

## Risk Management

Risk management is a prerequisite for creating corporate sustainability performance in a rapidly changing business environment. Currently, energy and petrochemical companies around the world are being asked to develop strategies to cope with climate change. In addition, social interest in employees' human rights and safety is increasing.

Thus, SK innovation manages major risks systematically and has established mid- and long-term strategies tailored to each risk.

### — Risk Classification and Reporting System

In order to manage risks more systematically, SK innovation classified various risks related to our management activities into three categories: operational, business and financial. Operational risk refers to risks related to ethics, compliance with government regulations, human resources, safety and the environment. Our management departments comprehensively manage operational risks, and issues in need of decision-making by our management and subsidiaries are submitted to chief executives' meetings with consideration paid to the type of risk. Business risks include changes in the external environment, such as oil prices, national or local situations, and governmental regulations that affect business performance or new investment decisions. These are managed by departments in our affiliates, and issues in need of decision-making by each subsidiary's management are discussed in

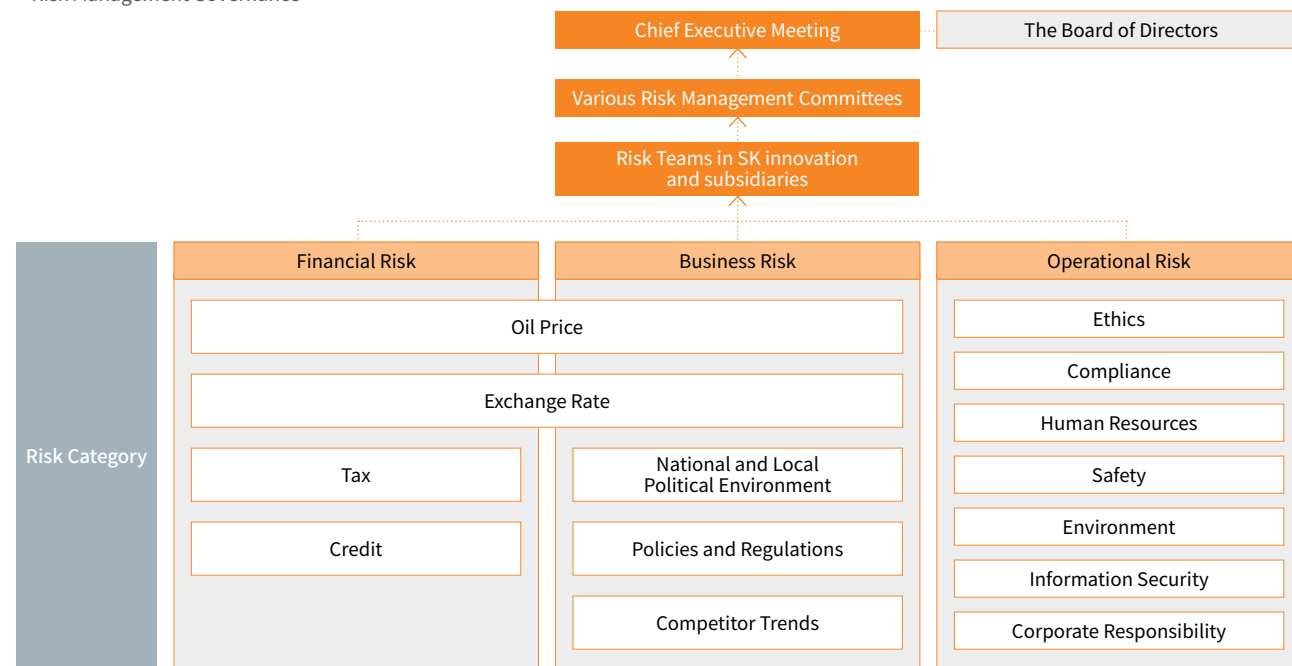
a council on risk management which is attended by the CEOs of the subsidiaries and the executives of related departments. Financial risk includes risks associated with oil prices, exchange rates, tax accounting, and credit.

In addition, some major risks arising from SK innovation's involvement with our subsidiaries are discussed at the chief executives' meeting, which is attended by our CEO and the CEOs of five subsidiaries. Some issues may be reported to the board of directors if necessary.

### — Risk Monitoring

SK innovation conducts monitoring tailored to the background and features of the risks in order to preemptively respond to risk factors. In the case of operational and business risks, we continuously monitor laws and regulations, policy trends, and major stakeholders' opinions. We also share risk-related trends with all employees through the intranet and newsletters, thereby encouraging employees to prevent risks from occurring. In case of financial risks, which have an immediate effect on business performance, we analyze short-term changes and mid- to long-term trends based on various economic indicators with the help of subsidiaries. After analysis, we set the maximum level of risks that we can endure to manage relevant risks.

