



FINANCIAL RESULTS
FIRST QUARTER
ENDING MARCH 31, **2019**

It's all about **the chemistry™**

About this report

The condensed interim consolidated financial statements including notes (refer to section 2 from page 7 to 48) according to K-IFRS are reviewed and not audited by our group auditor Ernst & Young Han Young (Ernst & Young Korea) – the review conclusion on the quarterly financial statements can be found at the end of this report. The review is applicable to the first quarter ending March 31, 2019 and the first quarter ending March 31, 2018.

A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea. There have been no changes in this approach in comparison to prior quarters and is only expanded in this paragraph for clarification to the user of the financial statements.

The condensed interim financial statements for the first quarter ending March 31, 2019 included in this report have been prepared in accordance with K-IFRS 1034 and should be read in conjunction with the annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with K-IFRS, too. The annual financial statements for the year 2018 can be found on our website www.songwon.com.

All financials disclosed hereunder reflect consolidated numbers in Million KRW where not indicated differently.

Forward-looking statements & information

This 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.

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SECTION 1:

Business Development

Key financial data

	For the three months ended		
	March 31,		
	2019	2018	
	Million KRW	(restated*) Million KRW	Δ%
Sales	190,417	190,472	0.0%
Gross profit*	39,713	40,376	-1.6%
<i>Gross profit margin*</i>	20.9%	21.2%	
Operating profit	13,762	15,262	-9.8%
EBITDA	23,089	23,704	-2.6%
<i>EBITDA margin</i>	12.1%	12.4%	
EBIT	13,945	15,433	-9.6%
<i>EBIT margin</i>	7.3%	8.1%	
Profit for the period	8,777	11,537	-23.9%
Total assets	917,688	910,348	0.8%
Total equity	417,783	386,764	8.0%
<i>Equity ratio</i>	45.5%	42.5%	
Headcounts	1,048	985	6.4%

*refer to note 2.2 for further details

Sales development

Divisions**

	For the three months ended								
	March 31,								
	2019	2018		2019	2018		2019	2018	
	Industrial Chemicals			Performance Chemicals			Total		
	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%
Sales	140,891	140,784	0.1%	49,526	49,688	-0.3%	190,417	190,472	0.0%

**refer to note 6 for further details

Regions

	For the three months ended		
	March 31,		
	2019	2018	
	Million KRW	Million KRW	Δ%
Korea	43,241	46,353	-6.7%
Rest of Asia	49,195	50,178	-2.0%
Europe	47,209	45,169	4.5%
North and South America	41,167	36,458	12.9%
Australia	523	401	30.4%
Middle East and Africa	9,082	11,913	-23.8%
Total sales	190,417	190,472	0.0%

Business development

In Q1/2019, ending March 31, Songwon Industrial Group recorded consolidated sales of 190,417 Mil. KRW. Compared with the sales achieved in Q1/2018, the revenue remained on the same level. The Group generated a net profit of 8,777 Mil. KRW in Q1/2019, a decrease of 23.9% compared to a profit of 11,537 KRW in the 1st quarter of 2018.

It was an unexpectedly slow start to the year for SONGWON with decreased demand and lower than anticipated earnings. In particular, Industrial Chemicals' performance was lower than predicted with the overall demand in the industry remaining volatile. End consumer demand, especially in automotive and building and construction industry was down in Q4/2018 and failed to start strongly in the new year. In addition, the US/China trade war and other socio-political areas of global concerns also seem to impact worldwide demand in general. Furthermore, the decline in SONGWON's gross profit was the result of the higher costs driven by lower capacity utilization in the previous quarter and the higher material costs which continued in Q1/2019. During Q1, the EBITDA and EBIT margins dropped to 12.1% and to 7.3% respectively.

Performance throughout January was fairly reasonable but February proved to be weak. The impact of the Chinese New Year celebrations was felt across the business during the month, as most companies in North East Asia traditionally close for the holiday. In contrast, March saw a pick-up in performance on the back of price increases implemented during the prior year, coupled with the positive USD currency effect in 2019. A climb in demand is also anticipated based on the current indicators.

Apart from a short maintenance shut down in Ulsan in February, all of SONGWON's manufacturing facilities ran smoothly during the quarter without disruption, and at the capacity levels that have been set to ensure an optimal cost position for the organization. To support customer requests, SONGWON's new BU Lube Additives lab operated at high levels in the first quarter. Approvals are also progressing well at the new S L570 (liquid butylated / octylated diphenylamine) and realized its first sales in Q1/2019.

Outlook

Our financial results for the first quarter reflect the challenging global environment and continued volatility within the industry. However, looking closely at the results, SONGWON notes many positive underlying trends.

From a historical perspective, the 2nd and 3rd quarters are expected to be stronger quarters. The positive, upward trend recorded in March, means that SONGWON is looking positively towards a period of growth and renewed momentum for the Group. Despite the slower start to the year, SONGWON remains committed to its goal of improving profitability, although current economic conditions make achieving this more challenging.

Moving forward, we believe that our key strengths form a solid foundation for adapting to the challenges presented by changing client needs, economic conditions and increased competition and regulation. Despite the weak market demand and fluctuating price of raw materials, we are managing to implement and maintain higher prices, penetrate markets and capitalize on growth opportunities. Overall, by exercising an appropriate level of caution, we believe that SONGWON is strongly positioned to meet and exceed its strategic targets for the coming year and beyond.

SECTION 2:

**Interim Condensed
Consolidated Financial
Statements (unaudited)**

Interim consolidated statements of financial position (unaudited)

	Notes	As of	
		March 31, 2019	December 31, 2018
		Million KRW	Million KRW
ASSETS			
Non-current assets		504,544	480,898
Property, plant and equipment	6.2.2, 7, 25	438,762	439,322
Right-of-use assets	6.2.2, 8	23,879	-
Investment properties	6.2.2	3,512	3,516
Intangible assets	6.2.2, 9	16,996	17,826
Investments accounted for using the equity method	5	5,191	4,760
Other non-current assets		456	1,515
Other non-current financial assets	13, 20, 22, 23	12,460	11,129
Deferred tax assets		3,288	2,830
Current assets		413,144	391,646
Inventories	10	212,149	201,368
Trade and other receivables	11, 22, 23	135,850	115,969
Income tax receivables		642	610
Other current assets	14	6,489	4,387
Other current financial assets	13, 20, 22, 23	4,724	6,006
Cash and cash equivalents	12, 22	53,290	63,306
Total assets		917,688	872,544
EQUITY AND LIABILITIES			
Equity		417,783	411,198
<i>Non-controlling interests</i>		<i>1,446</i>	<i>-714</i>
<i>Equity attributable to owners of the parent</i>		<i>416,337</i>	<i>411,912</i>
Issued capital		12,000	12,000
Capital surplus		22,359	24,361
Reserves	15	27,975	27,591
Retained earnings	15	357,403	352,906
Accumulated other comprehensive income	15.2	-3,400	-4,946
Non-current liabilities		98,958	84,690
Interest-bearing loans and borrowings	16, 22, 25, 26	10,908	17,180
Pension liability		18,651	16,037
Other long-term employee-related liabilities		5,191	5,111
Non-current lease liabilities	22, 26.3	20,384	-
Other non-current financial liabilities	19, 20, 22, 26.3	1,491	3,361
Other non-current liabilities		57	41
Deferred tax liabilities		42,276	42,960
Current liabilities		400,947	376,656
Interest-bearing loans and borrowings	16, 22, 24, 25, 26	279,368	267,930
Trade and other payables	22, 23, 26.3	104,374	100,529
Current lease liabilities	22, 26.3	2,191	-
Other current financial liabilities	19, 20, 22, 26.3	5,926	1,978
Other current liabilities		3,017	1,883
Income tax payable		6,071	4,336
Total liabilities		499,905	461,346
Total equity and liabilities		917,688	872,544

Interim consolidated statements of financial position (unaudited)

	As of (refer to note 2.1)	
	March 31, 2019	December 31, 2018
	Thousand USD	Thousand USD
ASSETS		
Non-current assets	443,951	423,144
Property, plant and equipment	386,069	386,562
Right-of-use assets	21,011	-
Investment properties	3,090	3,094
Intangible assets	14,955	15,685
Investments accounted for using the equity method	4,568	4,188
Other non-current assets	401	1,333
Other non-current financial assets	10,964	9,792
Deferred tax assets	2,893	2,490
Current assets	363,527	344,612
Inventories	186,670	177,185
Trade and other receivables	119,535	102,042
Income tax receivables	565	537
Other current assets	5,710	3,860
Other current financial assets	4,157	5,285
Cash and cash equivalents	46,890	55,703
Total assets	807,478	767,756
EQUITY AND LIABILITIES		
Equity	367,609	361,816
<i>Non-controlling interests</i>	<i>1,272</i>	<i>-628</i>
<i>Equity attributable to owners of the parent</i>	<i>366,337</i>	<i>362,444</i>
Issued capital	10,559	10,559
Capital surplus	19,674	21,435
Reserves	24,615	24,277
Retained earnings	314,481	310,525
Accumulated other comprehensive income	-2,992	-4,352
Non-current liabilities	87,074	74,519
Interest-bearing loans and borrowings	9,598	15,117
Pension liability	16,411	14,111
Other long-term employee-related liabilities	4,568	4,497
Non-current lease liabilities	17,936	-
Other non-current financial liabilities	1,312	2,957
Other non-current liabilities	50	36
Deferred tax liabilities	37,199	37,801
Current liabilities	352,795	331,421
Interest-bearing loans and borrowings	245,817	235,753
Trade and other payables	91,839	88,456
Current lease liabilities	1,928	-
Other current financial liabilities	5,214	1,740
Other current liabilities	2,655	1,657
Income tax payable	5,342	3,815
Total liabilities	439,869	405,940
Total equity and liabilities	807,478	767,756

