a textbook for environmental management, “S-OIL Environmental Management Handbook,” which covers current issues related to the company’s environmental management and environmental policies and distribute it to employees and partner companies to help make improvements in the environmental education system. The textbook describes environmental management tasks, various policy directions, as well as common environmental knowledge. It also introduces campaigns conducted by public organizations (such as eco-driving), which can be effectively used in education.

## Education



Environmental Management Handbook  
(Textbook for Environmental Education)

# SI 04 CONTRIBUTE TO SOCIETY

## *Voice of Stakeholders*

“We hope to facilitate community-based social contribution and sustainability management rather than one-time supports.”

**Tae-Hyung Lim** (Director of Community Relations Center, the Korean National Council on Social Welfare)



**Young-Hee Lee**

Senior Vice President  
Head of Maintenance & Technical

“S-OIL has been contributing to the national economy by providing a stable energy supply, making constant efforts to increase exports, creating added value across all areas, making transparent tax payments and engaging in sincere local purchasing. In addition, we have been carrying out a “Sunshine Sharing Campaign” in a sincere effort to share with the local community our successes which have been achieved through constant investment and increased efficiency amidst fierce competition. Through this campaign, employees voluntarily provide support to local communities which are in need. S-OIL will enhance these social contribution efforts to effectively contribute to the development of the local community, beyond simple donations, by accepting experts’ opinions.”

## *Performance Summary*

Plan for 2010 (Sustainability Report 2009)	Achievements in 2010	Future Plan
<ul style="list-style-type: none"> <li>Expand employees’ voluntary donations and volunteer work participation 80% or more</li> </ul>	<ul style="list-style-type: none"> <li>Maintained employees’ voluntary donation and volunteer work participation at 84%</li> </ul>	<ul style="list-style-type: none"> <li>Encourage employees to participate in the automated donation system at 80% or higher</li> <li>Develop various programs to motivate employees and enhance efficiency of social contribution</li> </ul>
<ul style="list-style-type: none"> <li>Reviewed various methods such as counseling with experts on social contribution and research on best cases to design and develop more efficient social contribution strategies</li> </ul>	<ul style="list-style-type: none"> <li>Analyzed the efficiency of the social contribution activities in cooperation with the external expert organization in social welfare, the Korea National Council on Social Welfare</li> </ul>	<ul style="list-style-type: none"> <li>Continue to improve social contribution programs based on the evaluation of the external expert organization</li> </ul>
<ul style="list-style-type: none"> <li>Launched the S-OIL table tennis team to support less-popular sports and to facilitate sports activities in the local community</li> </ul>	<ul style="list-style-type: none"> <li>Launched a table tennis team in July 2010</li> </ul>	<ul style="list-style-type: none"> <li>Introduce and develop various CSR programs reflecting the needs of the local community</li> </ul>
<ul style="list-style-type: none"> <li>Continued campaign to protect endangered species</li> </ul>	<ul style="list-style-type: none"> <li>Selected Hemibarbus mylodon (natural monument no. 259) and conducted various protection programs</li> </ul>	<ul style="list-style-type: none"> <li>Continue efforts to protect natural monuments. In particular, expand participation to include voluntary participation of customers</li> </ul>

# Contributing to National Economy

*S-OIL provides the resources required by local communities in a stable manner through continuous investment in spite of the harsh domestic and overseas management environment. We contribute to the national economy through exports, tax payments, and local purchasing.*

## Contribution Through Providing a Stable Energy Supply

Maintaining a stable supply of energy is imperative for any nation's economic development amid an environment of ever-tightening supply and demand. S-OIL's crude oil imports are not just about a company securing a raw material, but are about supplying the global community with a stable and economically efficient source of energy. We strive to contribute to the global economy by securing crude oil that meets the capacities of our production facilities and transporting it to them efficiently. S-OIL concluded a long-term purchasing agreement with Saudi Aramco, our principal shareholder AOC's (Aramco Overseas Co. B. V.) mother company and the national company of the biggest oil producing country, Saudi Arabia, in May 1991. This means that the company was able to secure a steady and long-term source of crude oil despite the uncertainties of the market as a whole. These uncertainties include potential reductions in oil production caused by geopolitical factors, growing demand in developing countries due to an increased number of refineries, and concerns about resource depletion.

Given Korea's extreme dependence on oil, reducing these risks plays an important role in terms of national energy security. Our production facilities are optimized to refine crude oil imported

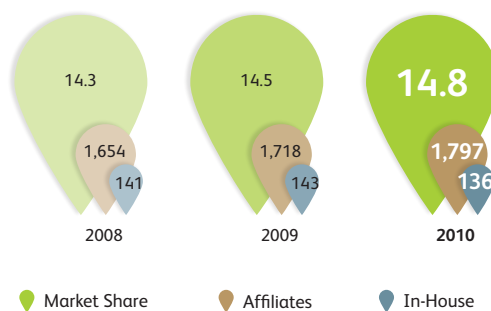
from Aramco, allowing us to produce high value-added products very economically and efficiently. By doing so, we can supply our products to our domestic and international customers at a very reasonable cost. This is an unrivaled core capability for S-OIL.

**Expansion of Domestic Sales Network** | We considered the central government's long-term development plan to determine which regions had the most potential for new demand created by the construction of new towns and roads. The company also identified areas where an increase in demand was expected and sales network is weak. Based on the results, we decided to develop some new sales networks, and as a result 72 service stations became new partners with us. As of the end of 2010, S-OIL had a business relationship with 1,933 service stations, or 14.8% (as counted by S-OIL) of the total market. The company will continue to expand its sales network from a longer-term perspective considering improved service station and customer accessibility and optimization of our sales networks.

**Amount of Crude Oil Processed** (Unit: thousand barrels)



**No. of Stations with S-OIL's Pole Sign** (Unit: %, stations)



## Contribution Through Creation of Added Value

The oil refining industry is the leading industry which provides the basis of the all the other necessary goods and services. The products made by S-OIL become not only fuel required for all means of transportation and delivery, but also the source of daily goods. From plastic to medicine, the petroleum products is always with us. In 2008, the refining industry created KRW 25.6 trillion in added value, although KRW 61.2 trillion including forward linkage effect. Therefore, S-OIL's products must be distributed in a stable, reliable manner through optimized sales networks, not only to satisfy customer's direct demands but also to ensure a smooth supply of products which are required by society. This is very important as it reduces

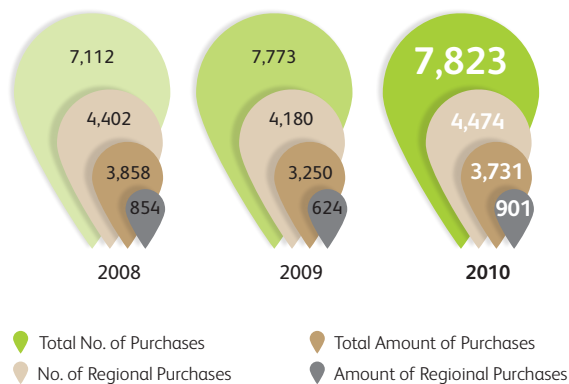
social costs and enhances social benefits while at the same time creating profits for S-OIL.

## Contribution Through Exports

The oil refining industry already reached the 10 billion-dollar export mark in 2004 and exceeded 20 billion in 2006, thus becoming one of Korea's leading export industries. In 2009, the oil refining industry has exported KRW 38.8 trillion worth of petroleum products, accounting for approximately 53% of the total sales volume. This amounts to 6.3% of Korea's total exports, significantly contributing to the improvement of Korea's trade balance. In particular, S-OIL has the biggest export ratio among domestic refiners.

S-OIL has actively expanded its overseas markets by introducing a variety of competitive products from the early business stage. As a result, we have been able to establish a balanced marketing structure between domestic demand and exports. In 2010, S-OIL's efforts to expand its export markets continued. We expanded our sales network in the Pacific region, Southeast Asia and Europe by strengthening direct supply contracts with overseas retailers and wholesale companies and, in particular, by expanding partnerships with globally competitive companies. As a result, we have exported approximately 59% of our products to 23 countries. Furthermore, we will expand our overseas sales base through the expansion of our sales network to strengthen customer service in the face of intensifying competition. We intend to upgrade our liaison office in Singapore—one of Asia's most important oil, logistics

**Regional Purchases** (Unit: cases, KRW 100 million)



**Creation of Economic Value** (Unit: KRW 100 million)

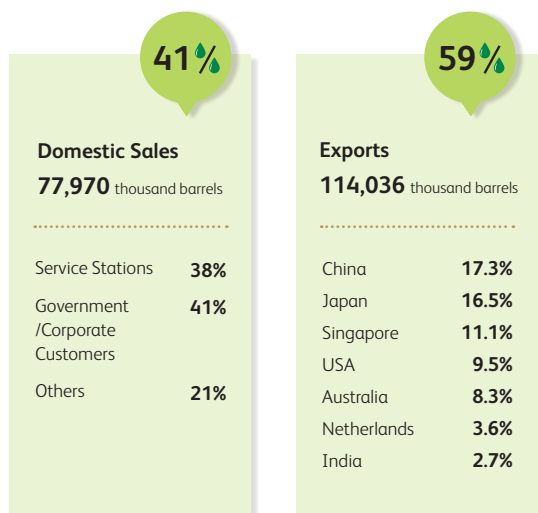
	2008	2009	2010
Sales Revenue	230,003	174,240	205,295
Purchasing Costs	(211,227)	(166,317)	(192,019)
Other Income	19,346	12,256	7,599
Other Expenses	(25,547)	(11,412)	(6,710)
Depreciation & Amortization	(1,693)	(1,775)	(1,887)
<b>Economic Value Created</b>	<b>10,882</b>	<b>6,992</b>	<b>12,278</b>

**Distribution of Economic Value** (Unit: KRW 100 million)

Stakeholders	Account	2008	2009	2010
Employees	Labor Cost	2,558	2,553	3,139
Government	Tax	2,046	666	1,760
Local Communities	Social Contribution	136	38	60
Creditors	Interest	1,396	1,002	268
Shareholders/Companies	Dividends, Retained Earnings	4,746	2,733	7,051
<b>Economic Value Distributed</b>		<b>10,882</b>	<b>6,992</b>	<b>12,278</b>



### 2010 Domestic Sales and Exports



and trading hubs—to an office and we plan to further expand our strategic overseas markets through the establishment of a Chinese office in 2011.

### Contribution Through Tax Payments

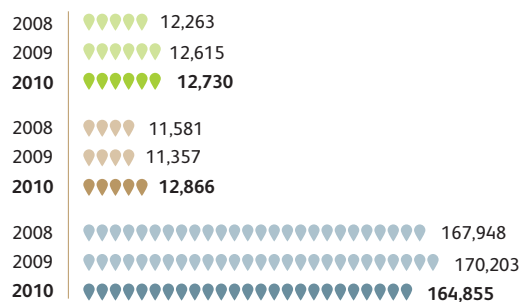
The oil refining industry faithfully pays all taxes owed on profits created through its sales activities. It also faithfully assists government tax collection efforts by collecting various taxes on petroleum products. Eight types of taxes and dues are imposed

on oil, including tariffs. Total tax revenues collected in 2009 were approximately KRW 27.6 trillion, accounting for 13.2% of total tax revenues that year. With the oil refining industry faithfully playing its role as tax collector, the government is able to prevent the omission of tax revenue sources in advance. Also, this arrangement allows it to secure tax revenue ahead of time, thereby benefitting from tax collection cost savings. Additionally, with the oil industry assuming its duty as tax collector, the government is able to manage its budget more predictably since this arrangement ensures that a similar amount of tax revenue will be collected every year. The oil refining industry also creates plenty of revenue from overseas markets based on global competitiveness achieved through its investment in advanced facilities. The industry faithfully pays taxes on profits generated, not to overseas markets but to Korea.

