

FOCUS 1

Enhanced business for sustainable growth

Background

Due to the prolonged economic downturn and a continuous fall in international oil prices, energy and chemical businesses experienced a management crisis in 2014. Under these situations, advanced companies strengthen fundamental competitiveness with the goal of overcoming the crisis, while also focusing on increasing synergies between industries. Also, companies strive to become a market leader by tapping into new markets at home and abroad and strengthening market position. Likewise, the efforts made to achieve sustainable growth by building a sustainable growth engine in the industry is the focus of many stakeholders.

Response

SK Innovation has in place an independent management system based on the principles of autonomy and responsibility for its six subsidiaries according to each business area. In this regard, we strengthen the professionalism and enhance the flexibility of each company to respond quickly to changing business needs, while also increasing company-wide synergies for higher efficiency and differentiated competitiveness. In addition, we aim to become a leading company in the market by actively exploring domestic and overseas markets, to respond to tighter competition in the domestic market and achieve higher growth in emerging markets like China.



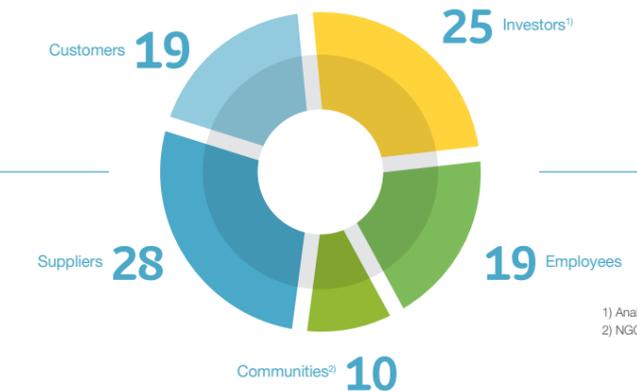
Stakeholder Survey

According to the result of analyzing major areas of issues in 2014 aimed at SK Innovation's five stakeholder groups, the highest interest shown in enhanced business for sustainable growth were issues related to strengthening fundamental competitiveness and accelerating global growth. In particular, customers showed lots of interest in issues related to strengthening fundamental competitiveness, with suppliers showing high interest in issues related to accelerating global growth.

Strengthening Fundamental Competitiveness (Unit: %)



Accelerating Global Growth (Unit: %)



1) Analysts, institutional investors, etc.
2) NGOs, social welfare institutions, etc.

Performance and Future Plan

Despite the difficult business environments, SK Innovation has achieved continuous performance through strategic operation of each business area. In the future, we will further strengthen fundamental competitiveness by aiming to enhance cost competitiveness, achieve operation excellence, and expand technology and optimization. Moreover, we will focus on increasing our market share in global markets with differentiated competitiveness by securing core technology and establishing strategic portfolio for each business area. Also, we will ensure fundamental competitiveness through business optimization, as well as actively exploring business expansion to take the lead in creating sustainable economic value.

Strengthening Fundamental Competitiveness



Q Issue Definition

Strengthening fundamental competitiveness refers to each business area maintaining the autonomy for independent and accountable management practices. By reinforcing the fundamental competitiveness through the process of increasing efficiency and optimization, companies can strengthen the efficiency of business organization, as well as establish a system that creates a virtuous cycle.

Business Review

Each business area acquiring growth potential through its core competencies is the company's first priority for achieving long-term goals. Therefore, we need to work towards strengthening the competitiveness of each business area and creating company-wide synergies.

🔄 Sustainability Review

Reinforcing differentiated competencies for different business areas to overcome difficult business conditions at home and abroad and to achieve sustainable performance is the most important business strategy. Through these efforts, we will proactively respond to changing business environment and prepare for the future to achieve sustainable growth by strengthening the growth foundation.

📈 Key Figure

Petroleum production capacity

412 million barrels per year

(Total of Ulsan and Incheon Complexes)



Sales (SK Innovation)

KRW 65.9 trillion



Expanding Business Value of Each Business Area

Optimizing Management Decision Making Processes: SK Innovation

SK Innovation has in place a systematic decision making process based on scientific methods to optimize the overall efficiency of operation and management, that include purchasing, manufacturing and sales processes. We optimize the process for selecting raw materials to ensure optimal raw materials are purchased, by taking into consideration the present status of availability and installation in our main businesses, including petroleum and petrochemical businesses. Also, we optimize the operation process to allow plans to be adjusted for product production and process operation by taking into consideration sales profit and production costs. Furthermore, we strive to optimize the process operation, so that variables are controlled and managed with the goal of optimal operation for each process. Moreover, we promote enhancing capital efficiency by optimizing investment decisions, such as exploring alternatives or selecting the optimal investment plan to raise the investment profit rate and withholding inefficient investments through long-term evaluation and analysis of investment effects.

