



FINANCIAL RESULTS
Q2 & 6 MONTHS
ENDED JUNE 30, **2017**

It's all about **the chemistry™**

About this report

The condensed interim consolidated financial statements (refer to section 2 from page 7 to 45) according to K-IFRS are reviewed by our group auditor Ernst & Young Han Young (Ernst & Young Korea) – the review opinion on the quarterly financial statements can be found at the end of this report.

The condensed interim financial statements for the three as well as six months ended June 30, 2017 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, 2016, which have been prepared in accordance K-IFRS, too. The annual financial statements for the year 2016 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

	Q2 2017		Q2 2016 (restated*)		For the six months ended June 30		
	Million KRW		Million KRW	Δ%	2017	2016 (restated*)	Δ%
Sales of goods	186,742		179,071	4.3%	361,707	362,145	-0.1%
Gross profit	44,135		47,988	-8.0%	81,997	99,173	-17.3%
Gross profit margin	23.6%		26.8%		22.7%	27.4%	
Operating profit	18,505		23,785	-22.2%	31,488	50,376	-37.5%
EBITDA*	26,365		33,792	-22.0%	47,590	69,458	-31.5%
EBITDA margin*	14.1%		18.9%		13.2%	19.2%	
EBIT*	18,521		25,036	-26.0%	31,623	51,918	-39.1%
EBIT margin*	9.9%		14.0%		8.7%	14.3%	
Profit for the period	12,279		15,592	-21.2%	20,563	27,793	-26.0%
Total assets					908,874	872,188	4.2%
Total equity					369,659	337,220	9.6%
Equity ratio					40.7%	38.7%	
Headcounts					930	841	10.6%

*refer to note 2.2 on page 19 for further details

Sales development

Products

	Q2 2017		Q2 2016		For the six months ended June 30		
	Million KRW		Million KRW	Δ%	2017	2016	Δ%
Alkylphenols and Intermediates	350		902	-61.2%	777	1,490	-47.9%
Plasticizers	2,200		2,621	-16.1%	4,095	4,591	-10.8%
Polyester Diols	2,703		3,242	-16.6%	5,999	5,838	2.8%
Polymer Stabilizers (AOX & UVs)	129,964		125,561	3.5%	251,679	252,251	-0.2%
Polyurethanes	10,550		9,786	7.8%	21,120	20,170	4.7%
PVC Stabilizers	12,187		11,968	1.8%	23,280	23,515	-1.0%
SAP and Flocculants	2,406		1,952	23.3%	4,452	4,346	2.4%
Tin Intermediates	20,534		19,837	3.5%	38,864	42,980	-9.6%
Others	5,848		3,202	82.6%	11,441	6,964	64.3%
Total sales of goods	186,742		179,071	4.3%	361,707	362,145	-0.1%

Regions

	Q2 2017		Q2 2016		For the six months ended June 30		
	Million KRW		Million KRW	Δ%	2017	2016	Δ%
Korea	47,726		46,003	3.7%	96,323	92,992	3.6%
Rest of Asia	49,147		43,334	13.4%	92,280	86,231	7.0%
Europe	38,437		40,620	-5.4%	77,400	82,693	-6.4%
North and South America	40,290		34,734	16.0%	73,706	73,665	0.1%
Australia	621		340	82.6%	1,083	1,042	3.9%
Middle East and Africa	10,521		14,040	-25.1%	20,915	25,522	-18.1%
Total sales of goods	186,742		179,071	4.3%	361,707	362,145	-0.1%

Business development

During the second quarter of 2017, ended June 30, 2017, Songwon Industrial Group achieved consolidated sales of 186,742 Million KRW and a net profit of 12,279 Million KRW. When compared to sales for Q2/2016 (179,071 Million KRW), this marked a 4.3% increase in revenue. For the six months ended June 30, 2017, the Group achieved sales of 361,707 Million KRW (YTD June 2016: 362,145 Million KRW) and recorded a net profit of 20,563 Million KRW (YTD June 2016: 27,793 Million KRW).

In Q2/2017, the growth in sales was in line with SONGWON's market expectations, with the Group achieving double digit growth in volumes in some product lines compared to Q2/2016. Although Q1/2017 revenues declined, as a result of the price concessions in the second half of 2016 which were made in response to the pressure of increased price competition, SONGWON managed to reverse the trend by successfully implementing price increases where contracts allowed in Q2/2017. Overall, in line with the Group's expectations, the first half year 2017 showed stable growth in a market perceived to be quite balanced particularly for antioxidants.

In general, SONGWON continued to experience strong demand across all global regions as a result of both sustained market demand and a rather balanced supply situation. Due to new polyolefin capacities that are now coming onstream, the demand for polymer stabilizers in the Americas in particular is notably increasing. However, throughout Q2/2017, the global economy remained uncertain and currency developments were hard to predict which negatively impacted the Group's financial results.

Once again throughout the second quarter 2017, SONGWON's manufacturing facilities ran steadily. All production plants operated at high capacity utilization levels which ensured an optimal cost position for the Group. Compared to the previous quarter, the positive trends already described above regarding the implemented price increases, as well as the high capacity utilization from the production sites led to an increase in the EBITDA and EBIT margins in Q2/2017 to 14.1% (Q1/2017: 12.1%) and to 9.9% (Q1/2017: 7.5%). However, when compared to previous year, the EBITDA and EBIT margins decreased by 6.0% and 5.6% respectively due to increased raw material prices, the price concessions implemented in the second half of 2016, as well as the unfavorable impacts of the FX.

Outlook

When reflecting back, Q3 has been a strong quarter historically and is also expected to be so in 2017. The Group plans to continue implementing price increases in Q3/2017 for contracts which have not yet been renegotiated. This will most likely lead to an increase in revenue in the quarters that follow. However for Q4/2017, SONGWON foresees a decrease in demand related to end of the year stock adjustments at our clients.

In the second half of 2016, SONGWON extended its antioxidant range for fuels and lubricants and introduced SONGNOX® L670 which has been well-received by customers. A new world scale plant for SONGWON's new aminic product range is currently under completion in Ulsan and will be starting up production in the third quarter of 2017. This, along with other developments, gives SONGWON reasons to expect continuous growth providing the demand remains on a stable level. However, with the overall global economic situation remaining volatile combined with the high levels of political uncertainty and instability in various regions across the world, SONGWON remains cautious and will remain vigilant for potential negative surprises. The Group will continually review the situation as they arise and ensure that the organization has solid contingency plans in place.

Looking ahead, SONGWON expects to see the general demand for its products to steadily increase at a rate which slightly exceeds the global GDP. In the future, the normalization of the political relations between some important countries combined with more stringent regulatory changes which are related to emission reductions, could bring some further benefits to some of SONGWON's businesses. SONGWON will continue to pursue its strategy to support further growth in 2017, while exercising the prudent management of its capital and progress with various initiatives to maintain profitability.