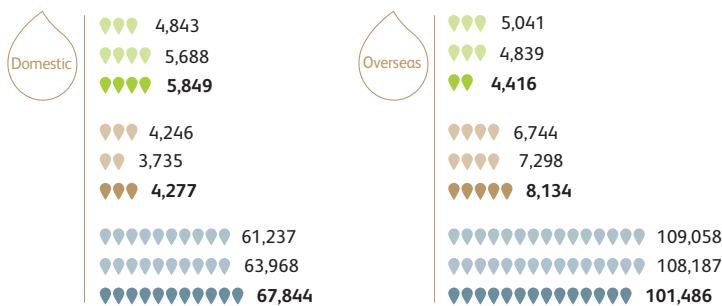
### Contribution Through Facilitation of International Exchange

In expectation of establishing a model relationship between an oil producing country and an oil consuming country as well as to establish a basis for long-term growth of S-OIL, Aramco has decided to invest in S-OIL. Living up to expectations, S-OIL has been faithfully playing a bridging role between Korea and Saudi Arabia. It has also helped facilitate expanded trade between two countries. As a result, Saudi Arabia has become Korea's biggest Middle East trading partner, raising trading volume between the two countries to approximately KRW 35 trillion.

#### Production (Unit: thousand barrels)



#### Sales (Unit: thousand barrels)



● Petrochemical Products

● Lube Products

● Fuel Products

# Employees' Social Contribution

*S-OIL carries out various social contribution activities for heroic citizens, the environment and local communities through volunteer employee participation. These activities are intended to lend others a helping hand.*

## Principle of Sunshine Sharing

S-OIL carries out “Sunshine Sharing” activities reflecting and incorporating the symbolism of the sun’s rays in its corporate identity or CI. Based on three principles—Genuineness (meaning voluntary participation), Impact (for having a positive impact on society and becoming a well-respected company), and Timing (meaning that we try to carry out our CSR programs when and where they are most needed)—these activities are aimed at helping the underprivileged in our society. S-OIL maintains its social contribution at a certain level, regardless of its actual revenues, to ensure that its CSR activities are an integral part of its corporate culture. In addition, we plan to maintain the voluntary social contribution and participation rate of management and employees at over 80 %.

## Sunshine Sharing Campaign

“Sunshine Sharing,” our CSR brand name, promotes the company and raises public recognition of its corporate social responsibility activities. It means lighting and warming our society like sunshine and demonstrates the company’s desire to improve our society through sharing. The campaign has three themes: “communities,” “heroes,” and “the environment,” which are the basis of the company’s social contribution activities as well as for the various volunteer groups in which employees participate. Guided by these three pillars, we seek to develop and improve our CSR programs and pursue ways to better satisfy both service recipients and volunteers.

## Three Guiding Principles of Sunshine Sharing

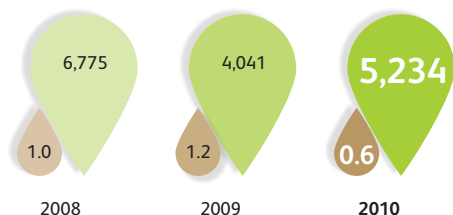
Participation rate in volunteer activities (2008: 47 % → 2009: 84 % → 2010: 84 %)  
Donor participation rate (2008: 27 % → 2009: 77.6 % → 2010: 80 %)

Spread positive influence across the society through effective programs including heroic firefighters, heroic civilians, and endangered natural monument protection campaigns



Implement programs including distributing rice cake soup, briquettes and Kimchi take place when most needed by the disadvantaged, occasions including New Year’s Day, Chuseok, the year-end holiday, Disability Day, and Children’s Day

## Annual Donations and Percentage of Pre-Tax Income to Donations (Unit: KRW million, %)



Donations Pre-Tax Income to Donations

\* Donations for 2008 do not include the Korean Refineries' Joint CSR Fund (KRW 6.79 billion)

\* Donations for 2009 include the Job Sharing Fund (KRW 276 million)

\* Donations for 2010 do not include the Korean Refineries' Joint CSR Fund (KRW 1.693 billion)

\* Because of an increase in pre-tax income in 2010, the pre-tax income-to-donations ratio decreased by 0.6 % compared with the previous year; however, social contribution donations increased by 29.5 % over this same time period.

## For Local Communities

S-OIL established the "S-OIL Ulsan Welfare Foundation" in 2007, becoming the first company in the region to do so. Based on ties forged between the S-OIL foundation and social welfare organizations in the region, we seek to effectively

### Launching of S-OIL Table Tennis Team

S-OIL launched a table tennis team in July 2010 which is composed of 1 coach and 5 players. It was intended to enhance the company's brand image, contribute to national sports promotion policy and bolster interest in local community sports. The team is based in Ulsan, where the refinery is located. It won a silver medal on its first stage, the National Sports Festival, in October 2010. In December of the same year it won a gold medal in mixed doubles at Korea's biggest sporting event, the National Championships.



identify the needs of local communities so that we can successfully develop programs to assist in their development. The S-OIL foundation actively conducts projects to support the less fortunate, such as seniors, the disabled, and teenagers. Every year, we purchase chemical-free rice that has been harvested in Onsan and donate it to the needy. In addition, S-OIL helps low income families recover from losses due to fire, provides disabled teenagers from low income families with customized learning equipment, hosts sunshine sharing camps for children with rare diseases and their families, hosts an international marathon for the disabled, and sponsors the heart-heart orchestra, which is composed of teenagers with developmental disabilities.

## Activities for Unsung Heroes

"Activities for Unsung Heroes" celebrates and encourages heroes in our society such as the heroic citizens and firefighters who protect us during disasters. S-OIL's support program for heroic firefighters has been in place since 2006. In 2008, we launched another support program to applaud those who voluntarily put themselves in harm's way to help others.

**For Heroic Firefighters** | We support firefighters who have put their lives at risk to protect lives and property. This is done by making donations to the families of firefighters who have died and to those injured while on duty.

**For Heroic Civilians** | We launched a support program for those who freely put themselves in harm's way to help others. We support funding for heroic civilians who have been injured



**Local Communities:** Local Communities / The less fortunate / Children

**Unsung Heroes:** Heroic firefighters / Heroic civilians

**The Environment:** Endangered natural monument protection campaign  
/ Climate change response / Eco-friendly management

**S-OIL Volunteer Group | Sunshine Sharing Campaign:** Automated donation system / 1 person 1 share account / 1 person 1 volunteer activity

or, in cases where they have given their lives, for their families. In addition, we host a ceremony at the end of the year to heighten people's sense of citizenship.

## Activities for the Environment

S-OIL's Onsan Refinery is located in an industrial complex and is operated under strict conditions of environmental management to prevent the local environment from being affected by products and services produced at the refinery. In recognition of the importance of the environment, the company carries out various activities to protect and preserve it as part of its efforts to fulfill its corporate responsibility.

### Endangered Natural Monuments Protection Campaign |

S-OIL is conducting an endangered natural monument protection campaign in order to preserve Korea's natural heritage for our descendants. In May 2008, we signed a natural monuments protection agreement with the Cultural Heritage Administration, selecting the otter (Natural Monument No. 330), the crane (Natural Treasure No. 202) and the hemibarbus mylodon (Natural Monument No. 259) to support protection and research activities of the relevant organizations. Some of our other activities have included running a children's natural monument class and a children's ecology camp, launching our university students' natural monuments protection corps, and sponsoring natural habitat protection activities by employees. We will continue to protect endangered species that are impacted by our business activities, along with our one company/one stream revival program and our seacoast

purification activities. In so doing, we intend to play an important role as an eco-friendly company.

**Green Purchasing |** In 2005, S-OIL signed a voluntary green purchasing agreement with the Ministry of Environment to actively promote eco-friendly production and consumption. Upon expiration in 2009, it was re-signed for the purpose of building a low carbon, eco-friendly (green) society through the efficient use of energy and natural resources. Under the agreement, eco-friendly (green) products are divided into seven types—environmental mark-certified products, excellent recycling products, hazardous substances reduction products,

### ☀ Sunshine Sharing Activities

Division	Description	Donation (KRW million)		
		2008	2009	2010
<b>For Local Communities</b>	· Support local community			
	· For the less fortunate			
	· For Children			
	· Social volunteering activities	5,875	2,941	<b>4,404</b>
	· Other			
<b>For Heroes</b>	· For Heroic Firefighters	800	950	<b>680</b>
	· For Heroic Civilians			
<b>For the Environment</b>	· Endangered Natural Monuments Protection Campaign	100	150	<b>150</b>
<b>Total</b>		6,775	4,041	<b>5,234</b>

waste reduction products, etc.—so that those responsible are encouraged to purchase green products according to the preferential purchase standards while improving the already-existing green purchasing system. We promote green purchasing by creating reliable relations with green product suppliers and strengthening cooperation with them.

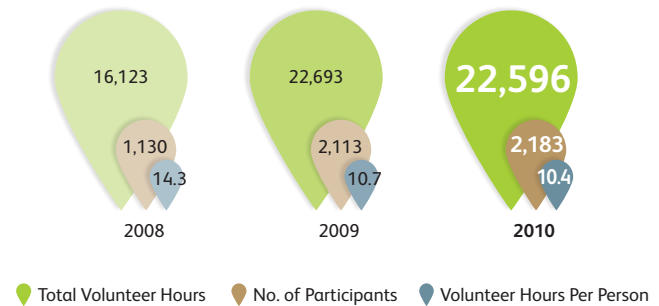
## S-OIL Public Service Corps

The S-OIL Public Service Corps is a volunteer employee organization that was launched in 2007 to carry out our “Sunshine Sharing” campaigns. It consists of two secretariat offices and six regional teams. For the systemic management of employee volunteers, this organization is registered with the Social Welfare Volunteer Activities Certification Center of the Korean National Council on Social Welfare which was designated by the Ministry of Health & Welfare. This enables us to manage our employees’ volunteer activities through the Social Welfare Volunteer Activities Certification Administration ([www.vms.or.kr](http://www.vms.or.kr)) which is responsible for comprehensive management of nation-wide volunteer activities.

For assisting those in need including underprivileged families and seniors living alone, S-OIL’s Public Service Corps activities are carried out by six regional teams and include kimchi making, briquette donations, heating apparatus donations, New Year’s Day and Chuseok food distribution events, New Year’s Eve celebrations, birthday parties and Parents’ Day, Children’s Day, and Disability Day events, and assisting underprivileged families and seniors living alone. Within the company, various social contribution activities are becoming a unique part of S-OIL’s corporate culture. Going forward, we intend to develop still more appropriate and effective CSR programs as a way of increasing executives’ and employees’ overall participation. We also plan to give outstanding volunteers extra points when to evaluate them for a promotion.

In 2008, the S-OIL Public Service Corps signed a “Strategic Partnership to Revitalize Social Volunteering” agreement with the Korean National Council on Social Welfare. We also carry out our “Sunshine Sharing” campaign (an automated donation system involving 1 person 1 share account and 1 person 1 volunteer activity) with the voluntary participation of our employees and the corps runs a webpage dedicated to promoting volunteer activities and communications.

