

### Social contribution in connection with sports

#### Jeju United

Jeju United creates social value through various CSR activities engaging with the local community. The group donates annual memberships for the disadvantaged so they can watch matches, runs soccer classes for children and youth, and provides family soccer camps to promote soccer in the area as well as promoting daily physical activities through diverse projects.

- **Term:** Launched in 2016
- **Target:** Residents of Jeju
- **Contents:**
  - Visiting soccer class for elementary, middle and high school, clubhouse fan tours, donation of annual memberships
  - Soccer camp for prospective youth, soccer camp for children from low-income households, Christmas sports day
  - Respect Ur Energy: Cheer-up program for underappreciated hard workers in hospitals, police stations and fire stations in Jeju

#### SK Sugar Gliders

SK Sugar Gliders Handball Team runs 'Exciting Handball Class' to promote physical development and emotional health for students in elementary, middle and high school in Gyeonggi-do(team home ground) as well as Seoul and other metropolitan areas. We provide a structured teaching method to spread handball in a fun and easy way so that relevant schools could create sports clubs. These activities serve as a foundation to promote handball, which is usually an unpopular sport.

- **Term:** Launched in 2013
- **Target:** Elementary and middle school students in Gyeonggi and metropolitan area
- **Contents:** Handball lessons, PE class helpers, promote creating handball clubs
- **Performance:** 1,100 participants in 2018



Jeju United

## Sustainable Supply Chain

Products and services are manufactured in various areas and countries in the global market. The impact that issues occurring within the supply chain has on operations and reputation of a company is growing. In particular, global demand for supply chain is growing, followed by increased interest of stakeholders. In response, we must improve our competitiveness to secure a stable supply chain and control of risks that can occur within the value chain to achieve sustainable growth. SK innovation has established a system for supply chain management, evaluate and monitor potential risk in efforts to manage sustainability for suppliers.

### Supply Chain Policy and system

#### Supply chain management policy

SK innovation manages its supply chain through comprehensive risk analysis from different aspects: total cost ownership, reliability, on-time delivery and customer service level, SHE (Safety, Health, Environment) management, risk management financial and non-financial factors (ESG). In 2018, we established our 'Bid Evaluation Guide', a process principle for competitive bidding purchase process to improve fairness and transparency in selecting suppliers.

### Supply Chain Status

SK innovation conducts a comprehensive analysis of risk possibility in transaction size, non-substitutability, core technology and non-financial factors (ESG) to categorize and manage critical suppliers. critical suppliers are entities that provide large-scale(high volume) construction or services in our main production facilities including Ulsan, Incheon, Jeungpyeong, Cheongju and Seosan or suppliers that handle critical component or non-substitutable material (battery core material, additive, catalyst, etc.). In particular, we expanded our management scope to non-tier 1 companies in regards to transaction size for suppliers that provide large-scale construction and services or companies that have high risk potential regarding fair trade, such as providing equipment.

#### Main contents of ethical regulation for purchasing

Compliance of fair trade, transparent transaction, regulation and global agreements (Universal Declaration of Human Rights, UNGC, etc.)

#### Main contents of code of conduct for suppliers

Human rights and labor, safety and health, environment-friendly business sites, compliance with company ethics, prohibit use of conflict minerals), establish management system, etc.

#### Main contents of bidding guide

Principles for selecting suppliers, role and responsibilities, detailed guidelines, etc.

#### 2018 supplier status

(Unit: number of companies, %)

	Type	Number of suppliers	Purchase ratio
Tier1	All Suppliers <sup>1)</sup>	2,986	
	Critical Suppliers	273	85
Non-Tier1	Critical Suppliers <sup>2)</sup>	103	

1) Suppliers with transaction records in the past 3 years

2) Contractors that provide large-scale construction or services for production plants or exceeding certain quantities for products (Data from Happy Narae, SK E&C)

#### Supplier cost of goods purchased

(Unit: 100 million won, %)

Type	2016	2017	2018
Cost of goods purchased	9,536	11,866	16,654
Local <sup>1)</sup> supplier cost of goods purchased	4,833	7,371	8,485
Local <sup>1)</sup> supplier ratio of cost of goods purchase	51	62	51

1) South Korea

#### 2018 cost of goods purchased by item

(Unit: 100 million won, %)

Type	Purchase amount	Purchase ratio
Construction equipment	9,568	57.5
Construction workforce	7,086	42.5

### Sustainability Management for Supplier

SK innovation manages economic, social, safety and environmental risk targeting new and existing suppliers. We monitor financial risk factors in real-time based on credit rating institutions and review non-financial risk factors by inspecting work environment or SHE periodical evaluation targeting suppliers with high risk potential. Through our regular reviews and visits, we provide benefits to suppliers with exceptional results such as bond waiving and right to move for maintenance workers among others. Companies that do not meet our standards receive instructions for improvement or termination of partnership.

