

# Sustainability Performance Review

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Link to SDGs



- Goal 1** | End poverty in all its forms everywhere
- Goal 2** | End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
- Goal 3** | Ensure healthy lives and promote well-being for all at all ages
- Goal 4** | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

*Social Contribution*



- Goal 13** | Take urgent action to combat climate change and its impacts
- Goal 14** | Conserve and sustainably use the oceans, seas and marine resources for sustainable development
- Goal 15** | Protect terrestrial ecosystems and halt biodiversity loss

*SHE Management*

## ..... Operation of the Board of Directors .....

A healthy and transparent composition and operation of the Board of Directors is an essential prerequisite for a company to achieve robust growth. Though BOD-driven management, SK innovation is committed to assuring the decision-making process is fair and well-balanced, reflecting the views of not only the company, but also a wide variety of stakeholders.

### Independence of the Board of Directors

#### Independent Composition of Board and Committees

To ensure the Board thoroughly provides a check and balance to the company, SK innovation's the Board of Directors is composed of 60% or more independent directors, who are recommended by the Nomination Committee. As of May 2017, 5 out of a total 8 directors are independent directors, representing 62.5% of the Board. In ad-

dition, all chairs of the six committees under the BOD are independent directors, while a majority of each committee (Audit and CSR Committee all members) are independent directors, which ensures the independence and transparency of committee operations and the decision making process.

#### Board Members

|                        | Name           | Career Highlights  | Committee   |
|------------------------|----------------|--|---|
| Executive Director     | Kim Chang-geun | Present) Chairman of Board of Directors, SK innovation<br>Former) Chairman, SK SUPEX Council   | HR Committee member   |
|                        | Kim Jun        | Present) President & CEO, SK innovation<br>Former) Head of the Strategic Planning Department, SK energy  | Nomination Committee member<br>Strategic Planning Committee member                                |
| Non-executive director | Yu Jeong-joon  | Present) President & CEO, SK E&S<br>Former) President, SK Global Growth Committee  | Transparent Management Committee member   |
| Independent Director   | Kim Dae-ki     | Present) Visiting Professor, KDI School of Public Policy and Management<br>Former) Chief Secretary to the President for National Policy  | Audit Committee Chair<br>Strategic Planning Committee and Transparent Management Committee member |
|                        | Kim Jong-hun   | Present) Distinguished Professor, College of Business Administration at Yonsei University<br>Former) Minister of Trade, Ministry of Trade at the Ministry of Foreign Affairs and Trade | HR Committee Chair<br>Audit Committee and CSR Committee member                                    |
|                        | Kim Joon       | Present) President & CEO, Kyungbang Co.<br>Former) President, Korea YEO  | Strategic Planning Committee Chair<br>Audit Committee and HR Committee member                     |
|                        | Ha Yun-kyoung  | Present) Professor, Department of Basic Science at Hongik University<br>Former) Director, Association of Korean Woman Scientists and Engineers   | Transparent Management Committee Chair<br>Nomination Committee and CSR Committee member           |
|                        | Hahn Min-hi    | Present) Professor, KAIST College of Business<br>Former) President, Korea Marketing Association  | Nomination Committee and CSR Committee Chair<br>Audit Committee Member                            |



