

## Supply Chain Management

In corporate business activities, the boundary of business scope is expanding from previous competition between single companies to competition in value chain. Accordingly, it is imperative to diagnose any potential risk in the supply chain in advance and establish a response system for a variety of risks in order to secure stable competitiveness in the global market. SK innovation continuously manages risk in the supply chain by classifying core suppliers based on the unique standards for strict evaluation and monitoring and communicating actively with suppliers with various channels.

### Governance for Mutual Growth

Tasks regarding company-wide procurement strategy and mutual growth by SK innovation are systemically conducted under the leadership of the Procurement Planning Team in the headquarters. In 2011, the Mutual Growth Secretariat in SK global chemical was separately launched to enhance the specialty in activities for mutual growth. In addition, as personnel are placed to each region

including Seoul, Ulsan, Incheon and Daejeon, they are responsible for managing suppliers and implementing detailed procurement activities. When it comes to the suppliers' safety and environment part, each business site and SHE(Safety, Health and Environment) department provide partial support.

Mutual Growth Management Organization and its Roles



### Supply Chain Classification System and Risk Review

SK innovation classifies and manages core suppliers by comprehensively considering 1) transaction size, 2) impossibility of substitution and only approval and 3) current status of core technology possession. Key suppliers of SK innovation are companies which perform large-scale construction or service at a major production plant, including Ulsan Complex and incheon petrochem or handle core raw materials with regard to business(battery raw materials, catalyst, etc.). Based on these criteria, 1,733 out of 5,336 suppliers in total were classified as core suppliers in 2016.

| Risk area            | Major risk factors   | Range of risk |
|----------------------|--|---------------|
| Economy              | Financial risks such as change in credit rating and financial information and administrative measures  | 0.9%          |
| Society              | Violation of ethics-related laws and regulations and unfair trade acts such as collusion<br>Issues regarding human rights and labor              | 3.1%          |
| Safety & Environment | Environmental accidents(oil leak in the ocean, gas leakage, etc.) and physical injury<br>Violation of environmental regulations and legislations | 11.3%         |

## Evaluation and Monitoring of Suppliers

SK innovation has evaluated various items including supplied products, service quality, delivery period, ethical management by suppliers, SHE policy and management level and labor and human rights issues. With this evaluation, the company has found and improved non-financial risks, which can occur in the supply chain, laid the framework for mutual growth and continuously expanded and improved its application.

### Supply Chain Due Diligence

SK innovation continues to identify and manage suppliers in special relations<sup>1)</sup> with SK innovation subsidiaries and conducts regular evaluation for core suppliers in terms of quality, finance and SHE. In case supplier's workers reside in the business site of SK innovation subsidiaries, the company implements self-diagnosis for labor management and examines any risk in human rights and working environment. In addition, SK innovation receives documents from registered suppliers including SHE policy and environmental certificates to evaluate and manage its non-financial risks. We also collect SHE proposals from all individual contracts and outsourcing contracts(100%) for production, storage and research facilities. Afterwards, we review and evaluate each proposal and reflect it in the contract.

<sup>1)</sup> Special relations: Indicates a director, employees or employees' relatives of SK innovation subsidiaries possessing shares by SK innovation

### Monitoring Process

It is stipulated that any supplier in a transaction with SK innovation should pledge the "Agreement on Fair and Transparent Trade" in registering a company by procurement portal; the company has collected the agreement from all registered suppliers. In case any illegal and corrupt act is detected based on the agreement, we take stringent measures in accordance with the relevant company regulations. Suppliers also have the duty of reporting any case immediately when our employees ask for money, treatment, entertainment or convenience or special relations such as the ownership of shares of employees' relatives occur. In addition, the company monitors real-time change in financial information of suppliers in cooperation with credit rating companies and takes proper measures in any unusual case. If a supplier acquires remarkable results by regular supplier evaluation, the company provides the supplier with benefits such as exemption of deposit as an excellent supplier and allowing living in the maintenance unit; for any supplier with poor performance, we provide feedback for results as well as education and training to improve capabilities.

Key Performance of Evaluation and Monitoring

| Target  | 2015             | 2016             |
|---|------------------|------------------|
| Suppliers for SK energy Ulsan Complex and SK incheon petrochem regular evaluation(*Except for suppliers for quality evaluation) | 69               | 72               |
| Suppliers for SHE proposal evaluation   | 184              | 334              |
| Suppliers for the diagnosis of labor management such as human rights and labor issues   | 46               | 74               |
| Suppliers participating in signing the agreement for fair and transparent trade   | Entire suppliers | Entire suppliers |

## Vitalization of Supply Chain Communication

SK innovation strives to seek further developed measures for mutual growth and cooperation with suppliers by continuous communication. The company operates Mutual Growth CEO Seminar by sharing management innovation cases with suppliers' CEOs on a regular basis and holds an annual Supplier CEO Meeting between CEO and suppliers to discuss measures for improving quality and SHE management.

In addition, the company holds the commission for facility suppliers on a monthly basis to share accident cases and check and training for safety and health. We also regularly hold a meeting for device, inspection, machine and logistics suppliers to discuss measures to boosting SHE management capabilities and tasks.



Mutual Growth CEO Seminar

..... **Achievement of Mutual Growth Implementation** .....

**Evaluation of Corporate Partnership Index**

SK innovation makes diverse efforts such as activities for reinforcing support based on actual needs from suppliers and vitalizing mutual communication with the aim of building happy partnership with suppliers. Especially, as SK global chemical was acknowledged for its performance of mutual growth and cooperation activities based on the group in charge of mutual growth, the company acquired the best level in 2016 in the Corporate Partnership Index Evaluation by Korea Commission for Corporate Partnership for four consecutive years for the first time in the chemical industry and was selected as the best distinguished company. SK innovation will maintain its best level by carrying out mutual growth activities and providing suppliers with support.

**Performance of Products Supply Chain**

As of December 2016, the total amount of product procurement by SK innovation was KRW 953.6 billion; 51% of the total amount was the procurement from domestic suppliers.

..... **Future Plan** .....

SK innovation continues to offer support in diverse sectors such as HR cultivation, technology and fund to enable suppliers to conduct sustainable management activities. We will comprehensively consider not only the capabilities and financial current status of existing and new suppliers but also the safety and health of suppliers' employees and impact on the working environment and evaluate the system and give proper feedback to launch a sustainable supply chain and realize the zero level of potential risk in the supply chain. Furthermore, with the aim of taking the lead in broadening and implementing ethical management in suppliers, the company will proactively communicate with the management and employees of suppliers on a regular basis and create and develop the value of win-win relationship with suppliers.

Amount of Procurement for Three Years

(Unit: KRW 100 million)

