

# Policy of Supply Chain ESG management

Version 1.0



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## Establishment/Amendment History

June 25, 2024	Establishment	Version 1.0

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## Chapter 1: Supply Chain ESG Management Policy

### Article 1 (Human Rights Management)


SK Chemicals supports the four areas and ten principles of the United Nations Global Compact (UNGC) concerning human rights, labor, environment, and anti-corruption. In 2022, SK Chemicals declared its commitment to human rights management and established guidelines to prevent direct or indirect human rights violations within its business sites and through its business relationships. These guidelines are strictly enforced through various internal regulations and norms, such as employment rules. To fulfill its human rights responsibilities, SK Chemicals aims to prevent human rights violations and publicly disclose human rights-related issues through the UNGP Reporting Framework via the Human Rights Management Committee. The scope of human rights management includes all supply chain members.

### Article 2 (Environmental Management)

SK Chemicals strengthens its environmental management system to harmonize corporate activities with environmental sustainability. The Company pursues continuous innovation to provide eco-friendly products and services to stakeholders. Through management rationalization across all sectors, including production processes, SK Chemicals practices energy conservation, greenhouse gas reduction, and water conservation. The Company operates green purchasing by evaluating the environmental aspects of raw materials and managing procurement and supply chain operations in an eco-friendly manner.

### Article 3 (Ethical Management)

SK Chemicals adheres to the SK Management System (SKMS) philosophy, which includes ethical standards reflecting the management's fundamental principles. To establish transparent ethical systems and culture, SK Chemicals has guidelines such as SKMS Implementation Guidelines, Ethical Standards, and Practice Guidelines. These guidelines promote joint development with partners and fair competition with competitors. To implement systematic ethical management, the Company practices prevention, detection, and response activities based on Ethical Standards and Practice Guidelines. The Company also provides a reporting process and whistleblower protection for the supply chain, accepting reports via website, phone, mail, and email.

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### Article 4 (Safety Management)

Under its human-centered management principles, SK Chemicals recognizes Safety, Health, and Environment (SHE) management as a core value. This includes safety and accident prevention activities, health management, and continuous improvement of the work environment in collaboration with the supply chain. Through dedicated SHE teams, the Company supports on-site supervision and accident prevention according to SHE standards and procedures, aiming for zero SHE incidents and establishing top-tier SHE management systems.

Specific measures include identifying and improving hazardous elements in partner workplaces, such as improving outdated office, break room, and restroom facilities used by partners' employees to provide a healthier work environment.

## Chapter 2: Supply Chain ESG Screening

### Article 5 (Risk Management Procedures)

SK Chemicals operates procedures to prevent ESG risks in the supply chain, aiming to engage in sustainable business with partners to address social and environmental issues.

#### ① Commitment to SK Chemicals Supplier Code of Conduct


- All partners trading with SK Chemicals must submit a signed commitment to comply with the 'SK Chemicals Supplier Code of Conduct' during initial registration or at the start of each year

#### ② ESG Competence Assessment in Supplier Evaluation

- To understand the ESG management level and identify potential risks, SK Chemicals assesses ESG competence as a qualification criterion for supplier evaluation.

#### ③ In-Depth ESG Evaluation for significant Suppliers

- SK Chemicals conducts in-depth supply chain ESG evaluations for key suppliers with large transaction volumes or high importance. Evaluations are based on global standards (e.g., RBA, EcoVadis), domestic laws, and guidelines, comprising over 60 evaluation indicators and controversial indicators for regulatory violations. Suppliers conduct initial self-assessments, followed by verification from an independent third-party evaluator for objectivity, reliability,

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and fairness.

### Article 6 (Significant Suppliers)

SK Chemicals selects key suppliers for intensive management based on transaction amount, ESG importance, and risk. Detailed criteria are as follows:

Category	Green Chemicals Biz.	Pharma Biz.
Purchase Amount	· Biz. Partners with high transaction volume <sup>1)</sup>	
ESG Importance	· Biz. Partners with low substitutability · Biz. Partners with high transaction importance · Biz. Partners residing within SK Chemicals' factory · Simple agents are excluded from evaluation <sup>2)</sup>	
	· Must include subcontractors	· Includes joint sales with global pharmaceutical companies

1) Transaction proportion may vary based on SK Chemicals' annual total transaction amount.

2) Agents deemed highly important in terms of ESG (Environmental, Social, and Governance) may be exceptionally included.


