

**Material Issue 03**

# Creating Value for Mutual Growth



**How does it affect SK innovation?**

**Stakeholders' Impact Evaluation<sup>1)</sup>**

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

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

**Why is it important?**

**Significance of the Issue**

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

**How did we respond?**

**Strategic Approach**

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

**How do we manage performance?**

**Performance Measurements**

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

**Link to SDGs**



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

—Mutual Growth Activities

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

Technical Support

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

Support for Capacity Building

SK innovation provides various capacity-building programs to reinforce fundamental competitiveness of suppliers. SK innovation tries to build a win-win partnership with our suppliers by running “CEO Seminar on Mutual Growth” and “MBA Program on Mutual Growth” to teach supplier CEOs management know-how such as management strategy, finance and leadership in addition to the subdivided curriculum<sup>1)</sup> to give actual help for each position and job.

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

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

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

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



CEO seminar on mutual growth



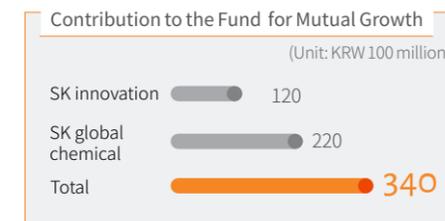
Completion ceremony of the MBA program on mutual growth

Financial Support

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

In 2017, SK innovation contributed KRW 12 billion and SK global chemical KRW 22 billion to the fund. SK innovation and affiliates established and operate a total of KRW 85 billion<sup>1)</sup> worth of funds for mutual growth.

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



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



— Performance of Mutual Growth Implementation

Evaluation of Win-Win Index

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

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

Joint Patent Acquisition through Technical Cooperation with SMEs

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

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

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

Introduction of Wage Sharing Model

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

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



Agreement ceremony of happy sharing