

Our Business :

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Diversified Portfolio

→ • Global • Strategy • Growth • Leadership

SK Energy experienced significant changes externally as well as internally in 2008 resulting from the slowdown of the world economy and the merger with SK Incheon Oil. Nevertheless, the company managed to remain solid by wisely responding to those changes with accumulated experience and optimal managerial strategies, delivering record performance.

REFINING → BUSINESS



SK Energy provides the energy that people need most to sustain their lifestyles as we strive to become a "total energy provider." We are fortifying our leadership in the Korean refining industry through innovative marketing business models and commitment to customer satisfaction.



Petroleum

The petroleum business environment was volatile in 2008 due to soaring oil prices, fluctuating currency exchange rates, and the global financial crisis. However, we enhanced our competitiveness through the synergy generated from the merger with SK Incheon Oil and the early start of commercial production at the second RFCC unit. The enhanced competitiveness provided reliable refining margins, cemented our No. 1 position in the domestic refining industry, and expanded exports, resulting in significant progress in the ongoing overseas market expansion effort.

In 2008, the stability of petroleum operations improved with a reestablishment of operational processes. Facility cost competitiveness was secured and the revenue structure was improved to establish a platform for sustainability. The competitiveness of the petroleum business rose as a result. The construction of the second RFCC unit was completed economically and in the shortest possible time to increase synergy from the merger with SK Incheon Oil and raise global facility competitiveness. Plans for 2009 include utilizing diverse risk hedging tools and an enterprise-wide price risk management scheme to fortify readiness for greater volatility in the petroleum/petroleum product market.

On the marketing front, SK Energy launched the "Enne" brand gas station in November 2008. These gas station feature fancy powder rooms and customer lounges designed to provide better services for female drivers. The company also forged an alliance with Lotte Card to launch the SK-Lotte Joint Membership Card, providing cardholders with the benefits of both the Enclean Bonus Card and Lotte Card. The company also plans to expand the Netruck business, which provides total solutions to truck drivers, and the "Enclean.com" portal for motorists. Thus SK Energy continues to introduce innovative marketing programs to further strengthen our leadership position.

We have further strengthened our domestic market leadership through the merger with SK Incheon Oil and addition of new production facilities in 2008. In addition, SK Energy will continue to focus on expanding into overseas markets, especially increasing our market share in China. These combined efforts will further enhance SK Energy's competitiveness in the Asia-Pacific region as a major energy provider, promising sustained growth and development.



Putting customers first, all SK Energy employees are committed to providing the very best products and services.

* Refining Products Sales (thousand barrels)

	2007	2008
	249,608	280,473
	240,107	



SK Energy leads Korea's LPG sector, generating synergy in sales and distribution by working closely with fellow affiliate SK Gas.

_ LPG

The LPG business generated KRW47.7 billion in operating profit and sales of KRW1.7 trillion in 2008. The upswing in the global LPG market helped to boost sales. However, the sales volume slowed as higher prices and a weaker Won currency curbed LPG consumption. The SK Energy-SK Incheon Oil merger also integrated the two gas businesses. During 2008, SK Energy, together with SK Gas, added 46 new networks to their combined gas distribution system. A total of 2.86 million tons of LPG were sold via 665 distribution networks around the country for a 43 percent market share. Of this total, SK Energy contributed 1.56 million tons, or 23 percent of the domestic market.

