

MATERIAL ISSUE 02

Sustainable Supply Chain



Why is it important?

Importance of the issue

The significance of managing a sustainable distribution network is growing as stakeholders demand compliance with corporate social responsibility and regulations on cooperative growth of conglomerates, medium- and small-size companies grow stronger. SK innovation manages risks coming from suppliers and has established sustainability in the industry ecosystem related to our company value chain in order to create social values.

How is SK innovation responding to this issue?

SK innovation's strategic approach

- Create social value through growing together with suppliers
- Improve capabilities of distribution network and promote competitiveness
- Understand and resolve risks which may arise within the distribution network

How is performance tracked?

Performance evaluation method and mid- to long-term goals

- Gain and maintain top rating in Evaluation of Corporate Partnership Index (by 2023)
- Enhance and strengthen supply chain ESG management by evaluating ESG risk for all of our supply chain (by 2023)
- Minimize compliance risks regarding purchasing (by 2023)
- Collaborate with suppliers to minimize environmental pollution through production of eco-friendly product and utilization of recycling products
- Strengthen supply chain ecosystem health by expanding social enterprise product purchase

Create Social Value with Suppliers

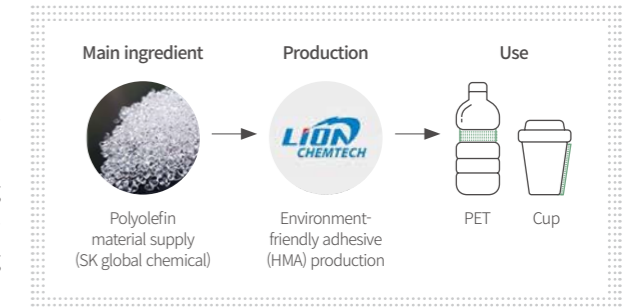
Co-developing environment-friendly adhesive technology through partnerships

SK global chemical developed the first environment-friendly hot melt adhesive in Korea in collaboration with partner 'Lion Chemtech' and is contributing to social value creation by spreading environment-friendly materials in the market. The existing adhesives mainly used Ethylene Vinyl Acetate (EVA) as the source ingredient, which could cause issues in the production process like emitting harmful gas. SK global chemical utilized Nexlene™, an internally developed commercialized product to co-develop an environment-friendly ingredient for adhesives. This ingredient has gained recognition at home and abroad for being hygienic and highly resistant to cold temperatures. Furthermore, the patent will go to Lion Chemtech and both companies will possess patents for future developments.

SK global chemical provides the core ingredients and technology to create green adhesives and Lion Chemtech manufactures the products with its unique pyrolysis technology. The collaboration of the two companies warrants various effects. Since SK global chemical does not need to build separate facilities, costs can be reduced. Meanwhile, Lion Chemtech has the opportunity to create stable profits. We forecast 30 billion won in revenue and plan to maximize sales through the marketing network both companies possess. As in this case, SK global chemical will create both social value and economic value by collaborating with partners and continue to grow together.

- 1) Brand of high-function polyethylene that SK global chemical succeeded in developing in 2010
- 2) Resistance to losing properties when polymer materials such as rubber or plastic are exposed to low temperature

Production of environment-friendly adhesive and production design



Mutual growth with society through fund for coexistence

SK innovation runs a fund for coexistence with suppliers as a part of Happiness Sharing Fund through a shared effort between the labor union and the company. The program creates a fund based on voluntary donations from employees and 1% matching grant policy by the company. The funds are distributed to suppliers of SK innovation in all areas including facilities, production, cafeterias, expenses and cleaning. We anticipate the program will close the income gap between conglomerate and medium-small size companies to contribute to stronger relationships with suppliers. In 2018, SK innovation created a fund worth KRW 5.24 billion and donated KRW 2.36 billion to 4,431 individuals in 66 suppliers.

Support for social economy in the community

SK innovation utilizes its diverse promotional resources to spread products and services of exceptional social enterprises in the community and supports their business capabilities. In addition, we are actively building partnerships with local government and state to stimulate the social economy in the community.

Outcome of supporting growth of social economy

Value creation by supporting social enterprise in Ulsan

- **Supporting organization:** Usisan
- **Contents:** Usisan is a social enterprise created by elderly baristas or women with career disruptions that runs programs such as village happiness space, Whale museum gift shop, Whale Village post office

Social economic alliance with Jeollabuk-do Province

- **Partner bodies:** Jeollabuk-do Province, KBS, Jeollabuk-do Province Ministry of Education, Jeollabuk-do Province Social Economic Form
- **Contents:** Promote purchase of relevant products to stimulate social economy, advertising to raise awareness of province residents, execute various collaborative programs

Stimulate social economy in Seosan by supporting Tour Dure

- **Supporting organization:** Seosan city, Korea Culture & Tourism Institute, Hanseo University, Chungnam Social Economy Network, Community Chest Chungnam District
- **Contents:** Collaborate to stimulate social economy and local tourism industry, advertisement to raise citizens' awareness

Stimulate social economy of Jeungpyeong

- **Partner bodies:** Jeungpyeong County, Ministry of Employment and Labor Cheongju Branch
- **Contents:** Prioritized purchase of products and services from social enterprises, improve awareness of local residents, discover potential demand for social enterprises in the region for collaboration