Activities of S-OIL Public Service Corps (Unit: hours, persons)



### Achievements of Sunshine Sharing Campaign

Sunshine Sharing Campaign	No. of Participants			Average Monthly Donations (KRW million)		
	2008	2009	2010	2008	2009	2010
Automated Donation System	516	1,299	1,377	2	7	7
1 Person, 1 Share Account	1,164	1,440	1,517	11	15	15



Recognition of and Education for Volunteers

## External Assessment of Social Contribution Activities

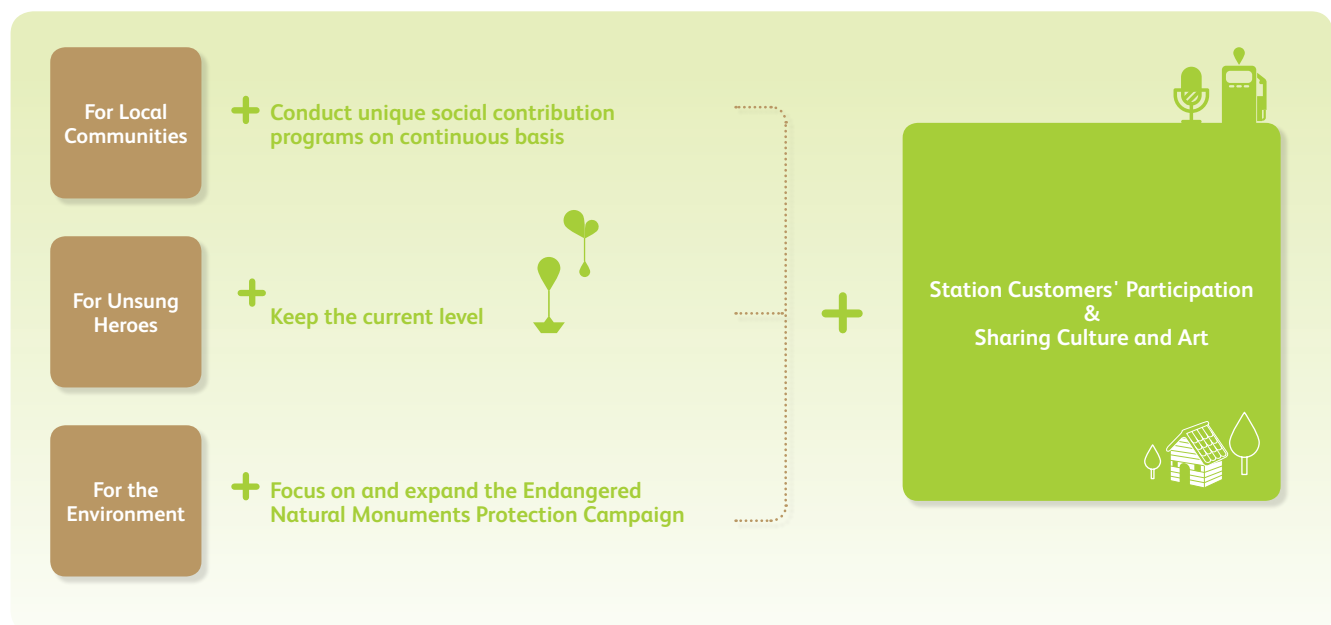
S-OIL analyzes the effectiveness of its social contribution activities (measured by satisfaction of recipients, social influence, etc.) on a regular basis and with sincerity in cooperation with the Social Contributions Information Center of the Korean National Council on Social Welfare. In its review of its social contribution activities conducted between November 2010 and January 2011 (three months), S-OIL has been looking for ways to carry out more substantial activities by organizing an advisory committee, reviewing relevant data including social contribution self-diagnosis indicators, comparing the efforts of major companies, and conducting interviews with concerned parties.

**Assessment of Existing Programs** | The Social Contributions Information Center made a number of suggestions regarding our current social contribution programs. First, it was suggested that S-OIL concentrate on and expand its endangered natural monument protection campaign—the company’s environmental conservation program. Agreeing with this suggestion, S-OIL doubled its outlay for the program in 2011 to continuously implement substantial assistance programs on the existing protected species. As for its unique program to support heroic civilians, the company was advised to maintain it at current budgetary levels. Since this is in line with company strategy, we will continue to operate this program

with sincerity.

It was further suggested that the program to assist local communities be carried out on continuous basis rather than be organized as a series of special events. Additionally, the center pointed out the importance of evaluating our current programs in respect to similar programs being conducted by other companies and which, if duplicated, might have less impact. Programs providing unique services, however, should continue to be responsibly conducted. S-OIL will carefully consider these suggestions as it continues to pursue its social contribution activities in 2011.

**Suggestion of Directions for New Business** | The Social Contributions Information Center also suggested that we expand those social contribution activities which involve all our customers by utilizing service stations to offer expanded social contribution activities and ones involving culture and the arts—a new trend in the enhancement of corporate imaging. Appreciating this suggestion, S-OIL decided to execute sharing service station projects through the participation in the Happiness Sharing N Campaign jointly conducted by the Ministry of Health and Welfare and the Korea National Council on Social Welfare in 2011. In addition, we plan to host regular monthly performance and concerts at the lobby once we move into our new corporate headquarters as a cultural sharing project for the local community.





# SI 05

## PURSUE GLOBAL BEST PRACTICES OF CORPORATE GOVERNANCE

### *Voice of Stakeholders*

"I hope all executives and employees recognize the importance of ethics management and put it into practice in their daily business." **Myung-Hoon Yoo** (CEO of Korea CSR Consulting Group)



**Young-Il Cho**

Senior Vice President  
Head of Domestic Sales Headquarters

"S-OIL's transparent corporate governance is based on the Board of Directors (BOD) with a system of checks and balances as well as separation of the Board Chairman and the CEO. We seek to enhance our expertise by letting the CEO focus exclusively on management activities while practicing responsible and transparent management by strengthening the supervisory capacity of the BOD. We operate an ethics committee comprised of members of management according to the ethics rules established by the BOD. Through it, we strive to ensure ethics and transparency management throughout the company. S-OIL will continue to disclose its management activities and management system so that stakeholders can make reasonable decisions on their own."

### *Performance Summary*

Plan for 2010 (Sustainability Report 2009)	Achievements in 2010	Future Plan
<ul style="list-style-type: none"> <li>Evaluate the current ethics management, figure out what to improve, and make sure they are reflected in the management system.</li> </ul>	<ul style="list-style-type: none"> <li>Carried out ethics management survey among employees, found out what to improve, and considered how to apply findings</li> <li>Helped employees better understand ethics management through online self-monitoring exercises</li> </ul>	<ul style="list-style-type: none"> <li>Based on analysis of global standards for ethics/sustainability management such as ISO 26000, determine what to improve and how to apply them</li> </ul>
<ul style="list-style-type: none"> <li>Enhance accounting transparency by improving accounting system and procedures in accordance with global standards and reflecting into ERP system</li> </ul>	<ul style="list-style-type: none"> <li>For comparative disclosure of financial information according to implementation of K-IFRS in 2011, prepared financial information both for K-GAPP and K-IFRS</li> </ul>	<ul style="list-style-type: none"> <li>Continuously improve and regularly monitor accounting system and procedures to apply K-IFRS and to provide transparent and accurate financial information</li> </ul>
<ul style="list-style-type: none"> <li>Increase public accessibility to company information and assure the accuracy and utility of disclosed information</li> </ul>	<ul style="list-style-type: none"> <li>Posted up a sustainability report e-Book on the homepage to provide more useful and specific company information such as management policies</li> </ul>	<ul style="list-style-type: none"> <li>Homepage renewal for better and convenient access to company information</li> </ul>
<ul style="list-style-type: none"> <li>Establish response system such as continuous monitoring of newly enacted &amp; revised laws and then notify related departments of our findings</li> </ul>	<ul style="list-style-type: none"> <li>Shared information related to newly enacted and revised laws and regulations through e-mail, intranet, and seminar</li> </ul>	<ul style="list-style-type: none"> <li>Establish a process to more effectively share and apply newly enacted and revised laws and regulations</li> </ul>

# Practicing Ethics Management

*For S-OIL, ethics management, which is part of its corporate culture, is considered the first priority in its decision making and management activities. Our CEO always emphasizes the importance of ethics management and delivers a clear message about it to executives and employees so as to create consensus and put it into practice.*

## Board of Directors : Leading Transparent Corporate Governance and Ethics Management

S-OIL, constituted by Saudi Arabia's state-run oil company and the Hanjin Group, has established sound and transparent corporate governance with its Board of Directors (BOD) playing a key role based on a system of checks and balances.

### Separation of the CEO and the Chairman of the BOD |

By separating the role of the CEO and the Chairman of the BOD, the CEO is able to concentrate on strengthening his expertise while the BOD is tasked with overseeing the CEO's management activities from a more objective perspective. Thanks to this, the BOD is currently making decisions in a way which will increase shareholders value and maximize stakeholder interest. The BOD is comprised of 11 directors in total; one inside director, four non-standing directors, and six independent outside directors.

All the outside and non-standing directors possess a wealth of expertise and experience in the refining industry, adding depth to the BOD. Since the majority of the BOD is comprised of outside directors and most of them are non-standing directors, they are able to supervise the company's management activities and performance more objectively and independently.

The BOD is playing an active role in realizing ethics management and transparent management at a higher level. In particular, the Board Audit Committee, consisting of three outside directors and one non-standing director, is deeply involved in ethics management. With the aim of strengthening the corporate ethical system, it makes several

suggestions to management and receives and reviews yearly ethics management performance reports provided by the Ethics Committee. Our ethics management is being reinforced thanks to the close cooperation between the BOD, the CEO, and the Ethics Committee.

### Composition of BOD (as of end of March 2011)

Type	Name	Position
Inside Director (1)	A. A. Al-Subaey	· Representative Director and CEO
	K. G. Al-Buainain	· Non-Standing Director
	B. A. Abul-Hamayel	· Non-Standing Director
Non-Standing Directors (4)	Y. H. Cho	· BOD Chairman (Non-Standing Director)
	T. S. Suk	· Board Audit Committee Member (Non-Standing Director)
	S. A. Al-Ashgar	· Board Audit Committee Chairman · ODCR Committee Member
	A. M. Al-Seflan	· Board Audit Committee Member · Compensation Committee Member · ODCR Committee Member
Outside Directors (6)	A. O. Al-Ajaji	· Compensation Committee Member
	M. S. Chung	· ODCR Committee Chairman · Board Audit Committee Member
	K. W. Lee	· Compensation Committee Chairman · ODCR Committee Member
	S.-E. Park	· Compensation Committee Member

## Performance of BOD

The board of Directors, which is convened every three months, makes strategic and critical decisions regarding the company and receives reports on business progress from each executive in charge. In addition, it is informed by the CFO on whether the company's accounting information complies with accounting standards and our internal accounting management system.

**Establishment and Operation of Committees** | The BOD's Board Audit Committee, Compensation Committee, and Outside Director Candidates Recommendation (ODCR) Committee are each comprised of six outside directors and one non-standing director to ensure efficient, professional, and transparent operation of the BOD. The Board Audit Committee evaluates the overall business management and the current status of the Internal Accounting Control System and also receives reports on internal audits. The Compensation Committee establishes the company's compensation policy and system, including employee salaries, severance pay, and incentives. The ODCR Committee examines whether candidates are qualified according to all relevant rules and regulations, selects those most adept, and recommends them as outside directors at the General Shareholders' Meeting.

### CEO's Message About Ethics Management

"Ethics management is a "must-have pillar" of management for our permanence and sustainable growth."

"In decision-making, ethics management should be considered the "First Hurdle Rate" which comes even before financial indicators, including profitability."

"Keep in mind that our approaches and practices rooted in ethics management will bring the company long-term success; otherwise, our success will be short-lived."

