

FOCUS 3

Mutual growth with suppliers

Background

Suppliers are the key partners for achieving mutual prosperity and development. Through mutual growth with suppliers, companies can achieve sustainable growth and fulfill their social responsibilities at the same time. Therefore, it is necessary to achieve mutual prosperity with suppliers by conducting transparent performance evaluations on them and providing customized support to enhance their competencies. Also, establishing a cooperative corporate ecosystem that communicates and grows together with stakeholders through various win-win partnership policies and programs emerged as a social issue, contributing to bringing mutual prosperity to suppliers and local communities.

Response

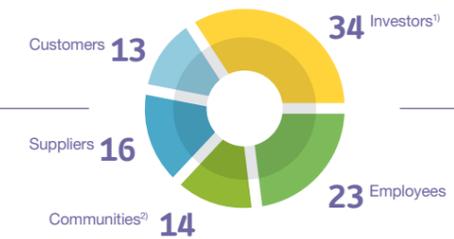
In order to systematically achieve sustainable growth, SK Innovation set up a division to be in charge of mutual growth directly under the CEO to provide high level of support to its suppliers. By providing communication channels for our suppliers and compensating them based on transparent performance evaluations, we make sure the partnership relationship with our suppliers is the top priority in SK Innovation's management practices for achieving mutual prosperity.



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 mutual growth with suppliers was about issues related to helping out with advancing suppliers' technologies, implementing activities for continuous communication with suppliers and conducting transparent evaluation and compensation for suppliers. In particular, investors showed high interest in issues related to helping out with advancing suppliers' technologies and customers in implementing activities for continuous communication with suppliers. Also, customers and investors both showed high interest in issues related to conducting transparent evaluation and compensation for suppliers.

Helping Out with Advancing Suppliers' Technologies (Unit: %)



Implementing Activities for Continuous Communication with Suppliers (Unit: %)



Transparent Evaluation and Compensation for Suppliers (Unit: %)



1) Analysts, Institutional Investors, etc.
2) NGOs, Social Welfare Institutions, etc.

Performance and Future Plan

In order to establish a reliable relationship with suppliers, SK Innovation implements various activities for its suppliers, including expanding support, diversifying communication channels and conducting transparent evaluations and giving compensation. Through these efforts, we were selected as an Outstanding Company for three consecutive years in evaluating mutual growth indexes since 2012. In the future, we will reflect the opinions of our suppliers through various communication channels and establish transparent performance evaluation system and culture by ensuring fair compensation.

Competency Building Programs for Suppliers



Issue Definition

The activities to help out with strengthening the suppliers' competencies set the foundation for sustainable growth. Therefore, establishing an environment where the company can grow together with its suppliers through various support programs, including providing funds and supporting technology development for suppliers, became important in ensuring the long-term development of the company.

Business Review

In the process of creating value through resource development, crude oil refining and sales, cooperation with suppliers is no longer an option but a necessity. The technological value of outstanding suppliers also has a direct impact of reducing exploration and production costs, as well as bringing a positive effect on the supply chain evaluation.

Sustainability Review

While the difficult business environment is expected to continue with the slowdown of growth and profit rates, the social demand is focused on the responsibilities and roles of large companies to achieve mutual growth with its SME suppliers. As a result, various support programs, investments and joint projects are being actively carried out to create opportunities for mutual prosperity with suppliers.

Key Figure

Present Status of Support for Suppliers in 2014

KRW **58.7** billion



Operating Mutual Growth Fund

KRW **49** billion



Educational Support

Since the suppliers' competencies are connected with SK Innovation's competitiveness, various education and training programs are provided for the employees of its suppliers. The costs associated with education and accommodation are all supported by SK Innovation to reduce the burden on suppliers, including Ulsan CEO Seminar, MBA job training, e-learning course and on-line technology education, providing education in areas that need improvement like accounting, finance, marketing, process and equipment.

Present Status of Education Program

Classification	Target	Contents
Ulsan CEO Seminar	CEO	Education on business management, economy, organizational and change management, domestic and foreign market conditions, current events, etc.
MBA job training	Mid-level managers	Education on planning, accounting, finance, marketing, HR, etc.
Online e-learning course	Working-level employee	Education on marketing, leadership, HR, accounting, IT, CS, OA, etc.
On-line technology education	Working-level employee	Education on process, equipment, inspections of materials, corrosion, equipment, statistical process management, etc.
Technology seminar	Working-level employee	Education on market conditions and forecasts of crude oil, naphtha and chemicals, introduction of new products and technologies, etc.

Safety Management Support

SK Innovation operates a Safety & Health Win-Win program to enhance the health & safety management of suppliers and prevent industrial accidents and disasters. In this regard, SK Innovation and its three subsidiaries, including SK Energy, SK Global Chemical and SK Lubricants, has appointed a Safety & Health Supervisor from each company to hold meetings for the Safety & Health Win-Win program and at the working-level once every quarter and once every month, respectively. In 2014, we held an explanatory session on Risk Evaluation Manual for 67 suppliers to improve their management competencies to ensure a Safety & Health environment. In addition, we are greatly interested in operating a safe environment for our suppliers by making sure they follow the four essential safety regulations at worksites (wearing protective hats, complying with safe work procedures, putting safety marks and holding the safety & health education programs), supporting the suppliers' own safety & health programs and compensating outstanding employees in SHE practices.

