



# SK innovation

**4Q 2014 Earnings Release**

**2015. 2. 5**

# Disclaimer

***This presentation contains forward-looking statements with respect to financial conditions, results of operations and business of SK Innovation, and plans and objectives of the management of SK Innovation.***

***Statements that are not historical facts, including statements about SK Innovation's beliefs and expectations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of SK Innovation to be materially different from any future results or performance expressed or implied by such forward-looking statements.***

***Financial results for 4Q14 are subject to change according to the outside independent auditors' review.***

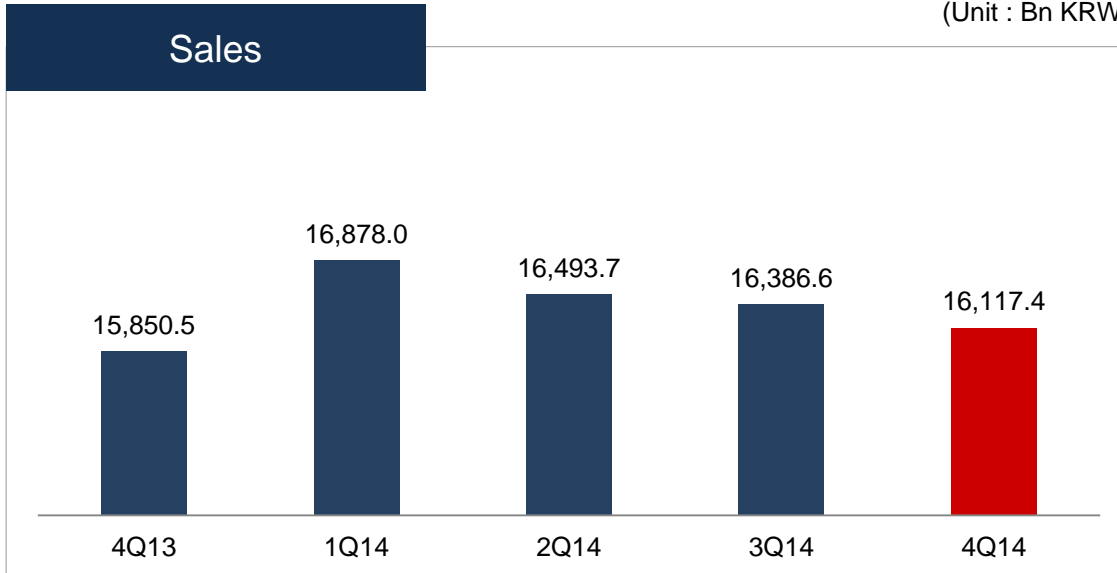
# Agenda

- **4Q 2014 Financial Results**
- **4Q 2014 Business Highlights**
- **Q&A**
- **Appendix**

# Sales & Operating Profit

(Unit : Bn KRW)