SECTION 2:

Condensed Interim

Consolidated Financial

Statements

Interim consolidated statement of financial position

	Notes	As at	
		June 30, 2017	December 31, 2016
		Million KRW	Million KRW
ASSETS			
Non-current assets		488,708	481,445
Property, plant and equipment	5.3, 6, 19, 20	438,725	431,484
Investment properties	5.3, 19, 20	3,540	3,549
Intangible assets	5.3, 7, 19	24,677	27,252
Investments accounted for using the equity method	4	7,085	6,552
Available-for-sale financial investments	17	1,473	1,473
Other non-current assets		122	-
Other non-current financial assets	15, 17, 18	9,604	7,198
Deferred tax assets		3,482	3,937
Current assets		420,166	348,078
Inventories	8, 19	167,306	155,735
Trade and other receivables	9, 17, 18	139,108	121,709
Income tax receivables		518	540
Other current assets		6,196	3,609
Other current financial assets	15, 17, 18	30,491	17,185
Cash and cash equivalent	10, 17	76,547	49,300
Total assets		908,874	829,523
EQUITY AND LIABILITIES			
Equity		369,659	354,189
<i>Non-controlling interests</i>		<i>-2,374</i>	<i>-2,237</i>
<i>Equity attributable to owners of the parent</i>		<i>372,033</i>	<i>356,426</i>
Issued capital	11	12,000	12,000
Capital surplus	11	24,361	24,361
Reserves	11	27,255	26,919
Retained earnings	11	307,619	290,544
Accumulated other comprehensive income	11.2	798	2,602
Non-current liabilities		162,928	174,691
Interest-bearing loans and borrowings	12, 17, 19, 21.3	102,615	112,220
Pension liability		8,074	12,848
Other long-term employee-related liabilities		4,438	4,445
Other non-current financial liabilities	15, 17, 21.3	3,693	110
Other non-current liabilities		42	43
Deferred tax liabilities		44,066	45,025
Current liabilities		376,287	300,643
Interest-bearing loans and borrowings	12, 17, 19, 21.3	246,442	188,907
Trade and other payables	17, 18, 21.3	111,523	99,662
Other current liabilities		5,525	3,782
Other current financial liabilities	15, 17, 21.3	5,228	638
Income tax payable		7,569	7,654
Total liabilities		539,215	475,334
Total equity and liabilities		908,874	829,523

Interim consolidated statement of financial position

	As at (refer to note 2.1)	
	June 30, 2017	December 31, 2016
	Thousand USD	Thousand USD
ASSETS		
Non-current assets	427,261	420,912
Property, plant and equipment	383,563	377,232
Investment properties	3,095	3,103
Intangible assets	21,574	23,826
Investments accounted for using the equity method	6,194	5,728
Available-for-sale financial investments	1,288	1,288
Other non-current assets	107	-
Other non-current financial assets	8,396	6,293
Deferred tax assets	3,044	3,442
Current assets	367,338	304,313
Inventories	146,270	136,154
Trade and other receivables	121,618	106,406
Income tax receivables	453	472
Other current assets	5,417	3,156
Other current financial assets	26,657	15,024
Cash and cash equivalent	66,923	43,101
Total assets	794,599	725,225
EQUITY AND LIABILITIES		
Equity	323,181	309,656
<i>Non-controlling interests</i>	<i>-2,076</i>	<i>-1,956</i>
<i>Equity attributable to owners of the parent</i>	<i>325,257</i>	<i>311,612</i>
Issued capital	10,491	10,491
Capital surplus	21,298	21,298
Reserves	23,828	23,534
Retained earnings	268,941	254,013
Accumulated other comprehensive income	699	2,276
Non-current liabilities	142,443	152,727
Interest-bearing loans and borrowings	89,713	98,110
Pension liability	7,059	11,233
Other long-term employee-related liabilities	3,880	3,886
Other non-current financial liabilities	3,229	96
Other non-current liabilities	37	38
Deferred tax liabilities	38,525	39,364
Current liabilities	328,975	262,842
Interest-bearing loans and borrowings	215,456	165,155
Trade and other payables	97,501	87,131
Other current liabilities	4,830	558
Other current financial liabilities	4,571	3,306
Income tax payable	6,617	6,692
Total liabilities	471,418	415,569
Total equity and liabilities	794,599	725,225

Interim consolidated statement of comprehensive income

	Notes	For the three months ended June 30,	
		2017	2016 (restated*)
		Million KRW	Million KRW
Sales of goods	5.1, 5.2, 18	186,742	179,071
Cost of sales	18	-142,607	-131,083
Gross profit		44,135	47,988
Selling and administration costs	18	-25,630	-24,203
Operating profit		18,505	23,785
Other income*	18	503	1,617
Other expenses*		-487	-365
Share of result from investments accounted for using the equity method	4	393	168
Finance income*	18	3,850	7,512
Finance expenses*		-7,522	-11,649
Profit before tax		15,242	21,068
Income tax expenses	13	-2,963	-5,476
Profit for the period		12,279	15,592
Other comprehensive income, net of taxes			
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		1,103	-19
Gain / (loss) on valuation of interest rate swap	11.2	29	-392
Tax effects on valuation of interest rate swap	11.2, 13	-7	-
Exchange differences on translation of foreign operations	11.2	1,081	373
Total other comprehensive income, net of taxes		1,103	-19
Total comprehensive income		13,382	15,573
Profit for the period attributable to:			
Owners of the parent	14	12,429	15,519
Non-controlling interests		-150	73
Profit for the period		12,279	15,592
Total comprehensive income attributable to:			
Owners of the parent		13,560	15,326
Non-controlling interests		-178	247
Total comprehensive income		13,382	15,573
Earnings per share			
		KRW	KRW
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	14	518	647

*refer to note 2.2 on page 19 for further details

Interim consolidated statement of comprehensive income

	For the three months ended June 30, (refer to note 2.1)	
	2017	2016 (restated*)
	Thousand USD	Thousand USD
Sales of goods	163,263	156,556
Cost of sales	-124,677	-114,602
Gross profit	38,586	41,954
Selling and administration costs	-22,408	-21,160
Operating profit	16,178	20,794
Other income*	440	1,414
Other expenses*	-426	-319
Share of result from investments accounted for using the equity method	344	147
Finance income*	3,366	6,568
Finance expenses*	-6,576	-10,185
Profit before tax	13,326	18,419
Income tax expenses	-2,591	-4,787
Profit for the period	10,735	13,632
Other comprehensive income, net of taxes		
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>	964	-17
Gain / (loss) on valuation of interest rate swap	25	-343
Tax effects on valuation of interest rate swap	-6	-
Exchange differences on translation of foreign operations	945	326
Total other comprehensive income, net of taxes	964	-17
Total comprehensive income	11,699	13,615
Profit for the period attributable to:		
Owners of the parent	10,866	13,568
Non-controlling interests	-131	64
Profit for the period	10,735	13,632
Total comprehensive income attributable to:		
Owners of the parent	11,855	13,399
Non-controlling interests	-156	216
Total comprehensive income	11,699	13,615
Earnings per share		
	USD	USD
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	0.45	0.57

*refer to note 2.2 on page 19 for further details.

Interim consolidated statement of comprehensive income

	Notes	For the six months ended June 30,	
		2017 Million KRW	2016 (restated*) Million KRW
Sales of goods	5.1, 5.2, 18	361,707	362,145
Cost of sales	18	-279,710	-262,972
Gross profit		81,997	99,173
Selling and administration costs	18	-50,509	-48,797
Operating profit		31,488	50,376
Other income*	18	910	2,156
Other expenses*		-775	-613
Share of result from investments accounted for using the equity method	4	686	267
Finance income*	18	15,989	31,799
Finance expenses*		-22,324	-44,397
Profit before tax		25,974	39,588
Income tax expenses	13	-5,411	-11,795
Profit for the period		20,563	27,793
Other comprehensive income, net of taxes			
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Gain / (loss) on valuation of interest rate swap	11.2	99	-955
Tax effects on valuation of interest rate swap	11.2, 13	-23	-
Exchange differences on translation of foreign operations	11.2	-1,809	-994
Total other comprehensive income, net of taxes		-1,733	-1,949
Total comprehensive income		18,830	25,844
Profit for the period attributable to:			
Owners of the parent	14	20,771	28,232
Non-controlling interests		-208	-439
Profit for the period		20,563	27,793
Total comprehensive income attributable to:			
Owners of the parent		18,967	26,068
Non-controlling interests		-137	-224
Total comprehensive income		18,830	25,844
Earnings per share			
		KRW	KRW
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	14	865	1,176

