

Ethical Management

As legal and social regulations on ethical management are broadening, the scope and awareness of ethical management is also growing. The ethical management of SK innovation is not simply perceived as a method to prevent unethical actions of employees but one to enhance the company's ethical standards to gain the trust of stakeholders and pursue sustainable growth and development.

Ethical Management Principles

SK innovation has enacted the Code of Ethics as the standards of correct actions and value assessment based on SKMS (SK Management System). The company also presents specific standards for making judgements through the Code of Ethics Guidelines. All employees of SK innovation and its affiliates (foreign or domestic) are obligated to comply with the Code of Ethics. It is recommended for shareholders of investment companies or business partners that trade with or are in contract with SK innovation to comply with the Code of Ethics.

In addition, we have created an FAQ for Code of Ethics Guidelines with a case-based behavioral standard to resolve any inquiries employees may have. We also plan to create and distribute an FAQ fit for circumstances of global employees.

Promote Employee Ethical Awareness

Ethical Training Program

SK innovation conducts ethics training continuously targeting all employees, even those abroad to internalize ethical management in employees. To improve concentration and understanding for training, we have created new training material composed of basic ethical management terms, dilemma situations and quizzes. The material includes English or Chinese voice-overs for local employees in foreign branches.

Ethical Management Practice Workshops

Every year, SK innovation hosts an annual Ethical Management Practice Workshop led by leaders to discuss ethical dilemmas and risk case studies. In 2018, we conducted workshops by organization (286 groups) on the selected topics (available topics of audit cases of the past 3 years, internal ethical dilemmas and respecting dignity among employees).

Survey and Commitment for Practicing Ethical Management

SK innovation conducts annual surveys to gauge employee awareness of ethical management and detect weaknesses in our ethical management policy and culture. In 2018, 80% of all employees including foreign branches participated in the survey. Major items revealed through the survey are transferred to the relevant department for collaboration before guiding employees. After the survey, we obtain Ethical Management Commitment from employees to promote awareness for ethical business practice.

2018 Ethics Training Performance (Unit: number of employees, hours)

Classification	Number of Participants	Hours of Training
Offline training	1,533	991
Online training	6,556	2,185
Total	8,089	3,176

Activate Communication for Ethical Management

We operate communication channels such as the Ethics Consultation and Ethical Management Website for better monitoring and management of ethical management. Through the channels, we publicize our ethics regulations and register reports or consultation on unethical practices. In addition, we operate a page for ethical management on our company intranet for active communication on the subject between employees. By sharing major ethical issues that employees can face during work or publicizing unethical happenings in 2018, we have improved awareness of ethical business practice.

Result of Ethical Management Reporting

There were 130 cases of reporting or consultation of ethical management as of 2018. By excluding basic inquiries, errored reports, reports on other subsidiary companies or duplicate cases, the total number of cases comes to 61. Reported contents are investigated and transferred to relevant departments. For consultations, we offer answers to inquiries and transfer complaints to the customer service department to be resolved. Out of the 31 reported cases that we investigated, 4 were proven to be a breach of Code of Ethics (Receipt of entertainment by business partner). Relevant employees were punished according to regulations through the vote of the punishment by HR Committee. One case was a breach of our regulations (covering up accidents) by a business partner which we sanctioned accordingly.

Number of Reports Consultation on Ethical Management (Unit: Case)

Number of Cases by stakeholder

Type	Report	Consultation	Complaint	Total
Customer			13	13
Business Partner	19	2	1	22
Employees	6			6
Others/Anonymous	15	5		20

Number of Cases by Treatments

Type	Reports
Investigation (Audit)	31
Transferred to Relevant Department	27
Others (Unconfirmed or dismissed)	3

Create Transparent Supply Chain Ecosystem

Conduct Research on Exploitation of Authority

As we forecast that stricter measures will be taken on unfair trade acts, we plan to gradually strengthen monitoring of unfair trade acts such as overusing authority for transactions. In line with this plan, we intend to conduct surveys on incidents where authority overused their power against domestic suppliers and client companies to detect any cases where we overused authority or violated regulations of ethical management. In addition, to better understand the current situation, we will visit suppliers to conduct interviews and guide them on our ethical management activities.

Establish Healthy Transaction Culture

'Say No to Gifts for Holidays and Promotions' is SK innovation's campaign targeting to suppliers and external stakeholders to strictly prevent any possibilities of inappropriate transactions. Any gifts accepted due to unavoidable reasons must be returned and gifts which are difficult to return are to be used for social contribution activities. In addition, we strictly prohibit donation and support using company assets and budget for political objectives in accordance to the Korean legislation on political funding and SK innovation's Code of Ethics Guidelines.