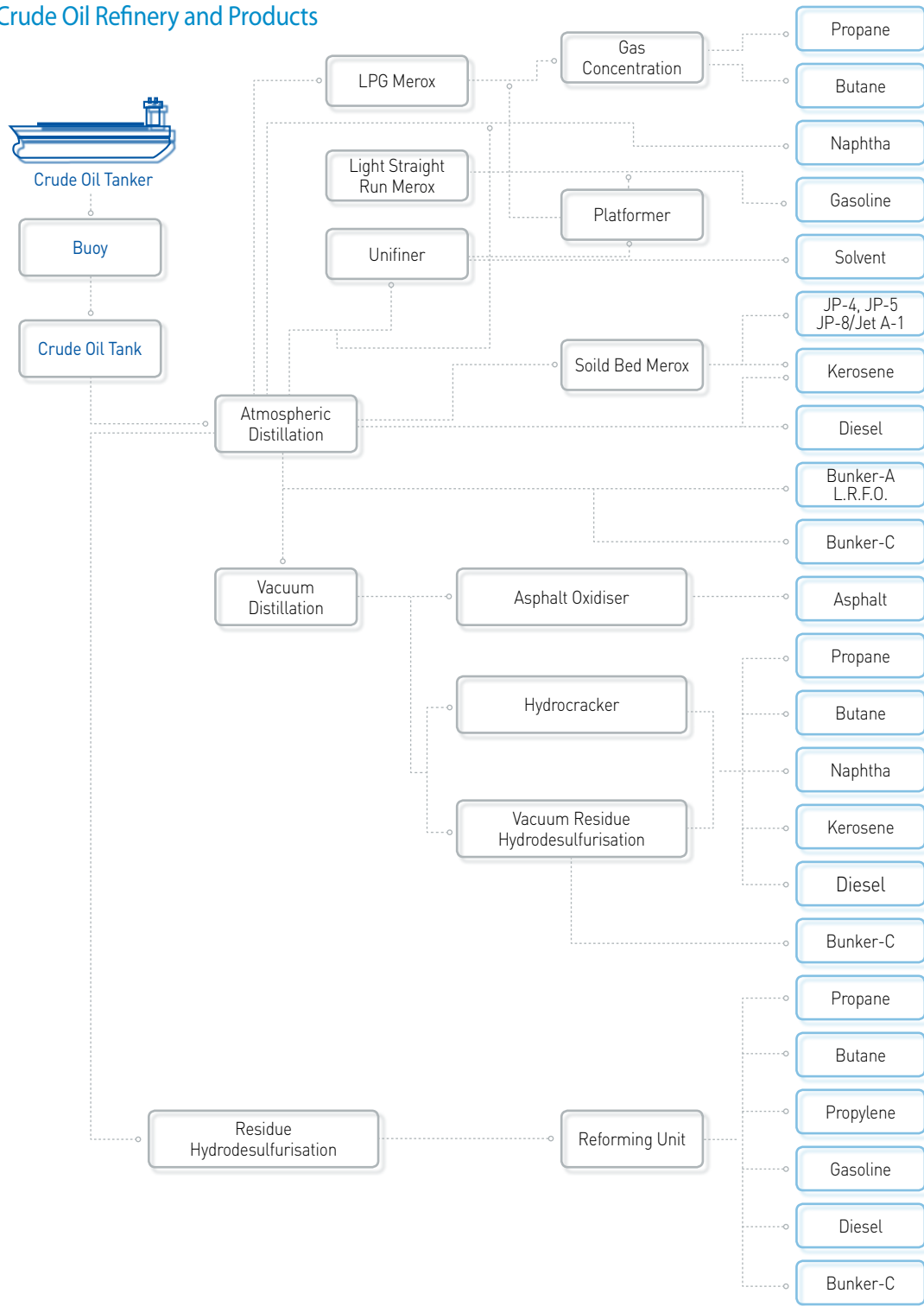
The release of LPG-powered compact and hybrid cars and lower international LPG prices are expected to boost LPG demand in 2009. SK Energy will leverage the favorable domestic and international market environment to strengthen the long-term competitiveness of its LPG business. SK Energy and SK Gas will also cooperate in sales and logistics, creating greater synergy and establishing a solid market leadership position.

_ Specialty Petroleum Products

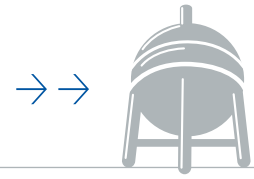
While the domestic asphalt market has already reached maturity producing zero or even minus growth in demand, the Chinese market keeps expanding thanks to the vibrant economy and state-led long-term road construction projects. The growth in Chinese asphalt demand is driving SK Energy's exports of specialty petroleum products. Despite plummeting international oil prices, the company accelerated overseas market exploration efforts by exporting more than 1.7 million tons in 2008. SK Energy also set up a joint venture in China to increase its presence in the local asphalt market. Meanwhile, the company's technological prowess was bolstered with the registration of a patent for styrene-butadiene-styrene polymer modified asphalt (SBS PMA), the first of its kind developed and commercialized by a Korean refinery.

In 2009, SK Energy will leverage its stable supply capabilities, outstanding product quality and services, and excellent brand image to remain Korea's top domestic seller and exporter of asphalt. To this end, the company will strengthen its marketing network and expand business areas to run the entire value chain, from production and trading to sales in China, the main target, along with Japan and Southeast Asian countries. The goal is to steadily increase the company's presence in the Asia-Pacific region.

_ Crude Oil Refinery and Products



PETROCHEMICAL BUSINESS →



SK Energy has remained a solid cornerstone of domestic industrial development, serving as the undisputed leader of the Korean petrochemical industry. Our customer-centered business approach delivers world-class price competitiveness and superior quality based on the most advanced technologies.



_ Olefins

Our stable supply of quality products has been a driving force of the Korean petrochemical industry.

SK Energy produces olefins, ethylene and propylene, as well as the intermediates butadiene and butane-1. These basic petrochemicals are supplied as feedstock to downstream plants inside the SK Ulsan Complex, as well as in the larger Ulsan Petrochemical Complex, thus playing a key role in the Korean petrochemical industry's development. The increased output from a new Residue Fluid Catalytic (RFCC) unit enabled the company to supply 1.73 million tons of olefins and intermediates internally and an additional 1.22 million tons to outside petrochemical processors. Cost-cutting efforts and new technology development will continue in 2009 to ensure that customers receive stable supplies of the high quality petrochemical feedstock they require.