Interim consolidated statements of comprehensive income (unaudited)

	Notes	For the three months ended	
		2019	March 31, 2018 (restated*)
		Million KRW	Million KRW
Sales	6.1, 6.2, 23	190,417	190,472
Cost of sales*	23	-150,704	-150,096
Gross profit*		39,713	40,376
Selling and administration costs*	23	-25,951	-25,114
Operating profit		13,762	15,262
Other income	23	468	488
Other expenses		-285	-317
Share of result from investments accounted for using the equity method	5	226	541
Finance income	23	4,342	7,859
Finance expenses		-7,268	-10,478
Profit before tax		11,245	13,355
Income tax expenses	17	-2,468	-1,818
Profit for the period		8,777	11,537
Other comprehensive income, net of taxes			
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		1,648	460
(Losses) / gains on valuation of interest rate swaps	15.2	-34	-55
Exchange differences on translation of foreign operations	15.2	1,682	515
Total other comprehensive income, net of taxes		1,648	460
Total comprehensive income		10,425	11,997
Profit for the period attributable to:			
Owners of the parent	18	8,721	11,700
Non-controlling interests		56	-163
Profit for the period		8,777	11,537
Total comprehensive income attributable to:			
Owners of the parent		10,267	12,150
Non-controlling interests		158	-153
Total comprehensive income		10,425	11,997
Earnings per share		KRW	KRW
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	18	363	487

*refer to note 2.2 for further details

Interim consolidated statements of comprehensive income (unaudited)

	For the three months ended March 31, (refer to note 2.1)	
	2019	2018 (restated*)
	Thousand USD	Thousand USD
Sales	167,549	167,597
Cost of sales*	-132,606	-132,070
Gross profit*	34,943	35,527
Selling and administration costs*	-22,834	-22,098
Operating profit	12,109	13,429
Other income	412	429
Other expenses	-251	-279
Share of result from investments accounted for using the equity method	199	476
Finance income	3,821	6,915
Finance expenses	-6,395	-9,220
Profit before tax	9,895	11,750
Income tax expenses	-2,172	-1,600
Profit for the period	7,723	10,150
Other comprehensive income, net of taxes		
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>	1,450	405
(Losses) / gains on valuation of interest rate swaps	-30	-48
Exchange differences on translation of foreign operations	1,480	453
Total other comprehensive income, net of taxes	1,450	405
Total comprehensive income	9,173	10,555
Profit for the period attributable to:		
Owners of the parent	7,674	10,294
Non-controlling interests	49	-144
Profit for the period	7,723	10,150
Total comprehensive income attributable to:		
Owners of the parent	9,034	10,690
Non-controlling interests	139	-135
Total comprehensive income	9,173	10,555
Earnings per share		
	USD	USD
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	0.32	0.43

*refer to note 2.2 for further details

Interim consolidated statements of changes in equity (unaudited)

For the three months ended March 31, 2018 and 2019

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total		
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW		
As of January 1, 2018	12,000	24,361	27,255	322,085	-4,841	380,860	-2,733	378,127
Profit for the period	-	-	-	11,700	-	11,700	-163	11,537
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-55	-55	-	-55
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	505	505	10	515
Total comprehensive income	-	-	-	11,700	450	12,150	-153	11,997
Dividends	-	-	-	-3,360	-	-3,360	-	-3,360
Appropriation to reserves	-	-	336	-336	-	-	-	-
As of March 31, 2018	12,000	24,361	27,591	330,089	-4,391	389,650	-2,886	386,764
As of January 1, 2019	12,000	24,361	27,591	352,906	-4,946	411,912	-714	411,198
Profit for the period	-	-	-	8,721	-	8,721	56	8,777
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-34	-34	-	-34
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	1,580	1,580	102	1,682
Total comprehensive income	-	-	-	8,721	1,546	10,267	158	10,425
Dividends	-	-	-	-3,840	-	-3,840	-	-3,840
Appropriation to reserves	-	-	384	-384	-	-	-	-
Change in non-controlling interest due to interest increase*	-	-2,002	-	-	-	-2,002	2,002	-
As of March 31, 2019	12,000	22,359	27,975	357,403	-3,400	416,337	1,446	417,783

*refer to note 1.1 for further details

Interim consolidated statements of changes in equity (unaudited)

For the three months ended March 31, 2018 and 2019 (refer to note 2.1)

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total		
	TUSD	TUSD	TUSD	TUSD	TUSD	TUSD		
As of January 1, 2018	10,559	21,435	23,982	283,405	-4,259	335,122	-2,405	332,717
Profit for the period	-	-	-	10,294	-	10,294	-144	10,150
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-48	-48	-	-48
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	444	444	9	453
Total comprehensive income	-	-	-	10,294	396	10,690	-135	10,555
Dividends	-	-	-	-2,956	-	-2,956	-	-2,956
Appropriation to reserves	-	-	296	-296	-	-	-	-
As of March 31, 2018	10,559	21,435	24,278	290,447	-3,863	342,856	-2,540	340,316
As of January 1, 2019	10,559	21,435	24,277	310,525	-4,352	362,444	-628	361,816
Profit for the period	-	-	-	7,674	-	7,674	49	7,723
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-30	-30	-	-30
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	1,390	1,390	90	1,480
Total comprehensive income	-	-	-	7,674	1,360	9,034	139	9,173
Dividends	-	-	-	-3,380	-	-3,380	-	-3,380
Appropriation to reserves	-	-	338	-338	-	-	-	-
Change in non-controlling interest due to interest increase*	-	-1,761	-	-	-	-1,761	1,761	-
As of March 31, 2019	10,559	19,674	24,615	314,481	-2,992	366,337	1,272	367,609

*refer to note 1.1 for further details

Interim consolidated statements of cash flows (unaudited)

	Notes	For the three months ended	
		2019	March 31, 2018
		Million KRW	Million KRW
Profit for the period		8,777	11,537
Adjustments total	27	14,367	10,242
Changes in operating assets and liabilities	27	-25,280	-22,144
Interest received		100	49
Payments of income tax		-2,014	-978
Net cash flow from operating activities		-4,050	-1,294
Proceeds from sale of property, plant and equipment	7	66	23
Purchases of property, plant and equipment	7	-4,599	-4,894
Purchases of intangible assets	9	-227	-50
Increase of other financial assets, net		-327	-11,806
Net cash flow from investing activities		-5,087	-16,727
Proceeds from borrowings		173,762	181,465
Repayments of borrowings		-169,943	-161,784
Payment of lease liabilities	3	-811	-
Decrease in other financial liabilities, net		-1,931	-339
Interest payments		-2,334	-2,254
Net cash flow from financing activities		-1,257	17,088
Decrease in cash and cash equivalents		-10,394	-933
Net foreign exchange differences		378	1,607
Cash and cash equivalents as of January 1	12	63,306	55,404
Cash and cash equivalents as of March 31	12	53,290	56,078

Interim consolidated statements of cash flows (unaudited)

	For the three months ended March 31, (refer to note 2.1)	
	2019	2018
	Thousand USD	Thousand USD
Profit for the period	7,723	10,150
Adjustments total	12,642	9,012
Changes in operating assets and liabilities	-22,244	-19,485
Interest received	88	43
Payments of income tax	-1,772	-861
Net cash flow from operating activities	-3,563	-1,140
Proceeds from sale of property, plant and equipment	58	20
Purchases of property, plant and equipment	-4,046	-4,306
Purchases of intangible assets	-200	-44
Increase of other financial assets, net	-288	-10,388
Net cash flow from investing activities	-4,476	-14,718
Proceeds from borrowings	152,894	159,672
Repayments of borrowings	-149,534	-142,355
Payment of lease liabilities	-714	-
Decrease in other financial liabilities, net	-1,699	-298
Interest paid	-2,054	-1,983
Net cash flow from financing activities	-1,107	15,036
Decrease in cash and cash equivalents	-9,146	-822
Net foreign exchange differences	333	1,414
Cash and cash equivalents as of January 1	55,703	48,750
Cash and cash equivalents as of March 31	46,890	49,342

Notes to the condensed interim consolidated financial statements

1. Corporate information

1.1. The Group

SONGWON Industrial Group (the "Group") consists of the parent company Songwon Industrial Co., Ltd. (the "Company") and its consolidated subsidiaries as listed below. The Company was incorporated on December 15, 1965, under the law of the Republic of Korea to engage in the manufacture and commercial sale of antioxidants, stabilizers and polyurethanes. The Company's main manufacturing plants are located in Korea in Ulsan, Maeam and Suwon and in India in Ankleshwar. The address of the registered office (Songwon Industrial Co., Ltd.) can be found at the end of the annual report.