Performance of Ethical Consultation Center or Ethical Management Website (Unit: Case)



Status of Disciplinary Action for Breach of Ethical Management (Unit: Case)

Reason for Disciplinary Action	Number of Cases
Sexual Harassment ¹⁾	2
Receipt of Entertainment	4
Breach of Code of Ethics	3
Breach of Regulation on SHE (safety, health, environment)	3
Job Negligence	6
Total	18

1) Disciplinary action on employee responsible for 2017 incident

Fair Trade Compliance Management System

To drive fair competition within the supply chain and enhance transparency of transactions, SK innovation implemented its Fair Trade CP (Compliance Program). In addition, we strictly monitor all affiliated companies of SK innovation by defining detailed management codes for 7 major compliance items.

Fair Trade Management Organization

SK innovation and its four subsidiaries (SK energy, SK global chemical, SK lubricants, SK ie technology) have appointed Chief Compliance Officers (CCO) to operate and manage the CP for each company. The CCO designs the CP implementation plan and directs the implementation process. Biannually, the CCO reports the plan and performance of CP to the BOD.

Response to External Regulation on Fair Trade

The Fair Trade Commission intensified its monitoring of conglomerates using technology of small and medium enterprises, the process of conglomerates demanding technological data

from small and medium companies as well as intensifying sanctions for violations of relevant regulations. In response, SK innovation reviewed its subcontract process and status of sharing or using technology-related data to expand the control scope with suppliers. We plan to build and operate a technology data management system during the first half of 2019 based on the results of the review.

The Fair Trade Commission also modified its official review method for conglomerate groups switching from a sample research every 4-5 years to full annual inspection. The commission also greatly intensified items for inspection. In response, SK innovation has completed practical disclosure training for employees who are in charge of disclosures in subsidiary and sub-subsidiaries. Also, we have minimized data errors through comparing the entire contents and contract status filed between affiliated companies. As a result, we finalized our review with no violations during the investigation term (2015 to 2017). Furthermore, SK innovation is responding to global trends where the number of overseas cartel cases or other violations in regulations of business competitions that occur

offshore is increasing by conducting offline training for employees in global offices and comprehensive interviews targeting relevant employees.

Strengthening Internal Monitoring for Fair Trade

Toward the Fair Trade Commission's movement to strengthen monitoring of internal transactions of conglomerate firms by investigating profit structure or internal transaction of the holding company, SK innovation responded by improving annual contract review process with SK Corp., its holding company, as well as preventing any possibilities of violating regulations. On top of that, since 'Enforcement Decree of the Fair Agency Transactions Act' settled down after the conduct in 2016, we have improved the internal management system of agency transactions and conduct on-site inspections of main agency departments of SK innovation affiliates and providing training on factors that are not up to standard.

Internalizing Awareness of Fair Trade in Employees

Declaration to Practice Fair Trade

SK innovation made a commitment for fair trade in March 2019 to promote the compliance awareness of its employees and reaffirm its determination to fair trade compliance. This year's declaration targets not only the entirety of employees in the 6 SKI affiliate companies but also local employees of the companies' foreign branches. The declaration was written in three languages, Korean, English and Spanish, and distributed to every site accordingly.

We will conduct the declaration every year for new employees and other relevant personnel to make sure it is observed instead of being a one-off event.

Fair Trade Compliance Training

We have conducted an internal fair trade compliance training, which covered regulations and issues that employees will have to consider in their work, with the goal of increasing awareness of the compliance with fair trade regulations. In terms of offline training, the courses are not only related to fair trade in general, but rather specific topics for each organization's business. Similarly, there is a basic online course for all employees, as well as advanced courses designed for employees in marketing departments. Along the same lines, we conducted a two-tier online training course composed of general training for all participants as well as an advanced course agency transaction for those in organizations where agency transactions occur. In addition, managers of fair trade affairs are encouraged to participate in Fair Trade research seminar and external training to develop. Finally, we conduct training for our global business sites so that our operations comply with fair trade both in Korea and abroad.

7 Major Items of the Fair trade Compliance Program



Fair trade voluntary compliance education in our global business site

Status of Fair Trade Compliance Training

Timing	Subject	Target
January	Orientation for new employees – Fair trade training	New employees of 2018
March	Training on regulating cartel, unfair trade acts and Fair Agency Transactions Act	SKE Retail Sector
March	Fair trade training for B2C salespersons (unfair trade acts, Fair Agency Transactions Act)	SKE B2C Sector
June	Fair trade training regarding Fair Agency Transactions Act	SKGC Polymer Yeongnam Office
July	Training on regulating cartel, unfair trade acts and Fair Agency Transactions Act	SKE Network Sector
September	SUPEX Spirit Camp - Training on fair trade	Group training subjects based on year of employment
September	Training on Fair Agency Transactions Act	Relevant job conducting employees SKI affiliated companies
October	Partnership Seminar for mutual growth (education on cartel)	Partnership companies
November	Singapore Fair Trade Seminar	Singapore offices of SKI affiliates (6 companies)