

Mutual Growth

SK innovation works to enhance both our suppliers' financial stability and build capacity while also implementing various activities to minimize our adverse environmental and social impacts. In particular, we provide support to suppliers' management and employees to raise awareness on safety and environmental issues not limited to their work with SK innovation, but that can be applied in all aspects of their business.

The Importance of Supply Chain Sustainability and Mutual Growth

Leading global companies in sustainable business management have continuously worked to improve the environment, safety, human rights, and other aspects of their supply. Calls for corporate responsibility for supply chain sustainability have gained industry-wide attention, as supply chain responsibility has become a critical issue affecting companies' business in terms of environmental and social risks.

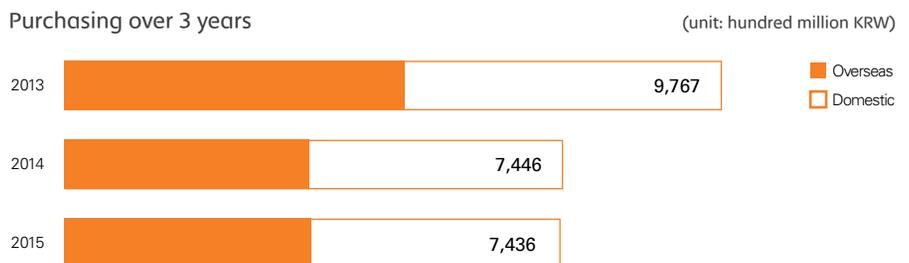
In Korea, the 'Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises' came into effect in 2008, spurring key Korean conglomerates to recognize the importance of 'mutual growth' and a wide-range of support for their suppliers. Recently, more cases are witnessed where support for SME (Small-Medium Enterprise) capacity building has gone beyond regulatory compliance to form true partnerships with suppliers.

SK innovation's Supply Chain Management System

SK innovation's Procurement Planning Team oversees the development of company-wide procurement strategies and related operations for SK innovation and its subsidiaries, while specific procurement activities and Supplier Relationship management is under the purview of the Seoul HQ, Ulsan Complex, SK Incheon Petrochem and Daedeok R&D Park. Suppliers' safety and environment related issues are supported by each plant with help from the SHE division. We also provide management, technology, and financing support in addition to our support for training and capacity building to pursue mutual growth with our suppliers. In particular, SK global chemical communicates closely with suppliers through the Mutual Growth Secretariat and was graded as Outstanding in 2014 and 2015 by the Korean Commission for Corporate Partnership's Corporate Partnership Index.

SK innovation's materials supply chain

As of December 2015, SK innovation purchased materials amounting to 743.6 billion KRW in total, of which roughly 50% was purchased from domestic suppliers.



Key Supply Chain Sustainability Management Activities

Assessing Supplier Sustainability at the Contracting Stage

SK innovation considers suppliers' sustainability from the contracting stage. For construction and service contracts over a certain threshold, we request for self-assessment of the potential supplier's labor standards, minimum wage and gender equality regulatory compliance, work-life balance, expansion of worker participation and cooperation, and non-regular worker protection. Based on the results, we confirm and factor the company's regulation compliance and human rights protection into selection. Moreover, we include environmental regulation (Act on Liability for Environmental Damage and Relief thereof, Act on Registration, Evaluation of Chemicals, etc.) compliance and risk management during the procurement process to ensure our suppliers' compliance with their environmental responsibilities.

Facilitating Suppliers' Sustainability Management Improvements

Contractors for production, storage, and R&D contracts over a certain value are required to submit a SHE (Safety, Health, and Environment) Plan covering the entire contract period. In addition, a contractor must establish standards to comply with SK innovation's ethical management, and sanctions are imposed should breaches be discovered. SK innovation maintains efforts to secure contractors' and suppliers' corporate responsibility. Further, SHE criteria has been added to regular supplier evaluation for on-going monitoring and improvements.

We also continuously invest and provide support to strengthen suppliers' social responsibility. In early 2015, SK innovation signed MOUs with the Korea Occupational Safety and Health Agency and 40 key suppliers to build safety and health management systems for its partners based on standards and process tailored to each business. Furthermore, all participating suppliers obtained the Korean health and safety certifications, KOSHA 18001 and OHSAS 18001. As a result, suppliers implement SHE management and cemented their partnership with SK innovation to foster a safer workplace together.

We also signed the 'MOU to prevent industrial accidents with suppliers' and supported the suppliers' hazard assessment and safety training. We also distributed our own 'Operational Safety Guide' to our subsidiaries' suppliers and companies in the Ulsan Petrochemical Complex to raise their safety awareness.

Management and Training Support

SK innovation provides suppliers' management and employees with various training programs. SK innovation supports the training cost and provide programs tailored for each job function. We also hosted a job fair in Ulsan to help small to medium regional suppliers recruit top talent. The job fair, which is on its third successful run, not only promotes our suppliers, but provides local youths with various support activities such as aptitude tests, resume photos and have been appreciated by both our suppliers and job-seekers.

SK innovation supplier training and education programs

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.
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.

Key Mutual Growth Activities

Technology Support

SK global chemical supports suppliers in developing domestic equipment, joint patent registration, joint entry into global markets and other activities based on joint technology development. In particular, by jointly developing and registering patents with our suppliers, we have been able to achieve localization of products and secure cost competitiveness, while our suppliers have been able to secure new revenue sources by selling new products to companies including SK innovation, resulting in a meaningful example of mutual growth.

2015 Supplier Technology Support Case

Most petrochemical facilities were built based on foreign designs imported after the 1970s and localization was difficult as any damage to a key component could impact the entire production line. As such, SK innovation collaborated with one of its suppliers to increase the use of domestic technology in key processes.

We supported Daeheung ENT, a safety valve and industrial valve supplier in developing the 'safety valve performance test system' technology, for which we secured a patent which was successfully registered in December 2015. Furthermore, we helped generate revenue for Daeheung ENT by awarding the company 13 contracts in one year, including contracts for the patented technology.

We continue to lead import-substitution not only for our company but for the domestic petrochemical industry while also working to identify new collaborations with our suppliers.



Financial Support

SK innovation provides suppliers with financial support through various mechanisms. Direct loans are available for suppliers in need. Indirect support is also available in the form of a credit guarantee through the Mutual Growth Guarantee Agreement, network loans and other financial programs. In 2015, SK innovation and SK global chemical contributed 12 billion won and 22 billion won, respectively, to set up and operate the Shared Growth Fund to provide emergency financial support to suppliers.

2015 Mutual Growth Fund

34 billion KRW
(SK innovation 12 billion KRW, SK global chemical 22 billion KRW)

Strengthening Communication with Suppliers

We are advancing our partnerships by continuously communicating with our suppliers and resolving their difficulties. We regularly host the Mutual Growth CEO Seminar to share management innovation with our suppliers. We also host an annual Supplier CEO Meeting to discuss quality improvement and SHE management methods. We also provide monthly safety and health inspections and training to equipment suppliers, operate a council to share accident case studies, and hold regular meetings with equipment, inspection, machinery and logistics partners to discuss plans to improve and expand SHE management capacity and work.



2015 SK Mutual Growth CEO Seminar

Future Plans

SK innovation will continue to assist our suppliers to become sustainable corporations by providing support for technology, finance, HR and other wide-ranging management practices. In addition, we will not only look at the company's production capacity or financial status in selecting our suppliers and partners, but also comprehensively evaluate their employees' safety and health, and local environmental impact. To achieve this, we will always maintain open channels of communication with our suppliers' management.