Financial Support

In addition to direct funding that lends funds to suppliers, SK Innovation also operates various fund support programs to provide indirect support using network loans and to support credit guarantees through the mutual growth guarantee agreement. In particular, SK Innovation provides financial support to suppliers that need urgent help by operating the Mutual Growth Fund, with contributions of KRW 27 billion and KRW 22 billion from SK Innovation and SK Global Chemical, respectively.

Introducing Win-Win Partnership Programs

Holding a Job Fair for Suppliers

In order to revitalize the regional economy and help our SME suppliers to employ outstanding talent, known to be difficult for small companies, we held a win-win partnership job fair for our suppliers. With about 40 suppliers of SK Innovation, SK Energy, SK Global Chemical, SK Lubricants and other SMEs in Ulsan in attendance, the recruitment process was conducted by each supplier. In particular, we made sure the job fair ran smoothly by receiving applications for prior registration and providing information about the suppliers that will be participating beforehand, through the website. In addition, we offered various programs that are helpful to job seekers, such as lectures on employment and aptitude tests for local youngsters, occupational psychological tests and photo-taking to be used in resumes, so that both job seekers and suppliers were satisfied with the event.

Implementing Activities for Continuous Communication with Suppliers

Issue Definition

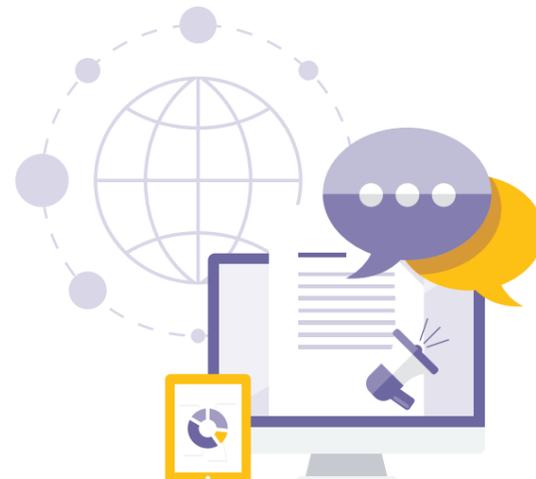
In order to offer customized support that is needed for the sustainable growth of suppliers, it is necessary to have better understanding through endless communication. Therefore, the need to establish various communication channels and using them to seek the optimal way of achieving mutual growth with suppliers has increased.

Business Review

Continuous communication with suppliers not only establishes a close and reliable relationship between the two companies, but it also sets the foundation for enhancing work efficiency by raising the awareness of mutual prosperity. Furthermore, we can look forward to mutual growth and prosperity by identifying the needs of suppliers and providing them with practical support and education.

Sustainability Review

Strengthening partnership and raising the awareness on mutual prosperity through close communication with suppliers are essential in establishing a reliable relationship with stakeholders. Through continuous communication with the suppliers' CEO and employees, we can build the foundation for achieving sustainable growth.



Key Figure

Number of persons attending the Win-Win Partnership CEO Seminar

309 persons



Total number of persons attending regular meetings with equipment suppliers in 2014

699 persons



Communication Channels for Suppliers in 2014

Win-Win Partnership CEO Seminars	Once a month	Sharing best practices of management innovations for suppliers' CEO, etc.
Supplier CEO Seminars	Once a year	Sharing and discussing about suppliers' quality and SHE management plans, etc.
Regular meetings with equipment suppliers	Once a month	Holding Safety & Health monitoring and education for equipment suppliers, sharing best practices, etc.
Meetings with equipment, inspection, machinery and logistics partners	On a regular basis	Discussing about enhancing the SHE management competencies of suppliers and work expansion plans, etc.

Win-Win Partnership CEO Seminars

SK Innovation holds seminars for the suppliers' CEO on a regular basis to share management knowledge and know-how. The CEO of each company attends the seminar to raise the awareness of partnership between suppliers to establish a reliable relationship with SK Innovation, by discussing about recommendations to the Chairman of the SK Win-Win Partnership Committee. The recommendations made by the suppliers are reborn as customized support programs to meet the needs of SMEs on the site.

Regular meetings with equipment suppliers

SK Innovation holds a monthly meeting on a regular basis to enhance the SHE (Safety, Health, Environment) management competencies. The regular monthly meetings with about 80 persons in attendance handles safety as the major agenda, contributing to raising the safety awareness of suppliers by sharing best practices of safety & health education and awarding outstanding persons in emergency response management practices. Also, we listen to difficulties that our suppliers face by communicating with the executives in charge of issues related to safe environment and facilities.