Securing Differentiated Competitiveness: SK Energy

SK Energy implements diverse innovation plans to secure a stable profit base in the rapidly changing environment. We plan to continue our efforts to strengthen our fundamental competitiveness focused on advanced optimization through minimum investment, including avoiding investment methods that increase the ratio of upgrading existing facilities, enhancing the process and operation flexibility and diversifying raw materials. Furthermore, we plan to enhance profitability by improving the cost structure to increase the efficiency of energy and domestic marketing, while also adopting crude oil with handling restrictions to ensure reasonable profits even in a critical situation for profit increase.

Reinforcing Commercialization of Nexlene Original Technology: SK Global Chemical

SK Global Chemical strengthens its market dominance by increasing sales through their original technology development. As a high value-added petrochemical product developed by SK Global Chemical's original technology, Nexlene is a high performance polyethylene used in high value-added films, auto parts, footwear interior materials and cable insulation that boasts a stronger performance in endurance, transparency and processability. An annual growth of more than 10% is forecasted for the high performance polyethylene market, with the Ulsan Complex expected to achieve sales of more than KRW 400 billion per year. Moreover, SK Global Chemical signed a joint venture contract with SABIC, a Saudi petrochemical company, for the production and overseas sales of Nexlene. The two companies agreed to set up a joint venture in Singapore, including the construction of the second plant in Saudi Arabia. Through these efforts, we strive to strengthen overseas expansion and achieve optimal business performance.



SK Global Chemical's Nexlene Production Plant

Strengthening Fundamental Competitiveness

Leading the Market through Diversifying Product Lines: SK Lubricants

SK Lubricants strives to meet the diverse needs of customers by developing various types of lubricant products, including a premium lube base oil called YUBASE™ and an advanced lubricant called ZIC™. In particular, we expanded our product lines to offer 10 packages with about 800 lubricant products as of 2014, by developing original technologies for a higher level of catalyst and process that manufacture the raw material for premium lubricants, including Group II and III lube base oil products. In the future, we will develop various types of products, including automotive lubricants, industrial lubricants and special purpose lubricants, to reaffirm our position as being ranked first for Group III lube base oil products globally, ranked first in the Korean brand preference of finished lubricant products, and ranked first for 16 consecutive years in the brand power survey (as of 2014).

Expanding PX Plants to Maximize Value Added: SK Incheon Petrochem

SK Incheon Petrochem aims to secure optimized competitiveness through maximizing value added. Due to diversifying the business lines through expanding and upgrading production lines of condensate-based products in 2014, SK Incheon Petrochem added an annual capacity of 1.3 million tons of paraxylene (PX), which is the raw material for polyester, to become Korea's largest producer for a single business site. As such, SK Incheon Petrochem strives to become a leading global oil and petrochemical company by acquiring world-class productivity.

Optimizing through Diversified Imports & Exports of Crude Oil and Products: SK Trading International

SK Trading International pursues the optimization through the diversification of crude oil imports and products exported by utilizing local experts and infrastructure. We increase the purchase of feedstock from the Middle East and offshore area, including crude oil, heavy oil and naphtha, to reduce the introduction costs and purchasing risks related to feedstock. Besides our major export markets in Asia, we are increasing exports of petroleum products to Europe, Africa, the Americas and Central and South America. In particular, we establish a sustainable growth foundation by strengthening the local marketing network focused on regions that are expected to achieve high growth rates like the US, Australia and Southeast Asia.



SK Trading International's Global Imports & Exports

Accelerating Global Growth

Issue Definition

International oil prices dropped due to the sluggish demand of emerging nations and the conflict between the US and the Middle East to gain the leadership made it difficult for the domestic oil refining industry. While uncertain business environments are expected to continue, we worked towards establishing a sustainable growth foundation to overcome the crisis by reinforcing internal stability and expanding businesses abroad.

Business Review

In the case of Korea's petroleum business, changes in the market environment led to more intense competition between oil refinery companies. As such, it is necessary to create economic performance through business strategies for revitalization, such as tapping into overseas markets, while also securing long-term growth engines.