*refer to note 2.2 on page 19 for further details

Interim consolidated statement of comprehensive income

	For the six months ended June 30, (refer to note 2.1)	
	2017	2016 (restated*)
	Thousand USD	Thousand USD
Sales of goods	316,229	316,612
Cost of sales	-244,542	-229,908
Gross profit	71,687	86,704
Selling and administration costs	-44,158	-42,662
Operating profit	27,529	44,042
Other income*	796	1,885
Other expenses*	-678	-536
Share of result from investments accounted for using the equity method	600	233
Finance income*	13,979	27,801
Finance expenses*	-19,518	-38,814
Profit before tax	22,708	34,611
Income tax expenses	-4,731	-10,312
Profit for the period	17,977	24,299
Other comprehensive income, net of taxes		
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>	-1,515	-1,704
Gain / (loss) on valuation of interest rate swap	86	-835
Tax effects on valuation of interest rate swap	-20	-
Exchange differences on translation of foreign operations	-1,581	-869
Total other comprehensive income, net of taxes	-1,515	-1,704
Total comprehensive income	16,462	22,595
Profit for the period attributable to:		
Owners of the parent	18,159	24,682
Non-controlling interests	-182	-383
Profit for the period	17,977	24,299
Total comprehensive income attributable to:		
Owners of the parent	16,582	22,790
Non-controlling interests	-120	-195
Total comprehensive income	16,462	22,595
Earnings per share	USD	USD
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	0.76	1.03

*refer to note 2.2 on page 19 for further details

Interim consolidated statement of changes in equity

For the six months ended June 30, 2016 and 2017

	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 at January 1, 2016	12,000	24,361	26,751	250,000	1,357	314,469	1,944	316,413
Profit for the period	-	-	-	28,232	-	28,232	-439	27,793
Loss on valuation of interest rate swaps, net of tax	-	-	-	-	-955	-955	-	-955
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,209	-1,209	215	-994
Total comprehensive income	-	-	-	28,232	-2,164	26,068	-224	25,844
Dividends	-	-	-	-1,680	-	-1,680	-	-1,680
Acquisition of non-controlling interests	-	-	-	-318	-	-318	-3,784	-4,102
Disposal of non-controlling interests	-	-	-	-	-	-	745	745
Appropriation to reserves	-	-	168	-168	-	-	-	-
As at June 30, 2016	12,000	24,361	26,919	276,066	-807	338,539	-1,319	337,220
As at January 1, 2017	12,000	24,361	26,919	290,544	2,602	356,426	-2,237	354,189
Profit for the period	-	-	-	20,771	-	20,771	-208	20,563
Gain on valuation of interest rate swaps, net of tax	-	-	-	-	76	76	-	76
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,880	-1,880	71	-1,809
Total comprehensive income	-	-	-	20,771	-1,804	18,967	-137	18,830
Dividends	-	-	-	-3,360	-	-3,360	-	-3,360
Appropriation to reserves	-	-	336	-336	-	-	-	-
As at June 30, 2017	12,000	24,361	27,255	307,619	798	372,033	-2,374	369,659

Interim consolidated statement of changes in equity

For the six months ended June 30, 2016 and 2017 (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 at January 1, 2016	10,491	21,298	23,388	218,567	1,186	274,930	1,700	276,630
Profit for the period	-	-	-	24,682	-	24,682	-383	24,299
Loss on valuation of interest rate swaps, net of tax	-	-	-	-	-835	-835	-	-835
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,057	-1,057	188	-869
Total comprehensive income	-	-	-	24,682	-1,892	22,790	-195	22,595
Dividends	-	-	-	-1,469	-	-1,469	-	-1,469
Acquisition of non-controlling interests	-	-	-	-278	-	-278	-3,308	-3,586
Disposal of non-controlling Interests	-	-	-	-	-	-	651	651
Appropriation to reserves	-	-	146	-146	-	-	-	-
As at June 30, 2016	10,491	21,298	23,534	241,356	-706	295,973	-1,152	294,821
As at January 1, 2017	10,491	21,298	23,534	254,013	2,276	311,612	-1,956	309,656
Profit for the period	-	-	-	18,159	-	18,159	-182	17,977
Gain on valuation of interest rate swaps, net of tax	-	-	-	-	66	66	-	66
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,643	-1,643	62	-1,581
Total comprehensive income	-	-	-	18,159	-1,577	16,582	-120	16,462
Dividends	-	-	-	-2,937	-	-2,937	-	-2,937
Appropriation to reserves	-	-	294	-294	-	-	-	-
As at June 30, 2017	10,491	21,298	23,828	268,941	699	325,257	-2,076	323,181

Interim consolidated statement of cash flows

	Notes	For the six months ended June 30,	
		2017	2016
		Million KRW	Million KRW
Profit for the period		20,563	27,793
Adjustments total	22	29,836	34,207
Changes in operating assets and liabilities	22	-26,170	877
Interest received		222	400
Payment of income tax		-5,952	-20,092
Dividends received from third parties		7	7
Net cash flow from operating activities		18,506	43,192
Proceeds from sale of property, plant and equipment	6	24	32
Purchase of property, plant and equipment	6	-18,086	-10,717
Purchase of intangible assets	7	-256	-183
Purchase of available-for-sale financial assets		-	-200
Investment in a joint venture	4	-	-1,579
Acquisition of a subsidiary, net of cash acquired		-	-3,630
Increase of other financial assets, net		-15,823	-7,535
Net cash flow from investing activities		-34,141	-23,812
Proceeds from borrowings (current)		204,713	280,092
Repayment of borrowings (current)		-158,551	-398,543
Proceeds from interest bearing borrowings (non-current)		230	120,000
Increase / (decrease) in other financial liabilities, net		5,858	-1,060
Interest paid		-4,785	-6,996
Dividends paid	11	-3,360	-1,680
Net cash flow from financing activities		44,105	-8,187
Increase in cash and cash equivalents		28,470	11,193
Net foreign exchange differences		-1,223	953
Cash and cash equivalent at January 1,	10	49,300	68,402
Cash and cash equivalent at June 30,	10	76,547	80,548

Interim consolidated statement of cash flows

	For the six months ended June 30, (refer to note 2.1)	
	2017	2016
	Thousand USD	Thousand USD
Profit for the period	17,977	24,299
Adjustments total	26,085	29,906
Changes in operating assets and liabilities	-22,880	767
Interest received	194	350
Payment of income tax	-5,204	-17,566
Dividends received from third parties	6	6
Net cash flow from operating activities	16,178	37,762
Proceeds from sale of property, plant and equipment	21	28
Purchase of property, plant and equipment	-15,812	-9,370
Purchase of intangible assets	-224	-160
Purchase of available-for-sale financial assets	-	-175
Investment in a joint venture	-	-1,380
Acquisition of a subsidiary, net of cash acquired	-	-3,174
Increase of other financial assets, net	-13,834	-6,588
Net cash flow from investing activities	-29,849	-20,819
Proceeds from borrowings (current)	178,974	244,875
Repayment of borrowings (current)	-138,616	-348,433
Proceeds from interest bearing borrowings (non-current)	201	104,912
Increase / (decrease) in other financial liabilities, net	5,122	-927
Interest paid	-4,183	-6,116
Dividends paid	-2,938	-1,469
Net cash flow from financing activities	38,560	-7,158
Increase in cash and cash equivalents	24,889	9,785
Net foreign exchange differences	-1,067	834
Cash and cash equivalent at January 1,	43,101	59,802
Cash and cash equivalent at June 30,	66,923	70,421

Notes to the condensed interim consolidated financial statements

1. Corporate information

1.1. The Company

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 polyurethane. The Company’s main manufacturing plants are located in Ulsan, Maeam and Suwon, all in Korea and in Ankleshwar, India. The Company listed its common shares on the Korea Exchange in June 1977 pursuant to the provisions of the Korean Securities and Exchange Act.

1.2. Scope of consolidation

As of June 30, 2017, the scope of consolidation for the consolidated financial statements encompasses 10 entities (2016: 9 entities). Additionally, two entities are classified as joint ventures (2016: 2 entities) and accounted for using the equity method.