## Ethics Committee

This committee is comprised of an HR Officer, the Head of the Planning and Coordination Office, the General Counsel, and the Controller. Their qualifications are evaluated by the Board of Directors' Board Audit Committee before the CEO appoints them. The committee reports on its activities to the CEO every six months and to the Board Audit Committee every year. All employees can access information on its activities through the company's ethics management website.

**Activities of the Ethics Committee in 2010** | We fully recognize the possibility that trivial conflicts of interest between executives and employees can develop into major ethical problems. Therefore, we prohibit any transactions between the company and its employees or their spouses. We also make it mandatory to receive permission from the Ethics Committee when lineal ascendants or descendants of current employees or retirees engage in transactions with the company. This is done to mitigate the possibility of conflicts of interest between employees or retirees and the company. In 2010, our ethics committee was convened 34 times and deliberated 81 cases.



Ethics Management Handbook for Executives and Employees

## Ethics Training of Employees

S-OIL offers various training programs and activities to ensure that its employees have a high standard of ethical judgment and learn ethical values by experience both in their workplace and daily lives. All employees are required to take training in ethics management once a year. Moreover, we have established a website dedicated solely to ethics management (<http://ethics.s-oil.com>), and provide handbooks on ethics management so that our employees can have easy access to relevant information and counseling.

### Results of Ethics Training in 2010

Courses	Participants	Hour(s)
Ethics management - the way to sustainable growth with profitability	2,552 executives and employees	1
How to prevent sexual harassment	All employees	1
Fair trade	5 executives, 403 employees	2



Ethics Training

## Growing with Our Business Partners Through Ethics Management

S-OIL's commitment to ethics management goes beyond the company itself. Based on the recognition that we are a partner in sustainable management, we guide our business partners in implementing principles of ethics management. We prevent any company which does not comply with our ethics and transparent management policy from becoming our supplier. Moreover, we amended our purchasing management process; it is now required to check in advance to see whether relatives of retirees or employees operate candidate suppliers or contractors so that we can avoid unfair trade in the supplier and contractor selection and transaction process.

### Regular Visit to Suppliers and Contractors Workplace |

We are visiting our suppliers' and contractors' workplaces on a regular basis in order to build up mutual trust and reinforce continuous cooperation. During such visits, we listen to their difficulties or suggestions, give them our feedback, and explain about our transparent purchasing system and ethics management. Starting from 2011, we will conduct visits on a regular basis and will promote fair trade and ethics management by implementing more systemic programs and minimizing the burdens of our suppliers and contractors. In 2011, we plan to visit more than 16 suppliers and contractors with whom we have maintained business ties; we already visited 4 of them in the 1<sup>st</sup> quarter of 2011.

## Outside Evaluation of Our Ethics Management

In recognition of our commitment to ethics management, S-OIL was selected to join the Dow Jones Sustainability Index (DJSI) World in 2010. This was an unprecedented event in the domestic refinery industry and a unique case among Asia-Pacific regional refiners which attests to the high regard our sustainability management practices receive both at home and abroad. In addition, by joining the UN Global Compact, the largest voluntary corporate citizen initiative in the world, we have demonstrated our willingness to contribute to the world economy and social prosperity in a more stable, comprehensive, and fairer way through our corporate strategies and social beliefs based on the principles of global ethics management. In addition, the Korean Standards Association selected S-OIL as the no. 1 company in the oil and gas industry based on the Korean Sustainability Index (KSI).



2010 DJSI Korea Recognition Ceremony

# Strengthening Transparency

*S-OIL recognizes the impact of transparent company information disclosures on its stakeholders' values. Therefore, it strives to improve the transparency of its overall business activities, including its decision making process, and also its management system.*

## Improving Our Legal Infrastructure

S-OIL has established internal regulations which are stricter than external legal requirements in order to oversee and prevent violations of all prevailing laws and regulations. By checking legal compliance in every sector and developing standardized procedures for performing legal tasks, we are able to identify legal risks in advance and take control by mounting countermeasures against this. In addition, we provide training in laws and contract practices to our employees to help them learn about laws related to their individual tasks and to mitigate the legal risks that the company might face in the course of its business activities. We also hold legal seminars that are tailored to the needs of each department such as HR, maritime, arbitration, and overseas investment. This allows for greater efficiency in training. We also produced manuals on complying with fair trade rules and regulations and distribute them to all departments where they are used as workplace guidelines to minimize the possibility of violations of fair trade laws. In addition, we reduce the chances of legal infringement by providing continuous training in the law. We are also establishing a response system to constantly monitor newly enacted and



Fair Trade Seminar

revised laws, notify involved departments of our findings and prepare statements based on inter-departmental cooperation. This will allow us to respond swiftly to the enactment or revision of laws and changes in such areas as the environment that directly affects the company.

## Internal Controls

S-OIL has established its internal accounting management regulations as a part of company' basic rules and has set up an internal control system to operate the Internal Accounting Management System (IAMS). In this way, we ensure reliability of financial information and enhance corporate transparency thanks to internal control while assigning an Internal Accounting Controller (IAC) who reports the results of operations and evaluation of the internal accounting management system to the BOD and Board Audit Committee every year for the continuous execution of the system. Along with this, we review suggestions on the IAMS submitted by third party auditors and disclose our business report with a 'Report on the IAMS' attached. In addition, we constantly update the report on internal control which describes changes in control activities over working-level departments due to environmental or business process changes so that the IAMS can be effectively maintained.

We are introducing an "Early Warning System" to monitor risk factors in real-time for key management issues. It allows us to enhance the efficiency of our internal controls. The system enables the prior management of operating processes in risk areas and reduces losses resulting from risks and costs, thus improving job performance. In addition, it allows us to improve our operating processes by monitoring unusual transactions,

identifying their causes, and taking corrective actions. We can also prevent the illegal use and distortion of information by making constant improvements to the system's functions and operations, thereby increasing the reliability of our financial information and the effectiveness of our internal controls.

### **Conducting Risk-Based and Process Enhancement Audits**

S-OIL conducts audits which are risk-based and also are focused on enhancing a process of the entity being audited. Since the adoption of company-wide risk assessments and risk-based audits in 2005, we have been annually assessing risk factors that can affect the achievement of our management goals based on the outcomes of our Enterprise Risk Management (ERM) activities and global best practices. We also established a one-year audit plan based on these assessments and carried out audits which helped us accomplish the goals of the entire organization. Furthermore, in an effort to make improvements and increase the added value of the organization, experienced auditors with a variety of certifications systematically assess the effectiveness and efficiency of the entity being audited in terms of business process, governance, internal control, and risk management. Recently, S-OIL has been introducing professional auditing software and improving auditing for standardization of audit quality and extension of audit scope.

### **Enhancing Transparency Through Effective Operation of Board Audit Committee**

The Board Audit Committee, established in 2000, is composed of three outside directors and one non-standing director who have rich experience and expertise in a variety of areas such as production, accounting/finance, and law. It has recommended enactment and revision of the company rules and regulations in accordance with global standards to enhance corporate transparency and it is substantially independent from the management. In addition, the BAC requires that an outside accounting firm participate in its meetings. It is also actively involved with ensuring transparency in the process of appointment of third-party auditors so that they can provide high-quality audits. The BAC receives reports on the status of the IAMS more than twice a year from the CFO, and thus it can check any changes regarding accounting standards and its application status. If needed, it can request that the relevant

executive attend, report directly and answer questions. Whenever the BAC judges that the process is not fully transparent, it directly asks for correction, which contributes to enhancing the overall transparency of the company. Moreover, the BAC recommends that the internal audit staff obtain certificates and that they deliver audit reports to it directly. In this way, it supervises and supports the internal audit group to substantially and effectively operate as an assistant of the BAC.

### **Increasing Transparency of Internal Decision-Making**

We have established 10 groups consisting of experts in various fields within our company to increase the fairness and transparency of our business activities. These groups have the power to prevent policies or decisions from being made arbitrarily by a single authority, hence increasing the transparency of decision-making and decreasing the possibility of such adverse effects as losses caused by bad decision-making. We modify these regulations to reflect changing conditions, such as alterations in the work environment. In addition, we have made it mandatory that they be revised after the team in charge of company regulations has evaluated them in advance. This is done to ensure that any revisions are made in a balanced way, to maintain consistency and to prevent redundancies and omissions of the regulations.

### **Streamlining the Decision-Making Process and Sharing Management Information**

S-OIL strives to ensure that every decision is made efficiently by maintaining a system of checks and balances for its general affairs and streamlining its recurring checking functions. It also responds to the ever-changing mobile environment, including the advent of smart phones. We are improving our management information system to ensure that the management philosophy, vision, and strategies of executives have been transmitted throughout the company clearly so that employees can carry out their tasks with uniform thinking and understanding.



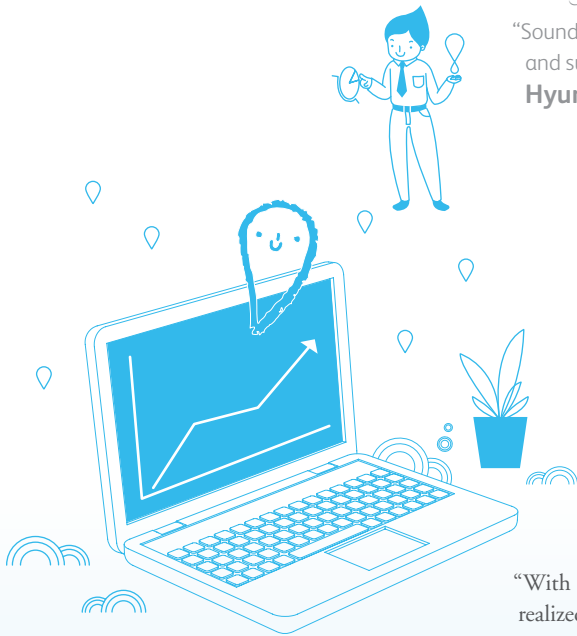
# SI 06

## ATTAIN HIGHEST LEVEL OF CAPITAL EFFICIENCY

### *Voice of Stakeholders*

“Sound capital structure and efficient capital management is a prerequisite for a company’s survival and sustainable growth.”

**Hyung-Joong Park** (Senior researcher, Woori Investment & Securities)



**Yul Ryu**

Executive Vice President  
Finance B/L Head (CFO)

“With the financial crisis in 2008 that created chaos throughout the world economy, we once again realized the importance of sound capital structure. S-OIL pursues a balance between its growth strategy and dividend policy with a clear financial goal and strives to efficiently manage its capital. In preparation for unforeseen internal and external crisis situations, we conduct pre-emptive company-wide risk management activities to preserve corporate values. We also disclose company information and engage in active communication activities so that the values of our company can be fairly evaluated. As a result, S-OIL is now enjoying a high credit rating.”

