



SONGWON

FINANCIAL RESULTS
Preliminary, unaudited

**Q2 & 6 MONTHS
ENDED JUNE 30**

2020

It's all about **the chemistry™**

About this report

This report contains Songwon Industrial Group's preliminary, unaudited financial results for the three months (Q2/2020) and six months (HY/2020) ended June 30, 2020.

All the disclosed figures are preliminary and may be subject to change during the review of the condensed interim financial statements by the Group's auditor, Ernst & Young Han Young. Songwon Industrial Group will publish condensed interim financial statements for the three and six months ended June 30, 2020 prepared in accordance with K-IFRS 1034. These will be reviewed by the Group auditor by mid-August 2020.

The financial information in this interim report reflects the consolidated figures in Mil. KRW unless otherwise stated.

For further information about Songwon Industrial Group, please visit: www.songwon.com or write to us at: ir@songwon.com.

Forward-looking statements & information

This preliminary report contains forward-looking statements and information concerning the outlook for our business. These statements are based on current expectations, estimates and projections concerning factors that may affect Songwon Industrial Group's future performance, including global and regional economic conditions in the regions, major markets and industries where SONGWON does business. As a result, these forward-looking statements and information are subject to uncertainties and risks, many of which are beyond our control. These may cause our actual results to differ materially from the forward-looking information and statements made in this report and possibly affect our ability to achieve any, or all of, our stated targets. Songwon Industrial Group believes that the expectations reflected in any forward-looking statement are based upon reasonable assumptions; however, no assurance can be given that these expectations will prove to be correct.

The forward-looking statements contained herein are current only as of the date of this document.

Key Financial Data

| | Q2 2020 | | | Q2 2019 | | | For the six months ended | | |
|----------------------------|-------------|-------------|--------|-------------|-------------|--------|--------------------------|-------------|----|
| | Million KRW | | | Million KRW | | | June 30, | | |
| | | | Δ% | | | Δ% | 2020 | 2019 | Δ% |
| | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% |
| Sales | 198,145 | 218,467 | -9.3% | 408,688 | 408,884 | 0.0% | | | |
| Gross profit | 41,768 | 51,860 | -19.5% | 83,310 | 91,573 | -9.0% | | | |
| <i>Gross profit margin</i> | 21.1% | 23.7% | | 20.4% | 22.4% | | | | |
| Operating profit | 16,164 | 23,274 | -30.5% | 34,233 | 37,036 | -7.6% | | | |
| EBITDA | 24,710 | 32,799 | -24.7% | 51,700 | 55,888 | -7.5% | | | |
| <i>EBITDA margin</i> | 12.5% | 15.0% | | 12.7% | 13.7% | | | | |
| EBIT | 16,043 | 23,540 | -31.8% | 34,493 | 37,485 | -8.0% | | | |
| <i>EBIT margin</i> | 8.1% | 10.8% | | 8.4% | 9.2% | | | | |
| Profit for the period | 5,422 | 12,826 | -57.7% | 16,604 | 21,603 | -23.1% | | | |
| Total assets | | | | 924,573 | 957,355 | -3.4% | | | |
| Total equity | | | | 450,227 | 432,596 | 4.1% | | | |
| <i>Equity ratio</i> | | | | 48.7% | 45.2% | | | | |
| Headcounts | | | | 1,084 | 1,059 | 2.4% | | | |

Sales development

Divisions

| | 2020 | | | 2019 | | | For the three months ended | | |
|-------|----------------------|-------------|--------|-----------------------|-------------|-------|----------------------------|-------------|-------|
| | Industrial Chemicals | | | Performance Chemicals | | | June 30, | | |
| | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% |
| Sales | 145,543 | 161,720 | -10.0% | 52,602 | 56,747 | -7.3% | 198,145 | 218,467 | -9.3% |

| | 2020 | | | 2019 | | | For the six months ended | | |
|-------|----------------------|-------------|-------|-----------------------|-------------|------|--------------------------|-------------|------|
| | Industrial Chemicals | | | Performance Chemicals | | | June 30, | | |
| | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% |
| Sales | 301,562 | 302,611 | -0.3% | 107,126 | 106,273 | 0.8% | 408,688 | 408,884 | 0.0% |

Regions

| | Q2 2020 | | | Q2 2019 | | | For the six months ended | | |
|-------------------------|----------------|----------------|--------------|----------------|----------------|-------------|--------------------------|-------------|----|
| | Million KRW | | | Million KRW | | | June 30, | | |
| | | | Δ% | | | Δ% | 2020 | 2019 | Δ% |
| | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% | Million KRW | Million KRW | Δ% |
| Korea | 34,785 | 44,635 | -22.1% | 78,856 | 87,876 | -10.3% | | | |
| Rest of Asia | 54,898 | 63,237 | -13.2% | 111,789 | 112,432 | -0.6% | | | |
| Europe | 43,858 | 51,751 | -15.3% | 94,208 | 98,960 | -4.8% | | | |
| North and South America | 48,019 | 46,306 | 3.7% | 91,978 | 87,473 | 5.2% | | | |
| Australia | 607 | 677 | -10.3% | 1,210 | 1,200 | 0.8% | | | |
| Middle East and Africa | 15,978 | 11,861 | 34.7% | 30,647 | 20,943 | 46.3% | | | |
| Total sales | 198,145 | 218,467 | -9.3% | 408,688 | 408,884 | 0.0% | | | |

