

## Ethical Management

Stronger legal regulations on ethical management in the global business environment and 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 established its Code of Ethics and Guidelines based on SK Group's management philosophy SKMS (SK Management System) and continues to make updates as necessary. Moreover, the company plans to upgrade the company's ethical management system by establishing an ethical management training platform and a supplier ethics training plan, and continues to supplement the company's management of the compliance program.

### — Ethical Management Principles

SK innovation has enacted a Code of Ethics specifying the 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 (last update completed in April 2017). All employees of SK innovation, as well as its investment companies, including overseas subsidiaries, are obligated to observe the Code, and the company also recommends that companies that SK innovation partially owns, or business partners that the company does business with or have a contractual relationship with the company, adopt and follow the Code.

In addition, the Business Conduct Guidelines include case studies which provide practice guidelines, and FAQ section on the Code of Ethics Guideline for any questions employees may have.

### — Internalizing the Ethical Awareness Company-Wide Ethical Management Workshop

SK innovation hosts an annual Ethical Management Workshop led by leaders to discuss ethical dilemmas and risk case studies. The workshop is autonomously held by each division, and the first and second workshops are led by executives and team leaders respectively. In 2017, the workshop's topic was case studies from audits over the past three years and cases of ethical dilemmas. The attendance rate for this workshop was 93%.

### Strengthening Employee Ethics Training

SK innovation holds ethical training year-round in order to strengthen employees' commitment ethics. In 2017, training was expanded to cover all employees, including international employees. In addition, the company has enhanced employees' ethics compliance by sharing key issues they may face during the course of their work.

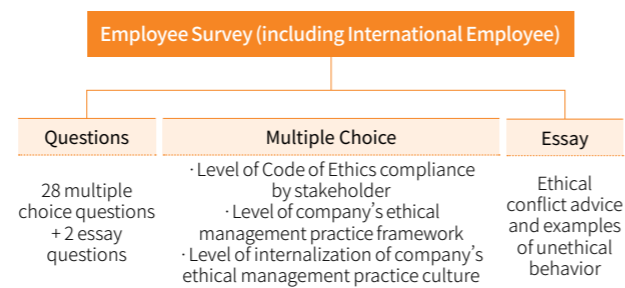
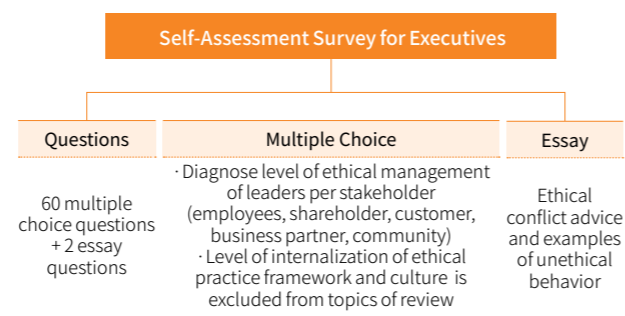
#### ● Ethical Training Performance

Classification	Number of Participants	Hours of Training
Offline training	1,121persons	939hours
Online training	5,893persons	2,947hours

### Ethical Management Survey

To understand employee's level of awareness of, and identify weak areas in, the ethical management framework, the company conducts an annual ethical management survey. In 2017, 80% of all employees participated in the survey for ethical management. 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.

#### ● Composition of Ethical Management Survey



### — Strengthening Ethical Management Communication

To increase management and oversight of ethics management within the company, SK innovation has opened communication channels, including the Ethics Consultation Center and Ethical Management website, through which it receives reports and requests for consultations on unethical behavior. In May 2017, we added ethical management pages to our intranet to ensure accessibility for employees. We also provide a reward program for informants, in order to encourage active participation from employees and stakeholders. The identity of the informant and the content of the information received are strictly kept confidential to prevent any possible backlash.

As of 2017, a total of 95 reports and consultations were filed. After excluding inquiries, mistaken reports, double-counted cases, and reports on other companies, there was a total of 60 cases. All reported content was investigated and sent to the related department for follow-up measures, while answers were provided for consultations. Customer complaints were referred to the customer service department. In 15 reported cases that were investigated, one was a violation of the Employee Code of Ethics (Receipt of entertainment by suppliers). Follow up for the employees involved were done by HR.