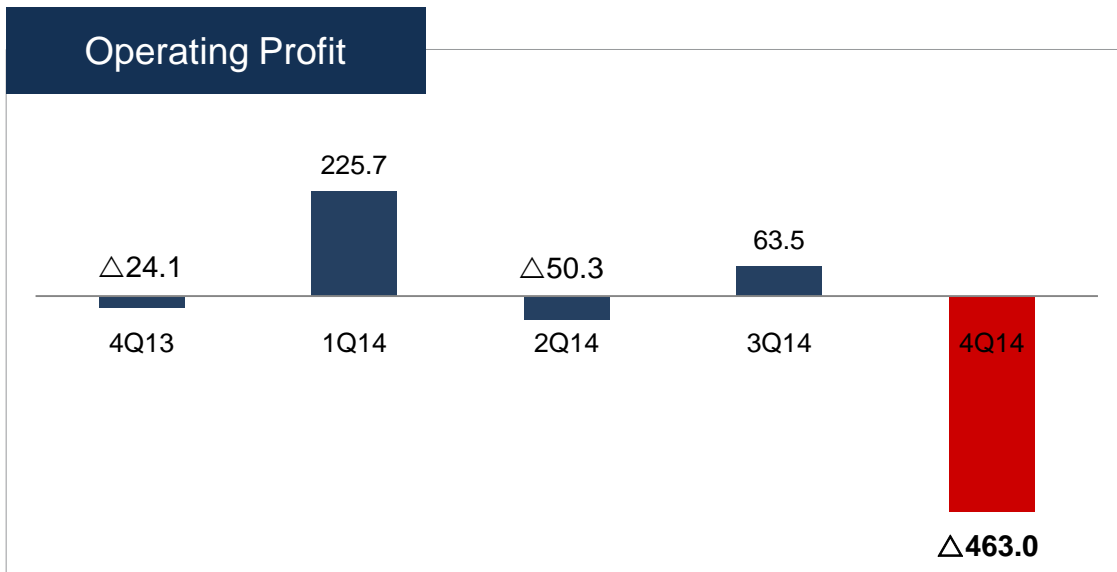
## Sales



**Total sales down by approx. 269.2 Bn KRW Q-o-Q**

- Decrease in petroleum product prices driven by lower oil prices

## Operating Profit

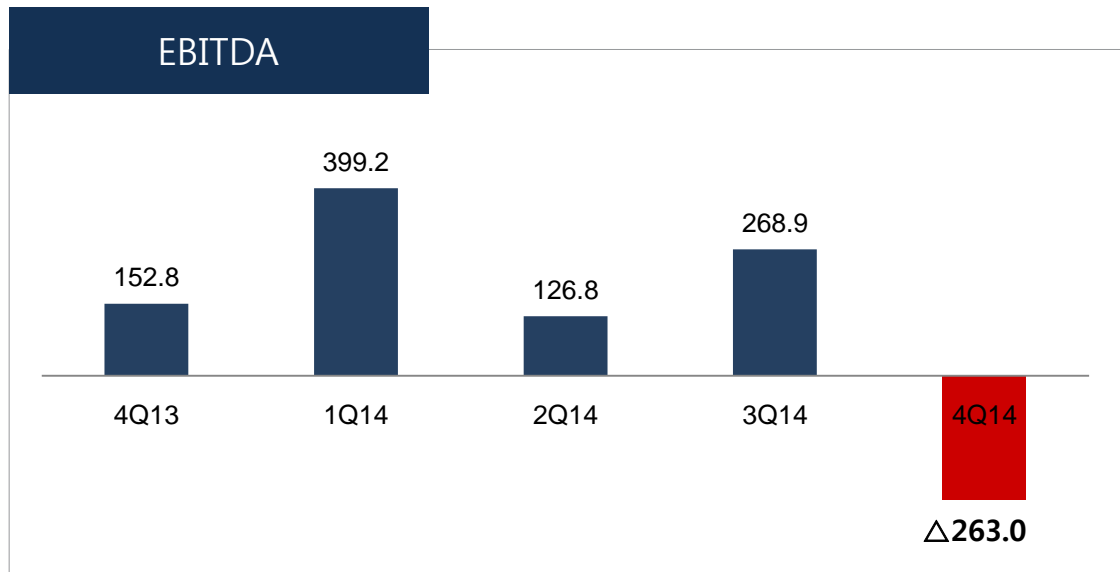
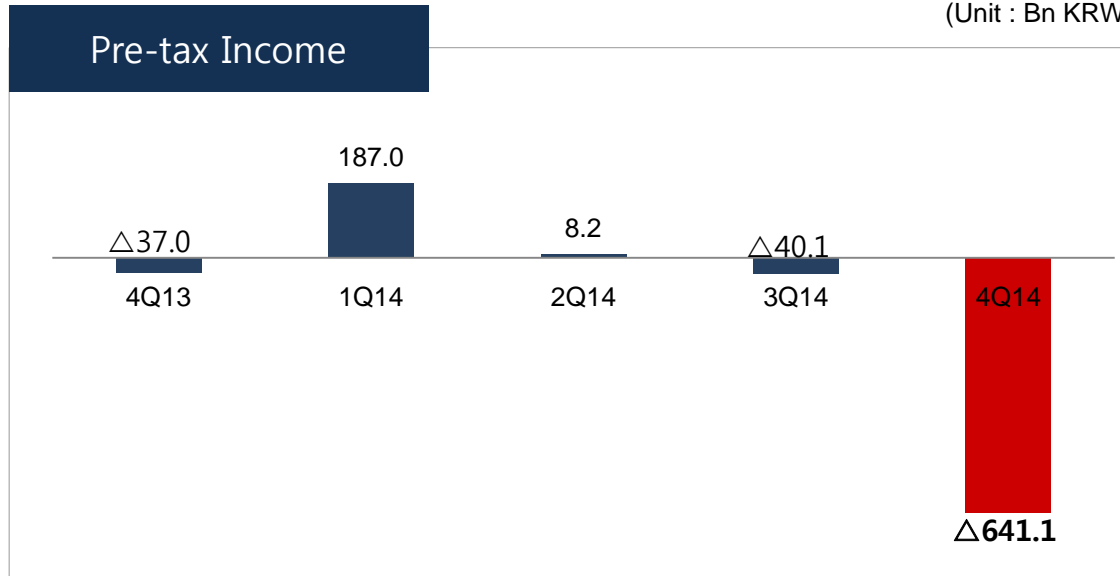


**Operating profit down by 526.5 Bn KRW Q-o-Q**

- Continued weak performance of refining business due to significant inventory-related losses
- Weakened performance of petrochemical business on the lower spreads in aromatics segment

# Pre-tax Income & EBITDA

(Unit : Bn KRW)