Sustainability Review

Increasing business opportunities by tapping into overseas markets is an important factor of sustainable management practices. Therefore, companies need to satisfy the stakeholders, including shareholders and customers, by entering into a market that is highly profitable to expand businesses and dominate the market.



Key Figure

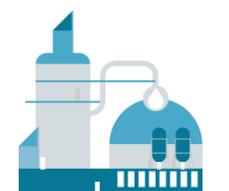
Blocks in Holding

15 Countries 22 Blocks



LNG Projects

4 Countries 4 Projects



Accelerating Global Growth

Strengthening Global Partnership

Accelerating Localization by Establishing Regional Base Oil Production Systems

SK Lubricants strive to drive overseas expansion by establishing regional base oil production systems in Asia and Europe. In Asia, we set up Patra SK with Pertamina in Indonesia to run a lube base oil plant locally, as well as having a production plant for finished lubricants in Tianjin, China. In accordance with Europe's environmental standards being strengthened recently, we began the commercial production in full scale starting from October 2014, including establishing a joint venture company called Iberian Lube Base Oil Company with Spain's largest energy company, Repsol, and constructing a lubricant production plant in Cartagena, Spain. In order to gain global market share, SK Lubricants plans to accelerate global growth based on various strategies for localization in the future, such as setting up a joint venture company and agreeing to strategic alliance.



A production plant for lube base oil in Cartagena, Spain.

Dominating the EV Battery Market in China

In order to enter into the Chinese market that has emerged as the world's largest EV market, SK Innovation set up a joint venture with Beijing Electronics Holding and Beijing Automotive Industry Holding in China named BESK Technology. BESK has a battery package production line in its plant in Beijing to produce automotive batteries. Since the second half of last year, BESK supplies EV batteries for Beijing Automotive Industry Holding's ES210 and EV200, especially ES210 EV has been used as the official vehicle for the APEC (Asia-Pacific Economic Cooperation) held in November, 2014. In cooperation with BESK, SK Innovation plans to grow into the No.1 EV battery company in China.



ES210 EV chosen as the official vehicle at the APEC.

Expanding Investments Globally

Securing a Bridgehead for Entry to the US Market by Developing Unconventional Resources



A drilling site for developing unconventional resources in Oklahoma, US.

SK Innovation has started to participate in projects for developing unconventional resources, including shale gas and oil, conducted by the US oil development companies. Unconventional resources are oil resources that had not been developed due to technological limitations and high development costs associated with the traditional methods, but economical mining is allowed now as a result of the latest new technologies being developed. Most representative examples are tight oil and gas including oil sands and shale oil & gas. SK Innovation plans to expand its unconventional resources development projects in the US, which is the home base of the Shale Gas Revolution by internalizing the technologies and know-hows on horizontal boring and hydraulic fracturing offered by the US oil development companies. In the future, we will continuously enhance our competencies in projects for unconventional resources, to extend global projects from North America to cover South America and China.

Diversifying Entry into the Chinese Market

SK Global Chemical joined hands with China's largest state-run petroleum company, Sinopec, to construct a Naphtha Cracking Center (NCC) in Wuhan City and initiate full commercial production. With a gross production capacity of 2.5 million tons of petrochemicals, including 800,000 tons of ethylene, 600,000 tons of polyethylene and 400,000 tons of polypropylene, we recorded profits in only one year after starting commercial production, by achieving sales of 18.4 billion yuan in 2014. As a result of the successful Wuhan project, we established the foundation for tapping into overseas markets to create economic profits, while also securing a production base for petrochemicals in the Chinese market. In addition, we plan to set up the Ningbo-SK Synthetic Rubber Co., Ltd in collaboration with the Ningbo Municipal Government and start commercial operation in April 2015, to provide an annual EPDM production capacity of 50,000 tons. This is very meaningful because it is the first large project being implemented in China, led by SK.



A complete view of Wuhan plant in China.

Expanding the World's Top Three Oil Logistics Hubs

Besides the Middle East (branch in Dubai), SK Trading International has overseas subsidiaries and branches in the world's top three oil logistics hubs, including Singapore (subsidiary in Singapore), Europe's ARA (Amsterdam, Rotterdam, Antwerp), and the US's Gulf Coast (subsidiary in Houston). Major overseas subsidiaries enhance their trading professionalism by hiring local traders and operating storages. In the future, we plan to expand our global competitiveness through acquiring hubs with high growth potentials and recruiting local human resources.