In the course of the first half year 2017 following changes in the legal structure of the Group and scope of consolidation have taken place:

- Liquidation of Songwon China Ltd.
- Establishment of Songwon EMEA AG and Songwon Management AG
- Renaming of Songwon International AG into Songwon Group Holding AG
- Renaming of Songwon EMEA AG into Songwon International AG

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

Name	Location	June 30, 2017		December 31, 2016	
		Status	Interest	Status	Interest
Consolidated entities					
Songwon Industrial Co., Ltd.	Korea	Parent		Parent	
Songwon International-Japan KK	Japan	Subsidiary	100%	Subsidiary	100%
Songwon China Ltd.	Hong Kong	-	-	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 (former: Songwon EMEA AG)	Switzerland	Subsidiary	100%	-	-
Songwon Group Holding AG (former: Songwon International AG)	Switzerland	Subsidiary	100%	Subsidiary	100%
Songwon Management AG	Switzerland	Subsidiary	100%	-	-
Songwon ATG GmbH	Germany	Subsidiary	100%	Subsidiary	100%
Songwon International Middle East FZE	UAE	Subsidiary	100%	Subsidiary	100%
Songwon Polysys Additives LLC	UAE	Subsidiary	55.5%	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%
Qingdao Long Fortune Songwon Chemical Co., Ltd.	China	Joint Venture	50%	Joint Venture	50%

2. Basis of preparation

The interim condensed financial statements for the three and six months ended June 30, 2017 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, 2016, which have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS").

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 and prepares statutory financial statements in the Korean language in conformity with Korea International Financial Reporting Standards ("K-IFRS"). In the event of any differences in interpreting the financial statements or the independent auditors report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

2.1. Convenience translation into United States Dollar

The Parent Company operates primarily in KRW and its official accounting records are maintained in KRW. The US dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. All amounts in Won are expressed in US dollars at the rate of KRW 1,143.81 to USD 1, the exchange rate in effect on June 30, 2017. Such presentation is not in accordance with generally accepted accounting principles, and should not be construed as a representation that the amounts in Won 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

A decision was made in 2017 to reclassify foreign exchange impacts from other income and expenses into financial income and expenses in order to summarize the impacts of the foreign exchange resulting from the net working capital in the financial results. In Q2/2016 and HY/2016 ended June 30, 2016, the amount of reclassified gains on foreign exchange differences are 4,749 Million KRW (4,152 Thousand USD) and 16,195 Million KRW (14,159 Thousand USD) respectively. The reclassified losses on foreign exchange differences for Q2/2016 are -2,805 Million KRW (-2,452 Thousand USD) and for HY/2016 -16,276 Million KRW (-14,230 Thousand USD) in total. As a result of the reclassifications, EBIT and EBITDA as well as the corresponding margins decreased for Q2/2016 by 1,944 Million KRW (1,700 Thousand USD) and increased by 81 Million KRW (71 Thousand USD) for HY/2016 respectively. However, net profit remained unchanged

3. Accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statement are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2016, except for the adoption of the new standards as of January 1, 2017, listed below:

New and amended standards adopted by the Group

Amendments to K-IFRS 1007 Statement of Cash Flows: Disclosure Initiative

The amendments to K-IFRS 1007 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments were effective for annual periods beginning on or after January 1, 2017, with early application permitted. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to K-IFRS 1012 Recognition of Deferred Tax Assets for unrealized losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments were effective for annual periods beginning on or after January 1, 2017 with early application permitted. These amendments do not have any impact on the Group's consolidated financial statements.

Standards issued but not yet effective

K-IFRS 1109 Financial Instruments

The KASB issued the final version of K-IFRS 1109 Financial Instruments that replaces K-IFRS 1039 Financial Instruments: Recognition and Measurement and all previous versions. K-IFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The impact on its consolidated financial statements is as follows:

In connection with the adoption of K-IFRS 1109, the Group has not yet undertaken any update on its internal control processes or a change in the accounting system related to the reporting of financial instruments, and has not been able to analyze the financial impact of the new standard on the financial statements; however, the general impacts on the financial statements are as follows:

(1) *Financial asset classification and measurement*

The new K-IFRS 1109 requires a financial instrument to be classified and measured subsequently at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown below. The requirements should be applied to an entire financial asset, even if it contains an embedded derivative. That is, in contrast with the requirements of K-IFRS 1039, a derivative embedded within a hybrid (combined) contract containing a financial asset host is not accounted for separately.

Business model	Contractual cash flow characteristics	
	Composed solely of principal and interest	For other cases
Purpose of collecting contractual cash flows	Measured at amortized cost (*1)	Measured at FVTPL (*2)
Purpose of collecting and selling contractual cash flows	Measured at FVOCI (*1)	
Purpose of selling, others	Measured at FVTPL	

(*1) can be designated at FVTPL in order to get rid of or reduce accounting mismatch (cannot cancel)

(*2) can be designated at FVOCI in case of equity securities not for held-for-trading purpose (cannot cancel)

The requirements in K-IFRS 1109 to classify financial assets measured at amortized costs or at FVOCI are stricter than K-IFRS 1039, and thus, the proportion of financial assets measured at FVTPL may increase, which may lead to a rise in profit or loss volatility at the adoption of K-IFRS 1109.

(2) Financial liabilities classification and measurement

In K-IFRS 1109, fair value changes of financial liabilities at FVTPL attributable to changes in credit risk of the liability shall be presented in other comprehensive income, not in profit or loss. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the new standard allows the recognition of the full amount of changes in the fair value in profit or loss only if the presentation of the changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

The fair value changes of financial liabilities designated at FVTPL that were previously recognized as profit or loss in K-IFRS 1039 will partially be recorded as other comprehensive income and thus profit or loss related to the evaluation of financial liabilities may decrease.

(3) Impairment: financial assets and contract assets

In K-IFRS 1039, impairment is recognized only when there is objective evidence of impairment based on incurred loss model. In the new K-IFRS 1109, impairment of debt instruments, lease bonds, contract assets, loan commitments and financial guarantee contracts that are measured at amortized costs or at FVOCI is recognized based on the expected credit loss (ECL) impairment model.

K-IFRS 1109 outlines a 'three-stage' model for impairment based on changes in credit risk since initial recognition. Loss allowance is measured based on the 12-month ECL or life-time ECL which allows early recognition of credit loss compared to the incurred loss model of K-IFRS 1039.

	Classification	Loss allowance
Stage 1	Assets with no significant increase in credit risk since initial recognition (*1)	12-month ECL: expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Assets with significant increase in credit risk since initial recognition	Lifetime ECL: expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Credit-impaired assets	

(*1) Low credit risk at the end of reporting period may be considered as no significant increase in credit risk.

In K-IFRS 1109, only the accumulated changes in the life-time ECL after initial recognition are taken into account as loss allowance in case credit is impaired at initial recognition of financial assets.

(4) Hedge accounting

The new K-IFRS 1109 maintains mechanics of hedge accounting (fair value hedge, cash flow hedge, overseas operations net investment hedge) as set forth in K-IFRS 1039. However, unlike requirements in K-IFRS 1039 that are too complex and strict, K-IFRS 1109 is more practical, principle-based and less strict and focuses on the entity's risk management activities. Also, K-IFRS 1109 allows broader range of hedged items and hedging instruments. Under K-IFRS 1039, a hedge is assessed to be highly effective only if the offset is in the range of 80-125 percentage by performing numerical test of effectiveness. In K-IFRS 1109, such requirements are alleviated.

Transactions not qualifying for hedge accounting requirements of K-IFRS 1039 may now qualify for hedge accounting under K-IFRS 1109, resulting in less volatility in profit or loss.

K-IFRS 1115 Revenue from Contracts with Customers

K-IFRS 1115 establishes a five-step model to account for revenue arising from contracts with customers. Under K-IFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under K-IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

The new standard K-IFRS 1115 applies to all revenue arising from contracts with customers and replaces K-IFRS 1011 Construction Contracts, K-IFRS 1018 Revenue, K-IFRS 2113 Customer Loyalty Programmes and relevant interpretations.