## Chapter 3: Supply Chain ESG Evaluation

### Article 7 (Participation in Supply Chain ESG Evaluation)

- ① Key Management Partners must participate annually in the supply chain ESG evaluation program provided by SK Chemicals. This program is based on standards from global organizations (such as RBA) and domestic and international laws and guidelines, encompassing indicators related to Environment, Social, and Governance (ESG). To enhance evaluation accuracy, the details and methods of evaluation are continuously being refined.
- ② Risk Levels Classification: Based on the evaluated risk levels, the final results are classified into three stages: 'High Risk', 'Medium Risk', and 'Low Risk'

Sanctions for High Risk or Refusal: If a partner is classified as 'High Risk' or refuses evaluation without special reasons for three consecutive years, SK Chemicals may impose sanctions such as transaction restrictions or transaction size reduction on the supply chain

\* Low-risk partners are exempt from the evaluation for the following year (evaluated every two years)

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### Article 8 (Substitution with External Evaluation)

To reduce redundancy in ESG evaluations, external evaluation results recognized by SK Chemicals can substitute the Company's evaluations. Recognized external evaluations include:

Category		KCGS	EcoVadis
Evaluation Agency		Korea ESG Standards Institute	EcoVadis
Evaluation Period		Current year results	Validity period includes the current year
Evaluation Rating	Low risk	S, A <sup>+</sup>	Platinum, Gold
	Medium risk	A, B <sup>+</sup> , B	Silver, Bronze, Committed
	High risk	C, D	Failed to obtain medal

※ Simple sales entities controlled by the parent company (without manufacturing/production facilities) may use the parent company's evaluation results. Article 9 (Improvement Activities for High Risk Diagnosis)

### Article 9 (Improvement Activities for High Risk Diagnosis)


- ① If the evaluation results in a high-risk diagnosis, an improvement plan must be established and submitted.
- ② In cases where urgent improvements are necessary, a completion deadline may be provided. If the required standards are not met within the specified time, business restrictions or exclusions may be considered.
- ③ Considering strategic importance, transaction size, and risk level, some high-risk partners will be selected to participate in an on-site coaching program aimed at facilitating improvements.

## Chapter 4: Supplier Code of Conduct

### Preamble

SK Chemicals conducts business with a commitment to enhancing human health and protecting the environment, and we expect our suppliers to share this commitment. Therefore, all suppliers trading with SK Chemicals must comply with the following requirements to contribute to customer satisfaction.

SK Chemicals may conduct assessments to verify compliance with this code and may impose

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sanctions, including trade restrictions, if high-risk issues are identified and not addressed.

### Labor/Human Rights

① **Prohibition of Workplace Harassment and Discrimination:**

Partners must strive to create a work environment free from illegal discrimination and harassment. Employment practices, including hiring, promotion, compensation, and education, must not involve any form of harassment or discrimination based on race, age, gender, physical condition, religion, or any other political, economic, or social status unrelated to job performance.

② **Prohibition of Forced Labor:**

Partners must ensure that no worker, including temporary workers, migrant workers, contract workers, regular employees, and any other type of worker, is subjected to mental or physical coercion or forced to work against their will. Employment conditions must be voluntary.

③ **Prohibition of Child Labor/Compliance with Working Hours/Wages and Benefits:**

Partners must prohibit the employment of children below the minimum working age and must not exceed the hours and days specified by law. All legal standards regarding wage payment, benefits, working hours, and compensation must be adhered to.

④ **Migrant Workers:**

Partners must pay special attention to domestic and overseas migrant workers and the risks of labor exploitation they face. The rights of migrant workers must be respected without discrimination. Migrant workers must receive the same employment protection and rights as native workers if required by law. Partners must comply strictly with immigration and labor laws when employing migrant workers. If migrant workers wish to terminate their employment contract voluntarily within a reasonable period or the legally defined period, partners must allow for contract termination without any disadvantage to the workers.

⑤ **Humane Treatment/Freedom of Association**

: Partners must not subject workers to sexual harassment, sexual abuse, corporal punishment, mental or physical coercion, or any other inhumane treatment. The legal right to freedom of association and collective bargaining must be recognized.

⑥ **Grievance Handling System:**



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SK Chemicals operates a grievance handling system to facilitate free communication for all stakeholders. Workers of partners can access this system and report any unfair, inhumane, or unethical acts occurring within the partner organization, regardless of the subject. SK Chemicals thoroughly protects the identity of grievance reporters and responds with a zero-tolerance policy towards any retaliatory actions against reporters.

