

Reinforcing ESG Risk Management for Suppliers

SK Innovation seeks to build a sustainable supply chain to minimize the environmental impact of its purchased products and services and make positive contributions to society. We take it as the most critical part of our efforts to promote ESG management and are making relentless moves to detect, correct, and prevent ESG risks arising from our supply chain.



2025 Targets

ESG due diligence on suppliers

100%

Proportion of suppliers that acquire high score in in-depth ESG assessment

Over 25%

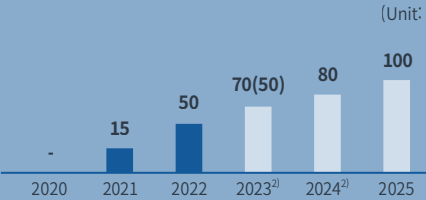
Strategies to Achieve Key Tasks (Mid-to Long Term)

By 2025, the company aims to conduct ESG due diligence on 100% of its suppliers and to have at least 25% of its suppliers rated as high performers with in-depth assessments. To this end, we are upgrading the ESG risk management system for suppliers while at the same time seeking overall improvement of management processes. We also keep monitoring international trends, such as the corporate sustainability due diligence directive and Net Zero, and provide guidelines to suppliers for preemptive responses and further expand supplier ESG risk management from a global perspective.

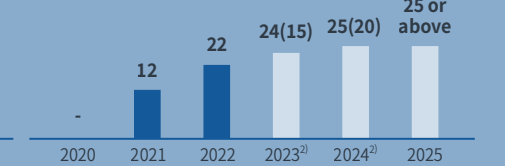


Progress & Roadmap

ESG due diligence on suppliers



Ratio of high-performing suppliers in the in-depth ESG assessment¹⁾



1) "Leader" grade (ESG 1, 2) in the in-depth assessment 2) Revised targets for 2023-24 upward, based on the 2022 result

Major Activities Planned for 2023

Drawing on past experiences, the company will help its suppliers improve ESG management systems and provide them assistance customized to their assessment results. That way, we hope to contribute to ESG management and risk control by our suppliers.



Expand Targets of In-Depth ESG Risk Assessment and Due Diligence

- Conduct the in-depth ESG risk assessment also on high-risk suppliers which have potential ESG risks despite small, infrequent transactions with us, as well as key suppliers

Regular Support Customized to Assessment Results

- Provide regular education and consulting adapted to suppliers' assessment/due diligence results
- Increase the coverage of the existing programs (e.g., ESG education and consulting for new suppliers) and develop new programs

More Systematic ESG Risk Management

- Add the preliminary and regular assessments to the purchasing system for systematic ESG risk management of all suppliers
- Introduce additional methods to identify high-risk suppliers based on the preliminary and regular assessments

Awards and Support to Excellent ESG Suppliers

- Increase certifications, awards, and benefits to excellent ESG suppliers and introduce new programs

SK Innovation supports the ESG management of its suppliers. We assess the status of their ESG management and provide free education and consulting for improvement; as a result, our suppliers showed progress in ESG management compared with the year before.

Activities and Achievements in 2022

Our Commitment



SK Innovation will show its stakeholders and suppliers what it means to be a responsible corporation and will strive to build a sustainable supply chain.

- at the excellent ESG suppliers certification ceremony in 2022

Kim Yang-seob, Head of Finance Divisional Group



Achievement 1 Diagnosis and Assessment of Suppliers

Improvement of Preliminary and Regular ESG Assessment
SK Innovation improved procedures to ensure more systematic operation of the preliminary and regular ESG assessments in 2022. The purchasing system was modified to require new suppliers to sign their consent to the Supplier ESG Code of Conduct and to run the preliminary assessment with a self-checklist based on the ESG rating of the in-depth ESG assessment. Tier-1 suppliers with business contracts with us in the previous year can take regular assessments to examine and manage ESG risks. Starting in 2023, suppliers falling short of the threshold in the preliminary and regular assessments will be classified as high-risk suppliers and placed under the in-depth ESG assessment and due diligence.