_ Aromatics

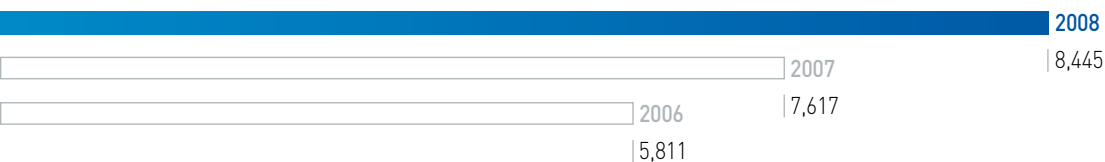
Our cost competitiveness increases our dominance in Northeast Asia.

The aromatics segment is characterized by a free flow of imports and exports globally; and domestic prices closely follow international prices. SK Energy produces benzene, toluene, xylene, para-xylene, ortho-xylene, styrene monomer, and cyclo-hexane. Despite the curbed demand due to fluctuations in crude oil prices and slowdown of the global economy, the company managed to sell 5 million tons of aromatics in addition to supplying internal requirements. Although tougher market conditions are anticipated in 2009, the company aims to solidify its market leadership. The operational efficiency of aromatics production processes will be raised further while production costs continue to be lowered to deliver high quality products at the time they are needed.



Petrochemical sales exceeded KRW10.36 trillion in 2008, up 40% from the more than KRW7.42 trillion posted in 2007

* Petrochemical Products Sales (thousand tons)





SK Energy built Korea's first naphtha cracker in 1972 and has led the domestic petrochemical industry ever since, serving as a cornerstone of domestic industrial development.

_ Performance Chemicals

We are building a business platform in China for a steady expansion of product line-ups.

SK Energy was Korea's first company to produce solvents. Today, it is the nation's largest performance chemical maker thanks to its untiring R&D efforts. The company has continued to develop solvents that are safer in the workplace and friendlier to the environment. The product lineup now spans more than 90 different grades. Leveraging its know-how and technical expertise, SK Energy established joint ventures in China, Asia's largest solvent market, as a platform for local solvent production and marketing. Backed by the 1,4-butanediol (1,4 BDO) unit which started production in 2008, the company sold 940,000 tons of solvents in 2008.

The global economy is expected to remain sluggish in 2009. However, SK Energy will continue to respond to customer needs for product and applied technology support while keep upgrading customer services.

_ Polymers

From high-tech materials to consumer goods, our products create values in people's life.

Polymers widely used in the automotive, electronics and communications industries are also readily found in everyday life, in everything from toothpaste tubes and stationery products to food containers.

The polymer business spans the production of linear low-density polyethylene, high-density polyethylene and polypropylene. Combined sales amounted to 850,000 tons in 2008. New grades were developed to improve competitiveness and make inroads into the high-value-added end of the polymer business.

Competitiveness in China, the world's largest polymer importer, was improved by reinforcing the local marketing network. In 2009, new customer value will be created by offering online information and improving technical as well as financial support programs and customer services.

_ Performance Rubber (EPDM)

We will boost sales and profitability by optimizing plant operation.

SK Energy produces ethylene propylene diene monomer (EPDM), which features outstanding resistance to weathering, heat and ozone. The steady growth in sales of automotive and industrial-use rubber parts is driving demand for this value-added synthetic rubber, prompting Energy to upgrade and restart its idle EPDM plant in May 2006. The company sold 24,000 tons of EPDM in 2008. The plant operation rate will be maximized and global market opportunities will be exploited to boost both the sales and profitability of this business unit.



_ I/E Material

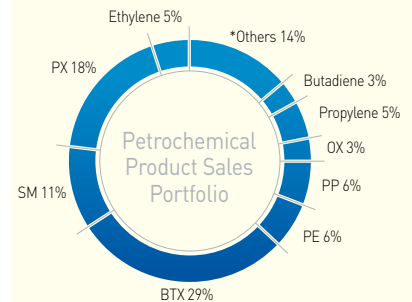
Growing market and ongoing R&D are boosting profitability.

Separators are essential materials in the production of rechargeable batteries, and SK Energy is Korea's first company to develop and produce the inter-electrolyte materials needed to make these separators. Mass production on Line 1 began in November 2005, and by 2007 the line was working at full capacity. The lithium-ion battery market continues to grow with the spread of notebook PCs and mobile phones, and SK Energy started up a second production line in 2007. Ongoing technology development and aggressive marketing are helping to boost sales inside and outside Korea.

