

ESG Data | Social

GRI Index

Corporate tax payment status¹⁾

Item	Type	Unit	2018			
			Revenue	Operating profit	Taxes and public utilities' charge	Corporate tax payment
By country	Korea		757,347	42,347	298	8,966
	Netherlands		6,412	42	2	6
	USA		18,486	(65)	7	33
	Spain		6,104	219	2	35
	Singapore		284,698	279	1	12
	England		57,821	(115)	2	75
	Indonesia		3,753	219	1	65
	Japan		5,942	12	1	5
	China	100 billion won	23,048	68	17	13
	Russia		503	33	1	6
	Other (connect and adjust)		(619,005)	(21,862)	5	(2,113)
Total		545,109	21,176	335	7,104	
By region	Korea		757,347	42,347	298	8,966
	Asia		317,441	572	22	102
	Europe		70,852	176	7	123
	etc.		(600,531)	(21,919)	8	(2,087)
	Total		545,109	21,176	335	7,104

1) Regional information from connecting body (based on location), inside trading between connecting bodies are adjusted for inclusion

Type	Unit	2017	2018	Average (notes)	Type	Unit	2017	2018	Average (notes)
Earnings before Tax		3,220,824	2,420,374		Nominal tax vs real tax		424,447	(22,124)	
Reported Taxes	million won	1,075,722	710,390	Income statement	Discrepancy of allocated period		159,153	(163,196)	
Effective Tax Rate	%	33.40	29.40	31.40	• Corporate tax payment term: March ~ May following year				
Cash Taxes Paid		651,275	732,514	Statement of cash flow	Temporary discrepancy		150,069	27,667	
Cash Tax Rate	%	20.20	30.30	25.25	• Inclusion of affiliate company assessment	million won	35,812	6,239	
					• Domestic tax rate increase (24.2%→27.5%)		56,482	101,265	
					Permanent discrepancy		22,931	5,901	
					• Unrecognized damages of affiliate companies				
					Tax deduction and tax credit discrepancy				
					• Deducted tax and tax credit, non-deducted tax payment overseas				
					Other discrepancy				
					• tentative or confirmed				

Contribution to participating associations and organizations²⁾

Type	Unit	2014	2015	2016	2017	2018
Total annual contribution	million won	3,081	2,834	2,961	2,855	3,112

2) In accordance with the Korean Legislation for Political Funds and SK innovation ethical regulation practice standards, donation or sponsorship using the company assets and budget for political purposes is strictly prohibited.

Major beneficiaries	Type	Unit	2014	2015	2016	2017	2018
Korea Petroleum Association	Contribution amount		1,650	1,452	1,619	1,486	1,491
Korea Petrochemical Industry Association	Contribution amount	million won	140	154	156	154	152
Korea Oil Association	Contribution amount		78	74	72	101	286
Korea Chemical Industry Council	Contribution amount		26	26	26	26	26
Korea Oil Station Association	Contribution amount		14	14	14	14	83

General Standards Disclosure

Classification	Disclosure	Description	Page	Note
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	102-6	Markets served	20-33, 41	
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Stakeholder Engagement	102-35	Remuneration policies	69, Annual Report 502-508	
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Topic-specific Standards Disclosure

Topic	Disclosure	Description	Page	Note
Economic Performance (GRI 200)				
Economic Performance	201-1	Direct economic value generated and distributed	105	
	201-2	Financial implications and other risks and opportunities due to climate change	55, 71	
Indirect Economic Impacts	203-1	Infrastructure investments and services supported	62, 63, 82-90	
	203-2	Significant indirect economic impacts	48-51	
Procurement Practices	204-1	Proportion of spending on local suppliers	91	
Anti-corruption	205-2	Communication and training about anti-corruption policies and procedures	72-75	
	205-3	Confirmed incidents of corruption and actions taken	73	
Environmental Performance (GRI 300)				
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Water and Effluents 2018	303-1	Interactions with water as a shared resource	99	
	303-2	Management of water discharge-related impacts	99, 108	
	303-3	Water withdrawal	106	
	103-1~3	Management Approach	54, 104	
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	305-5	Reduction of GHG emissions	55, 98, 99	
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	107	
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Environmental Compliance	307-1	Non-compliance with environmental laws and regulations	108	No case
Supplier	103-1~3	Management Approach	56	
Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	92, 93	
	308-2	Negative environmental impacts in the supply chain and actions taken	92, 93	
Social Performance (GRI 400)				
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	403-1	Occupational health and safety management system	95	
	403-2	Hazard identification, risk assessment, and incident investigation	59	
	403-3	Occupational health services	97	
Occupational Health and Safety 2018	403-4	Worker participation, consultation, and communication on occupational health and safety	59, 96	
	403-5	Worker training on occupational health and safety	96	
	403-6	Promotion of worker health	96, 97	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	59	
	403-8	Workers covered by an occupational health and safety management system	96	100%
	403-9	Work-related injuries	109	
	403-10	Work-related ill health	109	
Training and Education	404-1	Average hours of training per year per employee	111	
	404-2	Programs for upgrading employee skills and transition assistance programs	76, 77	
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	67, 110	
Human Rights Assessment	412-2	Employee training on human rights policies or procedures	81	
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	81	
	103-1~3	Management Approach	61	
Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	62, 63, 82-90, 112	Participate in community activities for all business sites
Supplier Social Assessment	103-1~3	Management Approach	56	
	414-1	New suppliers that were screened using social criteria	92, 93	
Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	-	No case

Independent Auditors' Report

To the Stockholders and the Board of Directors of
SK Innovation Co., Ltd.:

Our Opinion

We have audited the accompanying consolidated financial statements of SK Innovation Co., Ltd. and its subsidiaries (the "Group"), which comprise the statements of financial position as of December 31, 2018 and December 31, 2017, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2018 and December 31, 2017, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRSs").

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in the Republic of Korea as required by prevailing audit regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our Key Audit Matters

The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion in these matters.

(1) Valuation of inventories

As of December 31, 2018, the book value of inventories held by the Group in the petroleum business, petrochemical business and lubricant business amounted to ₩6,021,993 million, which accounted for approximately 17% of total assets, and as international oil and related product prices showed a significant decline for the quarter ended December 31, 2018, the valuation of inventories could have a significant impact on the Group's performance. In addition, as described in Note 3, the valuation of inventories requires management's judgment on estimation of sales prices and selling expenses. Given the uncertainty of these estimates and the monetary significance associated with the valuation of inventories, we have determined that the valuation of inventories is a key audit matter.

The audit procedures we performed for this key audit matter included:

- obtaining an understanding of the Group's accounting policies related to the valuation of inventories;
- obtaining an understanding of the Group's internal controls over valuation of inventories and assessed effectiveness of design of the controls and implementation of the controls;
- obtaining understanding on the management's methodology used in estimating selling price and selling expenses and assessed appropriateness thereof;
- inspecting supporting documents related to estimated selling price on a sample of inventories;
- recalculating the valuation of inventories; and
- testing the disclosures in the financial statements and checked for compliance with K-IFRS 1002 inventories.

(2) Allocation of purchase price in relation to acquisition of Dow Chemical's EAA and PVDC businesses

As described in Note 35, the Group acquired the EAA business, PVDC business and all tangible and intangible assets in the U.S. and