Executive Director  
Kim Chang-geun



Executive Director  
Kim Jun



Non-executive Director  
Yu Jeong-joon



Independent Director  
Kim Dae-ki



Independent Director  
Kim Jong-hun



Independent Director  
Kim Joon



Independent Director  
Ha Yun-kyoung



Independent Director  
Hahn Min-hi

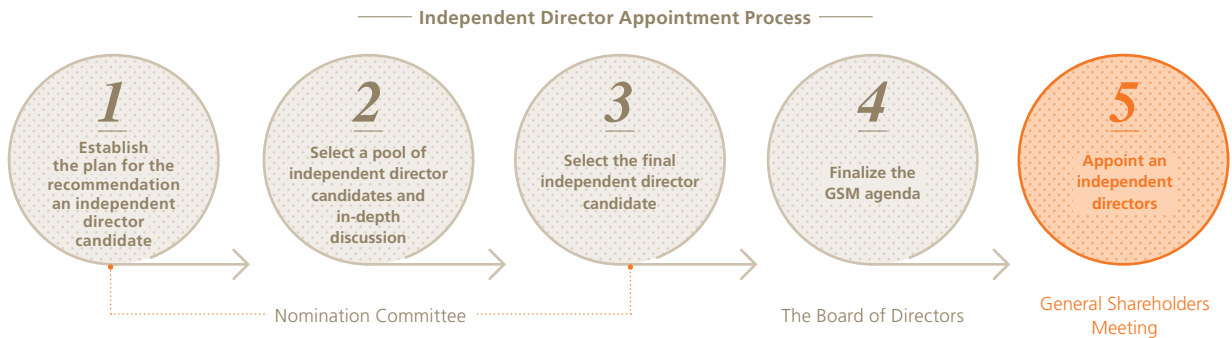
#### Board Committees

| Committee              | Composition of Directors |                        |                      | Main duties  |
|------------------------|--------------------------|------------------------|----------------------|--|
|                        | Executive Director       | Non-executive Director | Independent Director |  |
| Audit                  | 0                        | 0                      | 4                    | Conducting audits on the job performance of directors, accounting and management practices, as well as evaluations on the internal accounting management system. |
| Nomination             | 1                        | 0                      | 2                    | Searching and managing a pool of independent director candidates and recommending candidates   |
| Strategic Planning     | 1                        | 0                      | 2                    | Reviewing medium- and short-term business plans and strategies, including major investments and plans  |
| Human Resources        | 1                        | 0                      | 2                    | Recommending executive director candidates, reviewing director remuneration ceilings and major HR policies   |
| Transparent Management | 0                        | 1                      | 2                    | Reviewing intercompany transactions and the Fair Trade Compliance Program  |
| CSR                    | 0                        | 0                      | 3                    | Reviewing CSR(Corporate Social Responsibility) and sustainability management-related activities and issues   |

### Director Appointment Process

SK innovation has established an objective and fair process for appointing directors. The credentials and qualities of executive and non-executive director candidates are reviewed in advance by the HR Committee, after which the candidates are recommended to the General Shareholders Meeting (GSM). In the case of independent directors, the Nomination Committee first defines the plans for the recommendation process and selects the candidate pool.

Thereafter the committee hosts a series of elaborate discussions to select a final candidate to recommend to the GSM. During the discussions to select a candidate, the Committee not only reviews the independence of the candidate, but also the expertise, commitment, business mind, reputation, personal image, and other evaluation standards. Factors, such as the diversity of the Board and the business environment at the time of the appointment, are also taken into consideration.



### Evaluation Criteria of Independent Directors

| Category              | Description   |
|-----------------------|---|
| Expertise             | Expertise and experience in corporate management, and a career as an director   |
| Commitment            | Committed to attending over 90 percent of BOD & Committee meetings and to contributing positively to advising on current issues |
| Management leadership | Leadership acquired from experience in serving as the CEO of a large company or head of an organization                         |
| Independence          | Independence from management and shareholders while making faithful, independent decisions                                      |
| Social position       | A strong reputation recognized by many stakeholders of the company  |
| Morality              | A high level of morality that sets an example for others, with company based objectives taking precedence over personal gain    |
| Diversity             | The diversity of the Board, including gender, age, nationality and ethnicity, has been taken into consideration                 |
| Others                | Current issues and social concerns at the time of nomination  |

### Standard of Independence for Independent Directors

SK innovation ensures the independence of its independent directors to guarantee shareholder interests are reflected in a balanced manner and a fair and transparent decision-making process is followed. To this end, the company establishes and complies with the independent standards for major disqualification reasons for independent directors in compliance with the Commercial Act.