## Environmental

### ① Environmental Permits and Hazardous Substance Management:

Partners must comply with environmental regulations and reporting requirements. They should identify and manage hazardous substances, chemicals, waste, wastewater, and air pollutants generated in the manufacturing process, aiming to minimize their release. 9 Additionally, partners should monitor noise, forest/soil pollution, odors, and biodiversity to reduce negative impacts on the local ecosystem. Systems to reduce raw material usage and other management systems should also be implemented.

### ② Energy Consumption and Greenhouse Gas Emissions:

Partners must monitor energy consumption and greenhouse gas emissions and make efforts to minimize them. They should cooperate with SK Chemicals in providing information on energy and greenhouse gases when requested.

## Ethics

### ① Business Integrity/Whistleblower Protection:

Partners must prohibit all forms of corruption, extortion, embezzlement, bribery, kickbacks, and gift-giving and strive for ethical and transparent management. They must protect the identity of whistleblowers and prohibit any retaliatory actions against them, transparently disclosing such practices.

### ② Fair Competition:

Partners must adhere strictly to laws regarding fair trade and refrain from any unfair practices, such as abusing dominant market positions.

### ③ Protection of Personal Information/Intellectual Property Rights:

Partners must continuously strive to protect customer information, personal information, and intellectual property rights.





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## ④ Data Security

Partners must maintain confidentiality for any data they become aware of or receive during business activities. They must report any security breaches to SK Chemicals and actively cooperate during the fact-checking process.

## ⑤ Prohibition of Conflict Minerals:

Partners must not use raw materials obtained unethically, such as minerals mined by armed groups.

## Safety and Health

### ① Industrial Safety and Health:

Partners must prevent all workers from being exposed to hazards (dangerous machinery, harmful agents, etc.), ensure the safety of equipment and facilities, and provide appropriate personal protective equipment to workers. Continuous safety and health education must be provided to ensure a safe working environment. Partners should also identify potential emergency situations and apply emergency response plans and procedures to minimize damage from such situations.

### ② Industrial Accidents and Diseases:

Partners must strive to create a safe and healthy working environment to minimize work-related injuries and diseases, maintain worker retention, and boost morale.

## Management System


### ③ Risk Assessment and Management:

Partners must identify potential risks related to the environment, industrial safety and health, human rights and labor, and ethics. They should manage and report high-probability and high-impact risks to management by developing plans to mitigate them.

### ④ Management System Compliance:

Partners must establish their own management systems and comply with the following standards:

- a. Expression of a commitment to voluntary compliance
- b. Clear management responsibility
- c. Goal management and performance evaluation/rewards
- d. Employee feedback and participation

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- e. Participation in and responsibility for supply chain management

### Chapter 5: Support Program

SK Chemicals strives to build a fair and safe supply chain to pursue mutual happiness with stakeholders. To enhance ESG performance within the supply chain, SK 12 Chemicals has established systems and financial support through programs like the SK Win-Win Cooperation Fund. This fund enables SK partners to secure necessary resources for operations and facilities at lower interest rates compared to the market.

Additionally, SK Chemicals conducts supply chain ESG program education, such as CEO seminars for partners, and provides individual coaching support after ESG evaluations to raise awareness and understanding of ESG. High-risk companies are evaluated to develop improvement plans, and after self-checks and inspections, compliance with the improvement plans is confirmed. Incentives are provided to excellent ESG partners to increase interest and improve ESG capabilities within the supply chain. SK Chemicals also plans capacity-building programs to enhance partners' ESG performance, continuing efforts to achieve mutual growth and lead ethical corporate culture.

### Chapter 6: Grievance Handling

SK Chemicals operates a grievance handling system to facilitate free communication with all stakeholders. All employees in the supply chain can access the system to report any unfair, inhumane, or unethical acts occurring within the supply chain. SK Chemicals thoroughly protects the identity of grievance reporters and responds with a zero-tolerance policy toward retaliatory actions against reporters.

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- **SK Ethics Management Integrated System**: <https://ethics.co.kr>

- **External Grievance Handling Channel**: <https://sotonghotline.com>

\* To address safety and health risks at the workplace, a 'Safety Reporting' system is operated, allowing members, including partners, to freely propose suggestions via personal smartphones without time and space constraints.



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