Actively Implementing Domestic Marketing

SK Innovation provides a variety of customized services that place top priority on customers' convenience to increase domestic market share. Through these efforts, we ranked first in the domestic market share for sales volume of light oil (SK Energy) in 2014. In the future, we will strengthen our position as the No.1 oil company in Korea by actively implementing marketing strategies.

Promoting Synergy Marketing

SK Innovation provides convenience to customers through strategic alliances and joint marketing strategies with other industries besides the energy industry, while also striving to strengthen brand competitiveness.

Increasing Multi-purpose Gas Stations

While holding the largest number of gas stations in Korea (as of the end of December 2014), SK Energy aims to strengthen the competitiveness of each gas station, while also improving the accessibility of customers. Besides providing the existing services of car wash and maintenance for customers using the gas stations, we expanded them into multi-purpose gas stations by exploring various types of non-oil businesses that meet the characteristics of customers and the commercial districts of gas stations. We plan to improve profitability by incorporating various types of non-oil businesses that make profits, including fast food franchises, convenient stores and marts, and strengthen the struggle for survival to gain market share in the domestic market.



A multi-purpose gas station with self-service in Sangjin, Daegu.



A Haengbok multi-purpose gas station in Incheon.

Operating Web and Mobile Services

We provide diverse services to our customers by operating SK Energy's marketing website (www.enclean.com). Recently, we attempted to actively implement customer-oriented activities, including opening a mobile Enclean app based on smart phones.



enclean.com
(www.enclean.com)

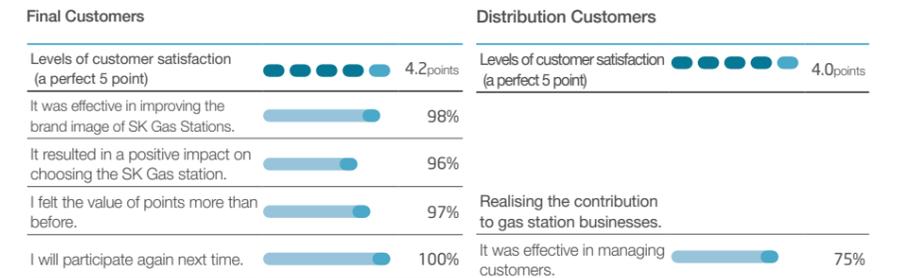
Customers that Participated in 3,000 Privilege Points



Offering Membership and Promotional Benefits

Since introducing the concept of membership to the oil business for the first time in Korea, SK Energy offers all Enclean Bonus Card holders with 0.1 percentage of their purchase in SK Cashbag points for filling up gas at SK gas stations and 0.5 percentage of their purchase in SK Cashbag points for using its charge stations. Besides this, we provide services that give discounts of up to 100-150 KRW per liter and accumulate points from it through various alliance cards available. Moreover, we actively develop more alliances cards through an alliance between SK Energy and all card companies. Starting from 2012, we started the campaign of 3,000 privilege points that allow customers to receive at least seven times more gifts than the customer points. According to the customer survey conducted regarding the campaign, it showed that the final customer satisfaction level scored 4.2 points out of 5 points.

Customer Survey



Improving Customer Value

SK Innovation operates diverse channels to gather customers' opinions. We improve the reliable relationship with our customers by reinforcing our services through these channels, while also enhancing our brand image.

Promotion of CS Standards and Checking on the CS Levels of Gas Stations

By developing the SK Gas Station CS Guidelines as CS standards for SK gas stations and promoting it on the site, we aim to provide standardized services to our customers. Also, we run an on-site CS monitoring system at all of the SK gas stations to check the customer satisfaction level together with a professional research institute. The evaluation results are analyzed and sent to the gas station individually to be used for future improvements.

Collecting Voice of Customer (VOC)

At SK Innovation's SK Energy Customer Happiness Center for its customers, skilled CS attendants specializing in their respective service areas promptly address customer inquiries and complaints. The VOC feedback process allows the company to continuously improve the process to improve customer satisfaction level.

Protecting Customer Information

In order to safeguard the privacy of the Enclean membership holders, we make sure that leakage of customer information is prevented by using the latest version of anti-virus program and always encrypting customer information. In addition, we established the Security Operation Center (SOC), which reinforces the information security management and limits only a handful of trained employees to have access to handling customer information. Meanwhile, we provide on-line and off-line training programs to all employees at the group level in SK, aiming to raise the employee awareness of protecting customer privacy.