**Pre-tax income down by 601 Bn KRW Q-o-Q**

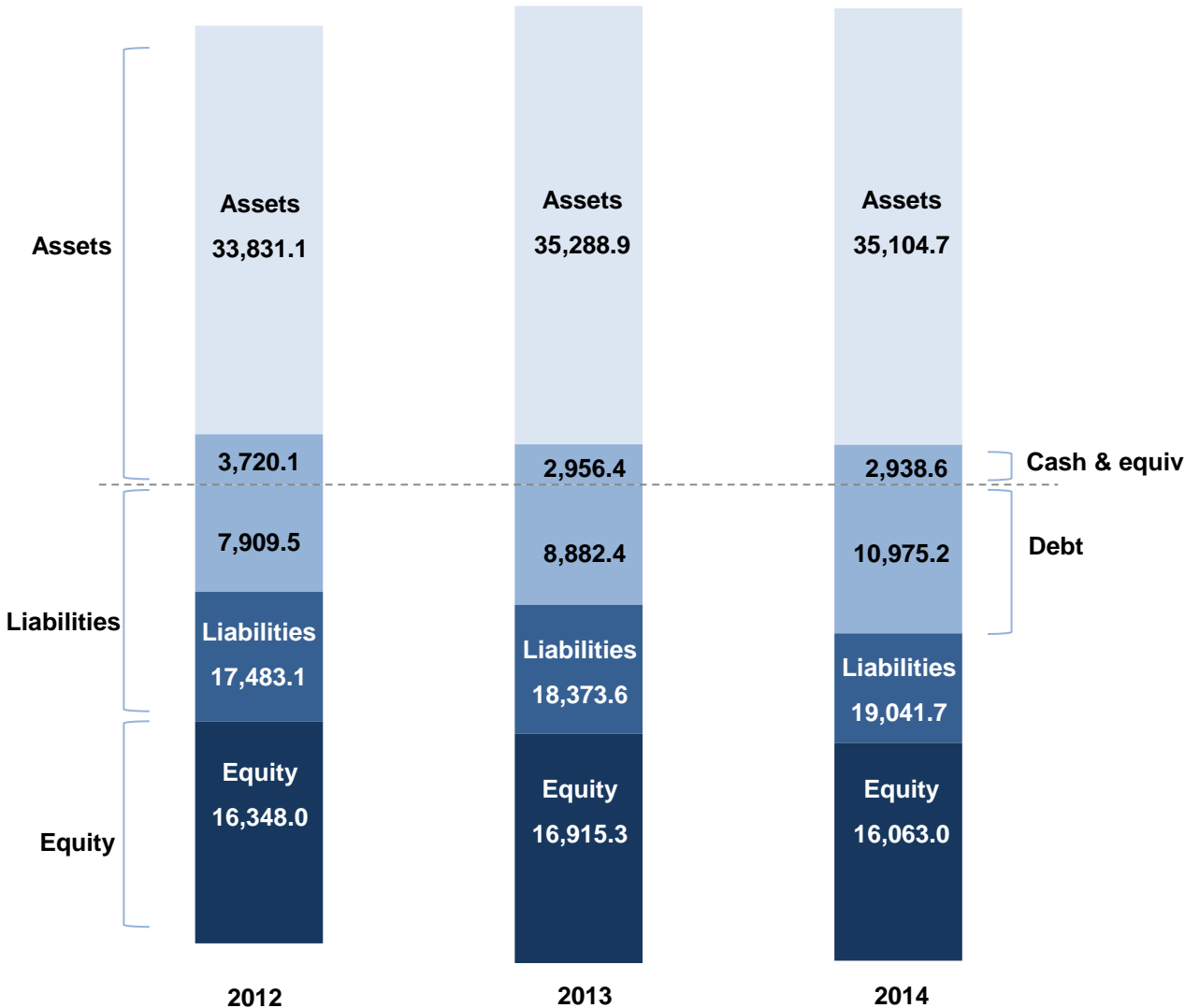
- 4Q14 Non-operating loss of 178 Bn KRW
- Net FX related loss due to weak KRW

**EBITDA down by approx. 531.9 Bn KRW Q-o-Q**

- Depreciation/Amortization expenses of approx. 200 Bn KRW

# Financial Position

(Unit : Bn KRW)