#### ● Number of Ethical Management Related Reports and Consultation Cases

**Number of Cases by Stakeholder** (Unit: Case)

Type	Report	Consultation	Complaint	Total
Customer	-	-	13	13
Business Partners	1	-	2	3
Employees	-	7	-	7
Others & Anonymous	14	2	21	37
Total	15	9	36	60

**Breakdown of Cases by Follow-up** (Unit: Case)

Investigation (Audit)	Cases Transferred to Relevant Department	Others (Unconfirmed or Dismissed)
15	16	29



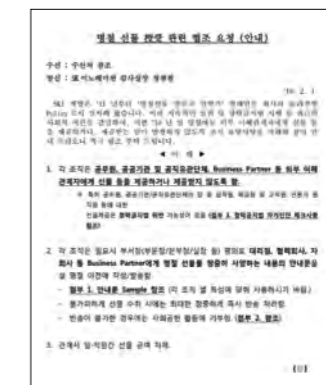
### — Creating a Transparent Supply Chain Survey on Abuse of Position of Power

As it is expected that regulations on unfair trade practices between large corporations and small companies will be stricter going forward, the company is continuing to strengthen monitoring of any unfair practices with suppliers, such as an employees' abuse of power. As part of this effort, the company conducts surveys on abuse of position of power of all domestic suppliers every two years<sup>1)</sup>, and assesses carefully whether there have been any cases that the company abuses the superior status unfairly or infringes on ethical management. In addition, in the case that an in-depth investigation is required, some suppliers will be visited for in-person interviews.

Note 1) The latest survey was conducted in 2016, next survey to be conducted in 2018

### Establishing a Culture of Fair Trade

SK innovation has embarked on a campaign with its suppliers and other external stakeholders to not give or receive holiday or congratulatory gifts in order to strictly prevent any possibilities of unfair transactions. Employees who receive gifts are required to submit a description of the gift to his/her reporting team at their business site. Gifts that cannot be returned are sent to relief agencies and child welfare organizations as part of SK innovation's social contribution activities.



Official letter of request for cooperation to not give or receive holidays or congratulatory gifts

— Compliance Organization

SK innovation and three subsidiaries (SK energy, SK global chemical, SK lubricants) have each appointed a Chief Compliance Officer (CCO) to oversee and manage each company's Fair Trade Compliance Program (CP). The CCO establishes the CP implementation plan, oversees the implementation process, and reports the CP performance and plan to the Board of Directors semiannually.

— Compliance Management System

SK innovation has established a Fair Trade Compliance Program (CP) to enhance transparency in transaction and to promote fair competition within the supply chain. The company also defines seven major elements and establishes detailed management guidelines for each element to manage SK innovation and five subsidiaries strictly.

— Reinforcing Internal Compliance Monitoring

SK innovation obligates consultation from the HQ Business Compliance Team before engaging in inter-company transactions with affiliated companies to monitor for any possibility of unfair support, and has provided fair trade consultations in over 200 cases.

In 2017, the company has established a virtuous circle of 「compliance risk diagnosis by organization → examination → training → performance measurement and improvement」 to enhance risk management measures. As the first step, the company has diagnosed compliance risk by division and type for 110 business departments of SK innovation. Based on this diagnosis, issues related to each division were identified to conduct training and make improvements. In 2018, the company will operate and improve the framework, and continue to oversee all subsidiaries of SK innovation.

— Strengthening Employee Awareness of Compliance

Providing Compliance Information

In order to provide specific fair trade guidelines to employees, SK innovation has published and distributed a Compliance Guidebook, which covers the work process for all transactions and related fair trade issues. In addition, the company continues to issue the Fair Trade News Brief and Compliance Letter on a regular basis to raise awareness of compliance.

Compliance Training

In 2017, the company conducted an internal compliance training session, which covered regulations and issues that employees will have to consider in their work, with the goal of increasing awareness of the compliance with fair trade regulations. In terms of offline training, the courses are not only related to fair trade in general, but rather specific topics for each organization's business. Similarly, there is a basic online course for all employees, as well as advanced courses designed for employees in marketing departments.

In addition, practicing professionals in fair trade are encouraged to participate in Compliance Research Association activities and external courses to develop their expertise.

