

Material Issue 03

Creating a Sustainable Supply Chain

What is the impact on the company?

Stakeholder Impact Evaluation

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

Why is it important?

The Importance of the Issues

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

How is SK innovation responding to this issue?

SK innovation’s Strategic Approach

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

How is performance tracked?

Performance Measurements

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



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

[Link to SDGs](#)

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

Supply Chain Sustainability Management Policy

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

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

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

Supplier Mutual Growth Activities

Supporting Capacity Building

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

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



2016 SK Mutual Growth MBA

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

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

Financial Support

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

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



Technology Support

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

..... Business Case

Supporting the Localization of Heat Exchangers Leveraging SME Technology

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



Supply Chain ESG Responsibility Strengthening Activities

Creating a Culture of Transparent Trade

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

Reducing Supplier Risk

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

Establishing a Supply Chain SHE System

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

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

*Value Creation
for Stakeholders*

