

Letter to Shareholders

2020

Dear Shareholders,

On behalf of SK holdings, I would first like to extend my sincere appreciation for your strong support and trust.

As an investment holding company, SK holdings not only explores and develops the future growth engines for SK Group but also nurtures portfolio companies and optimizes portfolio management, with the ultimate goal of maximizing the overall portfolio value.

While maintaining a steady stream of revenue generation in energy and ICT, we have strengthened competitiveness in new areas including pharmaceuticals and materials. At the same time, we have made seed investments in areas with high growth potential.

2019: Achieving tangible outcomes in growing businesses

Thanks to such efforts, we have achieved tangible outcomes last year as follows:

SK biopharmaceuticals surpassed KRW100 billion mark in revenue for the first time by licensing out its independently developed AED (Anti-Epileptic Drug) Xcopri to the European market. The drug received FDA NDA approval and is soon to be launched in the US – the largest drug market. This is the first case where a new drug, independently developed by a Korean company, to be granted FDA NDA approval and be marketed in the US without partnering. I believe that this is the fruits of our steadfast effort in exploring and investing in growth engines.

Moving on to our CMO business – in an effort to have unified governance in place and accelerate synergy creation, we have launched SK pharmteco in Sacramento, CA, consolidating three global sites in Korea, the US and Europe. SK pharmteco will drive our CMO business by advancing manufacturing facilities and diversifying portfolio to foster continued growth in size and quality towards the global trend of CMO players.

SK siltron, acquired to strengthen our semiconductor value chain, has achieved an exponential growth both in revenue and operating profit since the acquisition; this certainly played a key role in securing the IT materials business as SK's growth pillar. In addition, SK siltron has recently acquired DuPont's SiC wafer division, paving the way for strengthening our presence in the growing power semiconductor market – the key market for emerging sectors such as electric vehicle.

There is one more thing that cannot go unmentioned here - a remarkable achievement in seed investments. In 2017, we invested in ESR, a global logistics company, as we saw strong growth prospects in warehousing in APAC, driven by the growing e-commerce market. With an IPO in Hong Kong Stock Exchange last year, its corporate value doubled compared to two years ago when we first bought its shares.

2020: Start driving fundamental change towards portfolio optimization

Unfortunately, this year is expected to see heightened uncertainty in the business environment.

I am not just referring to low economic growth projections or weak business sentiments. With the rise of disruptive technologies, legacy industries are losing ground and traditional industry boundaries have already become meaningless, while such a trend only accelerating. We have witnessed many cases where popular products or business models, once the mainstream of the era, had enjoyed the winner's position only for so long.

Understanding this nature of business landscape, **I, as CEO of SK holdings, am determined to explore and develop fundamental ways for portfolio optimization.**

SK's corporate value reflects not only the expectation for new growth engines but also the value of our existing portfolio which consists of legacy sectors including energy and ICT. Taking a bird's eye view on the portfolio, I will make every effort to transform the current business model and develop the most effective and appropriate structure in the face of a fast changing environment.

Getting down to the fundamental and building the most optimal structure will be a long and difficult journey because our portfolio is already firmly grounded and covers various areas.

However, I believe **that developing the optimal portfolio structure is the most important task for SK holdings – a holding company involving various businesses, and is the best way to maximize the corporate value.** I will have an in-depth discussion and ponder on various ways to develop and implement a reliable long-term plan that can win your support and trust.

SK's business philosophy: social value

Social value is deeply embedded in SK's business philosophy, and it is reflected in all of our business activities.

SK defines social value as value that we generate with the goal of making our stakeholders happy. Creating social value is a basic principle that we need to embrace in order to secure sustainable growth of the company and is the engine of the future growth. Sustainable economic value creation is only possible when all stakeholders – customers, shareholders, business partners and society – are happy.

We have recently revised SKMS to include SK Group's reinforced business philosophy and detailed action plans. This is a testament to our commitment to social value.

In the revised SKMS, we expanded the scope of stakeholders to include business partners and placed a great emphasis on the roles and happiness of SK members because they are the ones who lead social value creation and business activities. **SK members will voluntarily pursue happiness of their own as well as shareholders.** This will in turn help us maximize social value creation and build support and trust from stakeholders.

SK's pursuit of social value creation is not just an empty slogan. To pursue social value in the true sense of the word, **we seek transformational change to our management system in a way that 'social value' is deeply woven into our approach to business.** It is about making sure that SK's products, services and all other business activities deliver social value.

Social value is also one of the most important factors in making an investment decision. In fact, it is one of the key elements included in our investment decision criteria. Any project that may entail negative ESG risks will be ruled out, and a new project will be funded only when it meets the criterion of social value.

In addition, we plan to explore what we call 'Impact Investment' targets in which we can generate economic value and address social problems at the same time. Leveraging on our competitiveness in social value creation, we will continue to measure and manage social value of our investment portfolio. Going forward, we will make sure that this effort will ultimately add value to the portfolio.

We understand that more and more investors want to see greater outcomes not just in financial performance but also in non-financial performance. It is not that generating profits has become less important. It rather means that investors have started to acknowledge that not taking into account potential social and environment impacts will ultimately undermine the financial stability in the long run.

We promise to live up to your expectations when it comes to sustainable social value creation by building a company-wide social value management system. At the same time, we will continue to share SK's social value creation stories with you.

Sharing our success with shareholders

Our dividend policy is shaped in a way to share our success with shareholders who have supported our vision of pursuing growth through active investment. Under the policy, **we share dividend revenue from subsidiaries, and some of the returns on investment if and when returns are realized.**

Although 2019 was a tough year for us, we maintained our dividend at previous year's level at KRW5,000 per share. We also did our best to drive up share prices by buying back treasury shares worth KRW900 billion.

SK holdings will do our best to maintain the dividend at a stable level **in 2020**. Going forward, we will continue to increase shareholder returns with **an IPO of SK biopharmaceuticals and portfolio optimization.**

Esteemed shareholders!

The road ahead of us will have ups and downs.

However, SK's investment capabilities building on a strong talent pool, our farsighted business philosophy centering around social value, and not to mention your long-standing support will pave the way for SK's next chapter of growth.

I wish you good health and happiness, and your continued support will be highly appreciated.

Dong-Hyun Jang

CEO / President

SK holdings

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