#### Social value creation within the supply chain

SK innovation engages in various efforts for suppliers to create social value. In particular, we included sustainability as an evaluation standard in our periodical evaluation in which suppliers in charge of the Ulsan and Incheon areas participate. In the future, we will use these results in distributing goods to suppliers to encourage them to voluntarily participate in creating social value. In addition, we will create a two-way platform easily accessible for suppliers within our integrated purchase system (BiOK) and Tech Solution Pool (iStep) for active communication. The platform will not only introduce social value creation of SK innovation but also collect ideas to create social value targeting suppliers.

### Pre-screening for sustainability of supply chain

SK innovation conducts a pre-evaluation of all suppliers regarding economic, social, safety and environmental factors for comprehensive management of sustainability in the supply chain. In the pre-evaluation applied to BiOK, we demand new suppliers comply with our 'code of conduct for suppliers' and we exclude companies from partnership if they do not fulfill a certain standard. We manage potential sustainability risk from registration through our pre-evaluation.

Supply chain pre-screening (Unit: number of companies, %)

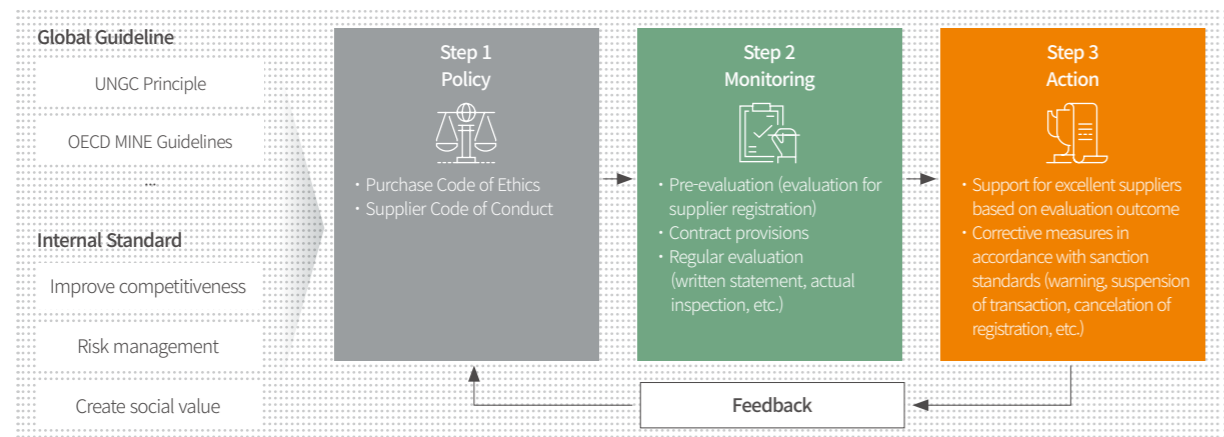


Type	2016	2017	2018
Number of newly registered suppliers	335	384	395
Number of suppliers in social, economic, environmental and safety evaluation	335	384	395
Ratio of pre-evaluation	100	100	100

#### Social value creation plan through two-way platform

- Guide and support suppliers to promote purchase from social enterprises
- Develop and promote products that create social value through co-development technology with suppliers
- Rent our various equipment and facilities
- Assess SHE level of supplier and help improve capacity to prevent disasters
- Improve financial skills of supplier employees with expert skills

### Sustainability management system for supplier



### Evaluation of risks in the supply chain

SK innovation comprehends the major risk factors from economic, social, safety and health aspects and conducts regular annual assessment targeting suppliers that need management. In particular, we strengthen monitoring through site-visit audits or third-party audits on high-risk suppliers..