Preliminary ESG Assessment

Category	Unit	2020	2021	2022
No. of newly registered suppliers	Company	269	338	461
Ratio of suppliers assessed	%	100	100	100

Result of Regular ESG Assessment in 2022

Assessment Factors	Suppliers assessed	
	No. of suppliers	High-risk suppliers (%)
Environment • Environment	Tier-1 Suppliers : 1,864	175 (9.39%)
Social ¹⁾ • Safety • Society • Ethics		
Governance • Economy • Management system		

1) No suppliers found to have violated freedom of association or hired child labor.

In-Depth ESG Assessment and Due Diligence

We have annual in-depth assessments and due diligence conducted by a third party ESG evaluations on core suppliers. In 2022, the company provided each supplier with customized support before the in-depth assessment helping to enhance their understanding of ESG and participation in the assessment. The company conducted in-depth assessments with 200 companies and increased the Due Diligence rate of suppliers from 19% to 50%. After the assessment, low-performing suppliers are demanded to submit improvement plans, and all of them handed in improvement plans in 2022.

In-Depth ESG Assessment Results in 2022

Category	Suppliers assessed	
	Suppliers	Result (%)
Assessment	200 key suppliers	• Leader: 44 (22%) • Average: 123 (61.5%) • Laggard: 33 (16.5%)
Due diligence	100 key suppliers (50% of suppliers subject to in-depth ESG assessment)	
Improvement plan	33 laggard suppliers	• 33 laggard suppliers (100%) ²⁾

2) Improvement plans submitted by 12 suppliers with insufficient regulations for human rights and labor

Improvement / Sanction after Assessment

A penalty is given to the suppliers that are found to have committed serious violations in the ESG risk assessment results or fail to respond to its request for correction. The level of penalty is determined by SK Innovation Sanctions Deliberation Committee and are transparently managed. We assure the legitimacy of the penalty procedures by giving suppliers chances to raise objections. In 2022, the company added criteria³⁾ for penalization to strengthen the management of suppliers' ESG risks and is working with its suppliers to address risk factors. Fifty-six suppliers received penalties following the supplier assessment in 2022.

3) Laggard suppliers that failed to submit an improvement or those rated as laggards for two years running in the in-depth ESG assessment are subject to penalties if they fall below the standard SHE grade in the regular supplier assessment: new regulation. New criteria for applying sanctions were added: 1) suppliers that were rated as laggards in the in-depth ESG assessment but failed to submit an improvement plan, 2) suppliers rated as laggards for two years in a row, and 3) suppliers that kept falling below the standard SHE grade in the regular supplier assessment

Risk Improvement by Suppliers in 2022

Category	Result
Ratio of high-risk suppliers submitting improvement plans	100% (required of all high-risk suppliers)
Ratio of the suppliers that showed improvement within 12 months after the submission of an improvement plan	81 (36%)
- Environment area and social area ⁴⁾	60 (27%)
- Governance area	21 (9%)

4) Risk improvements in human rights, health and safety, and compliance with the Industrial Safety and Health Act

Penalties on Suppliers in 2022

Category	Result
Total number of suppliers subject to sanctions ⁵⁾	56
- Warning	44
- Suspended transaction	12
(temporary suspension)	11
(permanent suspension)	1

5) No suppliers found to have violated freedom of association or hired child labor.

Achievement 2 Support to Improve Suppliers' ESG Performance

Education and Consulting Customized to Suppliers' Levels
 We supported our suppliers with the ESG risk diagnosis and improvement measures. Based on the results of the previous year's evaluation, SK Innovation offered free education and advice customized to the ESG challenges they confront in order to promote their engagement. Consulting service was provided in two levels, standard and intensive, so that the suppliers can get the right support they need in ESG areas.

Consulting Services for 2022

Standard	Reviewing the evaluation results of the previous year and suggestions for improvement
Intensive	Management of environmental and social performance
	Innovating management to reach carbon neutrality
	Building an environmental management system
	Improvement of internal regulations
	Comprehensive diagnosis of HR and labor management
	On-site safety due diligence
	Safety and health management system
	Disclosure of ESG information
Ethics management and governance for SMEs	

Certification and Award for Excellent ESG Suppliers

SK Innovation certified and awarded suppliers with excellent ESG performance, based on the supplier ESG assessment in the previous year. In 2022, 25 suppliers were awarded an excellent ESG supplier certification and a voucher for ESG consulting.



SK Innovation certifies excellent ESG suppliers in 2022.

Department's Comments

[Learn more about reinforced supplier ESG risk management.](#)