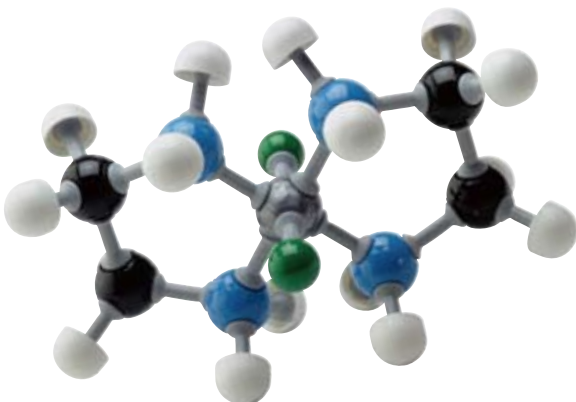
* I/E : Information / Electronics

* LiBS : Lithium ion Battery Separator

SK Energy has remained the undisputed leader of Korea's petrochemical industry, supplying unprocessed and processed materials that are essential for all other industries.



* Others include Solvents, H-RPG, NCB, Butene-1, MTBE, CHx, etc.





We are at the forefront of building new systems to accommodate changing times and technology advancement, maximizing customer value in the process.

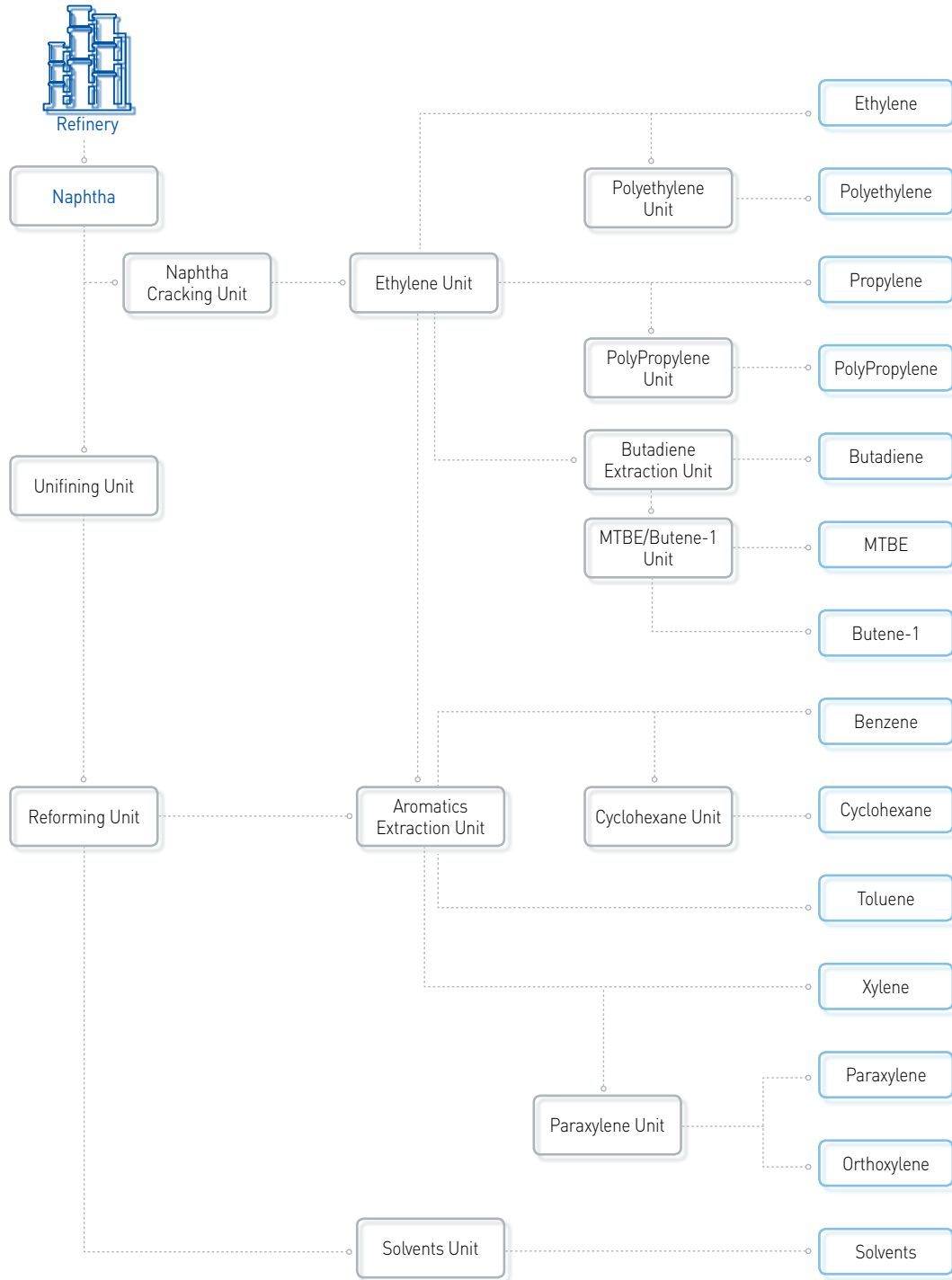
[_ www.SKchem.com](http://www.SKchem.com)

Our profitability is maximized through an advanced B2B e-commerce platform linking online and offline sales systems.