The Company has listed its common shares on the Korea Exchange since June 1977, pursuant to the Korean Securities and Exchange Act.

Scope of consolidation

As of March 31, 2019, the scope of consolidation for the consolidated financial statements encompasses 14 entities (2018: 14 entities). Additionally, one entity is classified as a joint venture (2018: one entity) and accounted for using the equity method.

In the course of the first three months ended March 31, 2019, the following changes in the legal structure of the Group and scope of consolidation took place:

- Acquisition of an additional 26% interest in Songwon Polysys Additives LLC with the effective date as of January 1, 2019. Therefore, the Group's interest in Songwon Polysys Additives LLC, which had already been fully consolidated as of April 1, 2014, increased from 55.5% to 81.5% for a consideration of USD 1.

The consolidated financial statements include the financial statements of the Company and of the subsidiaries listed in the following table. The table also includes the joint venture which is accounted for using the equity method.

Name	Location	March 31, 2019		December 31, 2018	
		Status	Interest	Status	Interest
Consolidated entities					
Songwon Industrial Co., Ltd.	Korea	Parent		Parent	
Songwon International-Japan K.K.	Japan	Subsidiary	100%	Subsidiary	100%
Songwon Specialty Chemicals-India Pvt. Ltd.	India	Subsidiary	100%	Subsidiary	100%
Songwon International-Americas Inc.	USA	Subsidiary	100%	Subsidiary	100%
Songwon International AG	Switzerland	Subsidiary	100%	Subsidiary	100%
Songwon Group Holding AG	Switzerland	Subsidiary	100%	Subsidiary	100%
Songwon Management AG	Switzerland	Subsidiary	100%	Subsidiary	100%
Songwon ATG GmbH	Germany	Subsidiary	100%	Subsidiary	100%
Songwon Europe GmbH	Germany	Subsidiary	100%	Subsidiary	100%
Songwon Chemicals GmbH	Germany	Subsidiary	100%	Subsidiary	100%
Songwon Trading GmbH	Germany	Subsidiary	100%	Subsidiary	100%
Qingdao Long Fortune Songwon Chemical Co., Ltd.	China	Subsidiary	72%	Subsidiary	72%
Songwon International Middle East FZE	UAE	Subsidiary	100%	Subsidiary	100%
Songwon Polysys Additives LLC	UAE	Subsidiary	81.5%	Subsidiary	55.5%
Entities accounted for using the equity method (joint ventures)					
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	China	Joint venture	30%	Joint venture	30%

2. Basis of preparation

The interim condensed financial statements for the three months ended March 31, 2019 have been prepared in accordance with K-IFRS 1034 – Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") enacted by the *Act on External Audit of Stock Companies*.

The interim condensed financial statements have been prepared on a historical cost basis, except for certain items such as financial instruments. The financial statements are presented in Korean won (KRW) and all values are rounded to the nearest million (000,000), except when otherwise indicated.

The Group maintains its official accounting records in Korean won. In the event of any differences in the interpretation of the financial statements or the independent auditor's review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

2.1. Convenience translation into United States Dollar

The Company operates primarily in KRW and its official accounting records are maintained in KRW. The US dollars amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. All amounts in KRW are presented in US dollars at the rate of KRW 1,136.49 to USD 1, the exchange rate in effect on March 31, 2019. Such presentation is not in accordance with generally accepted accounting principles, and should not be construed as a representation that the amounts in KRW shown could be readily converted, realized or settled in US dollars at this or at any other rate.

2.2. Restatement of prior year figures in consolidated statement of comprehensive income

In order to comply with the K-IFRS 1115 standard (revenue from contracts with customers) for the financial years starting on or after January 1, 2018, the Group determined that there are two performance obligations in contracts with customers. Consequently, sales of services were separated from sales of goods. As a result of the restatement of the prior year as of March 31, 2018, selling and administrative expenses decreased by 2,220 Million KRW and other cost of sales increased by 2,220 Million KRW.

3. Accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2018, except for the adoption of the new standard as of January 1, 2019, listed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group applies, for the first time, K-IFRS 1116 Leases. As required by K-IFRS 1034, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the interim condensed consolidated financial statements of the Group.

New and amended standards adopted by the Group

K-IFRS 1116 Leases

K-IFRS 1116 supersedes K-IFRS 1017 *Leases*, K-IFRS 2104 *Determining whether an Arrangement contains a Lease*, K-IFRS 2015 *Operating Leases-Incentives* and K-IFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under K-IFRS 1116 is substantially unchanged from K-IFRS 1017. Lessors will continue to classify leases as either operating or finance leases using similar principles as in K-IFRS 1017. Therefore, K-IFRS 1116 did not have an impact for leases where the Group is the lessor.

The Group adopted K-IFRS 1116 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value leases").

The effect of adoption K-IFRS 1116 as of January 1, 2019 (increase / (decrease)) is as follows:

	Million KRW
Assets	
Right-of-use assets	24,249
Prepayments	-1,346
<i>Total assets</i>	<i>22,903</i>
Liabilities	
Provisions	12
Non-current lease liability	2,310
Current lease liability	20,581
<i>Total liabilities</i>	<i>22,903</i>

1) Nature of the effect of adoption of K-IFRS 1116

The Group has lease contracts for various items of buildings, structures, machinery, vehicles and other equipment. Before the adoption of K-IFRS 1116, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under "Prepayments".

Upon adoption of K-IFRS 1116, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

- *Leases previously classified as finance leases*
 As of December 31, 2018, the Group did not classify leases as finance leases. Therefore, there was no impact of initial application of K-IFRS 1116 as of January 1, 2019.

- Leases previously accounted for as operating leases**
 The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as of January 1, 2019:

- Right-of-use assets of 24,249 Million KRW were recognized and presented separately in the statements of financial position.
- Additional lease liabilities of 22,891 Million KRW were recognized.
- Prepayments of 1,346 Million KRW related to previous operating leases were derecognized.
- Provisions increased by 12 Million KRW because of expected restoration costs.

The lease liabilities as of January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	Million KRW
Operating lease commitments as of December 31, 2018	11,920
Weighted average incremental borrowing rate as of January 1, 2019	3.66%
Discounted operating lease commitments of January 1, 2019	10,675
Less:	
Commitments relating to short-term leases	-70
Commitments relating to leases of low-value assets	-78
Add:	
Commitments relating to leases previously classified as finance leases	-
Commitments relating to newly identified leasing contracts and optional extension periods not recognised as of December 31, 2018	12,364
Lease liabilities as of January 1, 2019	22,891

2) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of K-IFRS 1116, which have been applied from the date of initial application:

- Right-of-use assets**
 The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.
- Lease liabilities**
 At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- **Short-term leases and leases of low-value assets**
The Group applies the short-term lease recognition exemption to its short-term leases of tools and other equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below 5,000 USD). Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.
- **Significant judgement in determining the lease term of contracts with renewal options**
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.
- **The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).**

Amendments to K-IFRS 1109: Prepayment Features with Negative Compensation

Under K-IFRS 1109, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to K-IFRS 1109 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments were applied retrospectively and are effective from January 1, 2019, with earlier application permitted. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to K-IFRS 1019: Plan Amendment, Curtailment or Settlement

The amendments to K-IFRS 1019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset)

These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to K-IFRS 1028: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies K-IFRS 1109 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in K-IFRS 1109 applies to such long-term interests.

The amendments also clarified that, in applying K-IFRS 1109, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying K-IFRS 1028 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of K-IFRS 1012 and does not apply to taxes or levies outside the scope of K-IFRS 1012, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

3) K-IFRS 1103 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

4) K-IFRS 1111 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in K-IFRS 1103. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

5) K-IFRS 1012 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group did not identify any effect on its consolidated financial statements.

6) K-IFRS 1023 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group did not identify any effect on its consolidated financial statements.

4. Business combinations

4.1. Business combinations in 2019

During the first three months ended March 31, 2019, there were no business combinations.

4.2. Business combinations in 2018

Step acquisition of Qingdao Long Fortune Songwon Chemical Co., Ltd.

Since August 2015, Qingdao Long Fortune Songwon Chemical Co., Ltd. (SWDM-CN) is consolidated in the financial statements of the Group using the equity method. In April 2018, the Group acquired additional 22% of the shares through a capital increase. The conditions to fully consolidate and disclose non-controlling interest were met and SWDM-CN was fully consolidated as of May 1, 2018.