### *Performance Summary*

Plan for 2010 (Sustainability Report 2009)	Achievements in 2010	Future Plan
<ul style="list-style-type: none"> <li>Ensure optimal financial stability by achieving reliable and stable credit lines and improving credit ratings</li> </ul>	<ul style="list-style-type: none"> <li>Maintained domestic crediting rating AA+</li> <li>Received credit ratings of BBB (moderate) and Baa2 (moderate) from S&amp;P and Moody’s, respectively</li> </ul>	<ul style="list-style-type: none"> <li>Identify potential challenging issues and establish reasonable countermeasures by closely cooperating with credit rating agencies to maintain a high credit rating</li> </ul>
<ul style="list-style-type: none"> <li>Improve budget management in terms of systematizing and efficiency by distributing resources more effectively and strengthening regular feedbacks on the results of action plan execution</li> </ul>	<ul style="list-style-type: none"> <li>Reduced 8.1 % of budget compared to that initially approved by the BOD</li> </ul>	<ul style="list-style-type: none"> <li>Develop budget process and management plan to execute ‘Zero-base Budgeting’</li> <li>Improve budget management in terms of systematizing and effectiveness</li> </ul>
<ul style="list-style-type: none"> <li>In response to business environmental changes, improve systematic infrastructures such as ERM system and strengthen preventive risk monitoring activities</li> </ul>	<ul style="list-style-type: none"> <li>Joined the DJSI World and was selected as the world’s best in risk management</li> <li>Provided training to employees on constant risk management</li> </ul>	<ul style="list-style-type: none"> <li>In response to business environment changes, improve systematic infrastructures such as ERM system and strengthen preventive risk monitoring activities</li> </ul>
<ul style="list-style-type: none"> <li>Constantly enhance financial stability by strengthening monitoring on the FX market to minimize risks arising from FX rate fluctuation and by improving the net dollar liability management</li> </ul>	<ul style="list-style-type: none"> <li>Offset most of factors affecting operating profits due to won-dollar exchange rate decrease by adjusting the amount of NDL</li> </ul>	<ul style="list-style-type: none"> <li>Constantly enhance financial stability by strengthening monitoring on the FX market and maintaining a proper amount of NDL</li> </ul>

# Efficient Capital Management

*S-OIL establishes clear financial measurements and maintains a high credit rating to ensure optimal capital efficiency. In order to effectively manage capital raised, we strive to maintain a well-balanced working capital, execute budget systematically, and allocate assets efficiently.*

## Establishing Optimal Financial Measurements

S-OIL establishes financial measurements with goals set at an appropriate level to ensure that our financial structure is optimized in terms of both capital efficiency and financial soundness. These measurements include ROCE (Return On Capital Employed), EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), Debt-Equity-Ratio, Current Ratio, Debt/EBITDA, and RCF (Retained Cash Flow)/Debt, which represents a company's ability to repay its loans from the proceeds of its business activities and is carefully watched by credit rating agencies. Besides these measurements, we have benchmarked financial indicators in terms of profitability, efficiency, and stability and develop and manage other financial measurements that assess the financial situation of the company through gap analyses of its goals and its actual achievements.

## Maintaining a High Credit Rating

The ability to finance capital in a timely manner is important, particularly when instability exists in the financial markets as it does now. S-OIL has maintained a high credit rating by communicating frequently with credit rating agencies and proactively managing the core measurements used to determine credit ratings. It also maintains a close relationship with prominent domestic and overseas banks to ensure access to a sufficient and stable line of credit.

**Domestic Credit Ratings** | NICE and KIS rated S-OIL AA for the issuance of its corporate bond for the first time in 2003. Our rating has remained unchanged since they upgraded it to AA+ in June, 2007.

### Domestic Credit Ratings

Evaluation Date	Credit Rating	Credit Rating Agencies
June 2006	AA	KIS*/NICE**
June 2007	AA+	KIS/NICE
September 2009	AA+	KIS/NICE
May 2010	AA+	KIS/NICE

\* KIS : Korea Investors Service

\*\* NICE : National Information and Credit Evaluation

\*\*\* S-OIL's credit rating in 2008 was not estimated since its public offering bond, issued in 2003, had expired.

**Overseas Credit Ratings** | S-OIL received credit ratings of BBB (moderate) and Baa2 (moderate) from S&P and Moody's, respectively, in March, 2009, making it easier to diversify its sources of loans for investments. This is among the highest in Asia with the exception of some state-run refining companies.

## Managing Our Working Capital

S-OIL determines an appropriate level of its cash holdings in advance every year by taking into account oil prices and its investment plans. This ensures that the proper amount of cash is always available. In addition, we monitor financial market trends and our cash flow regularly and invest our retained cash in long-term, low-risk products at reputable financial institutions. We are also making efforts to generate cash from working capital. Our Cash Management Committee is tasked with the efficient and stable management of our capital. Through it, we discuss major pending issues within our company and respond to unstable financial market conditions in a timely manner.

## Effective Budget Management

S-OIL strives to ensure that all its budget-specified groups draw up and execute their budgets responsibly pursuant to pre-established guidelines for efficient distribution of resources. In anticipation of deteriorating business conditions, we maintain a risk management system that can allocate and execute a tight budget.

In 2010, in an effort to respond to further instabilities in the management environment resulting from the global recession, we exercised company-wide austerity measures, thus minimizing our spending on non-essential and non-pressing matters. We also reduced inefficiencies by planning budget cuts and analyzing work performance on a monthly basis. In addition, we augmented our financial stability so that we could undertake general business activities as planned.

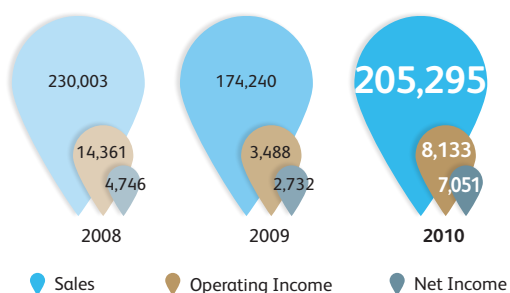
For systematic and efficient budget control, S-OIL will continue to improve its analyses of its costs and capital expenditures by introducing a 'Zero Base Budgeting' system; it will also manage its investment priorities more effectively and its resources more efficiently. In addition, we will manage our budgets better by regularly taking into account feedback on the achievement of our action plans.

serves for future investments. S-OIL has paid interim dividends since 2000. As part of shareholder-oriented management activity, they are paid semi-annually, based on the performance of the company, to increase shareholder profit. We contribute to the growth of a shareholder-driven management culture by rewarding our long-term shareholders who assign more importance to dividends than to short-term capital gains.

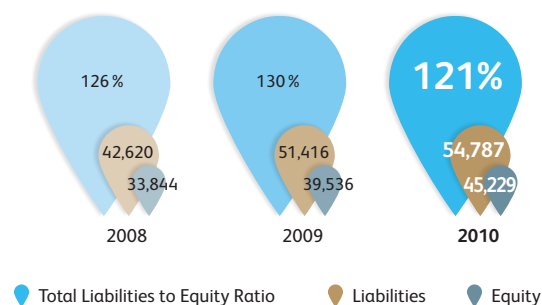
### Dividend Payments

Classification	2008	2009	2010
<b>Total Dividends Paid</b> (Unit: KRW 100million)	5,822	1,573	<b>2,911</b>
<b>Cash Dividends (%)</b>	122.67	57.55	<b>41.29</b>
<b>Rate of Cash Dividends (%)</b>			
Common	7.52	2.41	<b>2.77</b>
Preferred	10.38	3.01	<b>4.37</b>
<b>Amount of Cash Dividends per Share (KRW)</b>			
Common	5,000	1,350	<b>2,500</b>
Preferred	5,025	1,375	<b>2,525</b>

### Revenue, Operating Profit, Net Profit (Unit: KRW 100 million)



### Liabilities, Equity, Total Liabilities to Equity Ratio (Unit: KRW 100 million)



## Reasonable Dividend Policy

One of S-OIL's main management goals is to increase its shareholder value based on its stable financial structure and transparent corporate governance structure. This includes a reasonable dividend policy. To determine dividend size, we consider such matters as our capital structure, a reasonable return of our profits to our shareholders and the need for cash re-

# Enterprise Risk Management

*S-OIL effectively manages potential risks to preserve its corporate value, and it is prepared for any possible contingency.*

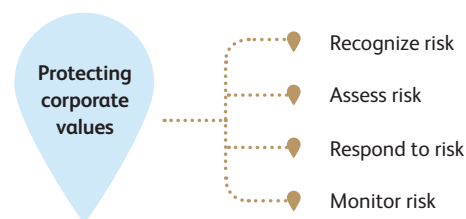
## Regular Enterprise Risk Management

In response to a business environment of ever growing complexity and uncertainty, S-OIL established a company-wide risk management system and an organization to take charge in February 2008 to deal with risks in its overall business areas. It also strengthens risk management system by establishing risk management policies that correlate with its overall management strategies at the monthly meeting of the ERM Committee, which is composed of the CEO, the head of each business line, and the head of the Planning & Coordination Office. As part of effort, it monitors their implementation, carries out risk prevention activities, and draws up appropriate response measures according to the results of risk prevention activities and risk management and activities.

**Risk Management Procedures** | S-OIL's ERM (Enterprise Risk Management) system prioritizes the proactive prevention of risks by constantly monitoring changes in its management environment. Our ERM system identifies all the risks that might impact negatively on our management objectives. This is done through a series of processes that are performed in the following order: risk recognition, evaluations, selection of measurements, responses, monitoring and reporting. Major risks are identified based on the possibility of their occurrence and their potential degree of impact. The system's risk profile is constantly revamped through a regular re-assessment of all risks.

Risks we manage are divided into five categories: strategies, markets, finances, operation, and compliance with regulations. They are carefully monitored, as we have set Key Risk Indicators (KRIs) for each major risk. Examining these risks helps us to

## ERM Cycle



prevent them from happening and minimizes the possibility of accidents, losses, and disasters. Any necessary actions are taken swiftly and systemically in line with our pre-developed risk response manual. The outcomes of this monitoring and our responses to them are regularly reported to the ERM Committee. This ensures that top management is always familiar with the results of the risk management process and can make appropriate decisions based on this knowledge.

**Risk Management IT System** | In 2009, to improve the efficiency of its risk management system, S-OIL established a Risk Management IT System which is a key part of its ERM infrastructure. This system enables data input, analysis, monitoring, and reporting in real-time in accordance with the ERM process which goes through risk recognition, assessment, response, and monitoring in that order. It is designed to provide key information in the form of a dashboard, allowing users to have easy access to information and manage risks efficiently. It will send a process to follow, depending upon the type of risk situation, to the concerned department in real-time so that a

more immediate and organized response can be made across the company. In this way, we will constantly improve our ERM system to strengthen our risk management capacity so that we can respond to risks in a timely manner.

**World's Best Risk Management** | The DJSI (Dow Jones Sustainability Index) considers an enterprise's risk management capacity to be an essential component of its assessment of "Corporate Economic Sustainability." S-OIL was included in the oil refining sector of DJSI Korea, the world's first-ever country-based index, in 2009, and also in the DJSI World in 2010, receiving satisfactory ratings in every criteria-including the top spot in risk management. We will take whatever steps are needed to improve our responses to changes in our management environment. In addition, we will maintain the highest standards of risk management by continually improving our systematic infrastructure, including the ERM system, and strengthening our monitoring activities.

## Financial Risk Management

S-OIL's liabilities and debts in foreign currencies, including accounts payables due to crude oil imports, bankers' usance financing, and accounts receivable from product exports, are continually exposed to foreign exchange rate risks. Since 60% of our production volume is exported in US dollars, while 40% is sold in Korean won (based on the current international price with the application of the exchange rate), the company's income is also influenced by the exchange rate. To avoid drastic fluctuations in our quarterly income, we endeavor to manage our foreign exchange position (i.e., liabilities in foreign currencies minus assets in foreign currencies) at an optimal

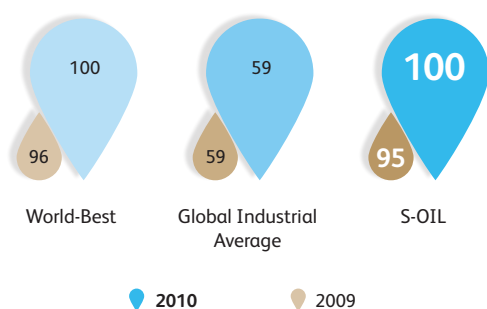
level. We also forbid speculative trading and try to eliminate or minimize risk generated by cash transactions and hedges connected to spot trades.