SK Energy operates an online B2B site for processing petrochemical product orders. The Website also keeps SK Energy close to the customer by providing product information, the latest petrochemical industry news, various technical data and a channel for consulting with Company engineers. The order placement channel is linked to the internal sales system, allowing orders to be processed automatically. In this way, customers have a one-stop online service covering order placement, shipment confirmation, test results documentation, and payment processing. Moreover, customers can easily communicate with SK Energy marketing and customer service staff through this e-commerce platform. SK Energy continues to lead the way in establishing advanced system keeping up with changing time and progress in technology. In this way, profitability and value for the customer are maximized at the same time.



_ Production Process of Petrochemicals



EXPLORATION & → → → PRODUCTION BUSINESS



Our involvement in overseas resource development projects continues to grow. As of the end of April 2009, we are participating in 34 oil and gas blocks in 17 countries as well as four LNG projects, and our proven oil equivalent reserves stand at 520 million barrels of oil equivalent (BOE). Our daily equity share in 11 production blocks in 9 countries averaged 26,000 barrels of oil and gas in 2008.



Exploration & Production

Overseas E&P operations in 2008 included efficient operation of production blocks as well as participation in petroleum exploration projects and LNG projects. The E&P projects generated KRW293.9 billion in operating profit and sales of KRW525.3 billion. As of the end of April 2009, SK Energy is engaged in 34 blocks in 17 countries as well as four LNG projects. Among these, 11 are production blocks in 9 different countries, and SK Energy's daily equity share averaged 26,000 barrels of oil and gas in 2008.

In the second half of 2008, SK Energy successfully started production at Peru Block 56 and Su Tu Vang Field in Vietnam 15-1 Block. Peru 56 Block started commercial production in mid-September 2008 and as of December 2008, SK Energy received a daily equity share of 6,000 barrels. In mid-October, the Su Tu Vang Field in Vietnam Block 15-1 commenced oil production, driving up SK Energy's average daily production to 36,000 barrels as of fourth quarter 2008. Meanwhile, the company succeeded in securing project finance loans covering 60 percent of the required investment for the Yemen LNG and Peru LNG projects.

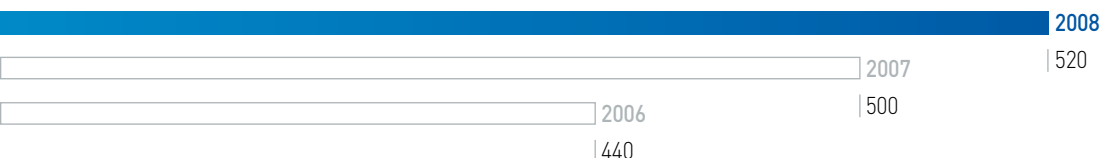
The Company joined five new exploration projects in 2008, including Oman 51 Block through equity partnering. In Colombia, SK Energy managed to win the rights to the CPE-5, CPO-4 and SSJN-5 Blocks through two licensing rounds. In the CPO-4 and SSJN-5 Blocks, SK Energy secured 100 percent operation rights in Peru Z-46 Block, and strives to fortify its standing as an E&P operator.

In 2009, SK Energy will continue to expand E&P projects in South America by efficiently operating its projects in Peru, Brazil and Colombia. At the same time, the other production blocks will be managed efficiently to secure a steady revenue stream. The company will also make sure the LNG projects in Yemen and Peru proceed as scheduled, to begin production in the second half of 2009 and the first half of 2010 respectively. SK Energy will continue to hire and train specialists in resource development. Finding operation opportunities and acquiring operation experience to enhance E&P competency. At the same time, the company will seek to participate in promising exploration projects and pursue mergers and acquisitions in strategically important Latin America and Southeast Asian countries. SK Energy will maintain its goal of continuously realizing high returns on E&P investments.



SK Energy is emerging as a major global player through exports and overseas natural resource development.

* Proven Reserves (million barrels)





During 2008 we focused on strengthening the competitiveness of our current businesses while laying the groundwork for future growth.

_ Coal and Minerals

An imbalance in international supply and demand for coal caused prices to fluctuate sharply in 2008. However, SK Energy managed to overcome the difficult business climate to achieve satisfactory economic results by importing 7.37 million tons of high quality bituminous coal from China, Indonesia and Australia as a primary energy source to KEPCO, co-generation power plants and cement manufacturers. The company bolstered its position as a stable supply source by providing 10 percent of all the coal used at five KEPCO subsidiaries.

SK Energy has been in the coalfield development business since 1990. Currently, the coal business portfolio includes four working coal mines and five exploration projects in Australia along with one in China, helping to ensure that Korea has access to a stable supply of energy. Meanwhile, SK Energy diversified by joining a uranium exploration project in Canada. The company's exploration of prospective overseas coal mines was brought to a new level in 2008 by purchasing shares in Callabonna Uranium, Ltd. (Australia) for uranium exploration and by equity partnering with Cockatoo Coal, Ltd. (Australia) in a coal mine acquisition.