The assets, liabilities and contingent liabilities of SWDM-CN were measured at fair value on the date of acquisition. If the costs exceed the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the balance is reported as goodwill. If the costs fall under the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the bargain purchase gain is recorded in the consolidated statements of comprehensive income.

Assets acquired and liabilities assumed

The assessment of the fair values of the identifiable assets and liabilities of the acquired business at the date of acquisition were (figures represent a 100% interest):

	Million KRW
Assets	
Property, plant and equipment	1,483
Other non-current assets	1,554
Deferred tax assets	128
Inventories	6,012
Trade and other receivables	7,841
Other current assets	299
Cash and cash equivalents	2,103
Total assets	19,420
Liabilities	
Other non-current financial liabilities	34
Trade and other payables	7,208
Other current liabilities	33
Income tax payable	657
Total liabilities	7,932
Total identifiable net assets at fair value	11,488
Bargain purchase gain arising on acquisition	-2,258
Consideration satisfied by:	
Consideration transferred on acquisition of 22% shareholdings	4,240
Preliminary revaluation of previously held interest in SWDM-CN	2,499
Non-controlling interest measured at fair value	2,491
Total consideration	9,230

Gain arising on acquisition (bargain purchase gain)

In 2017, SWDM-CN achieved a small positive net income. Under the consideration of the higher burden of environmental regulations as well as new competitors entering the market, the bargain purchase gain is reasonable. In addition, the Asian market remains to be volatile driven by spot business for SWDM-CN. The resulting gain of 2,258 Million KRW (bargain purchase gain) was recognized as other operating income in the consolidated statements of comprehensive income.

From the date of acquisition, May 1, 2018 through December 31, 2018, the acquired company has contributed 17,480 Million KRW of revenue and 894 Million KRW (gain) to the net profit before tax of the Group. If the business combination had taken place on January 1, 2018, revenue from continuing operations of the Group would have been 793,357 Million KRW and the net profit before tax from continuing operations for the Group would have been 46,497 Million KRW.

Revaluation of previously held interest

The Group held an equity interest of 50% before the increase and accounted for SWDM-CN as a joint venture using the equity method. In this business acquisition, which was achieved in stages, the Group re-measured its previously held interest. The resulting loss of 656 Million KRW is included in the consolidated statements of comprehensive income.

5. Investment accounted for using the equity method

The summarized statements of financial position and comprehensive income of joint venture (accounted for using the equity method) are as follows:

Statement of financial position	Cash and cash equivalents	Total current assets	Total non-current assets	Current financial liabilities	Total current liabilities	Non-current financial liabilities	Total non-current liabilities	Equity	Carrying amount
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	1,964	9,317	8,326	1,461	1,777	-	-	15,866	4,760
December 31, 2018	1,964	9,317	8,326	1,461	1,777	-	-	15,866	4,760
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	1,953	10,392	8,950	1,784	2,040	-	-	17,302	5,191
March 31, 2019	1,953	10,392	8,950	1,784	2,040	-	-	17,302	5,191

Statement of comprehensive income	Revenue	Depreciation & Amortization	Interest income	Interest expense	Profit before tax	Income tax expenses	Profit for the period	Other comp. income	Total comp. income
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	7,213	-33	8	-	1,413	-353	1,060	247	1,307
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	7,606	-63	10	-65	621	-175	446	300	746
March 31, 2018	14,819	-96	18	-65	2,034	-528	1,506	547	2,053
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	5,954	-32	-	-	1,006	-252	754	683	1,437
March 31, 2019	5,954	-32	-	-	1,006	-252	754	683	1,437

*refer to note 4.2 for further details

The changes in the interest in joint ventures are summarized as follows:

	As of January 1, 2018	Dividends	Share of result from equity method revaluation	Change in scope of consolidation	Exchange rate effects	As of March 31, 2018
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	4,231	-	318	-	74	4,623
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	2,804	-	223	-	150	3,177
Total	7,035	-	541	-	224	7,800

*refer to note 4.2 for further details

	As of January 1, 2019	Dividends	Share of result from equity method revaluation	Change in scope of consolidation	Exchange rate effects	As of March 31, 2019
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	4,760	-	226	-	205	5,191
Total	4,760	-	226	-	205	5,191

6. Segment information

For management purposes, the Group was organized into one main operating segment until December 31, 2018. In the financial year 2019, the Group has changed their management approach in regard to operating segments. The Group is now organized into two main reporting segments "Industrial Chemicals" and "Performance Chemicals". The segments are defined based on SONGWON's product portfolio and its product families:

- Industrial Chemicals**
 Industrial Chemicals operating segment mainly includes the product lines "polymer stabilizers" and other products.
- Performance Chemicals**
 Performance Chemicals operating segment mainly includes the product lines "TPP" (Tin Intermediates, PVC Additives, Polymers) and "specialty chemicals".

The Chief Operating Decision Maker monitors the sales and operating profits or losses of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. However, certain income and expense positions like other income / expenses, finance income / expenses and income tax expenses are managed on a Group basis and therefore not allocated to operating segments. The Group does not disclose a measure of total assets and liabilities for each reportable segment as such amounts are not reported to the Chief Operating Decision Maker.

There are no transactions between the two operating segments.

6.1. Reported key figures

The following key figures are presented each month to the Chief Operating Decision Maker. For the segment reporting, the same accounting policies and methods of computation as were followed in the most recent annual financial statement are used.

Description	For the three months ended					
	2019		2018		March 31,	
	2019	2018	2019	2018	2019	2018
	Industrial Chemicals		Performance Chemicals		Total	
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales*	140,891	143,080	49,526	49,859	190,417	192,939
Adjusted operating profit*	14,734	15,456	-972	63	13,762	15,519

* Internally reported figures to the Chief Operating Decision Maker

Reconciliation to K-IFRS figures

During the year 2018, the new segment reporting process was implemented within the Group. Up to the time of the implementation, certain investments accounted for using the equity method under K-IFRS were fully consolidated for internal management reporting.

Description	For the three months ended					
	March 31,					
	2019	2018	2019	2018	2019	2018
	Industrial Chemicals		Performance Chemicals		Total	
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales*	140,891	143,080	49,526	49,859	190,417	192,939
Difference in consolidation scope and others	-	-2,296	-	-171	-	-2,467
Total sales	140,891	140,784	49,526	49,688	190,417	190,472

Description	For the three months ended					
	March 31,					
	2019	2018	2019	2018	2019	2018
	Industrial Chemicals		Performance Chemicals		Total	
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Adjusted operating profit*	14,734	15,456	-972	63	13,762	15,519
Difference in consolidation scope and others					-	-257
Operating profit per consolidated income statement					13,762	15,262

* Internally reported figures to the Chief Operating Decision Maker

6.2. Geographic information

6.2.1. Sales

The sales information below is based on the location of the customer. Korea is disclosed separately due to the size of the Korean market whereas all other countries have been summarized to regions. Therefore, no country revenues are disclosed separately.

	For the three months ended	
	March 31,	
	2019	2018
	Million KRW	Million KRW
Korea	43,241	46,353
Rest of Asia	49,195	50,178
Europe	47,209	45,169
North and South America	41,167	36,458
Australia	523	401
Middle East and Africa	9,082	11,913
Total sales	190,417	190,472

The Group has no customer who accounts for more than 10% of the Group's total sales during the reporting periods.

6.2.2. Non-current assets

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, investment properties and intangible assets.

	As of	
	March 31,	December 31,
	2019	2018
	Million KRW	Million KRW
Korea	404,944	405,051
Rest of Asia	23,652	21,402
Europe	18,968	13,249
North and South America	16,174	4,689
Middle East and Africa	19,411	16,273
Total	483,149	460,664

7. Property, plant and equipment

	Land	Buildings	Structures	Machinery	Other	Construction in progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Cost							
As of January 1, 2018	147,904	88,716	66,195	499,870	18,792	4,315	825,792
Additions	-	-	-	39	449	6,499	6,987
Disposals	-	-	-	-	-151	-	-151
Reclassifications	-	87	54	2,974	97	-3,212	-
Net exchange differences	-	-147	-	-181	-30	-16	-374
As of March 31, 2018	147,904	88,656	66,249	502,702	19,157	7,586	832,254
As of January 1, 2019	149,508	90,233	66,943	513,257	19,726	3,498	843,165
Additions	-	15	115	430	353	5,447	6,360
Disposals	-	-73	-	-646	-36	-	-755
Reclassifications	42	53	34	2,108	9	-2,246	-
Net exchange differences	-	301	-	640	252	13	1,206
As of March 31, 2019	149,550	90,529	67,092	515,789	20,304	6,712	849,976
Depreciation							
As of January 1, 2018	-	-22,439	-37,407	-311,438	-12,787	-	-384,071
Depreciation charge	-	-601	-778	-5,436	-385	-	-7,200
Disposals	-	-	-	-	143	-	143
Net exchange differences	-	10	-	-38	-	-	-28
As of March 31, 2018	-	-23,030	-38,185	-316,912	-13,029	-	-391,156
As of January 1, 2019	-	-24,908	-40,393	-325,992	-12,550	-	-403,843
Depreciation charge	-	-613	-769	-5,668	-466	-	-7,516
Disposals	-	-	-	646	36	-	682
Net exchange differences	-	-30	-	-299	-208	-	-537
As of March 31, 2019	-	-25,551	-41,162	-331,313	-13,188	-	-411,214
Net book value							
As of March 31, 2019	149,550	64,978	25,930	184,476	7,116	6,712	438,762
As of January 1, 2019	149,508	65,325	26,550	187,265	7,176	3,498	439,322
As of March 31, 2018	147,904	65,626	28,064	185,790	6,128	7,586	441,098

There was no impairment during the reported financial period. Non-cash transactions amounting to 3,908 Million KRW (YTD March 31, 2018: 6,077 Million KRW) are included in the additions for the three months ended March 31, 2019.

