

· · · · *Ethical Management* · · · ·

Stronger legal regulations on ethical management in the global business environment and an increasing demand from stakeholders for such practices underscore the need for companies to conduct business in a more transparent and legally-compliant manner. Therefore, SK innovation continues to monitor international and local trends to revise its Code of Ethics and Guidelines. The company is committed to strengthening employee awareness about compliance and leading efforts to create a more transparent business culture.

Creating Ethical Management Principles

Based on the SKMS(SK Management System), SK innovation has enacted a Code of Ethics specifying the appropriate actions and principles that employees should honor. This Code is updated regularly to reflect recent changes in the business environment, more restricted external regulation and practices and lessons learned in business activities. All management and employees of SK innovation, its invested companies(including overseas subsidiaries) are obligated to observe the Code, and we also recommend equity investment companies or our business partners, who do business

with or have a contractual relationship with the company, adopt and follow the Code.

In addition, Business Conduct Guidelines that showcase case studies provide a more detail standard for decision making. For any questions employees may have, the company has a Business Conduct Guideline FAQ, which it continues to update.

Encouraging Employee Integrity

Strengthening Employee Ethics Training

SK innovation actively communicates with employees about key ethical issues they may face during work, in order to strengthen their commitment to integrity and strengthen ethical business practices. Every year the company conducts ethics training, which it has expanded to cover all employees in 2016.

Topic	No. of Participants	Total Training Hours
Online ethics training in the form of an animation for all employees	5,796 people	2,318 hours
Ethics training for new employees and promotion candidates	604 people	604 hours



Organizing Ethical Management Workshops

In 2016, SK innovation hosted Ethical Management Workshop led by leaders to discuss ethical dilemmas and risk case studies. To moderate active discussion, the first and second workshops were hosted by an executive and team leader respectively. This initiative will continue in 2017.



Ethical Management Survey

To understand employee’s level of awareness on ethical management and the ethical framework, the company conducted an ethical management survey on all employees, including those at overseas branches and subsidiaries, in 2016. After consultation with the related departments, answers to the main questions employees had that were identified through the survey were shared with all employees. In addition, company-wide efforts to strengthen awareness were made by collecting Ethical Management Commitment Letters from employees after the survey.

Strengthening Communication about Ethical Management

To create an Ethics Management Culture within the company, SK innovation has opened communication channels, including the Ethics Consultation Center and Ethical Management Website, through which it receives reports on unethical behavior and requests for consultations. We also provide a reward program for informants to encourage active participation from employees and stakeholders. The identity of an information provide by informants are strictly kept confidential to prevent any possible backlash.

As of 2016, a total of 142 reports and consultations were filed. When excluding simple inquiries, mistaken reports, double counted cases, and reports on other SK companies, the net number is 52 cases. All reported content was investigated and sent to the related department for follow-up measures, while answers were provided for consultations. Customer complaints are sent to the customer service department to be handled. Of the 15 reported cases that were investigated, 3 cases were a violation of the employee Code of Ethics. The employees involved in the case were issued warnings. (Two cases were internal regulation violations, while one case was an employee who was entertained by suppliers)

Survey on Supplier Exploitation

To implement ethical management based on mutual trust with suppliers, SK innovation conducted a survey to understand if there were cases of employees abusing their position against suppliers or engaging in actions that may violate the Code of Ethics. The survey was conducted on 849 suppliers in Korea. To gain deeper understanding about the situation, the company visited and interviewed 47 suppliers. No material unethical activities were identified as a result of the survey. Going forward, the company will continue to exert its best efforts to establish a fair and transparent relationship with its suppliers.

Number of Ethical Management Reports and Consultation Cases

	Number of Cases by Stakeholder			Total
	Reports	Consultation	Complaints	
Customers	-	-	15 cases	15 cases
Business partners	15 cases	-	-	15 cases
Employees	1 case	6 cases	-	7 cases
Others & Anonymous	15 cases	-	-	15 cases
Total	31 cases	6 cases	15 cases	52 cases

Breakdown of Cases by Follow-up

Investigation(Audit)	Cases Transferred to Relevant Department	Others(Cannot be Confirmed or Dismissed)
15 cases	25 cases	12 cases

Number of Ethical Consultations via Ethics Consultation Center or Ethics Management Website



Fair Trade Compliance Management System

SK innovation has established a Fair Trade Compliance Program (CP) to enhance transparency and increase competition within the supply chain. The CP is divided into Seven Stages with detailed

management measures. This enables SK innovation to manage all employees and business activities of SK innovation and its affiliates against each of the Stages.