**Risk Management Organizations** | S-OIL's Commodity Trading Risk Management Committee (CTRMC) is in charge of managing product price fluctuation risks, while the Cash Management Committee (CMC) is tasked with managing exchange rate fluctuation risks. When necessity to manage risks is raised, the relevant team frequently reports on risk monitoring results and management measures to the relevant committee and execute the measures after getting approval from the committee.

**Foreign Currency Risk Management** | In order to manage foreign exchange rate fluctuation risks, we hold an appropriate amount of our liabilities in foreign currencies. This is done in the belief that the foreign exchange profits and losses from our foreign currency liabilities and the impact of the exchange rate on our operating income will balance each other out. We use currency forwarding contracts and interest rate swap contracts to limit the danger of untoward fluctuations in exchange and interest rates, and sign forward contracts to curb the risk of fluctuations in crude oil and other products. All derivatives trades must be made within the limits of the loss amounts and quantities set by the BOD's regulations. Trading in derivatives for the purpose of bargaining which exceeds the ceiling. We will increase our monitoring of foreign exchange markets to minimize risks arising from fluctuations in currency exchanges and augment our financial stability by improving the management of our liabilities in foreign currencies.

## Risk & Crisis Management

(Result of DJSI Assessment in 2010) (Unit: points)



# Communication with Shareholders and Investors

*We provide our shareholders and investors with accurate information on the company's management policies and results to increase their understanding of and trust in us. We also engage in active IR activities so that investors can make a fair judgment on our present and future values.*

## Disclosing Management Information

We are committed to increasing the general public's access to company information, disclosing accurate information, and improving utility of disclosed information. We have put an Internal Accounting Control System in place, and we continue to increase the transparency of our accounting system and procedures by raising them to meet international standards and then incorporating them in our ERP system. In the General Meeting of Shareholders, which is convened after the end of each fiscal year, executives, including the CEO and management, participate and report to shareholders on the current status of the company's business management and also provide shareholders with sufficient information that is needed for certain decision-making. In addition, our website provides a wealth of investment information as well as a Q&A section, which enables our shareholders and stakeholders to easily grasp our business management, make suggestions or ask questions about relevant matters, and also to get answers from us. Meanwhile, the working-level departments concerned review such suggestions and report to the management or the BOD. We are also implementing "Disclosure Information Management Regulations" to provide accurate and timely information to our stakeholders.

All our information is disclosed completely and fairly in accordance with these regulations. We provide our shareholders and stakeholders with materials in a fair manner based upon the principle of information disclosure, which is a part of the regulations for managing information for disclosure, in order to prevent unfair information disclosure. We disclose key management issues relevant to the interests of shareholders

and stakeholders in a timely manner on both the KRX and our website in compliance with Korean stock exchange laws. We also publish business and audit reports through the electronic disclosure system (<http://dart.fss.or.kr>).

## IR Activities

With a slow recovery in the oil refining industry, we carried out a wide range of IR activities in 2010. They included participating at conferences and NDRs (Non-Deal Road Shows) targeting domestic and overseas investors. Our goal was to present our mid- to long-term vision, which includes increased profits from new petrochemical facilities that are scheduled to be in operation by 2011. The number of our IR meetings was 618 in 2010, an increase of about 87 from 2009. We also offer IR activities for individual investors through our website and by phone. S-OIL is committed to forging close ties with its shareholders to share the company's development and achievements in the long-term.

IR Activities			
	2008	2009	2010
Investors' Meetings	450 (including 170 company visits and meetings)	531 (including 142 company visits and meetings)	618 (including 242 company visits and meetings)
Hosting of NDRs	5	7	10
Participating in Conferences	8	11	11
Conference Call	4	4	4

\* Compared to the previous years: In 2008 and 2009, only the number of hosting of overseas NDR and participation in conferences was counted. However, from this year, the number of hosting of domestic NDR and participation in conferences has been also counted.



IR Presentation Slides



# Financial Achievements

*This financial achievements is in accordance with K-GAAP and the next financial achievements will follow K-IFRS.*

## Balance Sheet Summary (Unit: KRW million)

Categories	2008	2009	2010
<b>Current Assets</b>	5,620,016	5,843,616	<b>6,004,549</b>
Quick Assets	3,787,549	3,180,745	<b>3,057,764</b>
Inventory	1,832,467	2,662,871	<b>2,946,785</b>
<b>Non-Current Assets</b>	2,026,337	3,251,519	<b>3,996,971</b>
Investments	181,713	203,534	<b>188,868</b>
Property, Plants and Equipment	1,713,644	2,876,703	<b>3,630,136</b>
Intangible Assets	14,465	14,326	<b>15,556</b>
Other Non-Current Assets	116,515	156,956	<b>162,411</b>
<b>Total Assets</b>	<b>7,646,353</b>	<b>9,095,135</b>	<b>10,001,520</b>
Current Liabilities	4,206,178	4,576,624	<b>4,592,425</b>
Non-Current Liabilities	55,784	564,953	<b>886,237</b>
<b>Total Liabilities</b>	<b>4,261,962</b>	<b>5,141,577</b>	<b>5,478,662</b>
Capital Stock	291,512	291,512	<b>291,512</b>
Capital Surplus	1,799,248	1,799,248	<b>1,799,248</b>
Capital Adjustments	(1,876)	(1,876)	<b>(1,876)</b>
Accumulated Other Comprehensive Income	66,938	607,439	<b>594,008</b>
Retained Earnings	1,228,569	1,257,235	<b>1,839,966</b>
<b>Total Stockholders' Equity</b>	<b>3,384,391</b>	<b>3,953,558</b>	<b>4,522,858</b>
<b>Total Liabilities/Total Stockholders' Equity</b>	<b>7,646,353</b>	<b>9,095,135</b>	<b>10,001,520</b>

## Income Statement Summary (Unit: KRW million)

Categories	2008	2009	2010
Sales	23,000,291	17,423,951	<b>20,529,523</b>
Cost of Sales	21,131,421	16,661,906	<b>19,259,060</b>
Gross Profit	1,868,870	762,045	<b>1,270,463</b>
Operating Income	1,436,079	348,766	<b>813,317</b>
Income Before Income Tax Expenses	662,773	329,192	<b>869,362</b>
Net Income	474,614	273,246	<b>705,068</b>

## Financial Indicators (Unit: %, multiple)

Stability Indicators	2008	2009	2010
Current Ratio	133.61	127.68	<b>130.75</b>
Total Liabilities to Equity Ratio	125.93	130.05	<b>121.13</b>
Borrowings to Total Assets	32.89	30.06	<b>26.19</b>
Times Interest Earned	10.28	3.48	<b>30.33</b>
Profitability Indicators	2008	2009	2010
Operating Income to Sales	6.24	2.00	<b>3.96</b>
Net Income to Sales	2.06	1.57	<b>3.43</b>
Return on Equity	12.98	7.45	<b>16.64</b>
Operating Cash Flow to Total Assets	(4.32)	(3.49)	<b>7.67</b>
Growth/Activity Indicators	2008	2009	2010
Sales Growth Ratio	51.03	(24.24)	<b>17.82</b>
Operating Income Growth Ratio	38.49	(75.71)	<b>133.20</b>
Net Income Growth Ratio	(33.35)	(42.43)	<b>158.03</b>
Total Assets Growth Ratio	(18.76)	(18.95)	<b>9.97</b>

# SI 07

## DEVELOP PLATFORM FOR SUSTAINABLE GROWTH

### *Voice of Stakeholders*

"Do you, as an energy company, have a plan to invest in new & renewable energy business?"

**In-Suk Kim** (Team Leader, Ecosian Green IT)



**Jong-Bum Ahn**

Senior Vice President  
Head of Planning & Coordination Office

"S-OIL has made bold investments and innovations in a longer-term vision for achieving profitable and sustainable growth in a fast-changing business environment. The expansion of the Onsan Refinery, which was completed in April, 2011 after three-years of planning, design and construction, will strengthen our oil refining and petrochemical businesses and will become a solid foundation from which to expand to other high value-added petrochemical business in the future. In order to proactively respond to changing energy mix due to climate change and the expectations of stakeholders, we thoroughly reviewed several new and renewable energy business areas to advance into. As a result, we made an investment decision in the poly-silicon production business, which is classified as the upper level of the photovoltaic energy industry, most appropriate for S-OIL. S-OIL plans to expand its oil refining and petrochemical businesses downstream and to invest in new and renewable energy business, which are S-OIL's three strategic directions. By doing so, we will continue to pursue profitable, sustainable growth for the company and for the society."

### *Performance Summary*

Plan for 2010 (Sustainability Report 2009)	Achievements in 2010	Future Plan
<ul style="list-style-type: none"> <li>Successfully carry out the Onsan Refinery expansion project which is scheduled to be in commercial operation in 2011, hence expanding the oil refining business in accordance with our strategic direction</li> </ul>	<ul style="list-style-type: none"> <li>With its commercial operation in 2011 as its goal, successfully executed the project to expand the production capacity of atmospheric crude distillation by 89,000 BPD to 669,000 BPD in total</li> </ul>	<ul style="list-style-type: none"> <li>Continuously monitor industry trends and search for opportunities to expand productivity of high value-added products in a stable manner</li> </ul>
<ul style="list-style-type: none"> <li>Expand the petrochemical business on time through the Onsan Refinery expansion project, to be completed in 2011</li> <li>Expand the petrochemical business downstream to create more value</li> </ul>	<ul style="list-style-type: none"> <li>With commercial operation in 2011 as its goal, successfully executed the project to expand the paraxylene production capacity by 960,000 tonnes/year to 1.7 million tonnes/year and benzene production capacity by 300,000 tonnes/year to 560,000 tonnes/year</li> </ul>	<ul style="list-style-type: none"> <li>Produce 1.7 million tonnes paraxylene and 560,000 tonnes BTX starting with the commercial operation in April 2011</li> </ul>
<ul style="list-style-type: none"> <li>Make advancements into appropriate business areas in a wise manner such as new and renewable energy and carbon market by concentrating on a climate change-related energy paradigm</li> </ul>	<ul style="list-style-type: none"> <li>Searched for the business area most appropriate for S-OIL among new and renewable energy and carbon markets</li> </ul>	<ul style="list-style-type: none"> <li>Continue to seek new business opportunities in new and renewable energy business areas.</li> </ul>

# Development of Oil Refining Business as a High Value-Added Business

*S-OIL strives to strengthen the competitiveness of its oil refining operations, the company's core business, through its strategic direction of expanding its oil refining business and integrating it with other petrochemical businesses.*

## Strengthening the Competitiveness of the Oil Refining Business

S-OIL has achieved outstanding competitiveness in the oil refining area, its core business, as a result of investing in facilities from a longer term perspective. We introduced and have effectively operated the advanced facilities which transfer atmospheric residue (Bunker-C oil) to 100% high value-added products earlier than our domestic competitors. In addition, we have invested in facilities to enhance the operational efficiency and have executed strict facility maintenance activities for stable operation management. By doing so, we produce and supply optimized products in a stable manner, meeting the social, economic and environmental expectations of stakeholders.

S-OIL makes continuous efforts to bolster its competitiveness. We restructured the organization to establish the future investment master plan for the Refinery to enhance its operational efficiency. The oil refinery has become the foundation of a stable oil supply and creation of high economic values. Based on this, S-OIL will continue to strengthen its competitiveness in the oil refining business by identifying,

reviewing and implementing operational improvements and investment activities.