The principles in K-IFRS 1115 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

During the six months ended June 30, 2017, the Group started analyzing the impact of K-IFRS 1115 on customers contracts. The Group has not yet undertaken any update on its internal control processes or a change in the accounting system in relation to the adoption of K-IFRS 1115, and has not been able to fully analyze the impact of the adoption of K-IFRS on the financial statements. The Group will be analyzing the financial impact of the adoption of K-IFRS 1115 by the end of 2017 and disclose the results in the notes to the financial statements of 2017.

4. Investment accounted for using the equity method

The summarized statement of financial position and comprehensive income of joint ventures (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.	1,631	7,678	7,333	1,913	2,180	-	-	12,831	3,849
Qingdao Long Fortune Songwon Chemical Co., Ltd.	2,802	13,151	3,216	7,482	7,482	3,479	3,479	5,406	2,703
December 31, 2016	4,433	20,829	10,549	9,395	9,662	3,479	3,479	18,237	6,552
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	2,112	8,648	7,313	1,807	2,033	-	-	13,928	4,178
Qingdao Long Fortune Songwon Chemical Co., Ltd.	799	14,754	3,172	8,717	8,739	3,372	3,372	5,815	2,907
June 30, 2017	2,911	23,402	10,485	10,524	10,772	3,372	3,372	19,743	7,085

Statement of comprehensive income	Revenue	Depreciation & Amortization	Interest income	Interest expense	Profit before tax	Income tax expenses	Profit for the year	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.	5,415	-31	-	-12	1,428	-357	1,071	10	1,081
Qingdao Long Fortune Songwon Chemical Co., Ltd.	4,379	-25	2	-	-305	-1	-306	22	-284
For the three months ended June 30, 2016	9,794	-56	2	-12	1,123	-358	765	32	797
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	6,688	-17	-	-	884	-221	663	60	723
Qingdao Long Fortune Songwon Chemical Co., Ltd.	6,318	-58	5	-61	467	-79	388	82	470
For the three months ended June 30, 2017	13,006	-75	5	-61	1,351	-300	1,051	142	1,193

Statement of comprehensive income	Revenue	Depreciation & Amortization	Interest income	Interest expense	Profit before tax	Income tax expenses	Profit for the year	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.	10,262	-31	1	-43	2,472	-618	1,854	-67	1,787
Qingdao Long Fortune Songwon Chemical Co., Ltd.	7,817	-31	3	-	-577	-1	-578	-170	-748
For the six months ended June 30, 2016	18,079	-62	4	-43	1,895	-619	1,276	-237	1,039
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	12,659	-33	1	-11	1,510	-378	1,132	-37	1,095
Qingdao Long Fortune Songwon Chemical Co., Ltd.	12,528	-112	8	-124	719	-26	693	-284	409
For the six months ended June 30, 2017	25,187	-145	9	-135	2,229	-404	1,825	-321	1,504

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

	As of January 1, 2016	Additions	Share of result from equity method revaluation	Exchange rate effect	As of June 30, 2016
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	3,276	-	556	-20	3,812
Qingdao Long Fortune Songwon Chemical Co., Ltd.	1,386	1,579	-289	-85	2,591
Total	4,662	1,579	267	-105	6,403

	As of January 1, 2017	Additions	Share of result from equity method revaluation	Exchange rate effect	As of June 30, 2017
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	3,849	-	340	-11	4,178
Qingdao Long Fortune Songwon Chemical Co., Ltd.	2,703	-	346	-142	2,907
Total	6,552	-	686	-153	7,085

5. Segment information

For management purposes, SONGWON Industrial Group is organized into one main operating segment. All of the Group's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The results from this operating segment are equivalent to the financial statements of the Group as a whole.

The Group is operating worldwide and therefore, discloses geographic segment information.

5.1. Product information

	For the three months ended	
	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Alkylphenols and Intermediates	350	902
Plasticizers	2,200	2,621
Polyester Diol	2,703	3,242
Polymer Stabilizers (AOX and UVs)	129,964	125,561
Polyurethanes	10,550	9,786
PVC Stabilizers	12,187	11,968
SAP and Flocculants	2,406	1,952
Tin Intermediates	20,534	19,837
Others	5,848	3,202
Total sales of goods	186,742	179,071

	For the six months ended	
	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Alkylphenols and Intermediates	777	1,490
Plasticizers	4,095	4,591
Polyester Diol	5,999	5,838
Polymer Stabilizers (AOX and UVs)	251,679	252,251
Polyurethanes	21,120	20,170
PVC Stabilizers	23,280	23,515
SAP and Flocculants	4,452	4,346
Tin Intermediates	38,864	42,980
Others	11,441	6,964
Total sales of goods	361,707	362,145

5.2. Geographic information

	For the three months ended	
	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Korea	47,726	46,003
Rest of Asia	49,147	43,334
Europe	38,437	40,620
North and South America	40,290	34,734
Australia	621	340
Middle East and Africa	10,521	14,040
Total sales of goods	186,742	179,071

	For the six months ended	
	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Korea	96,323	92,992
Rest of Asia	92,280	86,231
Europe	77,400	82,693
North and South America	73,706	73,665
Australia	1,083	1,042
Middle East and Africa	20,915	25,522
Total sales of goods	361,707	362,145

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

The Group is not recognizing more revenue than 10% of its total revenue with one client during the reporting periods.

5.3. Non-current assets

	June 30, 2017	June. 30, 2016
	Million KRW	Million KRW
Korea	401,989	396,167
Rest of Asia	24,218	21,518
Europe	18,361	22,628
North and South America	4,628	4,362
Middle East and Africa	17,746	18,475
Total	466,942	463,150

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

6. 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							
At January 1, 2016	147,904	68,374	63,995	445,667	17,300	23,719	766,959
Additions	-	217	-	57	650	10,456	11,380
Disposals	-	-	-	-14	-343	-	-357
Reclassifications	-	16,553	596	12,234	314	-29,697	-
Net exchange differences	-	-814	-	-659	-144	508	-1,109
At June 30, 2016	147,904	84,330	64,591	457,285	17,777	4,986	776,873
At January 1, 2017	147,904	85,352	65,640	462,827	17,895	10,537	790,155
Additions	-	469	6	224	1,208	20,218	22,125
Disposals	-	-	-2	-33	-828	-	-863
Reclassifications	-	4,252	87	10,547	47	-14,933	-
Net exchange differences	-	-817	-	-188	64	-36	-977
At June 30, 2017	147,904	89,256	65,731	473,377	18,386	15,786	810,440
Depreciation							
At January 1, 2016	-	-17,815	-31,201	-273,879	-11,568	-	-334,463
Depreciation charge	-	-1,151	-1,548	-10,204	-732	-	-13,635
Disposals	-	-	-	14	318	-	332
Net exchange differences	-	10	-	47	6	-	63
At June 30, 2016	-	-18,956	-32,749	-284,022	-11,976	-	-347,703
At January 1, 2017	-	-20,132	-34,311	-292,056	-12,172	-	-358,671
Depreciation charge	-	-1,188	-1,549	-10,123	-815	-	-13,675
Disposals	-	-	2	13	807	-	822
Net exchange differences	-	25	-1	-124	-91	-	-191
At June 30, 2017	-	-21,295	-35,859	-302,290	-12,271	-	-371,715
Net book value							
At June 30, 2017	147,904	67,961	29,872	171,087	6,115	15,786	438,725
At January 1, 2017	147,904	65,220	31,329	170,771	5,723	10,537	431,484
At June 30, 2016	147,904	65,374	31,842	173,263	5,801	4,986	429,170

There was no impairment during the reported financial period. Non-cash transactions amounting to 9,124 Million KRW (YTD June 30, 2016: 3,050 Million KRW) are included in the additions for the six months ended June 30, 2017.

