

Risk Responses

SK Innovation establishes a response system to manage the risks caused by internal and external uncertainties on the company. We create the foundation for sustainable growth by minimizing the variability of business activities to ensure a stable environment and seeking an opportunity to establish strategic directions.

Risk Management Strategies

SK Innovation reviews various risk factors that might occur during the business operation, so that factors that need to be addressed at the company-wide level are identified. We have in place an organization to be prepared for various risks, including the dependence on foreign sources of crude oil and market price fluctuation risks, enabling us to take actions efficiently and quickly. Also, we gather information on best practices and share them with our employees.

Response Activities for Various Risks

Risks Associated with Dependence on Foreign Sources of Crude Oil

Most Korean petroleum production companies are entirely dependent on importing crude oil, where the supply and price of imported crude oil are determined by numerous factors. In particular, the most significant factors include the production volume decided by OPEC (Organization of Petroleum Exporting Countries) and other oil producing countries and the political situation in the Middle East. In addition, there are numerous risk factors like domestic and international energy-related laws, the political and economic situations of countries that are developing resources, the present condition of global climate change, the economic growth rate of China and the domestic economic situation.

Risks Associated with Market Price Fluctuation of Crude Oil

SK Innovation takes numerous measures to minimize the risk factors arising from the fluctuation in market prices of crude oil, and various other global factors, whether economic, regulatory or political, as well as weather conditions, which can alter market prices. Also, there are risk factors arising from the difference in crude oil prices between the shipping month and the arrival month due to long-term contracts with the Middle East.

Risks Associated with Fluctuations in Foreign Exchange Rates

Unexpected fluctuations in foreign exchange rates can bring direct losses to the company's profitability with impacts on sales volume, prices and cost of crude oil. In order to reduce losses that might arise from risks associated with fluctuations in foreign exchange rates, SK Innovation closely monitors foreign exchange-related risks. Also, we decide on the acceptable level of foreign exchange risks and hedge excessive foreign exchange risks that go beyond the acceptable levels, so that foreign exchange rate-related risks are minimized.

Risks Associated with Concentrated Production Facilities

Refining, transporting and storing crude oil, refined petroleum products and petrochemical products involves many significant hazards, including fires, explosions, spills and other unexpected accidents. Any interruption to operations as a result of an accident or any other unexpected problem adversely affects a company. At SK Innovation, we carry insurance in amounts recommended by overseas rating agencies to cover any damages that might occur at Ulsan and Incheon complexes. The insurance coverage is deemed sufficient to restore all facilities in the event of an unforeseen accident and to compensate immediate monetary losses.

Risks Associated with Environmental Regulations

Petrochemical businesses are applied with various environmental laws and regulations at home and abroad. SK Innovation is in full accordance to meet the standards set by related laws and regulations regarding pollutant emissions, fuel quality, the handling, use, storage, transportation and disposal of petroleum-based products, while also abiding by all applicable environmental laws and regulations regarding pollutants into the air, soil and/or water. As governmental and non-governmental groups continue to require stricter environmental regulations in the future, additional capital expenditures or operating expenses will be needed, which will ultimately affect our overall business performance.