Future plans call for additional involvement in coalfield development projects in China, Indonesia and other coal-rich regions overseas. Investments will also be made in infrastructure and technology – especially methods for processing low grade coal into clean coal energy – to help ensure that stable supplies of bituminous coal are maintained. Finally, the company will expand into other types of mineral resources and play a key role in developing related business sectors.



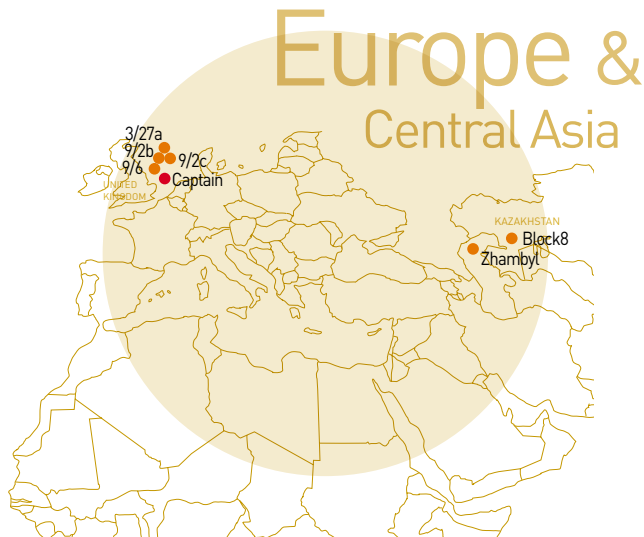
_ E&P Projects



North & South America



Middle East & Africa



- Development / Production Blocks
- Exploration Blocks
- LNG Project

LUBRICANTS → BUSINESS



The lubricants business delivered record breaking performance both in sales and operating profit in 2008. The value of our ZIC lubricant brand is well recognized as demonstrated by its top ranking on various domestic customer surveys.



Performance in 2008

The lubricants business operating profit surpassed KRW100 billion in 2005 for the first time. Just three years later, the figure had grown more than 2 times to KRW254.4 billion with sales of KRW1.88 trillion. Export volume also expanded by 25 percent year on year to over 300,000 barrels showing a steady upward trend.

The value of the ZIC brand is widely recognized in Korea. This line of lubricants has been ranked first in Korea's Power Brand Survey for the past nine years; was named a "super brand" at the Brand Olympics, sponsored by the Institute for Industrial Policy Studies; and received the Korean government's Green Management award. In overseas markets, aggressive sales promotion and a TV advertising campaign in Russia increased ZIC brand recognition to 70 percent. Competing shoulder to shoulder with world's leading brands, the ZIC has the third largest market share among the imported lubricants in Russia.

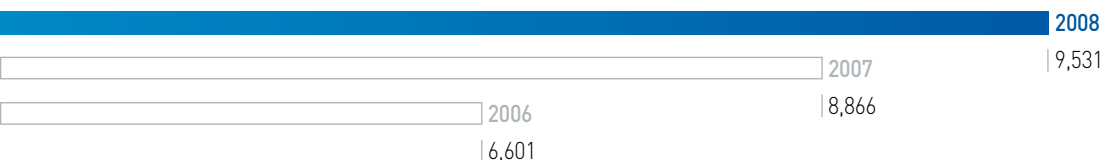
In the base oil business, a new plant (the company's third) was completed at the Dumai Refinery in Indonesia through a joint venture with Indonesia's national oil company, Pertamina. The commercial production and export of the premium-grade base oil YUBASE Plus commenced in May. Meanwhile, premium-grade base oil sales were up in the US and Europe, despite the high oil prices during the first half of the year, helping to boost the profitability of the lubricant business. The company will continue to enhance local base oil marketing systems in the US and Europe while developing new markets to maintain leadership in the global Group III base oil market.

ZIC XQ premium motor oil for gasoline engine, ZIC XQ5000 for diesel engine, and ZIC 0W eco-friendly high performance motor oil, which was released in October, will further ensure SK Energy's dominance in the domestic lubricant market and leadership in technology development. Also, along with supplying these products to major overseas automotive companies on an OEM basis, SK Energy will cultivate the Chinese, Russian and Pakistani markets to secure additional sales growth drivers.



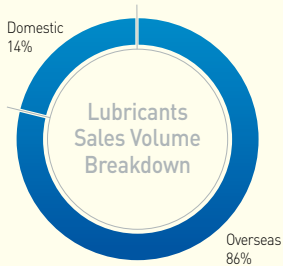
An aggressive marketing campaign is increasing our share of the lubricant markets in Russia, China and elsewhere.

* Lubricants Products Sales (thousand barrels)





ZIC, a major SK Energy brand, is recognized worldwide.



_ Business Plans and Strategies for 2009

International demand for lubricants and base oil is forecast to drop in 2009 with the suffering international automotive industry. In particular, the US Big 3 carmakers are reducing production and motorists are changing oil less frequently in the sluggish economy. Moreover, new base oil competitors are expected to enter the market and customers' demand for lower prices will grow. All of these factors will add up to fiercer global competition.