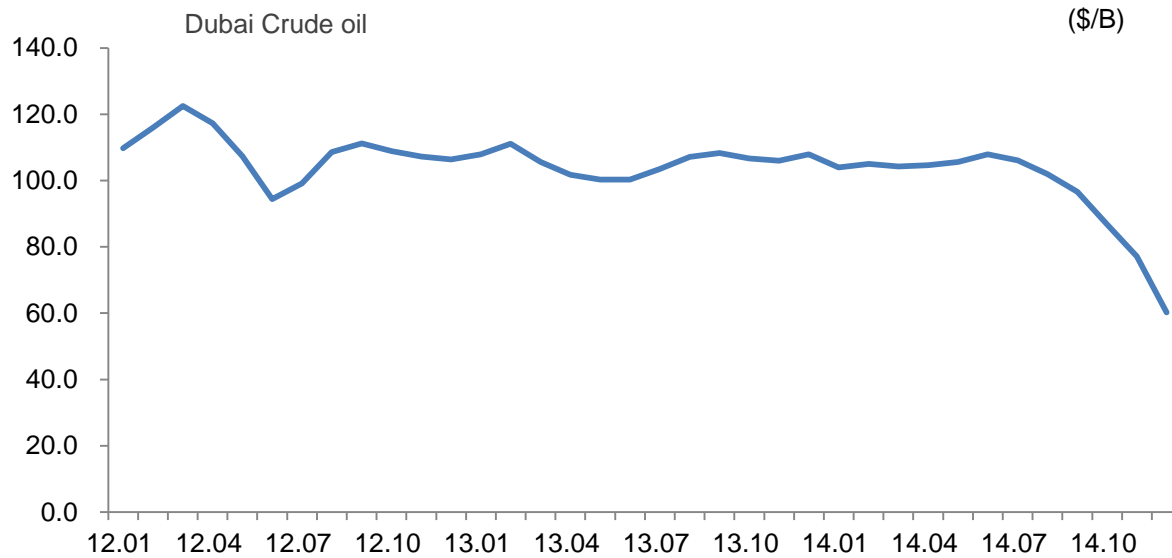
## Assets decreased by 180 Bn KRW Y-o-Y

- Decrease in account receivables & inventory by 2.1 Tr KRW
- Increase in non-current assets by 1.9 Tr KRW

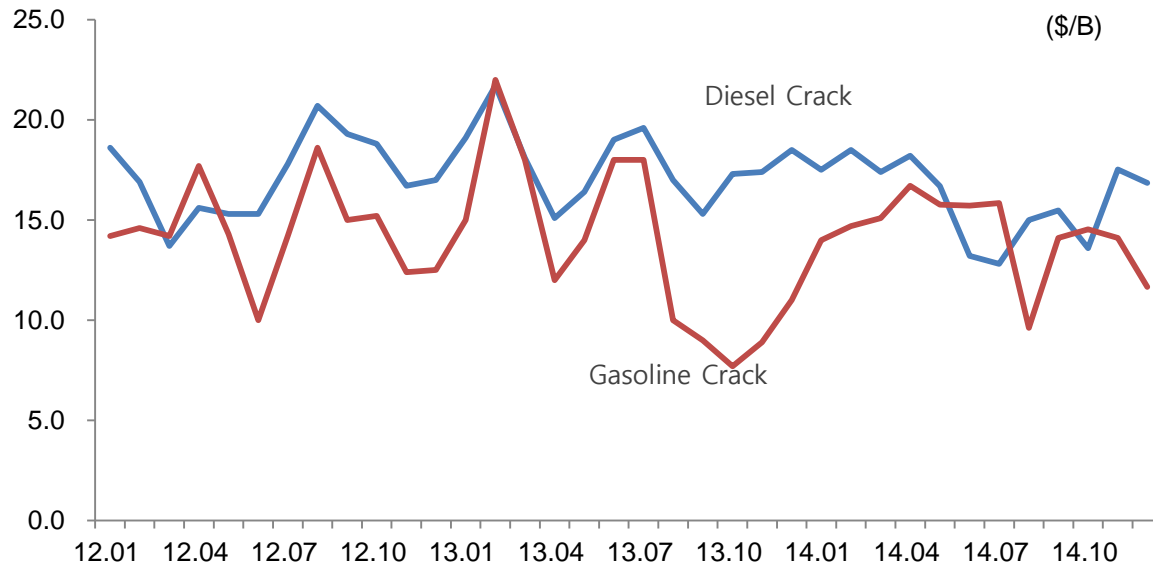
## Liabilities increased by 670 Bn KRW Y-o-Y

- Net debt increase led by higher capital expenditure (4Q14 net borrowing of 8,033.6 Bn KRW)
- Decrease in accounts payables by 1.6 Tr KRW on the crude price declines