## Increasing High Value-Added Productivity

We have facilities capable of producing 740,000 tonnes/year of paraxylene and 260,000 tonnes/year of benzene. To be highly competitive not only in the existing oil refining business, but also in the petrochemical business, we are executing the Onsan Refinery expansion project on the 184,500 m<sup>2</sup> area with an investment of approximately KRW 1.4 trillion. We are scheduled to start commercial operation in the first half of 2011. As a result, S-OIL will have a paraxylene plant with an annual production capacity of 1.7 million tonnes and a benzene plant with an annual production capacity of 560,000 tonnes, which is more than double its current level. Moreover, the company which has exported more than 50% of its petrochemical products every year just added to its status as Asia's largest paraxylene supplier. In addition, its operating profit will increase by approximately 20% based on projected growth in demand for petrochemical products in Asia--including China, which accounts for 79% of world demand

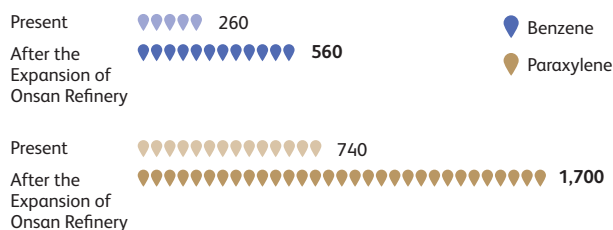


Onsan Refinery Expansion Project



Video Clip: Onsan Refinery Expansion Project

### Increase in Paraxylene/Benzene Production Capacity (Unit: KTA)



for paraxylene. This has allowed us to achieve high economic performance and to contribute to the development of the local and national economies.

In addition, S-OIL, which has the largest production capacity of premium lube base oil, increased its production capacity of this product (Group-III lube base oil) from 23,000BPD to 26,000BPD by improving production facilities to promptly respond to increasing demand. S-OIL is constantly seeking opportunities to increase its capacity and produce high value-added products that meet new global trends.

## Development of High Quality·Eco-Friendly Energy Technology

S-OIL has a vision of creating future competitiveness by optimizing its production process and developing high-quality and eco-friendly energy technologies. In pursuit of this vision we have undertaken various R&D activities, including the development of clean, eco-friendly petroleum products, in-company technological assistance and customer analysis.

S-OIL--with a high-pressure pilot plant producing Korea's first ever clean lube base oil and another performing heavy oil desulfurization--has more experience at oil refining and more advanced research facilities than any other petroleum company operating in Korea. We have successfully installed and operated the B-C cracking center as well as cutting-edge kerosene and diesel hydrodesulphurization units including production process and catalyst evaluation. As a result, all of its products

boast an extremely low sulfur, light content, thus contributing to the enhancement of the company's profitability.

S-OIL produces and provides high-quality, eco-friendly products that exceed all regulatory requirements and environmental regulations. This underscores our commitment not just to abide by ever-strengthening environmental regulations around the world, and not just our awareness of the need to take action against climate change, but also our commitment to fulfilling our customers' expectations about environmental protection. The company has also developed a fuel economy improved long-life diesel engine oil following a long-life gasoline engine oil, in collaboration with the Hyundai Kia Car Research Center. This product prevents against a decrease in fuel efficiency and general quality degradation due to an increase in oxidation and viscosity of engine oil caused by a longer-term use. S-OIL has applied for a patent for this product in both Korea and the USA.

Far from being complacent about its existing technologies, the S-OIL research center has been carrying out various R&D activities jointly with prominent domestic universities and research institutes to improve our production facilities and product quality. This includes development of technologies to produce high value-added products utilizing byproducts of petrochemical products, development of deactivation technologies of diesel stream and LPG, which are hard to deactivate, and development of CO<sub>2</sub> utilization technologies. We will continue our research activities by accommodating the company's technological demands.

## Environmental Friendliness Grade of the Ministry of Environment

S-OIL achieved the highest grade (five stars) for its gasoline and diesel in the environmental friendliness evaluation on products conducted by the Ministry of Environment in both the first half and the second half of 2010. Therefore, S-OIL became the only refiner in Korea which has achieved the highest grade for its gasoline and diesel four consecutive times.

📍 Environmental Friendliness of S-OIL's Products (Unit: ppm)							
Categories		2008		2009		2010	
		1 <sup>st</sup> half	2 <sup>nd</sup> half	1 <sup>st</sup> half	2 <sup>nd</sup> half	1 <sup>st</sup> half	2 <sup>nd</sup> half
Gasoline	Sulfur Content Grade	8	9	4	4	3	4
	Composite Grade	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Diesel	Sulfur Content Grade	5	6	5	5	4	5
	Composite Grade	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★

★★★★★ Highest by international standards according to MOE evaluations

★★★★ Close to highest by international standards according to MOE evaluations

# Launching and Nurturing of New and Renewable Energy Business

*S-OIL will solidify its platform for sustainable growth by nurturing new and renewable energy business as a future growth engine based on the stability and profitability of the oil refining industry.*

## Careful Searching for Business Opportunities

S-OIL has advanced into the new and renewable energy business area, one of the three strategic directions for sustainable growth for the last two years. After reviewing eleven new and renewable energy business areas, we finally selected the photovoltaic business. We decided to invest in the polysilicon business which is located at the top of the photovoltaic value chain. Polysilicon is a main source of solar cells, so it is called the “rice” of the photovoltaic business. The polysilicon business has a high entry barrier as it requires a large-scale initial investment, technology, and difficult process operation know-how to produce high purity products. However, it is a very attractive investment in terms of future potential value and current profitability as it promises high profits. As a result of careful consideration about the wisest way of advancing into the polysilicon business, we decided to invest in HanKook Silicon, whose technology and competitiveness is verified.

## Launching of Photovoltaic Business

By making an investment of KRW 265 billion, S-OIL acquired a 33.4% share of Hankook Silicon stocks (41,042,750 shares). Through this strategic investment, S-OIL joins management as the second largest shareholder after Osung LST. HanKook Silicon has succeeded in mass-producing the world’s highest purity poly-silicon (9-Nine) in the shortest time. And it started the commercial production second in Korea in 2010. It has an annual production capacity of 3,500 tonnes/year, which will increase to 12,000 tonnes/year in 2012 when the on-going expansion construction is completed. With this annual capacity, it’s sure to become a global poly-silicon producer. Hankook Sili-

con will export most of the expanded production to overseas markets with those with huge demands, including China and Japan, contributing significantly to the national economy. S-OIL will practice low-carbon green growth strategies through win-win cooperation with competitive mid-sized companies through this investment.

## Long-Term Vision for Growth

Solar photovoltaic is expected to create the biggest market among new and renewable energy areas, as it is safe and installation takes only a short period. However, for such growth, the cost should achieve grid-parity with that of thermal power generation through the improvement of solar cell efficiency. Securing high purity poly-silicon, a raw material, is most important to enhance such efficiency. Starting with the advancement into the photovoltaic business with HanKook Silicon, a high purity poly-silicon producer, S-OIL will eventually consider expansion of its business to include photovoltaic power generation, the lower part of the photovoltaic business, when the photovoltaic power generation approaches its grid-parity.



# INDEPENDENT ASSURANCE REPORT



We were engaged by S-OIL Corporation ('S-OIL') to provide assurance on the information presented in the Sustainability Report 2010 ('the Report'). S-OIL is responsible for preparing the Report, including the identification of stakeholders and material issues. Our responsibility is to provide an opinion on the Report.

## Context and scope

Our engagement was designed to provide limited assurance on whether:

1. S-OIL has applied the "AA1000 AccountAbility Principles Standard (2008);"
2. The information in the Report is fairly stated in all material respects, based on the reporting criteria set out on "About This Report."

The scope of our engagement conforms to the requirements of a Type 2 assurance engagement as set out in the AA1000AS (2008) of AccountAbility, including the aspect of "reliability."

With regard to the financial data included in the key figures on page 59, our procedures were limited to verifying that they were correctly derived from S-OIL's audited financial statements. To obtain a thorough understanding of S-OIL's financial results and financial position, the audited financial statements of S-OIL for the year ended 31 December 2010 should be consulted.

## Criteria

S-OIL applies the criteria set out in the AA1000APS (2008) for the three principles of inclusivity, materiality and responsiveness. In preparing the report, S-OIL applies the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative and the IPIECA/API Guidance<sup>1</sup>, as set out on "About This Report."

## Assurance standards

We conducted our engagement in accordance with the International Standard for Assurance Engagements (ISAE 3000): Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board, and with the AccountAbility 'AA1000 Assurance Standard (2008).'

Readers should note that limited assurance in ISAE 3000 is consistent with a moderate level of assurance as defined by AA1000AS (2008).

Among other things, these standards contain requirements regarding the independence and competency of the assurance team.

## Independence, impartiality and competence

We conducted our engagement in compliance with the requirements of the IFAC Code of Ethics for Professional Accountants which requires, among others, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client, including not being involved in writing the Report. The Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence, due care, confidentiality and professional behavior. KPMG has systems and processes in place to monitor compliance with the Code and to prevent conflicts regarding independence.

We conducted our engagement with a multidisciplinary team including specialists in AA1000APS/AS, stakeholder engagement, auditing, environmental, social and financial aspects, with experience in similar engagements in the sector.

## Work undertaken

Our work included the following activities:

- An evaluation of the results of S-OIL's stakeholder consultation processes
- An evaluation of S-OIL's processes for determining the material issues for key stakeholder groups
- A media analysis and an internet search for references to S-OIL during the reporting period
- Interviews with a selection of S-OIL senior managers and key stakeholders to understand the current status of sustainability activities and progress made during the reporting period
- An evaluation of the design, existence and operation of the systems

<sup>1</sup> The American Petroleum Institute (API), the International Petroleum Industry Environmental Conservation Association (IPIECA) and the International Association of Oil & Gas Producers (OGP), Oil and Gas Industry Guidance on Voluntary Sustainability Reporting (2nd edition, December 2010)



and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report

- Reviewing the internal documentation and intranet sources
- With regard to the financial data included in the key figures on page 59 verifying that they were correctly derived from S-OIL's 2010 audited financial statements

During our investigation, we discussed the necessary changes to the Report with S-OIL and verified that these changes were adequately incorporated into the final version.

## Conclusions

### ***On the AA1000 Account Ability Principles of Inclusivity, Materiality and Responsiveness:***

- In relation to the principle of inclusivity:
  - S-OIL operates a communication channel with the government, media, partners, clients, employees, NGO, shareholders, municipalities and others through the stakeholder participation process.
  - We are not aware of any key stakeholder groups which have been excluded from dialogue in the Report.
- In relation to the principle of materiality:
  - S-OIL operates an importance evaluating process that regularly checks the stakeholder's priority when devising a long-term strategic plan in the Corporate Planning Division.
  - We are not aware of any material aspects concerning its sustainability performance which have been excluded from the Report.
- In relation to the principle of responsiveness:
  - S-OIL constantly communicates with its stakeholders about its performance related to the chosen issue.
  - With the exception of the issues highlighted in the Report in relation to materiality, we are not aware of any additional issues of stakeholder interest that are not currently being managed by S-OIL.

### ***On the content of the Report:***

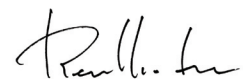
Based on the above work, we conclude that the information in the Report does not appear to be unfairly stated.