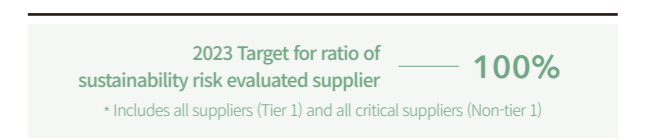
#### Corrective measures

SK innovation establishes corrective measures for companies in need of improvement based on our assessment to demand they improve risk factors (including ESG risk). These efforts have led to 33% of high-risk suppliers improving on their risk factors. Despite the efforts, 13 companies were met with measures according to the supplier assessment and evaluation in 2018 (unethical issues, breach of fair transparent trade) and 1 company deemed to have seriously breached regulations was permanently terminated from further trade.

2018 Sustainability risk assessment status (unit: number of companies, %)

Type	Major factors for risk evaluation	Supplier in assessment	
		Scope	Number of suppliers with high risk (ratio)
Economy	Financial risk such as change in credit rating/financial information, administrative issue	All suppliers (Total of 2,986 companies)	14 (0.5)
Social	Unfair trade acts including cartel, violation of ethics-related regulations, etc.		
Environment	Human rights, labor	764 suppliers including suppliers providing construction or services in work sites, those that handle chemical material and battery core and sub material providers	210 (27.5)
	Conflict minerals		
	Large-scale safety/environment hazards (oil spillage in sea, emission, etc.)		
	Violation of environment regulation/legislation		
	Design/management standards of SHE management system		

2018 Risk assessment results (unit: number of companies, %)



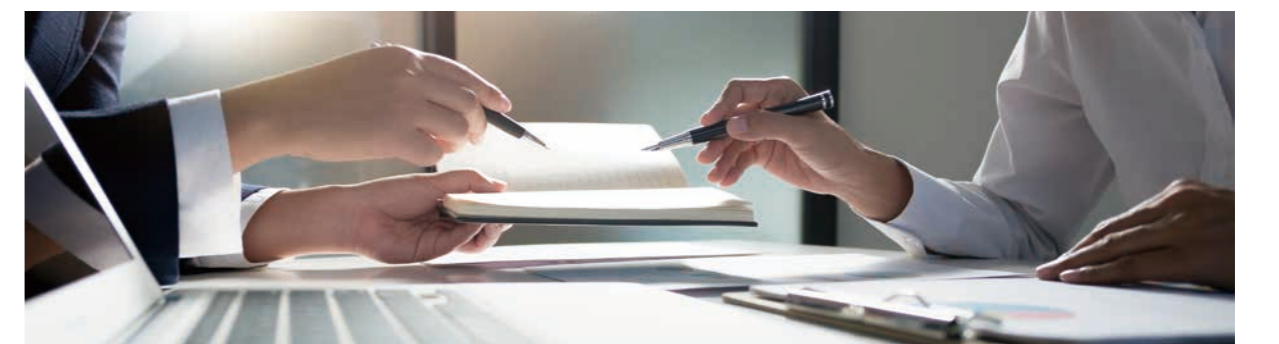
Result of risk corrective measures 2019<sup>1)</sup> (unit: number of companies, %)

Type	Results
Ratio of high-risk suppliers that established improvement plan	33
Ratio of suppliers that improved ESG performance within 12 months of establishing plans to improve	100
Number of suppliers terminated from transaction	13
• Number of temporary termination	12
• Number of permanent termination	1

1) Included 1<sup>st</sup>-tier and 2<sup>nd</sup>-tier suppliers

Type	Number of suppliers	Ratio
All suppliers	2,986	
Assessed suppliers	2,986	100
Tier 1 supplier		
• On document	2,842	95.2
• On site <sup>1)</sup>	92	3.1
• Third-party assessment <sup>2)</sup>	52	1.7
Above tier 2 supplier (Non Tier 1)		
Suppliers in high sustainability risk	224	7.5
Critical Suppliers	103	
Assessed Critical Suppliers	103	100
Suppliers in high sustainability risk	69	67

1) Includes periodical annual assessment while conducting large-scale construction or services in major production plants such as Ulsan and Incheon  
2) High fair trade risk companies, includes annual government assessment from commission for shared growth



### Shared Growth with Suppliers

SK innovation aspires to grow together with suppliers. We conduct various projects for long-term growth for suppliers including support for technology, skills and finance.

#### Technology support

SK innovation provides support for suppliers in efforts for shared growth such as co-developing technology to create domestic equipment, co-patents, creating high-value added products and entering the global market together. In particular, SK innovation and suppliers are creating a win-win process by increasing sales of new products through co-development of technology and co-patents while SK secures a price advantage by self-producing import products.