Business development

During the 2nd quarter of 2020, ended June 30, 2020, Songwon Industrial Group generated consolidated sales of 198,145 Mil. KRW marking a 9.3% decrease in revenue over the same quarter in 2019 (218,467 Mil. KRW). Compared to the prior quarter (Q1/2020), the gross profit margin for Q2/2020 increased by 1.4%-points to 21.1%. Year-to-date, the sales achieved (408,688 Mil. KRW) in the first six months 2020 remained almost on the same level as the 2019 comparative period (408,884 Mil. KRW). The net profit YTD June 2020 of 16,604 Mil. KRW (2019: 21,603 Mil. KRW) was negatively impacted by the tax audit result within the parent company, Songwon Industrial Co., Ltd, conducted by the Korean National Tax Service in 2019-2020 for the financial years 2015-2017. Based on the final notice of assessment, the parent company recognized the income tax expense of 10.4 Bil. KRW. This was partly offset by the reversal of the available deferred tax provision for the taxed transaction leading to the net impact of 4.5 Bil. KRW on the Q2/2020 close. With its solid contingency plan, Songwon Industrial Co., Ltd., will be reviewing its possibilities for starting tax appeal filing procedures against the tax assessment made.

After the sound growth of revenue in Q1/2020, mainly caused by customers increasing their stocking up activities due to concern for potential supply disruptions caused by the COVID-19 pandemic, Division Industrial Chemicals (-6.7%) and Division Performance Chemicals (-3.5%) both saw a decline in demand in Q2/2020. Division Industrial Chemicals generated sales of 145,543 Mil. KRW (Q1/2020: 156,019 Mil. KRW) and Division Performance Chemicals recorded sales of 52,602 Mil. KRW (Q1/2020: 54,524 Mil. KRW).

In connection to the significant impact of the COVID-19 pandemic across the industry, Division Industrial Chemicals noted negative price developments across the portfolio. Driven by the decreasing raw material costs which led to sales price adjustments for some products, together with a decline in demand, these subsequently impacted sales revenues negatively during the quarter. SONGWON registered a contraction compared to Q2/2019, especially in the demand for plastics used for automotive, appliances and construction. In addition, the Division saw customers moving orders from June to later in July and August. Throughout the quarter, the Division's profitability increased compared to Q1/2020 on the back of lower raw material costs and due to positive FX developments.

The Group's Division Performance Chemicals also suffered from the global pandemic throughout Q2/2020. There was a reduction in the demand for PVC Additives which especially affected sales in Korea given the already weakened Korean construction industry. However, Division Performance Chemicals was able to further increase sales of its Tin Intermediates/Catalysts in Q2/2020, mainly by gaining new business particularly in Europe and the Americas, partially due to discontinued production by competitors. The down-trend in raw material costs which continued throughout the quarter positively supported the business.

Throughout the first half year 2020, operations ran according to plan, although in comparison to the first quarter of 2020, there was a reduction in plant utilization as a direct consequence of the lower projected demand. To ensure business continuity and minimize the impact of the global pandemic, the Group adopted Business Continuity Plan measures across the global organization.

Outlook

The COVID-19 pandemic has created significant uncertainty in relation to future demand, industry direction and supply dynamics across the globe. From its outbreak at the beginning of the year, the Group has been closely observing COVID-19 developments worldwide and continually evaluating its impact on the industries SONGWON serves. In line with this, the Group is following its ongoing improvement strategy. The Group also reports that it is maintaining close and continuous interaction with customers, suppliers and business partners in order to ensure timely reaction to new developments.

At this point in time, the COVID-19 pandemic's impact is difficult to assess or predict, both for the short and mid-term. However, SONGWON expects demand for its products to be lower than usual for most of Q3/2020, with signs of a recovery in demand towards the end of the quarter. As such a new global situation and remaining so uncertain, SONGWON emphasizes that it is not feasible to make concrete long-term generalized predictions. That being said, the Group assumes that there will be a gradual and sustainable return of global economic activity and gradual reopening of economies in the upcoming months and anticipates that a recovery will begin to take hold as the year progresses.

Until then, the Group will continue to evaluate customer demand directly with its customer base in order to fully understand it and establish the most accurate plan for the remainder of the year. SONGWON sees the current global environment remaining uncertain for some time to come but has confidence in the future of the industry. Therefore, for the remainder of the year, the Group intends to focus on optimizing its internal structure and processes. This will support SONGWON to deliver improved financial performance and ensure it fully capitalizes on arising opportunities while executing its strategic initiatives across the organization throughout the rest of the year. Looking ahead, SONGWON is confident that with its solid foundation and implemented contingency plans in place, it is well-positioned to offset current headwinds and emerge an even stronger partner for its customers and a valuable player in the industry.