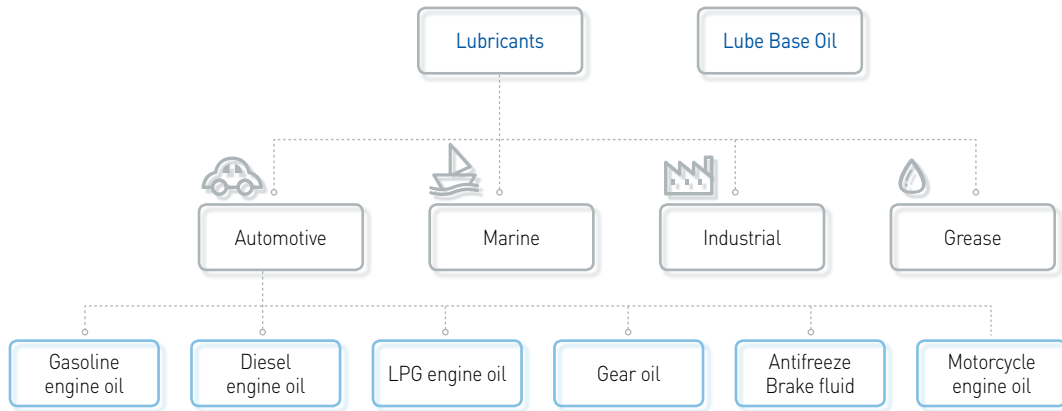
The priority in 2009 is to overcome the challenging market environment and lay the groundwork for becoming a "global business organizer in the lubricant business." Sales growth for ZIC XQ and other premium synthetic motor oils will further SK Energy's position as the Korean market leader. At the same time, SK Energy will prepare for global prominence, starting with Russia, China and Pakistan.

Completion of the Dumai lubricant base oil plant in Indonesia boosted sales of Group III base oil and strengthened global prominence in this product segment. The company will build a fourth base oil plant and establish additional partnerships overseas to pursue new business models continuously. Meanwhile, we will expand our worldwide network to include new branch offices and distribution centers, and promote localized marketing in order to strengthen our global leadership.

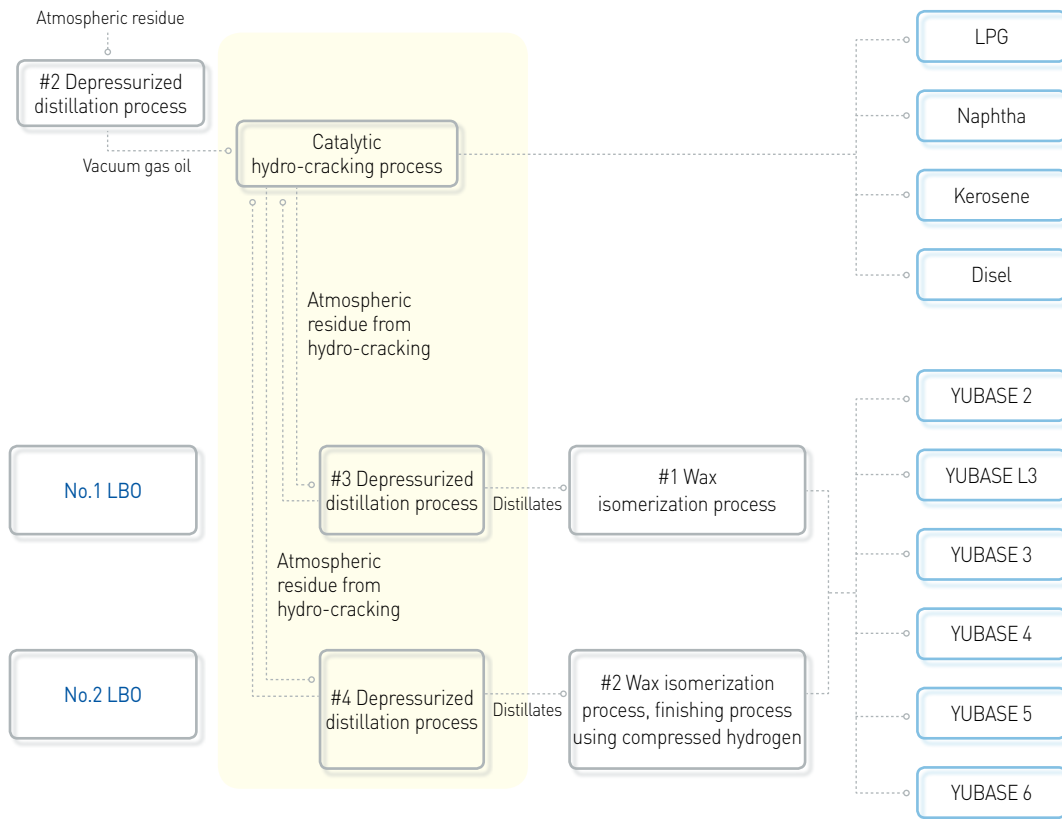
ZIC XQ



_ Products



_ LBO Production Process (Ulsan CLX)



* LBO : Lubricant Base Oil

TECHNOLOGY → BUSINESS



We have more than 40 years of accumulated experience and expertise in the energy business. We are also backed by the technology competitiveness and specialists to ensure that our customers receive the very best technology services and that our growth is sustained. Our sales rose by over 30% year on year in 2008.