# Refining – Refining Margins



**Crude oil prices trended downward amid continued weakness in demand and increase in supply**

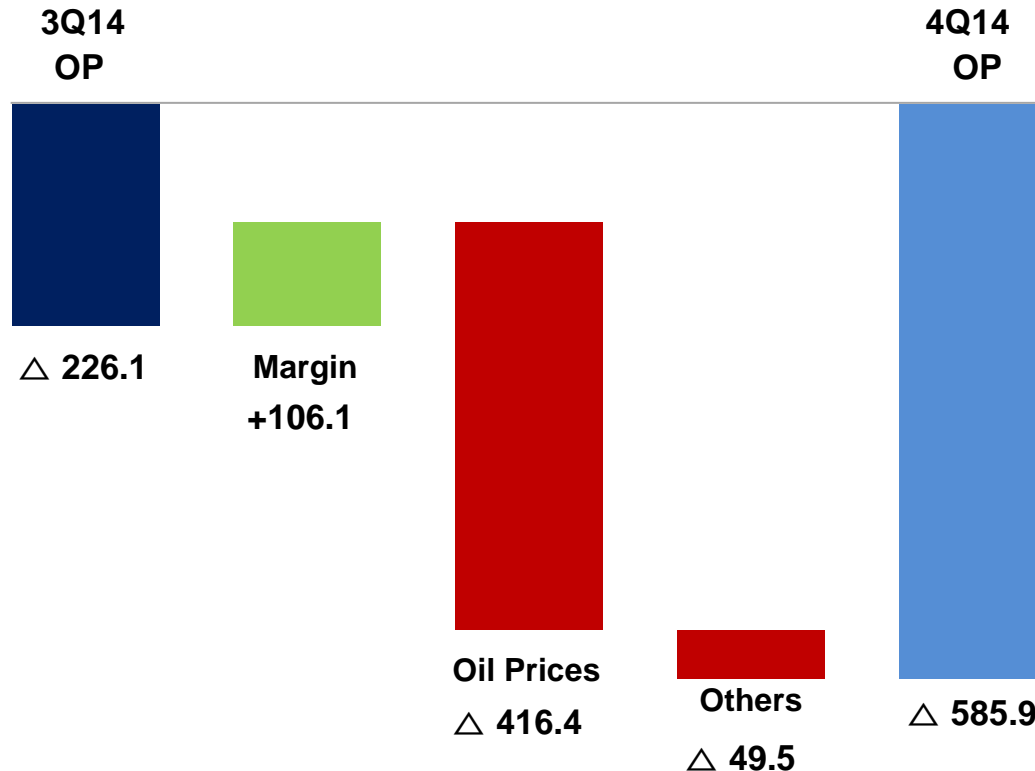


**Despite weak supply/demand balance, short-term improvement of refining margin on falling crude prices in 4Q**

- Refining margin moderately recovered with the support of crude price declines
- Average crack improved on the back of stronger middle distillates

# Refining – Performance Analysis

(Unit : Bn KRW)



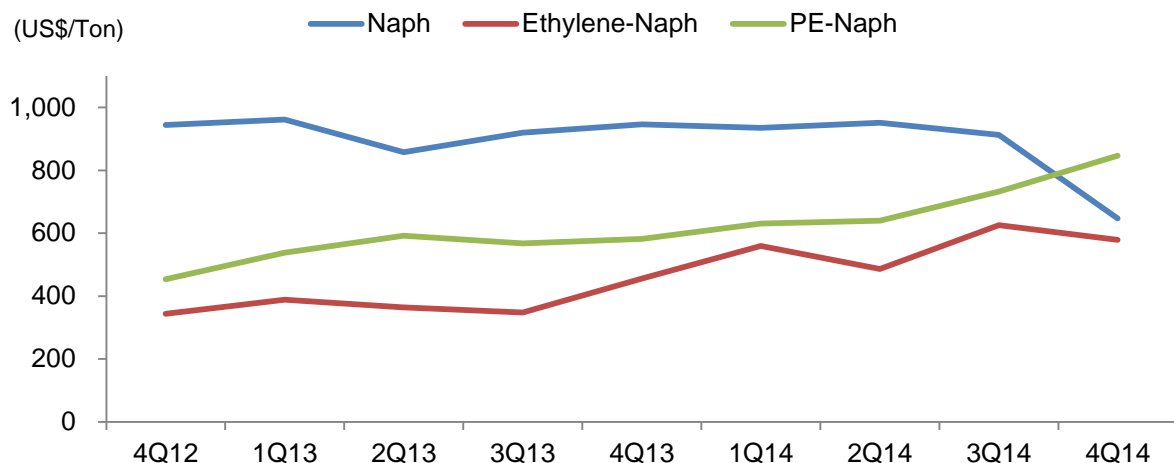
**Despite USD appreciation and recovery of margin, sharp declines in oil prices widened operating loss in 4Q**

- Significant inventory related losses reflecting a negative impact of oil price falls
- Recovery of refining margin with the support of crude price declines