7. Intangible assets

	Industrial rights	Software	Memberships	Customer relationships	Non-compete contracts	Capitalization process technology	Goodwill	Construction in progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Cost									
At January 1, 2016	2,672	2,525	852	31,391	14,812	4,937	41,624	1,486	100,299
Additions	-	122	1	-	-	-	-	60	183
Reclassifications	776	-	-	-	-	-1,116	-	-	-340
Net exchange differences	-	3	-	-683	-294	-157	-818	-	-1,949
At June 30, 2016	3,448	2,650	853	30,708	14,518	3,664	40,806	1,546	98,193
At January 1, 2017	3,329	2,772	853	32,351	14,938	3,818	44,890	1,361	104,312
Additions	-	4	-	-	-	-	-	252	256
Disposals	-	-87	-	-	-	-	-	-	-87
Reclassifications	140	-	-	-	-	-	-	-140	-
Net exchange differences	-	-47	-	-2,024	-	-290	-1,693	-	-4,054
At June 30, 2017	3,469	2,642	853	30,327	14,938	3,528	43,197	1,473	100,427
Amortization									
At January 1, 2016	-1,104	-2,161	-	-17,373	-12,025	-1,889	-31,059	-	-65,611
Amortization charge	-167	-97	-	-1,989	-1,244	-374	-	-	-3,871
Reclassifications	-	-	-	-	-	340	-	-	340
Net exchange differences	-	1	-	410	279	55	623	-	1,368
At June 30, 2016	-1,271	-2,257	-	-18,952	-12,990	-1,868	-30,436	-	-67,774
At January 1, 2017	-1,365	-2,381	-	-21,760	-14,938	-2,301	-34,315	-	-77,060
Amortization charge	-162	-93	-	-1,777	-	-255	-	-	-2,287
Disposals	-	45	-	-	-	-	-	-	45
Net exchange differences	-	29	-	1,611	-	231	1,681	-	3,552
At June 30, 2017	-1,527	-2,400	-	-21,926	-14,938	-2,325	-32,634	-	-75,750
Net book value									
At June 30, 2017	1,942	242	853	8,401	-	1,203	10,563	1,473	24,677
At January 1, 2017	1,964	391	853	10,591	-	1,517	10,575	1,361	27,252
At June 30, 2016	2,177	393	853	11,756	1,528	1,796	10,370	1,546	30,419

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 per December 31. No triggering events occurred in the six months ended June 30, 2017 and 2016.

8. Inventories

Description	June 30, 2017	December 31, 2016
	Million KRW	Million KRW
Raw materials and supplies	24,557	22,999
Work in progress	233	267
Finished goods	112,592	109,064
Goods in transit	29,859	23,228
Consignment stocks	65	177
Total inventories at the lower of cost and net realizable value	167,306	155,735

As of June 30, 2017, inventory write-off amounted to 2,434 Million KRW for raw material and finished goods (December 31, 2016: 1,924 Million KRW).

9. Trade and other receivables

Description	June 30, 2017	December 31, 2016
	Million KRW	Million KRW
Trade and notes receivables (net) – third parties	127,265	113,546
Trade and notes receivables (net) – related parties	7,178	4,840
Other receivables (net) – third parties	3,583	2,969
Other receivables (net) – related parties	125	158
Accrued income – third parties	488	137
Accrued income – related parties	469	59
Total	139,108	121,709

Other receivables third parties includes customs, rental income receivables and others.

The movements of the allowance for doubtful receivables are as follows:

	Individually impaired	Collectively impaired	Total
	Million KRW	Million KRW	Million KRW
January 1, 2016	-343	-42	-385
Charge for the period	-141	-2	-143
Unused amounts reversed	84	42	126
June 30, 2016	-400	-2	-402
January 1, 2017	-664	-475	-1,139
Charge for the period	-1,240	-	-1,240
Unused amounts reversed	114	270	384
June 30, 2017	-1,790	-205	-1,995

The ageing analysis of trade and other receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			≤ 30 days	31-90 days	91-120 days	121-180 days	> 180 days
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
June 30, 2017	139,108	130,493	7,354	750	73	354	84
Dec. 31, 2016	121,709	109,947	8,038	2,431	898	395	-

10. Cash and cash equivalent

Description	June 30, 2017	December 31, 2016
	Million KRW	Million KRW
Cash on hand	100	101
Bank accounts	73,488	43,960
Time deposit (< 3 months)	2,959	5,239
Total	76,547	49,300

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

11. Equity

11.1. Reserves and dividends paid

At the regular general meeting of shareholders, held on March 24, 2017, dividends with a total amount of 3,360 Million KRW were approved by the shareholders. On April 11, 2017 dividends were paid out. Legal reserves increased by 336 Million KRW due to the appropriation to the reserve decided by the shareholders on March 24, 2017.

11.2. Accumulated other comprehensive income

Accumulated other comprehensive income, net of tax as of June 30, 2017 and December 31, 2016 is composed of the following:

Description	June 30, 2017	December 31, 2016
	Million KRW	Million KRW
Exchange differences on translation of foreign operations	904	2,784
Interest rate swap	-106	-182
Total	798	2,602

Details of other comprehensive income for the three months ended June 30, 2017 and 2016 are as follows:

Description	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Pretax amounts:		
Gain / (loss) on valuation of interest rate swap	29	-392
Exchange differences on translation of foreign operations	1,081	373
Pretax amounts total	1,110	-19
Tax effects:		
(Gain) on valuation of interest rate swap	-7	-
Tax effects total	-7	-
Net amounts:		
Gain / (loss) on valuation of interest rate swap	22	-392
Exchange differences on translation of foreign operations	1,081	373
Net amounts total	1,103	-19

Details of other comprehensive income for the six months ended June 30, 2017 and 2016 are as follows:

Description	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Pretax amounts:		
Gain / (loss) on valuation of interest rate swap	99	-955
Exchange differences on translation of foreign operations	-1,809	-994
Pretax amounts total	-1,710	-1,949
Tax effects:		
(Gain) on valuation of interest rate swap	-23	-
Tax effects total	-23	-
Net amounts:		
Gain / (loss) on valuation of interest rate swap	76	-955
Exchange differences on translation of foreign operations	-1,809	-994
Net amounts total	-1,733	-1,949

12. Interest bearing loans and borrowings

Interest-bearing loans and borrowings as of June 30, 2017 and December 31, 2016 are as follows:

Description	June 30, 2017	December 31, 2016
	Million KRW	Million KRW
Long-term borrowings	102,615	112,220
Non-current interest bearing loans and borrowings	102,615	112,220
Current portion of long-term borrowings	21,121	23,720
Short-term borrowings	225,321	165,187
Current interest bearing loans and borrowings	246,442	188,907
Total	349,057	301,127

13. Income tax expenses

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

Income taxes	For the three months ended	
	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Current income tax charge	-2,959	-5,463
Deferred income taxes related to origination and reversal of deferred taxes	-11	-13
Income tax recognized in other comprehensive income	7	-
Income tax expenses	-2,963	-5,476

Income taxes	For the six months ended	
	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Current income tax charge	-5,870	-11,582
Deferred income taxes related to origination and reversal of deferred taxes	436	-213
Income tax recognized in other comprehensive income	23	-
Income tax expenses	-5,411	-11,795

14. Earnings per share

Basic earnings per share amounts are 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 June 30, 2017 and 2016.