### ● Risk Management Governance



### — Emerging Risk

SK innovation analyzed environmental and social changes on a regular basis to determine long-term risk factors for the overall business and came up with measures to respond effectively to such risks.

Emerging Risk	Business Context	Risk Impacts	Mitigation Actions
<p><b>Global Regulations and Unstable Oil Prices</b></p>	<p>Oil prices continued to rise after the first half of 2015, reaching an average of USD 64 per barrel in December 2017. It is still difficult to predict changes in oil prices due to deepening protectionist policies, and unstable geopolitical situations in the Middle East. Oil prices generally fluctuate as demand and supply change due to global economic conditions, natural disasters such as weather, and problems arising from business operations. In addition, the opinions of local governments largely affect oil prices.</p> <p>Thus, countries with a high dependence on crude oil imports, such as Korea, may be more affected by these local governments. The local government policies are projected to have greater impact on businesses, especially as the governments strengthen regulations.</p>	<p>Changes in oil prices and production costs of petroleum products affected by global economic conditions may lead to unstable profits, cash flow, and profit structure. In particular, high dependence on crude oil imports can significantly affect corporate finance, as crude oil prices change during the period between shipment and arrival.</p> <p>In addition, governmental regulations and standards for petrochemicals products should be considered while doing business. Violation of environmental regulations may also lead to significant financial consequences. Tightened regulations in the U.S.A., Europe, and emerging markets, including China, can serve as an opportunity in business areas such as lubricant production.</p>	<ul style="list-style-type: none"> <li>Enhance competitiveness to become a global trading company by adopting operational optimization techniques that effectively utilize market dynamics.</li> <li>Adopt desulfurization equipment in response to tightened global regulations on petroleum products, and develop high-quality lubricants that meet global standard requirements.</li> </ul>
<p><b>Fair Trade and Sales of Products</b></p>	<p>Ethical management, including fair trade, is critical to operate businesses. Currently, the importance of executing fair trade between oil refineries and gas stations, as well as calculating reasonable oil prices has increased.</p> <p>In the case of SK innovation, 30.7% of domestic gas stations belong to SK, and our market share was recorded at 32.4%. This indicates that various risks may occur as we execute a large amount of transactions.</p>	<p>In the process of establishing business relations with subsidiaries and affiliates, there were some cases of violations of the Monopoly Regulation and Fair-Trade Act.</p> <p>We have not received any legal sanctions for the past five years, since these issues have not occurred. However, activities such as restricting competition to secure gas stations in order to maintain market share may result in corrective actions, penalties, and fines, thereby negatively affecting corporate finance and reputation. In addition, consumers' distrust of domestic oil prices can have a negative impact on brand loyalty. Thus, it is necessary to actively communicate with customers.</p>	<ul style="list-style-type: none"> <li>Require affiliates to cooperate with our business compliance team in headquarters to check whether illegal support is provided when transactions are made.</li> <li>Strengthen monitoring for unfair trade practices with suppliers, including abuse of trade superiority, as regulations on unfair trade practices between large and SMEs are expected to be tightened.</li> </ul>
<p><b>Climate Change</b></p>	<p>Following the adoption of the Paris Climate Change Agreement in December 2015, social interests in climate change increased in multiple areas, including the environment.</p> <p>Recently, Korean society has faced growing concern about the fine dust generated from fossil fuel consumption. Accordingly, the government announced the development of an incentive system to promote the sale of electric vehicles, and carmakers announced a reduction in the sales of internal-combustion engine vehicles.</p>	<p>Investment and production costs are rising, as reduction of greenhouse gas emissions is required in the petroleum refining, transportation and distribution industries. Attracting investment in the long-term is projected to be difficult since the World Bank announced it would stop investing in the oil drilling business starting in 2019.</p> <p>In Korea, as the government tightens environmental regulations on fine dust, facility investment costs may increase. Furthermore, the government's announcement to expand subsidies for the purchase of EVs, and the subsequent launch of EVs, hydrogen powered vehicles, and hybrid vehicles to replace gasoline and diesel vehicles can have a negative financial impact. On the other hand, strengthened global regulations and the advancement of EV technology are expected to contribute to the market expansion of eco-friendly EVs.</p>	<ul style="list-style-type: none"> <li>Establish strategies and procedures for emission trading scheme to comply with regulations and respond to market changes.</li> <li>Increase R&amp;D and investment (i.e. develop next-generation batteries of electric vehicles for long-distance driving, etc.), and construct new production facilities.</li> <li>Mitigate greenhouse gas emissions (e.g., reduce by 60,000 tons a year by promoting various projects at workplaces).</li> </ul>