**Crude price will gradually find a new equilibrium in mid-term**

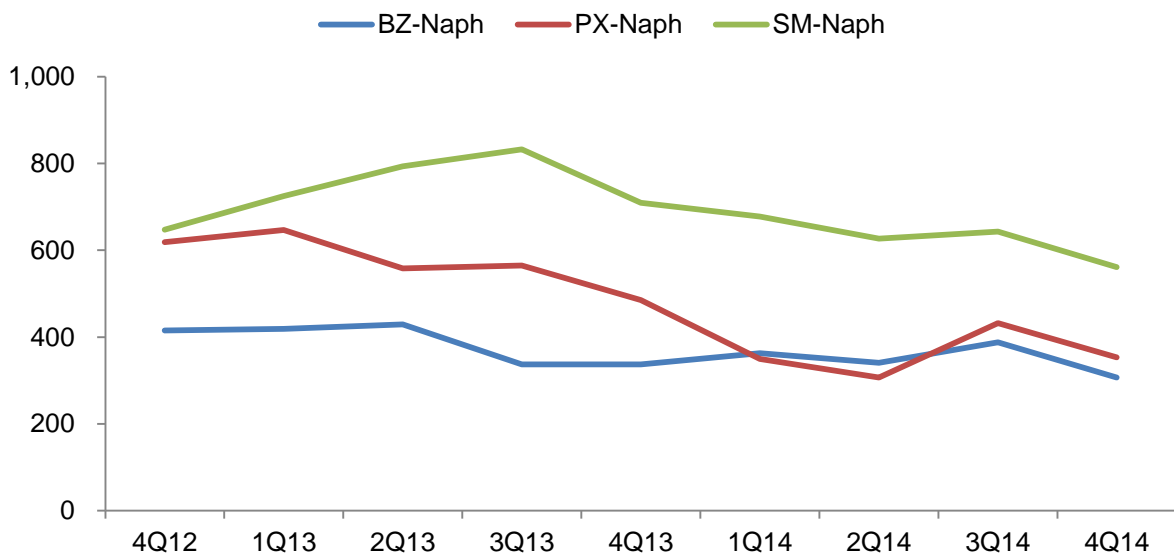


# Petrochemical - Product Spreads



## Olefin spreads showed weak trend

- Naphtha price fell in line with sharp decline in crude oil prices
- Weaker ethylene spread upon completion of cracker maintenance in the region

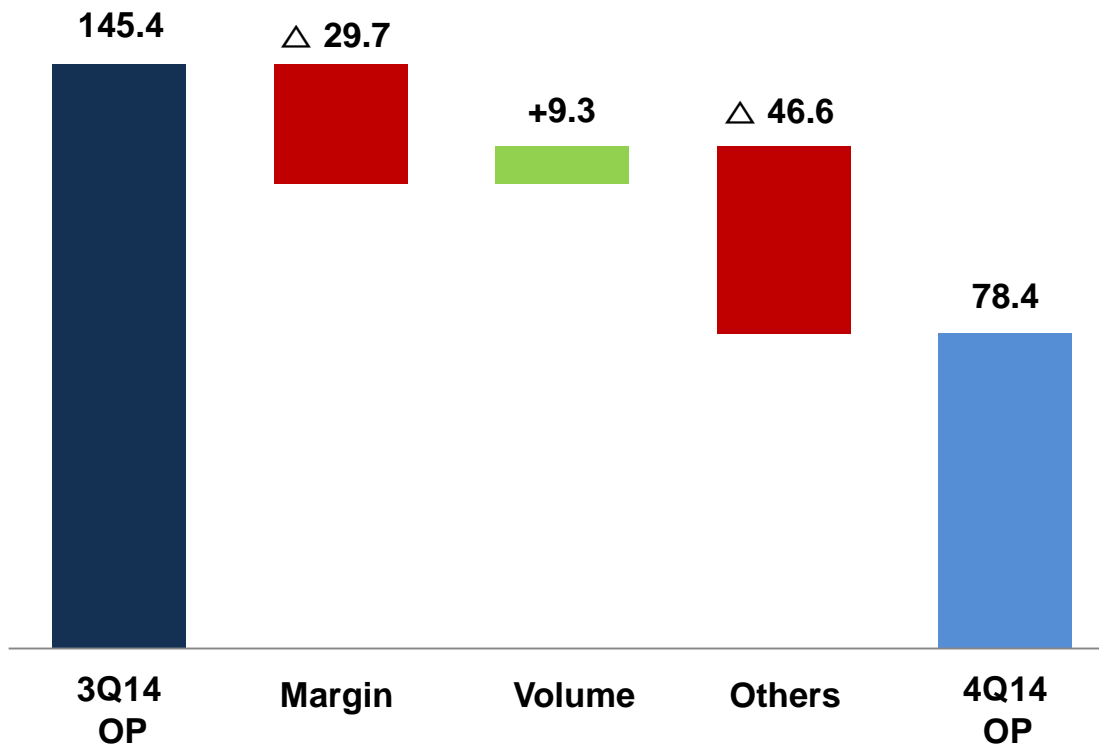


## Aromatic spread narrowed QoQ

- Lower PX spread on increased regional supply and weak D/S demand
- Bearish trend of BZ market due to demand decrease and excess supply in the region

# Petrochemical - Performance Analysis

(Unit : Bn KRW)