8. Right-of-use assets

	Right-of-use assets - land	Right-of-use assets - buildings	Right-of-use assets - structures	Right-of-use assets - machinery	Right-of-use assets - other	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Cost						
As of January 1, 2019	-	22,301	1,027	241	680	24,249
Additions	-	-	-	-	30	30
Depreciation	-	-427	-196	-14	-80	-717
Net exchange differences	-	308	-	5	4	317
As of March 31, 2019	-	22,182	831	232	634	23,879

For the three months ended March 31, 2019, the Group recognized rent expenses from short-term leases of 40 Million KRW, leases of low-value assets of 10 Million KRW and variable lease payments of 57 Million KRW in the consolidated statements of comprehensive income.

9. Intangible assets

	Industrial rights	Software	Memberships	Customer relationships	Capitalization process technology	Goodwill	Construction in progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Cost								
As of January 1, 2018	3,601	2,601	831	27,627	3,142	40,791	1,485	80,078
Additions	-	1	-	-	-	-	47	48
Reclassifications	153	-	-	-	-	-	-153	-
Net exchange differences	1	4	-	-303	-43	-120	-	-461
As of March 31, 2018	3,755	2,606	831	27,324	3,099	40,671	1,379	79,665
As of January 1, 2019	5,539	2,709	831	28,685	3,294	41,929	196	83,183
Additions	-	28	-	-	-	-	199	227
Disposals	-	-82	-	-	-	-	-	-82
Reclassifications	217	-	-	-	-	-	-217	-
Net exchange differences	-	14	-	621	89	548	-	1,272
As of March 31, 2019	5,756	2,669	831	29,306	3,383	42,477	178	84,600
Accumulated amortization								
As of January 1, 2018	-1,700	-2,431	-	-21,429	-2,254	-30,655	-	-58,469
Amortization charge	-88	-21	-	-839	-120	-	-	-1,068
Net exchange differences	-1	-	-	260	37	147	-	443
As of March 31, 2018	-1,789	-2,452	-	-22,008	-2,337	-30,508	-	-59,094
As of January 1, 2019	-2,103	-2,546	-	-25,882	-2,892	-31,934	-	-65,357
Amortization charge	-136	-23	-	-826	-118	-	-	-1,103
Disposals	-	82	-	-	-	-	-	82
Net exchange differences	-	-13	-	-617	-88	-508	-	-1,226
As of March 31, 2019	-2,239	-2,500	-	-27,325	-3,098	-32,442	-	-67,604
Net book value								
As of March 31, 2019	3,517	169	831	1,981	285	10,035	178	16,996
As of January 1, 2019	3,436	163	831	2,803	402	9,995	196	17,826
As of March 31, 2018	1,966	154	831	5,316	762	10,163	1,379	20,571

The intangible assets (except goodwill and memberships) are amortized over a finite useful life. The intangible assets with indefinite useful lives are tested for impairment on an annual basis as at December 31. No triggering events occurred in the three months ended March 31, 2019 and 2018.

10. Inventories

Description	March 31,	December 31,
	2019	2018
	Million KRW	Million KRW
Raw materials and supplies	41,550	41,559
Construction in progress	624	809
Finished and semi-finished goods	123,218	120,436
Goods in transit	45,345	37,057
Consignment stocks	1,412	1,507
Total inventories at the lower of cost and net realizable value	212,149	201,368

As of March 31, 2019, inventory write-off amounted to 3,459 Million KRW for raw materials and finished goods (December 31, 2018: 3,804 Million KRW).

11. Trade and other receivables

Description	March 31,	December 31,
	2019	2018
	Million KRW	Million KRW
Trade and notes receivables (net) – third parties	130,040	112,769
Trade and notes receivables (net) – related parties	65	-
Other receivables (net) – third parties	5,647	3,133
Accrued income – third parties	98	65
Accrued income – related parties	-	2
Total	135,850	115,969

Other receivables from third parties include customs, rental income receivables and others.

12. Cash and cash equivalent

Description	March 31,	December 31,
	2019	2018
	Million KRW	Million KRW
Cash on hand	76	72
Bank accounts	48,010	56,813
Time deposit (< 3 months)	5,204	6,421
Total	53,290	63,306

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for various periods from one day to three months, depending on the Group's immediate cash requirements, and earn interest at the respective short-term deposit rates.

13. Other financial assets

Description	March 31, 2019		December 31, 2018	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Financial instruments at amortized cost (bank deposit)	740	2,331	635	2,291
Financial instrument at FVtPL	10,090	1,778	8,863	1,710
Interest-bearing loans	-	-	-	1,346
Derivative assets at FVOCI	-	27	1	69
Derivative assets at FVtPL	-	30	-	4
Equity Instrument at FVOCI	1,354	-	1,354	-
Guarantee deposits	276	558	276	586
Total	12,460	4,724	11,129	6,006

14. Other current assets

Description	March 31,	December 31,
	2019	2018
	Million KRW	Million KRW
Advance payments	392	429
Prepaid expenses	3,296	2,755
VAT refundable	2,801	1,203
Total	6,489	4,387

15. Equity

15.1. Reserves and dividends paid

At the regular general meeting of shareholders, held on March 22, 2019, dividends with the total amount of 3,840 Million KRW were approved by the shareholders. Legal reserves increased by 384 Million KRW due to the appropriation to the reserve decided by the shareholders on March 22, 2019.

15.2. Accumulated other comprehensive income

Accumulated other comprehensive income, net of tax as of March 31, 2019 and December 31, 2018 is composed of the following:

Description	March 31,	December 31,
	2019	2018
	Million KRW	Million KRW
Exchange differences on translation of foreign operations	-3,771	-5,351
Interest rate swaps	21	55
Financial assets FVOCI	350	350
Total	-3,400	-4,946

16. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings as of March 31, 2019 and December 31, 2018 are as follows:

Description	March 31,	December 31,
	2019	2018
	Million KRW	Million KRW
Long-term borrowings	10,908	17,180
Non-current interest-bearing loans and borrowings	10,908	17,180
Current portion of long-term borrowings	78,345	82,742
Short-term borrowings	201,023	185,188
Current interest-bearing loans and borrowings	279,368	267,930
Total	290,276	285,110

17. Income tax expenses

The major components of income tax expense in the interim condensed consolidated income statement are as follows:

Income taxes	For the three months ended	
	March 31,	March 31,
	2019	2018
	Million KRW	Million KRW
Current income tax charge	-3,609	-2,118
Deferred taxes related to origination and reversal of deferred taxes	1,151	316
Income tax recognized in other comprehensive income	-10	-16
Income tax expenses	-2,468	-1,818

18. Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the average number of ordinary shares outstanding during the year. There is no difference between basic and diluted earnings per share as of March 31, 2019 and 2018, as no securities with dilutive features have been issued as of the end of the reporting periods.