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

Description	For the three months ended	
	June 30, 2017	June 30, 2016
	KRW	KRW
Net profit attributable to ordinary equity holders of the parent	12,429,233,338	15,518,545,818
Weighted average number of ordinary shares	24,000,000	24,000,000
Earnings per share (basic / diluted)	518	647

Description	For the six months ended	
	June 30, 2017	June 30, 2016
	KRW	KRW
Net profit attributable to ordinary equity holders of the parent	20,771,238,578	28,231,699,502
Weighted average number of ordinary shares	24,000,000	24,000,000
Earnings per share (basic / diluted)	865	1,176

15. Derivatives financial instruments

Description	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
	Million KRW		Million KRW	
Forward foreign exchange contracts (current portion)	8	1,172	-	-
Interest rate swaps (current portion)	-	148	-	128
Interest rate swaps (non-current portion)	11	-	-	108
Total	19	1,320	-	236

15.1. 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 June 30, 2017 (December 31, 2016: none) are as follows:

As of June 30, 2017

Contractual party	Position	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Citybank	Sell	EUR 8,400,000	27.07.2017 – 27.12.2017	1,261.00 -1,261.50
	Sell	JPY 1,392,000,000	27.07.2017 – 27.12.2017	10.490-10.550
	Sell	EUR 5,700,000	31.07.2017 – 29.12.2017	1,255.60 -1,261.80
Kyong Nam Bank	Sell	EUR 3,960,000	27.07.2017 – 27.12.2017	1,270.00
	Sell	JPY 600,000,000	27.07.2017 – 27.12.2017	10.605
Woori Bank	Sell	EUR 5,778,000	27.07.2017 – 27.12.2017	1,247.85
	Sell	USD 3,000,000	27.07.2017 – 27.12.2017	1,193.80

15.2. Interest rate swaps

As of June 30, 2017 the Group has entered into the following interest rate swap contracts:

As of June 30, 2017

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%

As of December 31, 2016 the Group has entered into the following interest rate swap contract:

As of December 31, 2016

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%

The Group applies cash flow hedge accounting on interest rate swap; in the current reporting period and in 2016 there was an interest rate swap designated as cash flow hedge. The balances included in accumulated other comprehensive income are -106 Million KRW as of June 30, 2017 and -182 Million KRW as of December 31, 2016, respectively (refer to Note 11.2), net of income tax.

16. 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 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 at June 30, 2017 are as follows (Unit: Korean Allowance Unit - KAU):*

	2015	2016	2017	Total
Allocated emission allowance	161,630	153,985	204,928	520,543

- 2) *Changes in emission allowances during the current reporting period are as follows:*

(Units: KAU and Million KRW)

	2015		2016		2017		Total	
	Quantity	Book value	Quantity	Book value	Quantity	Book value	Quantity	Book value
Beginning	-	-	32,769	-	-	-	32,769	-
Allocation	161,693	-	154,498	-	151,361	-	467,552	-
Allocation cancel	-63	-	-513	-	-	-	-576	-
Additional allocation	-	-	-	-	53,567	-	53,567	-
Purchase	-	-	22,000	453	-	-	22,000	453
Borrowed (Note 1)	-	-	24,319	-	-24,319	-	-	-
Disposal	-	-	-110,581	-	-22,000	-	-132,581	-
Delivery to government	-128,861	-	-122,492	-453	-	-	-251,353	-453
Carryforward	-32,769	-	-	-	-	-	-32,769	-
Ending	-	-	-	-	158,609	-	158,609	-

Note 1: Deferred revenue incurred due to emission allowances amounted to 950 Million KRW as of June 30, 2017 (2016: none). The deferred revenue shall be offset against the cost of emissions when the emission allowances are purchased.

- 3) *There is no changes in emission liabilities during the periods ended June 30, 2017 and December 31, 2016.*
- 4) *Estimated greenhouse gas emissions in 2017 were 122,464 tCO₂-eq (122,464 tCO₂-eq 2016), and permitted greenhouse gas emissions in 2016 were 122,492.*

17. 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.

	Carrying amount		Fair value	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	Million KRW	Million KRW	Million KRW	Million KRW
Financial assets at fair value through profit and loss	8	-	8	-
Other financial assets (Derivatives)	8	-	8	-
<i>Thereof current</i>	8	-	8	-
Financial assets at fair value through OCI	11	-	11	-
Other financial assets (Derivatives)	11	-	11	-
<i>Thereof non-current</i>	11	-	11	-
Loans and receivables	255,731	195,392	255,731	195,392
Other financial assets	40,076	24,383	40,076	24,383
<i>Thereof current</i>	30,483	17,185	30,483	17,185
<i>Thereof non-current</i>	9,593	7,198	9,593	7,198
Trade and other receivables	139,108	121,709	139,108	121,709
<i>Thereof current</i>	139,108	121,709	139,108	121,709
Cash and cash equivalent	76,547	49,300	76,547	49,300
<i>Thereof current</i>	76,547	49,300	76,547	49,300
Available-for-sale financial assets	1,473	1,473	1,473	1,473
<i>Thereof non-current</i>	1,473	1,473	1,473	1,473
Total	257,223	196,865	257,223	196,865

	Carrying amount		Fair value	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	Million KRW	Million KRW	Million KRW	Million KRW
Financial liabilities at fair value through profit and loss	1,172	-	1,172	-
Other financial liabilities (Derivatives)	1,172	-	1,172	-
<i>Thereof current</i>	1,172	-	1,172	-
Financial liabilities at fair value through OCI	148	236	148	236
Other financial liabilities (Derivatives)	148	236	148	236
<i>Thereof current</i>	148	128	148	128
<i>Thereof non-current</i>	-	108	-	108
Financial liabilities measured at amortized costs	468,181	401,301	468,181	401,301
Interest bearing loans and borrowings	349,057	301,127	349,057	301,127
<i>Thereof current</i>	246,442	188,907	246,442	188,907
<i>Thereof non-current</i>	102,615	112,220	102,615	112,220
Other financial liabilities	7,601	512	7,601	512
<i>Thereof current</i>	3,908	510	3,908	510
<i>Thereof non-current</i>	3,693	2	3,693	2
Trade and other payables	111,523	99,662	111,523	99,662
<i>Thereof current</i>	111,523	99,662	111,523	99,662
Total	469,501	401,537	469,501	401,537

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 available-for-sale financial assets is derived from quoted market prices in active markets, if available.
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques (refer to note 17.1).

17.1. 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 June 30, 2017 and as of December 31, 2016, the Group held the following financial instruments carried at fair value on the statement of financial position:

	June 30, 2017	Level 1	Level 2	Level 3
	Million KRW	Million KRW	Million KRW	Million KRW
Assets measured at fair value				
Financial assets at fair value through profit or loss	8	-	8	-
<i>Derivatives</i>	8	-	8	-
Financial assets at fair value through OCI	11	-	11	-
<i>Derivatives</i>	11	-	11	-
Available-for-sale financial assets	123	123	-	-
<i>Chemtura Corporation</i>	123	123	-	-

Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss	1,172	-	1,172	-
<i>Derivatives</i>	1,172	-	1,172	-
Financial liabilities at fair value through OCI	148	-	148	-
<i>Derivatives</i>	148	-	148	-

	December 31, 2016	Level 1	Level 2	Level 3
	Million KRW	Million KRW	Million KRW	Million KRW
Assets measured at fair value				
Available-for-sale financial assets	123	123	-	-
<i>Chemtura Corporation</i>	123	123	-	-
Liabilities measured at fair value				
Financial liabilities at fair value through OCI	236	-	236	-
<i>Derivatives</i>	236	-	236	-

During the reporting periods ending June 30, 2017 and December 31, 2016, 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 (refer to Note 17) the carrying amount is a reasonable approximation of fair values and is measured using Level 3 measurement methods, except for cash and cash equivalent.

18. 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 six months ended	
		June 30, 2017	June 30, 2016
Jongho Park, Chairman of the Board of Directors	Finance income	415	215
Songwon Moolsan Co., Ltd. (refer to note 18.5)	Selling and administration costs	-26	-26
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint Venture)	Cost of sales	-8,334	-6,443
Qingdao Long Fortune Songwon Chemical Co., Ltd. (Joint Venture)	Sales of goods	9,518	4,469
	Selling and administration costs	-458	-351
	Other income	72	91
	Finance income	59	-
Total	Sales of goods	9,518	4,469
	Cost of sales	-8,334	-6,443
	Selling and administration costs	-484	-377
	Other income	72	91
	Finance income	474	215

Related party	Description	As at	
		June 30, 2017	December 31, 2016
Jongho Park, Chairman of the Board of Directors	Trade and other receivables	469	54
	Other current financial assets	28,000	14,000
Songwon Moolsan Co., Ltd. (refer to note 18.5)	Other non-current financial assets	24	24
	Trade and other payables	4	5
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint Venture)	Trade and other payables	1,249	1,071
Qingdao Long Fortune Songwon Chemical Co., Ltd. (Joint Venture)	Other non-current financial assets	1,686	1,739
	Trade and other receivables	7,303	5,003
	Trade and other payables	226	79
Total	Other non-current financial assets	1,710	1,763
	Trade and other receivables	7,772	5,057
	Other current financial assets	28,000	14,000
	Trade and other payables	1,479	1,155

18.1. The ultimate parent

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

18.2. 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 and six months ended June 30, 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (December 31, 2016: none). This assessment is undertaken periodically through examining the financial position of the related party and the market in which the related party operates.