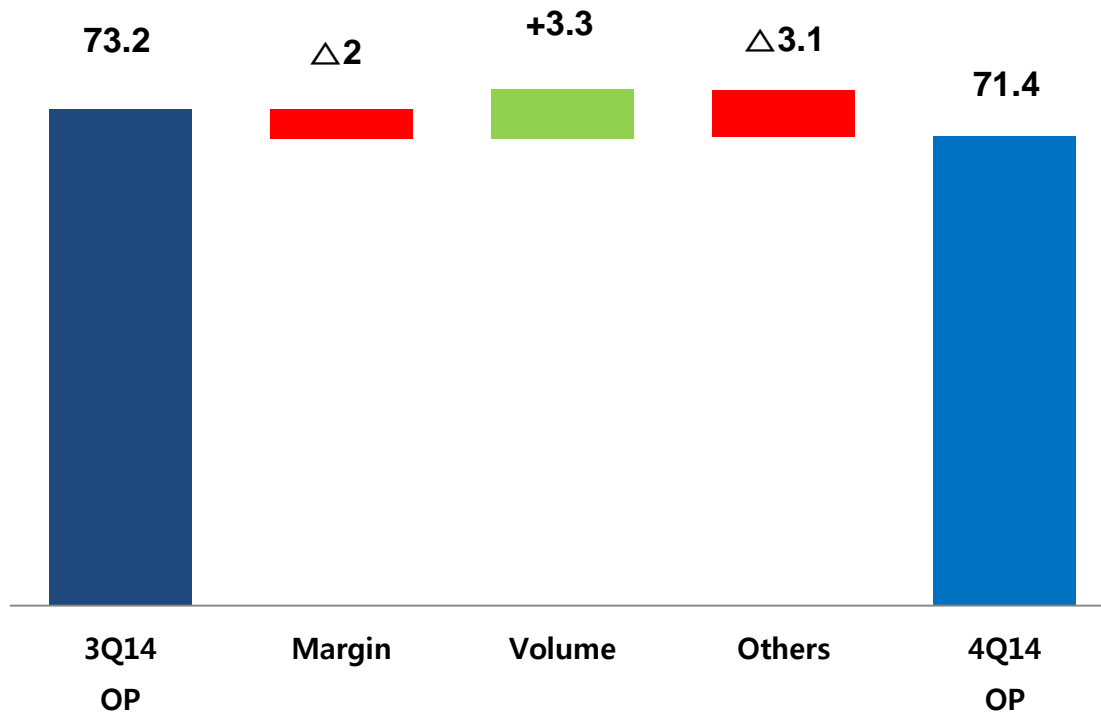
**Operating profit decreased on inventory-related losses and lower product spreads**

- Inventory-related losses due to sharp drop in naphtha price
- Q-o-Q Spread : Ethylene △10%, PX △20%

**Markets for Olefin will likely remain robust. Despite continued excess supply in the region, PX spread is expected to be sustained with the start-up of new PTA facilities**

# Lubricants Business

(Unit : Bn KRW)



**Operating profit remained stable with steady base oil margin**

**Gr-III market to continue expanding**

- Higher Gr-III demand expected as eco-friendly and high-efficient needs grow

# E&P Business

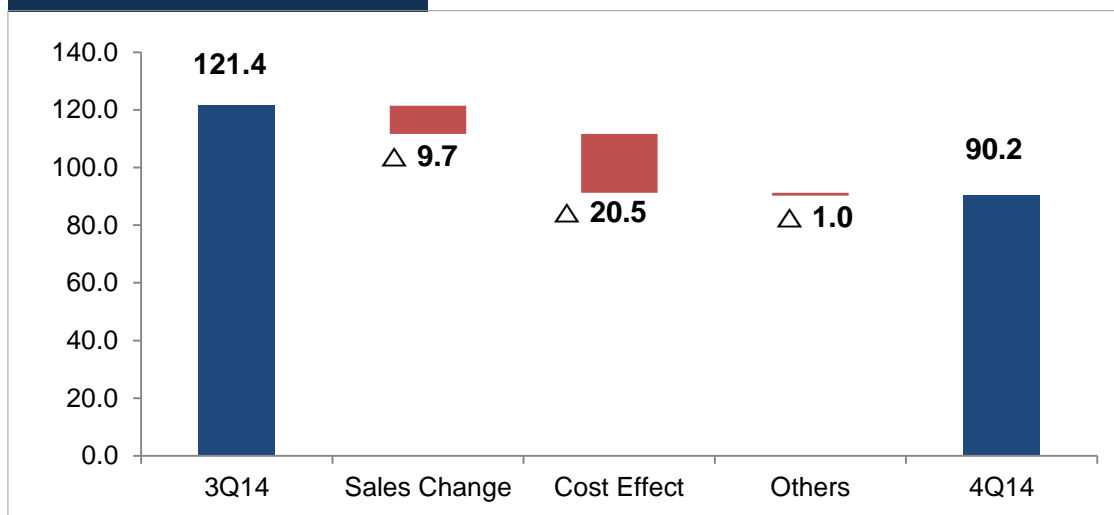
(Unit : Bn KRW, 1000 BOE/D)