The following shows the income and share data used in the basic per share computations:

Description	For the three months ended	
	March 31,	
	2019	2018
	KRW	KRW
Net profit attributable to ordinary equity holders of the parent	8,721,235,271	11,699,796,157
Weighted average number of ordinary shares	24,000,000	24,000,000
Earnings per share (basic / diluted)	363	487

19. Other financial liabilities

Description	March 31, 2019		December 31, 2018	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Derivative liabilities (note 20)	-	221	-	45
Deposits	1,491	1,424	3,361	1,398
Accrued interest expenses	-	439	-	533
Unpaid dividends	-	3,842	-	2
Total	1,491	5,926	3,361	1,978

20. Derivatives financial instruments

Description	March 31, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
	Million KRW		Million KRW	
Forward exchange contracts (current portion)	30	221	4	45
Interest rate swaps (current portion)	27	-	69	-
Interest rate swaps (non-current portion)	-	-	1	-
Total	57	221	74	45

20.1. Currency forwards

Currency forward contracts which the Group has entered into in order to hedge the risk of foreign exchange rate fluctuation of assets denominated in foreign currencies as of March 31, 2019 (December 31, 2018: none) are as follows:

As of March 31, 2019

Contractual party	Position	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Citibank Korea	Sell	EUR 7,600,000	30.04.2019 – 29.01.2020	1,330.20
	Sell	JPY 1,309,200,000	30.04.2019 – 31.03.2020	10.49 – 10.60
Woori Bank	Sell	EUR 7,400,000	24.04.2019 – 28.01.2020	1,330.00
	Sell	JPY 1,415,000,000	26.04.2019 – 31.03.2020	10.25 – 10.60

20.2. Interest rate swaps

As of March 31, 2019 the Group had entered into the following interest rate swap contracts:

As of March 31, 2019

Description	Bonds contract	Interest rate swap contract
Contract date	08.03.2016	08.03.2016
Maturity date	08.05.2019	08.05.2019
Contract amount	40,000 Million KRW	40,000 Million KRW
Fixed interest rate	N/A	3.48%
Floating interest rate	3MCD+1.90%	3MCD+1.90%
Contract date	08.03.2016	08.03.2016
Maturity date	08.05.2019	08.05.2019
Contract amount	60,000 Million KRW	60,000 Million KRW
Fixed interest rate	N/A	3.30%
Floating interest rate	3MCD+1.57%	3MCD+1.57%
Contract date	03.07.2017	03.07.2017
Maturity date	03.07.2020	03.07.2020
Contract amount	10,000 Million KRW	10,000 Million KRW
Fixed interest rate	N/A	2.73%
Floating interest rate	3MCD+1.02%	3MCD+1.02%

As of December 31, 2018 the Group has entered into the following interest rate swap contracts:

As of December 31, 2018

Description	Bonds contract	Interest rate swap contract
Contract date	08.03.2016	08.03.2016
Maturity date	08.05.2019	08.05.2019
Contract amount	40,000 Million KRW	40,000 Million KRW
Fixed interest rate	N/A	3.48%
Floating interest rate	3MCD+1.90%	3MCD+1.90%
Contract date	08.03.2016	08.03.2016
Maturity date	08.05.2019	08.05.2019
Contract amount	60,000 Million KRW	60,000 Million KRW
Fixed interest rate	N/A	3.30%
Floating interest rate	3MCD+1.57%	3MCD+1.57%
Contract date	03.07.2017	03.07.2017
Maturity date	03.07.2020	03.07.2020
Contract amount	10,000 Million KRW	10,000 Million KRW
Fixed interest rate	N/A	2.73%
Floating interest rate	3MCD+1.02%	3MCD+1.02%

The Group applies cash flow hedge accounting on interest rate swaps in the current reporting period and in 2018. The balances included in accumulated other comprehensive income are 21 Million KRW as of March 31, 2019 and 55 Million KRW as of December 31, 2018, respectively (refer to note 15.2) net of income tax.

21. Emission rights and emission liabilities

The Group, in accordance with the Act on Allocation and Trading of Emission Allowances, is issued emission allowances free of charge by the government up to the allowable limit. During the year, as the Group emits gasses, a liability is recognized for the obligation to deliver allowances at the end of the year to cover those emissions. This liability is measured at the end of each reporting period by reference to the current market value of the allowances.

Allowances are derecognized on their sale (if sold into the market) or on their delivery to the government in settlement of the entity's obligation to deliver allowance to cover emissions. If the allowances are traded in an active market they are not amortized.

Where any unused allocated emission allowances after their delivery to the government, are sold, a gain or loss on disposal of the allocated emission allowances is subtracted from the cost of emissions; where emission allowances purchased are sold, the gain or loss on disposal is classified as non-operating income or expense; where the allocated emission allowances are sold when it is uncertain whether to achieve a reduction of emissions through the use of emission trading scheme, a difference between the book value and net sales price is recognized as deferred revenue which is offset against the cost of emissions over the period in which the allocated emission allowances pertain to.

A liability (emission obligation) is recognized only where actual emissions exceed the allocated emission allowances, and the cost of emissions is recognized as an operating cost. The liability is measured by adding the following (1) and (2).

- (1) The book value of emission allowances for the year to be delivered to the government
- (2) The best estimate of expenditures, as at the end of a reporting period, in performing emission obligations exceeding the above emission allowances

Where the Group borrows a part of the allocated emission allowances for any of future periods to deliver to the government, it recognizes the borrowed portion as deferred revenue when derecognizing the liability, and offsets the deferred revenue against the actual cost of emission, as it purchases the emission allowances to fill any shortfall in the period which the borrowed emission allowances belong to.

The emission allowances, which are held to obtain short-term trading profits, are measured at fair value, and changes in fair value are recognized as current profit or loss, and changes in the fair value of the emission allowances and the gain or loss on disposal are classified as operating income or expense (or non-operating income or expense).

- 1) Details of annual quantity of allocated emission allowances as of March 31, 2019 are as follows (Unit: Korean Allowance Unit - KAU):

	2018	2019	2020	Total
Allocated emission allowances	122,199	122,199	122,199	366,597

- 2) Changes in emission allowances during the current reporting period are as follows (Units: KAU and Million KRW):

	2018		2019		2020		Total (2 nd planned period)	
	Quantity	Book value	Quantity	Book value	Quantity	Book value	Quantity	Book value
Beginning	27,182	-	6,376	-	-	-	27,182	-
Allocation	122,199	-	122,199	-	122,199	-	366,597	-
Allocation cancel	-	-	-	-	-	-	-	-
Additional allocation	-	-	-	-	-	-	-	-
Purchase	-	-	-	-	-	-	-	-
Borrowed	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-
Delivery to government	-143,005	-	-	-	-	-	-143,005	-
Carryforward	-6,376	-	-	-	-	-	-	-
Ending	-	-	-	-	-	-	-	-

- 3) There are no emission rights provided as collateral as of March 31, 2019.

- 4) Changes in emission liabilities during the current and prior reporting period are as follows (in Mil. KRW):

	Q1 2019	Q1 2018
Beginning	-	-
Increase	286	-
Decrease	-	-
At the end of half year	286	-

- 5) Estimated gas emissions in 2019 are 139,160 KAU.

22. Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

As of March 31, 2019

		Carrying amount		Fair value	
		Non-current	Current	Non-current	Current
		Million KRW	Million KRW	Million KRW	Million KRW
Financial assets	Financial assets at amortized cost				
	Other financial assets	1,016	2,889	1,016	2,889
	Trade and other receivables	-	135,850	-	135,850
	Cash and cash equivalent	-	53,290	-	53,290
	<i>Total financial assets at amortized cost</i>	<i>1,016</i>	<i>192,029</i>	<i>1,016</i>	<i>192,029</i>
	Financial assets at FVOCI				
	Other financial assets	1,354	-	1,354	-
	Interest rate swaps	-	27	-	27
	<i>Total financial assets at FVOCI</i>	<i>1,354</i>	<i>27</i>	<i>1,354</i>	<i>27</i>
	Financial assets at FVtPL				
	Forward exchange contracts	-	30	-	30
	Other financial assets	10,090	1,778	10,090	1,778
	<i>Total financial assets at FVtPL</i>	<i>10,090</i>	<i>1,808</i>	<i>10,090</i>	<i>1,808</i>
Total financial assets	12,460	193,864	12,460	193,864	
Financial liabilities	Financial liabilities at amortized cost				
	Other financial liabilities	1,491	5,705	1,491	5,705
	Lease liabilities	20,384	2,191	20,384	2,191
	Trade and other payables	-	104,374	-	104,374
	Interest-bearing loans and borrowings	10,908	279,368	10,908	279,368
	<i>Total financial liabilities at amortized cost</i>	<i>32,783</i>	<i>391,638</i>	<i>32,783</i>	<i>391,638</i>
	Financial liabilities at FVOCI				
	Interest rate swaps	-	-	-	-
	<i>Total financial liabilities at FVOCI</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
	Financial liabilities at FVtPL				
Forward exchange contracts	-	221	-	221	
<i>Total financial liabilities at FVtPL</i>	<i>-</i>	<i>221</i>	<i>-</i>	<i>221</i>	
Total financial liabilities	32,783	391,859	32,783	391,859	

As of December 31, 2018

		Carrying amount		Fair value	
		Non-current	Current	Non-current	Current
		Million KRW	Million KRW	Million KRW	Million KRW
Financial assets	Financial assets at amortized cost				
	Other financial assets	911	4,223	911	4,223
	Trade and other receivables	-	115,969	-	115,969
	Cash and cash equivalent	-	63,306	-	63,306
	<i>Total financial assets at amortized cost</i>	<i>911</i>	<i>183,498</i>	<i>911</i>	<i>183,498</i>
	Financial assets at FVOCI				
	Other financial assets	1,354	-	1,354	-
	Interest rate swaps	1	69	1	69
	<i>Total financial assets at FVOCI</i>	<i>1,355</i>	<i>69</i>	<i>1,355</i>	<i>69</i>
	Financial assets at FVtPL				
	Forward exchange contracts	-	4	-	4
	Other financial assets	8,863	1,710	8,863	1,710
	<i>Total financial assets at FVtPL</i>	<i>8,863</i>	<i>1,714</i>	<i>8,863</i>	<i>1,714</i>
Total financial assets	11,129	185,281	11,129	185,281	
Financial liabilities	Financial liabilities at amortized cost				
	Other financial liabilities	3,361	1,933	3,361	1,933
	Trade and other payables	-	100,529	-	100,529
	Interest-bearing loans and borrowings	17,180	267,930	17,180	267,930
	<i>Total financial liabilities at amortized cost</i>	<i>20,541</i>	<i>370,392</i>	<i>20,541</i>	<i>370,392</i>
	Financial liabilities at FVtPL				
	Forward exchange contracts	-	45	-	45
<i>Total financial liabilities at FVtPL</i>	<i>-</i>	<i>45</i>	<i>-</i>	<i>45</i>	
Total financial liabilities	20,541	370,437	20,541	370,437	

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade and other receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of equity instruments at FVOCI is derived from quoted market prices in active markets, if available.
- Fair value of unquoted equity instruments at FVOCI is estimated using appropriate valuation techniques (refer to note 22.1).