#### Grounds for disqualification of SK innovation Independent Directors

- Directors, executive directors and employees who are engaged in the regular business of the relevant company, or directors, auditors, executive directors and employees who have engaged in the regular business of the relevant company within the latest two years;
- The principal, his/her spouse, lineal ascendants, and lineal descendants, in cases where the largest shareholder is a natural person;
- Directors, auditors, executive directors and employees of the corporation, in cases where the largest shareholder is a corporation;
- The spouses, lineal ascendants, and lineal descendants of directors, auditors and executive directors;
- The directors, auditors, executive directors and employees of a parent company or a subsidiary company of the relevant company;
- Directors, auditors, executive directors and employees of a corporation which has a significant interest in the relevant company, such as business relations with the company
- Directors, auditors, executive directors and employees of another company for which directors, executive directors and employees of the relevant company serve as directors and executive directors.

## The Systematic Operation of the Board and Committees

### Systemic Operation of the Board of Directors and Committees

SK innovation's the Board of Directors reviews business plans and medium-and long-term strategies(i.e. the To-be Model) each year. In addition, the Board sets the direction for achieving sustainable growth by holding active in-depth discussions about the internal and external environment and issues for each business area, including refining, petrochemicals and EV batteries.

The Board holds regular meetings on monthly basis. To allow the directors ample time to review the agenda, meeting materials are provided at least five days before a Board meeting and two days before a Committee meeting. In addition, the Board will also hold ad-hoc meetings for agenda items that require a quick decision to lead the transparent business activities of the company. 13 Board and 17 Committee meetings took place in 2016.

### Operation of the Board Communication Sessions

SK innovation's the Board of Directors is committed to coordinating various stakeholder views and fulfilling its role and responsibility as the most senior decision-making body of the company. In particular, the Board holds CEO Sessions and Strategy Sessions attended by the CEO, key senior management, and independent directors, to strengthen its role as a partner in business model innovation. At the sessions, the participants not only openly discussed business philosophy, vision, and strategic fit, but also issues that were raised during the communication process. In 2016, the Board held in-depth discussion over business philosophy(revised SKMS), dividend policy and strategies for the refining business.

### Proactive On-site Management

SK innovation's the Board visits key business sites in Korea and abroad to make sure decision-making is based on expertise and an understanding about the worksite. Board meetings are held on-site during these visits to implement on-site management practices. These visits provide an opportunity to gain real proficiency about the business by seeing first-hand the situation of the site and listening directly to the views of employees working there. In 2016, a BOD Meeting was held at the Ulsan Complex, during which directors participated in on-site management together with the employees. In addition, the directors visited a key growth area, the semiconductor business(SK hynix) to develop areas of business co-operation.

### Board Performance Evaluation & Compensation

The Board conducts a self-evaluation on the composition, function and operation related matters once a year. The results of this assessment are documented in the Annual Report. The results and opinions of the evaluation are fully reflected in the BOD Operating Plan to ensure the Board continues to develop in a positive direction.

In addition, the company annually participates in the ESG assessment conducted by Korea Corporate Governance Service. In 2016, the company received an A+ in the area of corporate governance, recognizing the strong achievements of the BOD. To ensure fair compensation, the HR Committee thoroughly reviews the remuneration limit for directors, which is presented for Board approval and final GSM approval.

## Strengthening the Expertise of the Board of Directors

To enhance the effective and professional activities at the Board, independent directors actively participate in training programs about domestic and overseas governance structures and business. The directors have participated in conferences for the two most prestigious corporate governance institutions, namely, the NACD (National Association of Corporate Directors) and ICGN(International Corporate Governance Network). In particular, newly appointed independent directors are offered orientation programs at the headquarters and local business sites to strengthen their understanding about the company, the industry and businesses.

In addition, SK innovation Board of Directors holds a strategic session to improve specialty regarding risk management every half-year or quarter on a regular basis. Major content of the session includes providing materials to support overall decision-making such as company-wide and key business strategies, report on the trend and major risk elements and company's measures for risk management. The Board also considers internal and external business environments and holds a seminars by inviting legal and communication specialists regarding significant issues. Each quarter, the Board receives the results of internal and third party audits, reviews possible risk issues and actively participates in training related to business cases that have taken place in Korea and abroad.