	3Q14	4Q14
<b>Sales</b>	<b>239.8</b>	<b>230.1</b>
<b>Average daily production</b>	<b>71</b>	<b>77</b>
- Peru 88	31	30
- Peru 56	20	24
- Vietnam15-1	4	7
- YLNG	11	11
- SK E&P America	5	5
<b>Oil Portion</b>	<b>32%</b>	<b>34%</b>

**Operating income slightly down due to crude and gas price declines despite sales volume growth and USD appreciation**

Operating Profit (Q-o-Q)

(Unit : billion KRW)



**Additional production from Vietnam 15-1 block**

- Average daily production increased (3,600 B/D → 6,700 B/D)

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# Appendix

- 1. Business Performance**
- 2. Utilization Rate – Petroleum/Petrochemical Plants**
- 3. Disclosure of Earnings Release**

# 1. . Business Performance (excluding intercompany transactions)

(Unit: Bn KRW)	SK Innovation	SK Energy*	SK Global Chemical	SK Lubricants	4Q Total	2014 Total
Sales	314.5	11,986.1	3,017.7	799.1	16,117.4	65,875.7
Operating Profit	- 26.9	- 585.9	78.4	71.4	- 463.0	- 224.1
Non-operating profit	- 31.7	- 114.7	- 20.8	- 10.9	- 178.1	- 261.9
Pre-tax Income	- 58.6	- 700.6	57.6	60.5	- 641.1	- 486.0

\* SK Energy (including SKTI and SKIPC quarterly results)



## 2. Utilization Rate – Petroleum/Petrochemical Plants

### ➤ Petroleum Plant

	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
CDU	76%	80%	78%	74%	79%	80%	82%	75%	68%	75%	76%	70%	77%	83%
Ulsan	91%	92%	88%	83%	92%	90%	91%	84%	78%	91%	89%	80%	84%	89%
Incheon	30%	36%	46%	46%	41%	48%	54%	48%	38%	27%	37%	39%	60%	66%
HOU	99%	97%	85%	75%	100%	97%	93%	94%	94%	99%	92%	92%	99%	100%
#1 RFCC	100%	98%	100%	83%	100%	99%	100%	100%	100%	100%	100%	54%	81%	100%
#2 RFCC	100%	98%	100%	100%	100%	99%	100%	100%	40%	100%	100%	100%	100%	100%

### ➤ Petrochemical Plant

	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
NCC	100%	98%	100%	100%	99%	100%	96%	100%	100%	100%	100%	100%	100%	100%
PE	95%	100%	100%	100%	100%	100%	99%	100%	100%	93%	100%	100%	100%	100%
PP	95%	100%	100%	100%	100%	100%	100%	100%	90%	100%	100%	100%	100%	100%
PX	100%	100%	100%	100%	100%	85%	100%	73%	100%	100%	100%	100%	100%	100%

# 3. Disclosure of Earnings Release

## Report on Business Performance according to Consolidated Financial Statements (Fair Disclosure)

※ The followings are interim financials, subject to change in the final report.

### 1. Details of Business Performance

Classification (unit : Mn. KRW, %)		Current Period	Previous Period	Changes from the	Same Period of	Changes from the
		(14FY 4Q)	(14FY 3Q)	Previous Period (%)	(13FY 4Q)	Same Period of Last Year (%)
Sales	Amount in the Period	16,117,439	16,608,954	-3.00%	15,715,255	2.60%
	Accumulated Amount	65,875,655	49,758,216	-	66,039,305	-0.20%
Operating Income	Amount in the Period	-463,009	48,901	Turn in to Loss	-14,512	-3090.50%
	Accumulated Amount	-224,136	238,873	-	1,406,418	Turn in to Loss
Profit from continuing operation before corporate income tax	Amount in the Period	-641,121	-52,449	-1122.40%	-27,972	-2192.00%
	Accumulated Amount	-486,033	155,088	-	1,139,147	Turn in to Loss
Net Income	Amount in the Period	-536,090	-62,501	-757.70%	-62,676	-755.30%
	Accumulated Amount	-535,603	487	-	778,733	Turn in to Loss
Net Income Attributable to the Shareholders of the Parent Company	Amount in the Period	-550,125	-72,439	-659.40%	-73,041	-653.20%
	Accumulated Amount	-587,267	-37,142	-	729,920	Turn in to Loss

According to K-IFRS 1105, profit or loss from SK Petrochemical has been classified separately in current, previous, and last year same periods for comparative purposes.