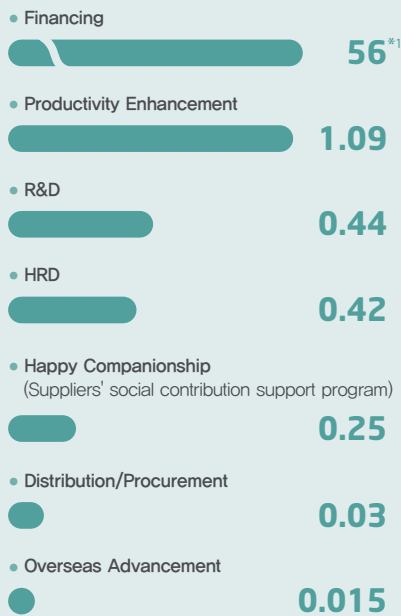




# A Cooperative Relationship with Suppliers

## Financial Support Offered to Suppliers in 2013

Unit: KRW billion



\*1 The figure is the sum of: KRW 3.0 billion in direct loans + KRW 12.0 billion in contribution to the Mutual Growth Fund (+ bank commitments of KRW 18.0 billion) + KRW 20.0 billion in SKI's Mutual Growth Fund + KRW 2.4 billion in credit guarantees + KRW 656 million in debt guarantees

The sound growth of our suppliers and business partners is integral to the sustainable growth of SK innovation. As a result, we take a far-sighted, long-term approach to fundamental issues when it comes to our partnerships with our suppliers. This section reports on our commitment to win-win partnerships with our suppliers.

## Win-Win Partnership Programs for the Sustainable Growth of Our Suppliers

At SK innovation, mutual growth and win-win partnerships go so far as to provide suppliers with the framework for sustainable growth. This approach proved its effectiveness when our joint patent rights on R&D results with our suppliers and cooperative marketing paid off with increased sales revenue. In addition, we also offer financial support through our Mutual Growth Fund and comprehensive consulting and budgeting services to suppliers for their social contribution activities, having introduced a new concept of win-win partnership between large corporations and SME suppliers.

### • Technical Support

SME suppliers' competitiveness lies in their technologies. As such, SK innovation offers various programs for SME suppliers to advance their technologies. Specifically, SK global chemical sponsors its suppliers in technology competency-building through various joint projects, such as facility localization, joint patent rights, and joint R&D for high value-added products.

### • Financial Support

SK innovation and SK global chemical operate Mutual Growth Funds of KRW 20 billion and KRW 55 billion, respectively. In particular, SK global chemical offers direct loans, loans extended from the fund, and credit guarantees to its suppliers.

### • Safety Management Support

Each of our worksites has their own Safety, Health and Environment (SHE) Division, all of which operate under the direct control of the CEO. On top of that, we published a Work Safety Guide for suppliers who are vulnerable to safety management, transferring our SHE know-how and providing related education.

### • Educational Support

We give seminars on business administration for the CEOs of our suppliers. In promotion of equal opportunities for education, we have an online education program, a win-win partnership e-learning course, for the employees of our suppliers. Furthermore, the Win-Win Partnership MBA course is available for mid-level managers as well as overseas training programs and on-site programs.

## Supplier HRD Programs

Unit: persons

Program	Recipients	Subjects	No. of Companies/Employees	
			2012	2013
Win-win partnership CEO seminar	CEO	Business administration, humanities, SUPLEX best practices	310	280
Win-win partnership MBA	Managers	Business administration, general management information	180	150



## Win-Win Business Partnerships and Business Ecosystem

SK innovation is leading a new paradigm change with win-win partnership on the supply chain. Departing from the former unilateral approach to partnerships, we take various practical measures to support our partners in building competitiveness. This effort turned out to be instrumental in enhancing the technological competitiveness of our partners increasing their sales, realizing the term “win-win partnership” in its truest meaning.



1 2013 Win-Win Partnership Week ceremony

### Presidential Commendation for Outstanding Performance in Profit Sharing with Partners

SK global chemical has been pushing forward with 37 profit-sharing initiatives registered with its profit-sharing total management system. In recognition of its industry-leading profit-sharing practices with its suppliers, such as joint R&D on new technology/products, patent applications, and productivity enhancement, the company was awarded the Presidential Commendation at the 2013 Win-Win Partnership Week ceremony organized by the Ministry of Trade, Industry & Energy, the National Commission for Corporate Partnership, and the Small and Medium Business Administration on October 21, 2013.