18.3. Transactions with key management personnel

In the first quarter of 2017, the Group granted a loan of 14,000 Million KRW to the Chairman of the Board of Directors of the Group, Jongho Park at usual market conditions. During the second quarter of 2017, no loans were granted or repaid.

18.4. Compensation of key management personnel of the Group

Description	June 30, 2017	June 30, 2016
	Million KRW	Million KRW
Short-term employee benefits	8,461	7,035
Post-employment benefits	393	503
Other long-term benefits	748	1,306
Share based payments	-59	575
Total compensation paid to key management personnel	9,543	9,419

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.

18.5. 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.

19. Commitments and contingencies

19.1. Contingent liability

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

19.2. Operating lease commitments

The Group has entered into commercial leases on certain motor vehicles, items of machinery and offices. These leases have duration between 1 and 30 years with a renewal option included in some contracts. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases as of June 30, 2017 and December 31, 2016 are as follows:

Description	June 30, 2017	December 31, 2016
	Million KRW	Million KRW
Within one year	-1,886	-2,121
After one year but not more than five years	-7,073	-3,956
More than five years	-2,001	-752
Total	-10,960	-6,829

19.3. Other commitments

As part of the ordinary business, the subsidiaries could enter into various contractual commitments for the purchase of tangible fixed assets and intangible assets as well as investment properties and promotion properties. As of June 30, 2017, commitments to purchase property, plant and equipment, as well as raw materials amounting to 23,830 Million KRW (December 31, 2016: 22,121 Million KRW) were entered.

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

One check and one promissory note which the Group received from KEB Hana Bank, are outstanding as of June 30, 2017 due to bankruptcy declared by the issuers of check.

Details of the Group's available short-term credit line facilities (excluding general loans) as of June 30, 2017, are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	23,900	9,065	14,835
D/A and D/P	Thousand USD	113,400	77,092	36,308
	Million KRW	32,000	24,233	7,767
Trade loans	Million KRW	20,000	-	20,000
Secured loan of credit sales	Million KRW	9,000	7,645	1,355
L/G for import	Thousand USD	1,000	22	978
Other foreign currency guarantees	Thousand USD	18,270	12,648	5,622
	Total Million KRW	61,000	31,878	29,122
	Total Thousand USD	156,570	98,827	57,743

20. 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 June 30, 2017 and December 31, 2016, expressed in the maximum value registered to Korean court, are as follows:

Pledged to		Pledged assets		June 30, 2017	December 31, 2016
<i>Property, plant and equipment (Joint collateral in connection with long-term loan)</i>					
Busan Bank	Land, buildings and machinery	MKRW	30,000		30,000
		TUSD	24,000		24,000
Kyong Nam Bank	Land, buildings and machinery	MKRW	18,000		18,000
<i>Property, plant and equipment (Collateral for other than syndicated or long-term loan)</i>					
Korea Development Bank	Land, buildings, investment properties 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 a collateral for interest-bearing loans and borrowings as of June 30, 2017 (December 31, 2016: none).

The Group has received payment guarantees amounting to 308,591 Million KRW and 69,284 Thousand USD provided by Jongho Park, Chairman of the Board of Directors of the Group, in connection with the Group's borrowings from banks as of June 30, 2017.

The bank deposits pledged as collateral as of June 30, 2017 and December 31, 2016 are as follows:

Description	June 30, 2017	December 31, 2016
Bank deposits – current (in Thousand USD)	2,818	3,017

21. 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 available-for-sale investments and enters into derivative transactions and applies hedge accounting for cash flow hedges if applicable.

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

21.1. 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, available-for-sale investments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of June 30, 2017 and 2016 as well as December 31, 2016.

21.1.1. 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
June 30, 2017	1.00	-568
	-1.00	568
June 30, 2016	1.00	-736
	-1.00	736

21.1.2. 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, USD 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 June 30, 2017 and December 31, 2016 are as follows:

Currency	June 30, 2017		December 31, 2016	
	10% increase	10% decrease	10% increase	10% decrease
	Million KRW	Million KRW	Million KRW	Million KRW
USD	-658	658	674	-674
EUR	-349	349	-591	591
JPY	295	-295	-3	3
CNY	-175	175	-232	232
CHF	125	-125	28	-28
AED	-104	104	34	-34
INR	1,090	-1,090	1,149	-1,149
Total	224	-224	1,059	-1,059

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

21.2. 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.

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 9.

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.

21.3. 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, excluding financial derivative instruments, based on contractual undiscounted payments as of June 30, 2017 and December 31, 2016 are as follows:

As of June 30, 2017	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	13,031	46,995	186,416	102,615	-	349,057
Other financial liabilities	1,573	20	2,315	3,693	-	7,601
Trade and other payables	82,112	20,590	8,821	-	-	111,523
Total	96,716	67,605	197,552	106,308	-	468,181

As of December 31, 2016	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	22,685	43,890	122,332	112,220	-	301,127
Other financial liabilities	435	75	-	2	-	512
Trade and other payables	59,274	39,217	1,171	-	-	99,662
Total	82,394	83,182	123,503	112,222	-	401,301

21.4. 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 June 30, 2017 and December 31, 2016 is 146% and 134%, respectively.

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

22. Cash flow statement

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

The Group's 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 six months ended June 30, 2017 and 2016 are as follows:

Adjustments	Notes	For the six months ended	
		June 30, 2017	June 30, 2016
		Million KRW	Million KRW
Depreciation of property, plant and equipment	6	13,675	13,635
Depreciation of investment properties		5	8
Amortization of intangible assets	7	2,287	3,871
Impairment of non-current financial assets		2	2
Loss / (gain) on disposal of property, plant and equipment, net		17	-7
Loss on disposal of intangible assets, net		42	-
Share of result from investments accounted using the equity method	4	-686	-267
Financial income		-4,144	-3,670
Financial expenses		13,227	8,840
Income tax expenses	13	5,411	11,795
Total		29,836	34,207
Changes in operating assets and liabilities			
Trade receivables		-15,270	-16,496
Other receivables		-912	228
Other current assets		-2,784	-2,571
Other current financial assets		-8	-127
Inventories		-14,669	6,979
Trade payables		13,392	5,267
Other payables		-4,582	2,549
Other current financial liabilities		93	-876
Other current liabilities		2,904	5,461
Pension liabilities		-4,439	-1,040
Other long-term employment benefits		105	1,503
Total		-26,170	877

23. Events after the reporting period

No significant events occurred during the period from the 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

The Board of Directors and Stockholders 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 at June 30, 2017, 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 six month periods ended June 30, 2017 and 2016, all expressed in Korean won, and a summary of significant accounting policies and explanatory notes

Management's responsibility for the 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 1034 *Interim Financial Reporting* (KIFRS 1034). Also, management is responsible for the design and operation of the Company's internal control to prevent and detect any error or fraud which may cause material misstatement of the interim condensed consolidated financial statements.

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 expressed in Korean won were 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 at December 31, 2016, 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 22, 2017 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as at December 31, 2016, presented for comparative purpose, are not different, in all material respects, from the above audited consolidated statement of financial position.



Aug 11, 2017

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