22.1. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Description	Valuation technique
Level 1	Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly
Level 3	Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As of March 31, 2019 and December 31, 2018, the Group held the following financial instruments carried at fair value on the statement of financial position:

		March 31, 2019	Level 1	Level 2	Level 3
		Million KRW	Million KRW	Million KRW	Million KRW
Financial assets	Derivatives				
	Forward exchange contracts	30	-	30	-
	Interest Rate Swaps	27	-	27	-
	<i>Total</i>	57	-	57	-
	Debt instruments				
	Exchange traded fund at FVtPL	698	698	-	-
	<i>Total</i>	698	698	-	-
Equity instruments					
Equity instruments at FVOCI	1,354	-	-	1,354	
<i>Total</i>	1,354	-	-	1,354	
Total		2,109	698	57	1,354
Financial liabilities	Derivatives				
	Forward exchange contracts	221	-	221	-
	<i>Total</i>	221	-	221	-
Total		221	-	221	-

		December 31, 2018	Level 1	Level 2	Level 3
		Million KRW	Million KRW	Million KRW	Million KRW
Financial assets	Derivatives				
	Forward exchange contracts	4	-	4	-
	Interest Rate Swaps	70	-	70	-
	<i>Total</i>	74	-	74	-
	Debt instruments				
	Exchange traded fund at FVtPL	630	630	-	-
	<i>Total</i>	630	630	-	-
Equity instruments					
Equity instruments at FVOCI	1,354	-	-	1,354	
<i>Total</i>	1,354	-	-	1,354	
Total		2,058	630	74	1,354
Financial liabilities	Derivatives				
	Forward exchange contracts	45	-	45	-
	<i>Total</i>	45	-	45	-
Total		45	-	45	-

During the reporting periods ended March 31, 2019 and December 31, 2018, there were no transfers between Level 1 and Level 2 fair value measurements. For the financial assets and financial liabilities for which the fair value is disclosed the carrying amount is a reasonable approximation of fair values and is measured using Level 3 measurement methods, except for cash and cash equivalent.

23. Related party disclosures

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial period and balances as per period-ends.

Related party	Description	For the three months ended	
		2019	March 31,
		Million KRW	Million KRW
Jongho Park, Chairman of the Board of Directors	Finance income	-	206
Maurizio Butti, Chief Executive Officer	Finance income	1	-
Songwon Moolsan Co., Ltd.	Selling and administration costs	-16	-13
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Sales	64	-
	Cost of sales	-3,409	-3,236
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	Sales	-	4,514
	Cost of sales	-	-138
	Selling and administration costs	-	-266
	Other income	-	11
	Finance income	-	31
Total	Sales	64	4,514
	Cost of sales	-3,409	-3,374
	Selling and administration costs	-16	-279
	Other income	-	11
	Finance income	1	237

*refer to note 4.2 for further details

Related party	Description	As of	
		March 31, 2019	December 31, 2018
		Million KRW	Million KRW
Maurizio Butti, Chief Executive Officer	Trade and other receivables	-	2
	Other current financial assets	-	1,346
Songwon Moolsan Co., Ltd.	Other non-current financial assets	24	24
	Trade and other payables	5	5
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Trade and other receivables	65	-
	Trade and other payables	1,093	1,148
Total	Other non-current financial assets	24	24
	Trade and other receivables	65	2
	Other current financial assets	-	1,346
	Trade and other payables	1,098	1,153

23.1. The ultimate parent

Songwon Industrial Co., Ltd. is the ultimate parent based and listed in Korea.

23.2. Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the three months ended March 31, 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (December 31, 2018: none). This assessment is undertaken periodically through examining the financial position of the related party and the market in which the related party operates.

23.3. Transactions with key management personnel

In the first quarter of 2019, the Chief Executive Officer of the Group, Maurizio Butti fully repaid his loan of in total 1,346 Million KRW (outstanding loans as of December 31, 2018: 1,346 Million KRW).

23.4. Compensation of key management personnel of the Group

Description	For the three months ended	
	2019	March 31, 2018
	Million KRW	Million KRW
Short-term employee benefits	4,476	3,054
Post-employment benefits	201	200
Other long-term benefits	613	370
Share based payments	-9	105
Total compensation paid to key management personnel	5,281	3,729

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel. Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

23.5. Other related parties

Other related parties are Songwon Moolsan Co., Ltd. (Korea) which has significant influence on the Group due to the interest held in the share capital of the parent company of 23.88%. Further, the subsidiary of Songwon Moolsan Co., Ltd., Kyungshin Industrial Co., Ltd., which holds interest in the share capital of the parent company of 9.15%, is identified as a related party of the Group.

24. Commitments and contingencies

24.1. Contingent liability

There are no current proceedings such as lawsuits, claims, investigations and negotiations as a result of product liability, mercantile law, environmental protection and health and safety which could have significant influence on business operations and on the Group's consolidated financial position or income.

24.2. Other lease commitments

The Group has entered into short-term and low-value leases on certain buildings, vehicles, furniture and fixture. The lease periods for low-value leases are below 5 years. There are no restrictions placed upon the Group by entering into these leases. Future minimum short-term and low-value lease payments as of March 31, 2019 are as follows:

Description	As of
	March 31, 2019
	Million KRW
Short-term lease commitments	
Within one year	-70
<i>Total short-term lease commitments</i>	-70
Low-value lease commitments	
Within one year	-49
After one year but not more than five years	-29
<i>Total low-value lease commitments</i>	-78
Total	-148

24.3. Other commitments

The Group has provided one blank promissory note to Hanwha Chemical Co., Ltd. as a security for supply contracts.

One check and one promissory note which the Group received from KEB Hana Bank, are outstanding as of March 31, 2019 due to the bankruptcy declared by the issuers of the check.

Details of the Group's available short-term credit line facilities (excluding general loans) as of March 31, 2019 are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	23,400	7,254	16,146
D/A and D/P	Thousand USD	111,500	64,237	47,263
	Million KRW	32,000	6,551	25,449
Trade loans	Million KRW	15,000	1,886	13,114
Secured loan of credit sales	Million KRW	9,000	3,321	5,679
Other foreign currency guarantees	Thousand USD	18,270	13,562	4,708
	Total Million KRW	56,000	11,758	44,242
	Total Thousand USD	153,170	85,053	68,117

25. Assets pledged as collateral and guarantees

Details of property, plant and equipment and investment properties pledged by the Group as collateral for interest-bearing loans and borrowings as of March 31, 2019 and December 31, 2018, expressed in the maximum pledge amount are as follows:

Pledged to	Pledged assets		March 31, 2019	December 31, 2018
<i>Property, plant and equipment</i>				
<i>(Joint collateral in connection with long-term loan)</i>				
Busan Bank	Land, buildings and machinery	MKRW	30,000	30,000
Kyongnam Bank	Land, buildings and machinery	MKRW	18,000	18,000
<i>Property, plant and equipment</i>				
<i>(Collateral for other than syndicated or long-term loan)</i>				
Busan Bank	Land, buildings and machinery	TUSD	24,000	24,000
Korea Development Bank	Land, buildings and machinery	MKRW	57,000	57,000
Woori Bank	Land, buildings and machinery	MKRW	120,000	120,000
KEB Hana Bank	Land, buildings and machinery	MKRW	60,000	60,000
Total		MKRW	285,000	285,000
		TUSD	24,000	24,000

No other items of property, plant and equipment are pledged as collateral for interest-bearing loans and borrowings as of March 31, 2019 (December 31, 2018: none).

The Group has received payment guarantees amounting to 210,600 Million KRW and 32,076 Thousand USD provided by Jongho Park, the Chairman of the Board of Directors of the Group, in connection with the Group's borrowings from banks as of March 31, 2019.