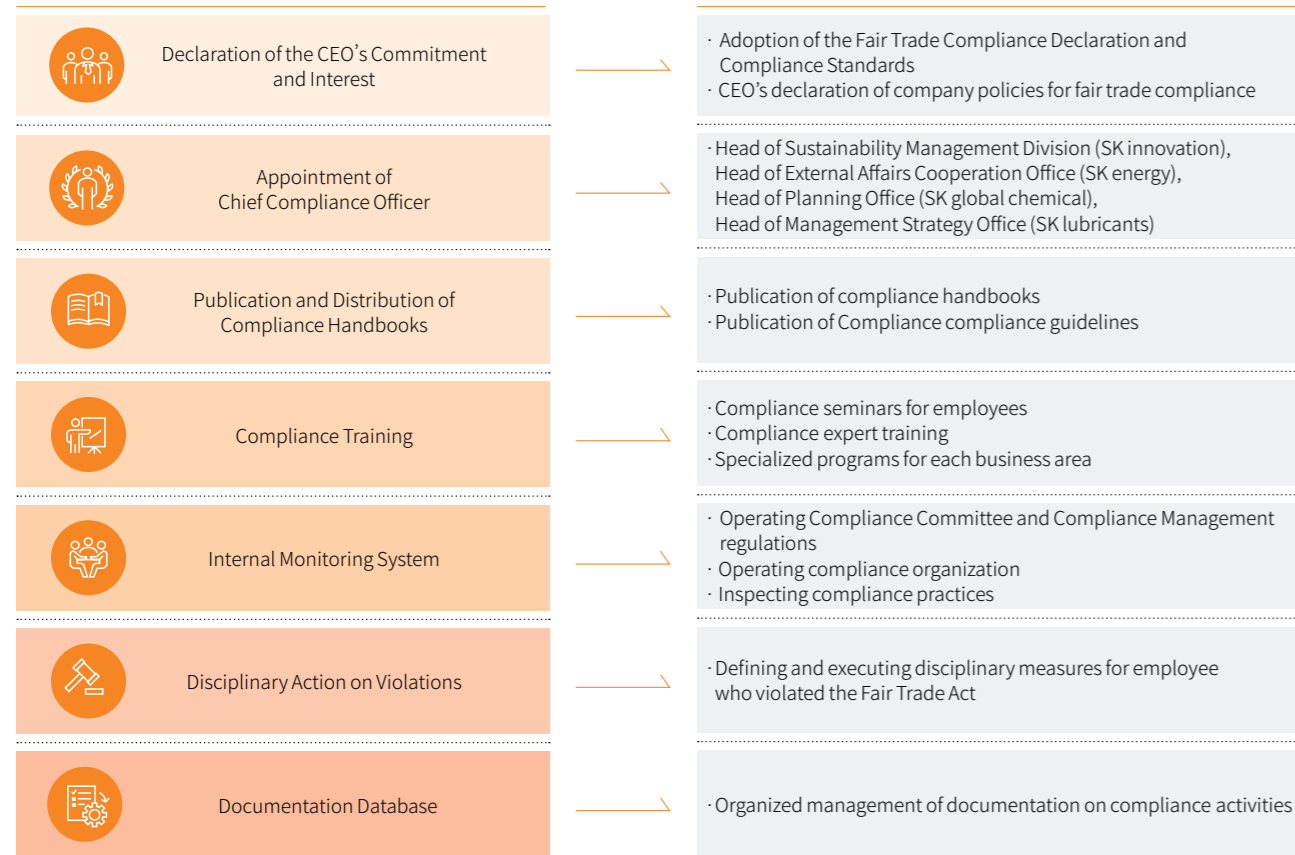
— Responding to External Regulations on Compliance

In January 2017, the Fair Trade Commission legislated guidelines on the “Prohibition of Provision of Inappropriate Benefit to Persons with Special Interest (Article 23-2, Monopoly Regulation and Fair Trade Act),” in order to strengthen standards of inspection of conglomerates' inter-company trade. SK innovation has rebuilt its inspection process on internal transactions that may be subject to investigate and applied stronger standards in order to mitigate risks in advance.

Furthermore, since the regulatory body is expected to strengthen surveillance on large-scale internal transactions between the affiliates of large conglomerates, the company has reviewed inter-company transactions of the past five years and improved the monitoring processes of inter-company transactions.

In addition, in light of the increased cooperation among competition regulatory authorities across jurisdictions, as well as strengthening regulations on company mergers, the company has conducted monitoring and training for the overseas marketing organizations and subsidiaries, and provided training on the reporting procedures for company consolidation employees involved in M&A and company merger work.

● The Seven Factors of the Compliance Program



Knowledge-sharing seminar regarding pre-merger filing reporting

● Compliance Training Course

Subject	Target	Timing
Transportation Manager Training	SK energy transportation managers	April
Online Training: Fair Trade Basic Course	All SK innovation affiliated employees	May
Online Training: Fair Trade Advanced Course	Divisions related to the Fair Trade Act	May
Company Merger Control Regulations and Practice	Employees in the M&A departments at SK innovation subsidiaries	October
European International Cartel Training	SK lubricants' overseas marketing department and employees at the Amsterdam subsidiary	October
Fair Trade Act Training	SK innovation Materials Division	November
Unfair Collective Practice and Agency Act Training	SK global chemical's Chemical Market Development Department	November
Fair Trade Training for the Oil Pipeline Business	SK energy Logistics Management Department	November