

· · · · Business Performance · · · ·

Realization of stable financial performance is a core element to have the largest impact on the existence of a company and serves as the foundation of securing future growth engines. With continuous efforts to improve the profit structure, SK innovation has achieved the largest management performance and acquired the highest credit rating in history to lay the foundation of creating sustainable value.

Economic Value Creation

On a consolidated basis, SK innovation achieved sales of KRW 39 trillion 520.5 billion and operating profit of KRW 3 trillion 228.3 billion, recording the strongest performance in the history of the company. Even though the annual average oil price(based on Dubai oil) in 2016 was USD 41 per barrel, the lowest level since 2004, and top-line sales was approximately KRW 39 trillion, the lowest level since 2009, the company was still able to record its highest operating profit in history, as well as an operating margin of 8%, the highest level since 2004. This performance also indicates that the business structure innovation initiated by SK innovation and its subsidiaries is starting to bear fruit.

Since 2011, SK innovation has invested over KRW 4 trillion, focusing on the petrochemical and lubricant business. Some examples of this investment are the portfolio upgrade of SK incheon petrochem, Ulsan Aromatics(UAC), Sinopec-SK(Wuhan) Petrochemical Co., Ltd., and Spain ILBOC. As a result, the company globally ranks No. 5 in terms of PX(Paraxylene) production capacity, and No. 1 in terms of premium lube base oil capacity. In addition, the investment in the petrochemical and lubricant business for the past 5 years has diversified the company's margin profile. The company expects to consistently achieve strong business performance, as the results of global partnerships, such as Sinopec-SK(Wuhan) Petrochemical Co., Ltd. with China's SINOPEC, UAC with Japan's JX Nippon Oil & Energy, and ILBOC with Spain's Repsol come to fruition

Key Highlights of Each Business

Petroleum Business: The R&M business recorded sales of KRW 28 trillion 369.9 billion and operating profit of KRW 1 trillion 939.1 billion. Though the top-line decreased year-on-year, due to lower oil prices, operating profit increased by KRW 640.0 billion. This is mainly because refining's fundamental competitiveness has been significantly improved by diversifying import sources for crude oil and optimizing production operation. SK incheon petrochem also recorded its highest operating profit of KRW 374.5 billion. In particular, this was a result achieved by investing KRW 1.6 trillion in 2014 to build 1.3 million ton paraxylene production facilities and upgrade the portfolio to transform the oil refining business into an energy and chemical business.

Petrochemical Business: The petrochemical business recorded operating profit of KRW 918.7 billion representing an increase from the previous year. The main drivers were strong spreads from major products, such as ethylene and paraxylene, and strong 4Q benzene spreads, for which the company pre-emptively invested via a global partnering.

Lubricant Business: Thanks to lube base oil spreads remaining strong, the lubricant business recorded operating profit of KRW 468.3 billion, up from the previous year, and contributed to the non-refining business recording its best earnings in history.

E&P Business: Although oil prices remained low, the E&P business achieved operating profit of KRW 105.2 billion through operational efficiencies.

Sales

(Unit: KRW 100 million)

Breakdown	2014	2015	2016
Sales	658,607	483,563	395,205
- Petroleum Business	490,563	352,997	283,699
- Petrochemical Business	126,352	92,880	76,865
- Lubricant Business	29,818	26,188	25,358
- E&P and Other Businesses	11,874	11,499	9,283

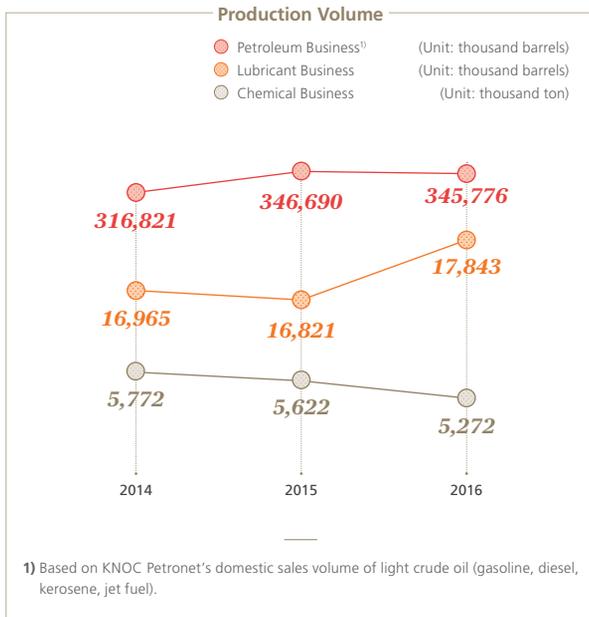
Operating Profit

(Unit: KRW 100 million)

Breakdown	2014	2015	2016
Sales	-1,828	19,796	32,283
- Petroleum Business	-9,990	12,991	19,391
- Petrochemical Business	3,592	4,310	9,187
- Lubricant Business	2,899	2,947	4,683
- E&P and Other Businesses	1,672	-451	-978

Production Volume

SK innovation optimizes its production facilities and utilizes its proprietary product quality control program to produce petroleum and lubricant products.



Credit Rating

SK innovation received a BBB+(stable) credit rating from S&P, based on its sound financial policies and steady operating cash flow. As the highest credit level in the history of the company, the credit rating reflects the company's efforts to strengthen the financial profile and innovate the profit structure by diversifying its business portfolio to include, the petrochemical, lubricant, E&P and EV battery business.

Securing Future Growth Engines

Acquisition of Dow Chemical's EAA Business

SK innovation acquired Dow Chemical's EAA²⁾ business, which is composed of two global production facilities— one in Texas, U.S. and one in Spain—as well as EAA products, ionomer production technology, goodwill, and trademark rights. By acquiring core technology and production facilities used in the high value-added packaging, the company will be able to broaden its portfolio to include high margin technology-based downstream products. By acquiring ultra-high pressure and high-level acid processing technology, we have laid the foundation to further expand our product portfolio and technical capacity in the future. In addition, the company has created a foothold to dominate the rapidly growing, high-end Chinese chemical market, while also generating additional margins via marketing synergies with existing products.

²⁾ Ethylene Acrylic Acid(EAA) is a type of adhesive copolymer primarily used as a packaging adhesive with aluminum foil and polyethylene

Right Principles and Best Practices for Tomorrow