Introducing Win-Win Partnership Programs

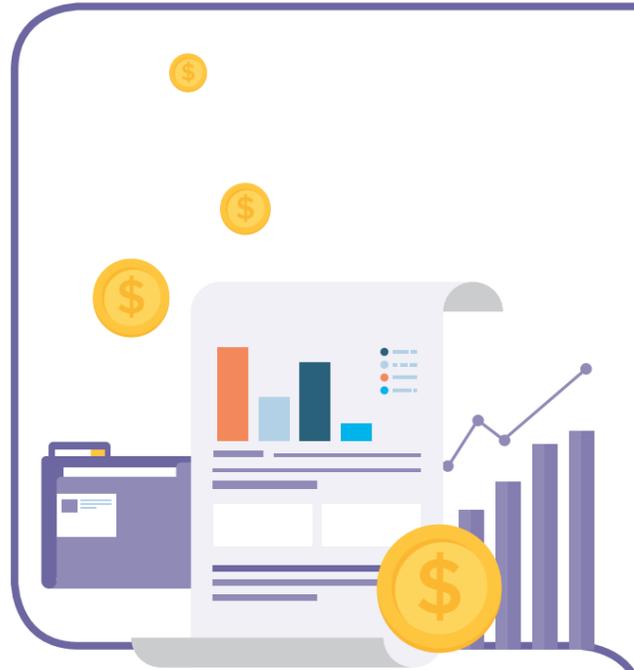
Win-Win Partnership Consultations and Reports on Unfair Trade Practices

In order to ensure transparent and fair trading practices, SK Innovation operates a channel to report on unfair trade practices and receive win-win partnership consultations. In the case of an unfair trading occurring with a supplier or if there is a recommendation, you can log on to SK Innovation's integrated purchasing system (www.skbiok.com) and SK Global Chemical's website (www.skglobalchemical.com) to receive consultations and report on unfair trading practices. All of the consultations and reports made are confidential and we will create a culture of mutual growth by sharing the measures taken on the applicable case through e-mail.



Integrated Purchasing System

Transparent Evaluation and Compensation for Suppliers



Issue Definition

Fair performance evaluation and compensation not only motivates suppliers, but are also essential in maintaining continuity in transactions between companies. Therefore, the social interest in establishing a fair business partnership based on transparent evaluation and compensation has increased from the perspective of selecting and managing suppliers.

Business Review

Providing compensations through a fair performance evaluation can increase work efficiency and productivity by raising the motivation of suppliers' workers. Also, it can prevent unfair trade practices between companies by establishing a fair performance evaluation system.

Sustainability Review

By providing fair compensation and benefit, it can enhance the competencies of suppliers as well as revitalize the regional economy. Therefore, besides the periodic evaluation, it is necessary to continuously improve the evaluation system in connection with performance and evaluation.

Key Figure

Periodic Evaluations on Suppliers in 2014

35 companies



Companies that were inspected for using the maintenance service building for free.

41 companies



Periodic Evaluation on Suppliers

In order to provide fair performance evaluation and compensation for suppliers, we conduct periodic evaluation of our suppliers every year to select the outstanding suppliers. In particular, in 2014, we conducted evaluations of a total of 35 suppliers by expanding the scope of evaluation. According to the evaluation results consisting of quality, construction ability and SHE management, we help out with enhancing the performances of our suppliers, such as providing various benefits and requesting for corrective action to be taken.

Profit Sharing

In order to establish a partnership with our suppliers through profit sharing, we came up with profit-sharing initiatives registered with our profit-sharing total management system. By promoting a culture of profit-sharing, we strive to establish a culture of allocating profits that ensure win-win partnership for SK Innovation and our suppliers. As part of these efforts, we focus on developing joint technologies, enhancing work quality and safety management and reducing costs.

Providing Maintenance Building for Free

We are paying close attention to preventing human injuries and safety accidents to improve the levels of work quality and safety management, so that enhancing the facility reliability can be the top priority. We offer the maintenance service building (office space, equipment, utility services) for free to our suppliers that are outstanding in their safety management, allowing residing suppliers to receive evaluations on appropriateness and relocation by reflecting their periodic evaluation results. In 2015, we conducted the evaluation of a total of 41 suppliers, including already residing ones and newly entering ones, with plans to provide more benefits to our suppliers by establishing an evaluation committee in the future to ensure that the evaluation for entering into the maintenance building is transparent and fair.



A complete view of maintenance service building is provided free to suppliers.

Introducing Win-Win Partnership Programs

Selected as the Outstanding Company for Win-Win Partnership in 2014

SK Global Chemical was selected as the outstanding company for win-win partnership for three consecutive years since 2012, with the title given also in 2014. In addition to periodic communication with suppliers, SK Global Chemical was the only petrochemical company to be selected for three consecutive years with high grades in recognition of its systematic support programs, including improving competencies, building R&D infrastructure and enhancing safety management levels. In the future, SK Global Chemical will strive to realize win-win partnership with its suppliers by setting up a cooperative and reliable relationship with its suppliers.