The Technology Business unit represents the global business hub for the Refining & Marketing CIC (Company in Company). The unit is using competencies gained from operating a refining complex to provide operation and maintenance (O&M) services. The goal is to create global business opportunities that bolster global technology capabilities and help to generate global business synergy throughout the company. Intensified marketing activities in Southeast Asia, the Middle East and Africa enabled the company to acquire five additional O&M projects in 2008 and provide full customer satisfaction. The participation of experienced SK Energy engineers from the Ulsan Complex helped to elevate the company's global technology competencies. Efforts were focused on developing major projects in target markets to secure stable, long-term growth companywide and build a platform for global business synergy. The well-positioned overseas technology business, coupled with increased industrial gas sales resulting from high oil prices and cost-cutting efforts, generated KRW8.4 billion in operating profit and KRW33.5 billion in sales in 2008.

The global O&M market is expected to contract in 2009 as a result of the downturn in the world economy. To overcome the sagging domestic demand and sustain growth, however, SK Energy needs to expand potential overseas markets while bolstering domestic competencies. To become a global O&M specialist, SK Energy will establish a strong global infrastructure and refine overseas project capabilities. To that effect, the Technology Business unit is focused on completing key overseas O&M projects while generating steady profit from domestic projects. At the same time, efforts are being made to secure additional projects through global partnerships with the emphasis placed on strategically important regions. The ultimate goal is to lay the foundation for stable long-term growth.



A concerted effort toward achieving low-carbon, green growth is fostering the image of a corporation with environment-friendly technology.

* Technology Business Sales (KRW in millions)

	2007	2008
	25.7	33.5
	23.3	

RESEARCH & DEVELOPMENT



The SK Energy Institute of Technology (SKEIT) increases the competitiveness of core businesses through technology innovation and creates future growth drivers for the energy and petrochemicals areas to realize our "technology-driven company" vision.



SK Energy has been a driving force for Korean economic growth by providing a stable supply of energy. The company is committed to creating future growth drivers in the energy and petrochemicals areas to contribute to national energy security. SKEIT will spearhead this endeavor by leading the development of technologies for clean coal energy, marine bio-fuels, carbon dioxide recovery and reuse, and fuel cell power systems.

Technologies developed by SKEIT include the advanced catalytic olefin (ACO) process and C₄ olefin conversion technology. In partnership with Ajou University, the Institute is also working on a plastic made from 40 percent carbon dioxide. The CO₂ plastic is a promising carbon capture and storage (CCS) material that does not emit toxic gas when burned. Commercialization is scheduled for 2011.

In the new and renewable energy segment, SKEIT focuses on technologies for hybrid electric vehicle batteries, hydrogen energy, clean coal energy and bio-fuels. The battery systems for hybrid automobiles that SK Energy is developing have the world's highest level of performance. The company completed a pilot plant in 2008 and is accelerating research with the aim of starting mass production in 2011. Meanwhile, the company developed Korea's first hydrogen station technology and built a hydrogen station on the SKEIT premises. Currently, the Institute is focusing research on commercialization, including tests on fuel-cell vehicles. Clean coal is an innovative technology that reduces the emissions of carbon dioxide and other harmful gases significantly by converting low-grade coals into value-added transportation fuels, electricity and chemicals. Research on diverse bio-fuels such as bio-ethanol, bio-butanol, and bio-diesel is also ongoing with the ultimate goal of developing technology for bio-fuels from seaweed.

SKEIT is also developing and commercializing advanced new materials for electronics and IT applications such as lithium ion battery separators (LiBS), flexible copper clad laminate (FCCL) and optical films. The company's LiBS technology, which was completed and commercialized in 2005 for the first time in Korea, represents the third largest share of the global market. SK Energy has recently developed technology for tailor-made LiBS in order to supply products that meet the specific purpose of various batteries. R&D efforts are now directed at a separator for high-performance and high-capacity batteries such as those used in hybrid vehicles. At the same time, the Institute is working on development and expansion of proprietary technology including FCCL and optical film.

Other technologies under development include opportunity crude processing, premium asphalt, and deep desulfurization in the petroleum/lubricants segment, and AXI catalyst, ACNU process, ACO process, and Nexlene™ in the chemicals/polymers segment. As such, SKEIT takes a very significant role in boosting the company's technology export and technological prominence by developing world-class new technologies and products.



The SK Energy Institute of Technology, located in the Daedeok Research Complex, ascertains what customers want and develops the products and technologies to satisfy those needs.