The bank deposits pledged as collateral as of March 31, 2019 and December 31, 2018 are as follows:

Description	March 31, 2019	December 31, 2018
Bank deposits – current (in Thousand USD)	2,049	2,049

26. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables, and other financial liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade accounts and other accounts receivables, cash and cash equivalents and other financial assets that arrive directly from its operations. The Group also holds equity instruments and enters into derivative transactions and applies hedge accounting for cash flow hedges if applicable.

The Group is exposed to market, credit and liquidity risks. The Group's management oversees the management of these risks through appropriate risk assessment and monitoring activities to minimize their effects.

26.1. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risk:

- Interest rate risk; and,
- Foreign currency risk.

Financial instruments affected by market risk include loans and borrowings, deposits, equity instruments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of March 31, 2019 and 2018 as well as December 31, 2018.

26.1.1. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings and bank deposits with floating interest rates.

The Group's exposure to the risk of changes in market interest rates relates substantially to the Group's interest-bearing loans and borrowings with floating interest rates, which makes the Group expose to cash flows risk. Responsively, the Group is minimizing the risk partially through interest rate swap contract or choosing the best favorable financing instruments by switching to the loans with more favorable conditions or improving the Group's credit rating.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings as well as bank deposits with floating interest rates. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase / (decrease)	Effect on profit before tax
	in %	Million KRW
March 31, 2019	1.00	-282
	-1.00	282
March 31, 2018	1.00	-283
	-1.00	283

26.1.2. Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities. The risk of foreign exchange primarily relates to US Dollars (USD), Euro (EUR), Japanese Yen (JPY), Chinese Yuan Renminbi (CNY), Swiss Francs (CHF), United Arab Emirates Dirham (AED) and to Indian Rupee (INR).

Foreign exchange risks arise when commercial transactions, recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The objective of the management of foreign currency risk is to maximize the value of the firm through minimizing the fluctuation of net profit and uncertainty arising from the fluctuation in foreign currency. To accomplish this, the Group uses a strategy to accord the collection terms of receivables and payment terms of payables denominated in USD considering the similar volume of exports and imports. In regard to EUR and JPY, the Group manages the risk through currency forward contracts.

Foreign currency sensitivity

The Group carries out a sensitivity analysis for the dominant foreign currencies: US Dollars (USD), Euro (EUR), Japanese Yen (JPY), Chinese Yuan Renminbi (CNY), Swiss Francs (CHF), United Arab Emirates Dirham (AED) and to Indian Rupee (INR). The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments. The following table demonstrates the sensitivity of consolidated net profit before tax to a reasonably possible shift in exchange rates related to financial instruments held in the balance sheet. Assuming that the other variables are constant but only the foreign exchange rate changes by 10%, the impacts on net profit for the period ended on March 31, 2019 and December 31, 2018 are as follows:

Currency	March 31, 2019		December 31, 2018	
	10% increase	10% decrease	10% increase	10% decrease
	Million KRW	Million KRW	Million KRW	Million KRW
USD	182	-182	1,472	-1,472
EUR	354	-354	516	-516
JPY	435	-435	-44	44
CNY	1	-1	-38	38
CHF	118	-118	235	-235
AED	-213	213	-79	79
INR	989	-989	986	-986
Total	1,866	-1,866	3,048	-3,048

The Group's exposure to foreign currency changes for all other currencies is not material.

26.2. Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade and other receivables) and investing activities (issued loans).

The Group maintains a policy to keep trade relationship only with the customers with high credit rating assessed by credit assessment considering their financial position, past experience of defaults and other indicators of default. If the credit rating of a customer worsens, the Group sets an individual credit limit on that customer and intensively manages its credit risk. In addition, the Group minimizes the credit risk by maintaining the exposure to the credit risk at insignificant level through ongoing management including periodical reviews of all the customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 22.

The Group is also exposed to the credit risk with regard to bank deposits, as well as cash and cash equivalents in which the maximum exposure to credit risk at the reporting date is the carrying value. The exposure to the related credit risk, however, is relatively restricted because the Group maintains relationships with the financial institutions with high credit ratings.

26.3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to the unfavorable economy of the industry or financial markets.

The Group manages its liquidity risk through its own strategy and plans which consider the maturity of financial instruments and expected operating cash flows and include the policy to map out the maturity of financial assets and liabilities.

In addition, the Group maintains credit facilities with the banks including overdraft to respond to unexpected shortage in liquidity. The Group manages funding schedules and ongoing review procedures, considering the appropriate mix of long-term and short-term loans and borrowings, to maintain the consistency and flexibility in obtaining liquidity and stable financing in response to expansion of the business.

The details of maturity profile of the Group's financial liabilities and lease liabilities based on contractual undiscounted payments as of March 31, 2019 and December 31, 2018 are as follows:

As of March 31, 2019	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	5,191	169,021	105,156	10,908	-	290,276
Trade and other payables	78,020	20,102	6,252	-	-	104,374
Lease liabilities	273	545	2,230	8,716	17,252	29,016
Other financial liabilities	4,218	28	1,459	1,491	-	7,196
Total	87,702	189,696	115,097	21,115	17,252	430,862

As of December 31, 2018	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	24,177	53,213	190,540	17,180	-	285,110
Trade and other payables	73,461	22,813	4,255	-	-	100,529
Other financial liabilities	425	1,496	12	3,361	-	5,294
Total	98,063	77,522	194,807	20,541	-	390,933

26.4. Capital management

The capital managed by the Group is identical to the total amount of equity presented in the consolidated statement of financial position. The primary objective of the Group's capital management is to ensure its continued ability to provide consistency for its equity shareholders through a combination of capital growth and distribution. In order to achieve this objective, the Group monitors its gearing to balance risk and returns at an acceptable level, and also maintains a sufficient funding base to enable the company to meet its working capital and strategic investment needs. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares considering not only the short-term position, but also its long-term operational and strategic objectives. At Group level the debt ratio is reviewed regularly. The debt-equity ratio as of March 31, 2019 and December 31, 2018 is 120% and 112%, respectively.

On a monthly basis, all subsidiaries have to report key performance indicators, which also include capital management information.

27. Cash flow statement

Cash and cash equivalent in the consolidated statement of cash flow are equal to those in the consolidated statement of financial position.

The Group's consolidated statement of cash flow is prepared using the indirect method. The adjustments to the net profit for the period of the non-cash and non-operating items and changes in operating assets and liabilities for the three months ended March 31, 2019 and 2018 are as follows:

	Notes	For the three months ended	
		March 31,	
		2019	2018
Adjustments		Million KRW	Million KRW
Depreciation of property, plant and equipment	7	7,516	7,200
Depreciation of right-of-use assets	8	717	-
Depreciation of investment properties		3	-
Amortization of intangible assets	9	1,103	1,068
Losses / (gains) on disposals of property, plant and equipment, net		7	-15
Share of result from investments accounted using the equity method	5	-226	-541
Financial income		-201	-1,611
Financial expenses		2,980	2,323
Income tax expenses	17	2,468	1,818
Total		14,367	10,242
Changes in operating assets and liabilities			
Trade receivables		-15,665	-5,855
Other receivables		-2,381	-2,437
Other current assets		-2,033	-2,505
Other current financial assets		31	-360
Inventories		-10,166	-21,064
Trade payables		11,395	16,226
Other payables		-10,178	-10,292
Other current financial liabilities		-35	223
Other current liabilities		1,118	1,188
Pension liabilities		2,576	1,764
Other long-term employment benefits		58	968
Total		-25,280	-22,144

28. Events after the reporting period

No significant events occurred during the period from the interim consolidated statement of financial position date up to the date upon which the interim consolidated financial statements were issued.



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Report on review of interim condensed consolidated financial statements

To the shareholders and board of directors Songwon Industrial Co., Ltd.

We have reviewed the accompanying interim condensed consolidated financial statements of Songwon Industrial Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprises the interim condensed consolidated statement of financial position as of March 31, 2019, and the related interim condensed consolidated statements of comprehensive income, interim condensed consolidated statements of changes in equity and interim condensed consolidated statements of cash flows for the three month periods ended March 31, 2019 and 2018, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the interim condensed consolidated financial statements

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Korean International Financial Reporting Standards (K-IFRS) 1034 *Interim Financial Reporting* and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. We conducted our review in accordance with the review standard for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with KIFRS 1034.



Other matters

We have audited the consolidated statement of financial position of the Group as of December 31, 2018, and the related consolidated statement of comprehensive income, consolidated statement changes in equity and consolidated statement of cash flows for the year then ended in accordance with auditing standards generally accepted in the Republic of Korea, and our report dated February 25, 2019 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as of December 31, 2018, presented for comparative purposes, is not different, in all material respects, from the above audited consolidated statement of financial position.

Ernst & Young Han Young

May 10, 2019

This review report is effective as at May 10, 2019, the auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditor's review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim condensed consolidated financial statements and may result in modification to this review report.

For more information, please contact:

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