### Joint R&D and Patent Applications

- **SK global chemical—Seoul ENG, joint patent rights on heat exchanger component technology for ethylene processing**

The investment and technical support for R&D on localization of the heat exchanger technology is cited as one of the best cases of a profit-sharing initiative at SK global chemical.

A very expensive imported device, the conventional heat exchanger cost the company a great deal to replace the heat-resistant cone, which had failed very often. To deal with this issue, SK global chemical worked with Seoul Engineering to localize the heat-resistant cone technology of the heat exchanger and successfully developed a new product with improved performance. The two companies have filed for a joint patent right to the technology, which is now pending for examination.

Economically, this technology substituted KRW 4.4 billion worth of imports, saving KRW 1.53 billion annually. When expanded to the entire industry of Korea, it is expected to substitute imported goods worth KRW 25.7 billion and save KRW 4.6 billion worth of steam. This localization also saved SK global chemical material expenses and operating expenses, while Seoul Engineering can benefit from sales growth thanks to the technology.

- **Joint Patenting and Commercialization of Storage Tank Heat Insulation Technology with Gwangmyung E&C**

SK global chemical and Gwangmyung E&C have jointly developed new heat insulation technology by enhancing brain storming to save on costs and enhance efficiency in the heat insulation technique of storage tanks and filed for a joint patent right to the new technique. Having successfully completed the pilot operation on their new storage tanks, the two partners are now working on the final leg of a license agreement with a third party.

This project successfully saved costs by 34 percent on average and process duration by 25 percent compared to conventional methods. Furthermore, it reduces heat loss and minimizes the potential penetration of raindrops, while also minimizing the fugitive dust of insulation materials.

Above all, the two companies have built upon their trust-based relationship as they have gone through the difficulties in the process of filing for patents, commercialization and pilot operation of the technology, while realizing synergies from their collaboration. This is solid proof of SK innovation's win-win strategy in its relationships with suppliers.

### INTERVIEW

I owe much to SK global chemical. This success can be accredited to SK global chemical's trust in us and our technology and their all-out support in both financing and infrastructure. They were a very reliable consultant that we can resort to when we run into any challenges or problems in the course of our R&D activities. I hope the company continues this kind of support to small companies with competitive source technologies.

**Kim, Kyung-sep**, CEO of Seoul Engineering

### Happy Companionship: social contribution idea contest its suppliers

At SK innovation, win-win partnerships extend to suppliers and their social contribution activities under the name Happy Companionship. Under the program, SK innovation offers consulting services and financial aid to its suppliers who find it difficult to carry out their social contribution ideas due to their lack of financial, human and technical resources despite their strong commitment. SK innovation also signed an agreement with Hunger Saver on Happy Companionship with Happy Partners in July 2013 and invited suppliers for their social contribution proposals. Five programs were selected from 30 proposals submitted during the event, which were subsidized for expenses and provided with total consulting services from funds totaling KRW 250 million. The suppliers will work on their own when these social contribution programs are firmly established in the near future.



1 Integrated online procurement system

### Fair Procurement & Supplier Partnership

SK innovation has in place a Supplier Relationship Management (SRM) system to enhance transparency in its procurement procedures and to enhance competitiveness in its supply chain. We conduct fair evaluations on suppliers for their business ethics, credit, technology, and environmental capabilities before registering them in our SRM system. All transactions with suppliers, from their registration to our SRM and our procurement requests to bidding and ordering are made through the integrated online procurement system at [www.skbiok.com](http://www.skbiok.com). A variety of stakeholders—supplier supervisors, procurement officers, end-users, and technology assessment teams—are involved in the procurement process, which helps improve fairness. Ultimately, SK innovation evaluates registered suppliers regularly on management, technology, quality, safety-health, environment, and human rights, while also offering advice to maintain strategic partnerships and sustainable relationships.

In addition, SK innovation was the first company in Korea to adopt a fair trade compliance program (CP) which serves as the cornerstone in our endeavors towards a higher level of our CP practices. CP performance results and plans are reported on to the BOD on a regular basis, which have no cases of violations or unfairness occurred for the reporting period.

### The 7 Steps of SK innovation's Compliance Program (CP)