#### Skill support

**Training program** • SK innovation promotes various skill enhancing programs to improve the intrinsic competitiveness of suppliers. We conduct a ‘Mutual Growth CEO Seminar’ targeting CEOs of suppliers to deliver know-how on business strategy, finance, HR and other fields as well as providing information on newest technology including AI and big data. In addition, we provide ‘Mutual Growth MBA’ targeting supplier employees with practical information to be applied by rank or task.

**Hiring support program** • We held the ‘Supplier Job Fair’ targeting youth in the Ulsan area. The job fair helped small and medium companies access quality talent and the fair also reduces youth unemployment and drives local economic growth. SK innovation provided special lectures from hiring officers, employment lectures and other on-site events in which 25 suppliers participated. Through our efforts, 115 were newly employed in 2018.

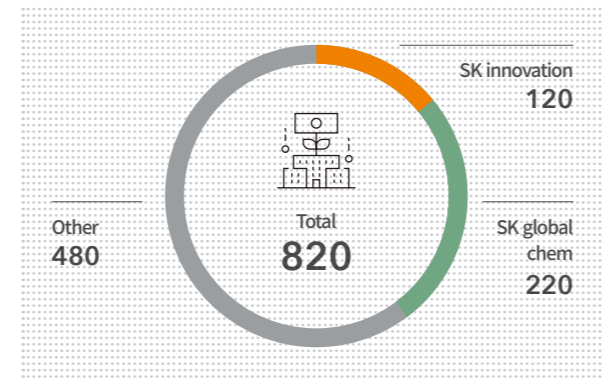
#### Finance support

SK innovation delivers 50% of the construction contract in cash within the week construction commences for stable business operations. We pay out the remainder within 1 week of construction completion. In addition, we provide various support programs such as direct support where we lend direct funds, indirect support through networks, and credit guarantee through mutual growth guarantee agreement. We also created a mutual growth fund to provide low interest finances to suppliers that are in need of emergency funds.

As of 2018, SK innovation and SK global chem contributed 1.2 billion won and 2.2 billion won respectively and SK innovation affiliates are operating a mutual growth fund amounting to 8.2 billion won<sup>1)</sup>.

1) Includes investment from financial institutions, error in last year data

Contribution to shared growth fund (unit: 100 million won)



#### Evaluation of Corporate Partnership Index

SK innovation is working in multidimensional ways to create happy partnerships with our suppliers by strengthening support in fields of actual needs and activating mutual communication among other efforts. In particular, SK global chemical was recognized for its efforts for mutual growth through its exclusive department which focuses on corporate partnerships. This led to an excellence rating for the 6th consecutive year in the Evaluation of Corporate Partnership Index in 2018 by the Corporate Partnership Commission. This is unprecedented in the chemicals industry, as well as being selected as the grand honorary corporation.



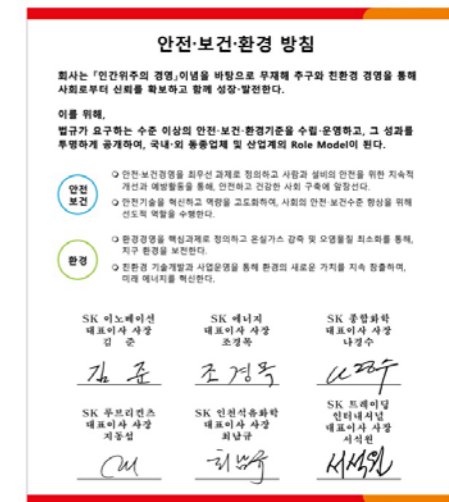
## SHE (Safety·Health·Environment) Management

SK innovation is taking a step further from SHE management based on legal compliance to applying ideas of social value creation where we grow mutually with society through trust. We will continue with our SHE management through active communication with stakeholders to gain a stance as a top global company.

### SHE Management System

#### Improving SHE management system

SK innovation has established its company policy on managing safety, health and environment. Annually, CEOs of SK innovation subsidiaries deliver their signatures to show determination for successful safety, health and environment management to our stakeholders. In addition, we analyze global companies in their core management factors for safety to define 13 items which include those factors. These items were included in our company regulations and detailed process for execution. Furthermore, we conduct activities to improve execution based on CEO leadership. We have built a positive cycle to ‘Plan-Do-Check-Action’ through regular inspections of adequately executed items for improvement and modification.



#### SHE Management System Framework