The Seven Steps of the Fair Trade Compliance Program



Responding to External Regulations on Fair Trade

In January 2017, the Fair Trade Commission drafted Guidelines on the "Prohibition of Provision of Inappropriate Benefit to Person with Special Interest(Article 23-2, Monopoly Regulation and Fair Trade Act)" tightening the review standards on internal transactions by group corporations. SK innovation rebuilt its inspection process on internal transactions that may be subject to review, in order to apply stronger standard and mitigate risk in advance. Since the regulatory body is expected to beef up surveillance on unfair support between the affiliates of large conglomerates and unfair business activities between conglomerates and SMEs, the company is planning to disclose large-scale internal transactions and continue monitoring on unfair support via inter-company transactions and supplier exploitation.

In preparation for the implementation of the Fair Transactions in Agency Act(December 23, 2016), the company conducted an early inspection on all agency transactions in SK innovation in the second half of 2016. It reviewed all agency transaction contracts and remedied any insufficiencies. The company built and upgraded a management system to check transactions subject to the regulation and create a process to verify orders. After providing relevant organizations with training on the agency transaction process, we are continuously monitoring compliance.

Reinforcing Internal Fair Trade Monitoring

SK innovation conducted investigations on the purchasing teams and production teams that come into frequent contact with suppliers to identify unfair business activities between conglomerates and SMEs and providing training. In addition, the company also made it mandatory to consult the HQ Business Compliance Team before engaging in an inter-company transaction with an affiliate to monitor the any possibility of unfair support. Moreover, the company provides fair trade consulting for around 200 cases each year.

In addition, SK innovation operates a Fair Trade Coordinator program in each business department to encourage the front office team to communicate fair trade issues.

Going forward, we will build a compliance ecosystem -which includes risk diagnosis → review → training → performance measurement – to further reinforce compliance management.

Strengthening Employee Awareness on Fair Trade

In light of the initiative to strengthen global operations in 2016, the company provided training on the antitrust laws of each jurisdiction to the overseas business division. We strengthen the fair trade awareness of our employees at key business units, including overseas expats, by reviewing fair trade issues, including abuse of market dominant statuses and unfair trade activities.

Taking it one step beyond the level of informing employees about fair trade issues on each individual transaction through the existing Guidelines on Interacting with Competitors, SK innovation has

published a Fair Trade Guidebook, which covers the work process for all transactions and related fair trade issues. This Guidebook was distributed to all employees of SK innovation and its subsidiaries. In addition, we continue to issue the Fair Trade News Brief and Fair Trade Compliance Letter on a regular basis to raise awareness of fair trade compliance. Moreover, working-level manager participate in Fair Trade Seminars and external training programs to increase their proficiency on fair trade.

Future Plans

SK innovation is monitoring domestic and overseas regulatory trends to amended the Code of Ethics and Business Conduct Guidelines accordingly. With growing demand for ethical management from stakeholders, SK innovation is planning to engage in a variety of organized activities to enhance the understanding and compliance of ethical management across all SK innovation employees. In addition, the company will check and monitor the Fair Trade Commissions' major issues of interest to ensure transparent and fair business implementation. It will also establish and upgrade its management process for the sustainable and effective operation of its Fair Trade Compliance Program.

Fair Trade Inspections and Training in 2016	Timing	Subjects
Training on the Singaporean Competition Act and international cartels	June	The Singapore subsidiary of SK trading international and SK energy-invested Singapore JV
Risk assessment on fair transactions with subcontractors, and training on process improvements	July(Inspection) December(Training)	Purchasing Managers at SK innovation subsidiaries
Fair Trade Act training	July	SK incheon petrochem
Inspection on contracts subject to the Fair Agency Transactions Act, and relevant process training	August(Inspection) October(Training)	Marketing Department at SK innovation subsidiaries
Chinese Antitrust Act related risk assessment and training	September	SK global chemical's Shanghai Subsidiary
Japanese Antitrust Act related risk assessment and training	September	SK lubricants and SK global chemical's Tokyo Subsidiary
Online training for Fair Trade Coordinators	September – October	Coordinators in key marketing departments at SK innovation subsidiaries
Online training on Fair Trade Basics	October – November	All SK innovation affiliated employees