## Comments

Without prejudice to our conclusions presented above, we believe the following matters can be considered:

- S-OIL obtains the point of stakeholders' activities mainly during the report season. To upgrade the level of sustainability management, there is a need for systematic and regular analyses of needs of stakeholders, and gap with sector leader companies. Action plans based on these analyses could help further strategic movement.
- We recommend S-OIL to expand the scope of the sustainability report to the issues and managerial aspect of supply-chain, through adding performances of branch office and product terminals to the report and expanding the sustainability management coverage to subsidiaries and business partners.

We have discussed our observations regarding the reporting process and reported outside the scope of our assignment with S-OIL management. They were receptive to our comments.



**Lee, Keun Mo**  
Managing Partner

Samjong KPMG  
Advisory Inc.  
Seoul, August 2011

# GRI/IPIECA CONTENT INDEX

**GRI G3 Application Level** Samjong KPMG has confirmed that our Sustainability Report 2010 applies GRI G3 Application Level A+.

GRI		IPIECA/API	Page	Note
Index	Content	Index		
1. Strategy and Analysis				
1.1	CEO's Statement		2, 3	
1.2	Key impacts, risks and opportunities		25-26, 56-57, 63	
2. Organizational Profile				
2.1 - 2.9	Organizational Profile		Inside cover, 40-41, 48, 61	
2.10	Awards received in the reporting period		68	
3. Report Parameters				
3.1-3.3, 3.6-3.11	Reporting parameters		1	3.9, 3.10, 3.11: There are notes throughout this report.
3.4	Contact point		1	
3.5	Process for defining report content		5	
3.12	Standard report disclosures		66-67	
3.13	External assurance policy and practice		64-65	
4. Governance, Commitments and Engagement				
4.1-4.7, 4.9-4.10	Governance		47-52	4.5: Sustatinability Report 2008
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation		4, 8, 16, 24, 38, 47, 53, 60	
4.11	Precautionary principle		2, 30-33, 56-57	
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses		3, 50, 68	
4.13	Memberships in associations and/or national/international advocacy organizations in which the organization		68	
4.14-4.17	Stakeholder engagement	SOC-A6	Inside cover, 5, 10-12, 14-15, 22, 28, 30, 46, 58	
Economic Performance				
Disclosure on Management Approach to Economic Performance			53, 60	
EC1	Direct economic value generated and distributed	ECO-1, ECO-2, ECO-3, ECO-A2, ECO-A3	39-41	
EC2	Implications of climate change		2-3, 25-26	
EC3	Defined benefit plan obligations		20	
EC4	Financial assistance received from government		-	No financial assistance other than general tax credits
EC5	Standard entry level wage compared to local minimum wage		20	
EC6	Locally based suppliers		40	
EC7	Local hiring	SOC-A3	-	No significant overseas operating locations
EC8	Infrastructure investments and services for public benefit	SOC-A4, SOC-A5	42-46	
EC9	Significant indirect economic impacts		39-41, 59, 61, 63	
		ECO-A1	-	Not applicable
Environmental Performance				
Disclosure on Management Approach to Environmental Performance			24	
EN1	Materials used by weight or volume		39	
EN2	Percentage of materials used	ENV-A5	-	No recycled materials used, due to characteristics of business
EN3, EN4	Energy consumption	ENV-5	26	
EN5-EN7	Initiatives to reduce energy consumption	ENV-A8	26, 62-63	
EN8-EN10	Water withdrawal and recycled and reused	ENV-A7	35	
EN11-EN15	Biodiversity	ENV-A9	44	EN11: Our head office and Onsan Refinery are not located in areas of high biodiversity. EN13, EN15: Not applicable

GRI Guidelines		IPECA/API	Page	Note
Index	Content	Index		
EN16-EN20	Significant air emissions and initiatives to reduce them	ENV-3, ENV-4, ENV-A6	25-26, 34	EN17: S-OIL is reviewing the way to report Scope III data. EN19: No use of ozone-depleting substances
EN21	Total water discharge by quality and destination	ENV-2	34-35	
EN22-EN24	Waste and Hazardous Waste, including significant spills	ENV-A2, ENV-A3, ENV-A4, ENV-A5, ENV-1, ENV-A1	35-36	EN23: Not applicable EN 24: No such waste transported
EN25	Water bodies and related habitats significantly affected by discharges of water and runoff		34, 36-37	
EN26	Initiatives to mitigate environmental impacts of products and services		62	
EN27	Products sold and their packaging materials that are reclaimed by category		-	Little or no packaging materials are used, due to the characteristics of the products sold.
EN28	Environmental fines and sanctions		32	
EN29	Environmental impacts of transporting products and other goods and materials used and transporting members of the workforce		31	
EN30	Environmental protection expenditure and investments		33	
		ENV-6	32-37	
<b>Labor Practices and Decent work</b>				
	Disclosure on Management Approach to Labor Practices and Decent Work		16	
LA1-LA3	Employment	ECO-A2, SOC-A2	20-23	
LA4, LA5	Labor/management relations		21, 22	LA5: Sustainability Report 2008
LA6-LA9	Occupational health and safety	H&S1, H&S2, H&S3, H&S4	20-21, 27-31	
LA10-LA12	Training and education	SOC-5	17, 18, 20	
LA13-LA14	Diversity and equal opportunity	SOC-4	19-23	
		SOC-6	22	
<b>Human Rights</b>				
	Disclosure on Management Approach to Human Rights		16	
HR1-HR3	Investment and procurement practices		50	HR1: Not applicable
HR4-HR7	Managing human rights risk in operations	SOC-4, SOC-7	22	HR4: No discrimination case HR6, HR7: Sustainability Report 2008
HR8	Security practices	SOC-9	-	Outside firms are in charge of security at locations of operation; S-OIL does not provide direct training programs.
HR9	Indigenous rights	SOC-A7	-	Not applicable
	Human rights policy	SOC-1	3, 19, 50	
<b>Society</b>				
	Disclosure on Management Approach to Society		38, 47	
SO1	Impacts of operations on communities	SOC-8	30, 36, 46	
SO2-SO4	Managing risks related to corruption		48-52	
SO5	Participation in public policy development	SOC-A1	-	Not applicable
SO6	Political contributions	SOC-3	-	Not applicable
SO7	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes		9	
SO8	Significant fines and non-compliance with laws and regulations		9	
<b>Product Responsibility</b>				
	Disclosure on Management Approach to Product Responsibility		8	
PR1-PR2	Customer health and safety	H&S-5	11, 12, 62	PR2: No violations
PR3-PR5	Product and service labelling	H&S-5	10-12	
PR6-PR7	Marketing and communications		14	PR7: No violations
PR8	Customer privacy and losses of customer data		10	
PR9	Non-compliance with laws and regulations concerning products and services		9	

# UNGC INDEX

	UNGC 10 Principles	Contents	Page
<b>Human Rights</b>	Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2. Businesses should make sure that they are not complicit in human rights abuses.	SI2. PROVIDE BEST-IN-CLASS WORK ENVIRONMENT · Talent Education and Capability Development · Human Rights Protection and Enhancement of Life Quality · Communicating Corporate Culture	16-23
<b>Labour Standards</b>	Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4. The elimination of all forms of forced and compulsory labour; Principle 5. The effective abolition of child labour; and Principle 6. The elimination of discrimination in respect of employment and occupation.		
<b>Environment</b>	Principle 7. Businesses should support a precautionary approach to environmental challenges; Principle 8. Undertake initiatives to promote greater environmental responsibility; and Principle 9. Encourage the development and diffusion of environmentally friendly technologies.	SI3. ACHIEVE OPERATIONAL EXCELLENCE · Climate Change Response and Energy Conservation · Preventative Environmental Management SI7. DEVELOP PLATFORM FOR SUSTAINABLE GROWTH · Development of High Quality · Eco-Friendly Energy Technology	24-26, 32-37, 62
<b>Anti-Corruption</b>	Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery	SI5. PURSUE GLOBAL BEST PRACTICES OF CORPORATE GOVERNANCE · Practicing Ethics Management · Strengthening Transparency	47-52

## S-OIL RECOGNITIONS AND MEMBERSHIPS IN ASSOCIATIONS

### ♥ S-OIL Recognitions in 2010

Date Awarded	Award	Awarding Organization
June	Award by the Minister of the Public Administration and Security for Safe Management of Hazardous Substance	Ministry of Public Administration and Security
June	2010 Korean Industry Service Quality Index-Certification for Best Call Center Service	Korea Management Association Consulting
June	Top Company of the Year (World Class Category)	Korea CEO Association
September	Incorporated into DJSI World Index	Dow Jones, SAM, Korea Productivity Center
November	Top Company with Voluntary Agreement on Chemical Substance Emissions Reductions	Ministry of Environment
November	Sustainability Index Survey- # 1 for Oil and Gas Company	Korean Standards Association
November	Top 250 Global Energy Company (162nd)/ Global Oil and Gas Refining/Marketing Company (15th)	Platts, USA
December	2010 Korea CSR Award-# 1 for Social Contributions	Hankyoreh Economic Research Institute

### ♥ Memberships in Associations

Association	Year of Joining
Korea Petroleum Association	1980
Onsan Industrial Complex Environment Management Association	1983
Korea Oil Stations Association	1985
Onsan Industrial Complex Safety Management Association	1986
Korea Fire Safe Association	1993
Korea Chemical Management Association	1997
Korea Fair Competition Federation	2001
Korea Business Council for Sustainable Development	2008
Onsan Industrial Complex Hazardous Material Safety Management Council	2008
UN Global Compact	2010



**지속가능발전기업협의회**  
Korea Business Council for Sustainable Development



**Dow Jones Sustainability Indexes**  
Member 2010/11



## FOR MORE INFORMATION

S-OIL wants to hear from you about the S-OIL Sustainability Report 2010. Please contact us with your opinions and suggestions.

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## READERS' OPINIONS

### 1. Which of the following applies to you?

- ☐ Customer      ☐ S-OIL employee      ☐ Shareholder/Investor      ☐ Local resident      ☐ Business partner  
☐ NGO      ☐ Media      ☐ Government      ☐ Research/Academia      ☐ Other (      )

### 2. How did you find out about S-OIL's sustainability report?

- ☐ S-OIL website      ☐ Seminar/Lecture/Exhibition      ☐ S-OIL employee  
☐ Other website      ☐ Newspaper/Magazine      ☐ Other (      )

### 3. Referring to the box below, which section of the report did you find most interesting? (      )

### 4. Referring to the box below, which section, if any, of the report should be added to? (      )

#### <Section>

- |   |  |  |
|---|--|--|
| 1. CEO's Message  | 2. Sustainability                      | 3. Stakeholders and Key Issues                 |
| 4. Major Sustainability Performences                    | 5. Enhance Customer-Centric Management |  |
| 6. Provide Best-in-Class Work Environment               | 7. Achieve Operational Excellence      | 8. Contribute to Society                       |
| 9. Pursue Global Best Practices of Corporate Governance |  | 10. Attain Highest Level of Capital Efficiency |
| 11. Develop Platform for Sustainable Growth             | 12. Other (      )                     |  |

### 5. Does this report include all the key issues that you think should be addressed?

- ☐ Yes      ☐ No

### 6. If not, which issue should be added to?

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### 7. This report frame is based on S-OIL's 7 Strategic Imperatives. If you have any further comments on the report (for example, its frame and contents or S-OIL's sustainability initiative), please feel free to specify them.

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From



Sustainability Management Team, S-OIL Corporation  
471, Gongdeok-dong, Mapo-gu, Seoul, Korea

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S-OIL  
Sustainability Report 2010







This Sustainability Report was printed with soy-based inks on FSC-certified, environmentally friendly paper.



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