



FINANCIAL RESULTS  
Q2 & 6 MONTHS  
ENDED JUNE 30, **2019**

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## About this report

The interim condensed consolidated financial statements including notes (refer to section 2 from page 7 to 52) 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 three and six months ended June 30, 2019 as well as the three and six months ended June 30, 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 interim condensed financial statements for the three and six months ended June 30, 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 also been prepared in accordance with K-IFRS. The annual financial statements for the year 2018 can be found on our website [www.songwon.com](http://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 2019			Q2 2018			For the six months ended June 30,					
	2019			2018			2019			2018		
	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%
Sales	218,467	197,841	10.4%	408,884	388,313	5.3%						
Gross profit	51,860	35,766	45.0%	91,573	76,142	20.3%						
<i>Gross profit margin</i>	23.7%	18.1%		22.4%	19.6%							
Operating profit	23,274	11,447	103.3%	37,036	26,709	38.7%						
EBITDA	32,799	20,691	58.5%	55,888	44,396	25.9%						
<i>EBITDA margin</i>	15.0%	10.5%		13.7%	11.4%							
EBIT	23,540	12,341	90.7%	37,485	27,774	35.0%						
<i>EBIT margin</i>	10.8%	6.2%		9.2%	7.2%							
Profit for the period	12,826	8,179	56.8%	21,603	19,716	9.6%						
Total assets				957,355	932,147	2.7%						
Total equity				432,596	398,444	8.6%						
<i>Equity ratio</i>				45.2%	42.7%							
Headcounts				1,059	1,021	3.7%						

## Sales development

### Divisions\*

	For the three months ended June 30,											
	Q2 2019			Q2 2018			Q2 2019			Q2 2018		
	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%
	<b>Industrial Chemicals</b>						<b>Performance Chemicals</b>					
Sales	161,720	143,532	12.7%	56,747	54,309	4.5%	218,467	197,841	10.4%			

  

	For the six months ended June 30,											
	2019			2018			2019			2018		
	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%
	<b>Industrial Chemicals</b>						<b>Performance Chemicals</b>					
Sales	302,611	284,316	6.4%	106,273	103,997	2.2%	408,884	388,313	5.3%			

\*refer to note 6 for further details

### Regions

	For the six months ended June 30,											
	Q2 2019			Q2 2018			2019			2018		
	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%	Million KRW	Million KRW	Δ%
Korea	44,635	44,221	0.9%	87,876	90,575	-3.0%						
Rest of Asia	63,237	56,841	11.3%	112,432	107,018	5.1%						
Europe	51,751	44,342	16.7%	98,960	89,511	10.6%						
North and South America	46,306	41,392	11.9%	87,473	77,850	12.4%						
Australia	677	621	9.0%	1,200	1,022	17.4%						
Middle East and Africa	11,861	10,424	13.8%	20,943	22,337	-6.2%						
<b>Total sales</b>	<b>218,467</b>	<b>197,841</b>	<b>10.4%</b>	<b>408,884</b>	<b>388,313</b>	<b>5.3%</b>						

## Business development

During the second quarter of 2019, ended June 30, 2019, Songwon Industrial Group achieved consolidated sales of 218,467 Mil. KRW and a net profit of 12,826 Mil. KRW. When compared to sales for Q2/2018 (197,841 Mil. KRW), this marked a 10.4% increase in revenue. For the six months ended June 30, 2019, the Group achieved sales of 408,884 Mil. KRW (YTD June 2018: 388,313 Mil. KRW) and recorded a net profit of 21,603 Mil. KRW amounting to a 9.6% increase over the same period the previous year (YTD June 2018: 19,716 Mil. KRW). The Group's gross profit margin was 23.7% for the quarter and 22.4% for the first six months.

In Q2/2019, while global economic conditions remained challenging with the trade war between the U.S. and China shifting into a higher gear, Brexit uncertainty, an overall slowdown in Asia which included weakened demand due to customers' pessimism towards an upturn, Songwon Industrial Group reported solid results. Consolidated sales for the quarter were up and 10.4% higher than the same period of the previous year. Indicating gained momentum and aligned with what has traditionally been a strong quarter, both the EBITDA and EBIT margins increased to 15.0% and to 10.8% respectively during Q2/2019, and to 13.7% and 9.2% during the first half year 2019.

After a slow start to 2019, overall demand for Division Industrial Chemicals, particularly SONGWON's core polymer stabilizers business, notably increased in Q2 with volumes exceeding those of Q2/2018. Revenues were 12.7% above the same period in the previous year on the back of the positive contribution of the foreign currencies and the positive effect of price increases SONGWON implemented in 2018. The Group also recorded an increase in demand for its Division Performance Chemicals of 4.5% over the same period in 2018, despite the continuing negative growth rate in Korea due to the economic situation and the slowdown in the automotive industry.

Throughout Q2/2019, all the Group's production sites ran smoothly and at higher capacity utilizations than in the first quarter of the year, successfully and economically meeting customer's demands. In Q2, the Group noted some raw material tensions and restrictions resulting from an accident in China but was unaffected by the shortages due to its effective sourcing strategy involving multiple suppliers. During the first half of 2019, SONGWON continued the investment and expansion of its state-of-the-art Technical Innovation Center in Ulsan, Korea. The innovation labs are operating at high levels to both support customer requirements and to produce performance information on new products for the business. Additional expertise has also been added to drive the customer application and new product development work.

## Outlook

The first 6 months of the year, SONGWON has seen resilience in its broad portfolio. Although it is difficult to make binding predictions amid the volatility of the global economic situation and unexpected fluctuations in the markets, SONGWON sees demand for its offering remaining steady in the coming months in line with the solid performance seen in Q2. The Group anticipates that supply and demand will remain balanced and the organization says that it will focus on maintaining its achieved price levels and on increasing its supply share in the markets by concentrating on identifying, as well as commercializing new opportunities and building new customer relationships. SONGWON also says that the investment plans it has in place and its enhanced innovation capacity together with its comprehensive distributor network will ensure that the organization can accelerate market penetration and remain on track with its long-term strategy.

Furthermore, SONGWON is convinced that it can make a positive contribution to the plastics industry by underlining its commitment on investment to support industry growth, but also thanks to the company's increased focus on innovation to support recycling, which is an important trend in the industry. While remaining cautious and exercising ongoing prudence, the organization looks positively towards the remaining 6 months of the year. Driven by its commitment to remain a leading force in the industry, it is confident that it has all the necessary requisites in place and is well-positioned to deliver on its long-term strategy of successfully achieving top-line growth, unit profitability and in delivering solid financial performance.

**SECTION 2:**

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

## Interim condensed consolidated statements of financial position (unaudited)

		As of	
		June 30, 2019	December 31, 2018
	Notes	Million KRW	Million KRW
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>504,884</b>	<b>480,898</b>
Property, plant and equipment	6.2.2, 7, 25	440,175	439,322
Right-of-use assets	6.2.2, 8	23,693	-
Investment properties	6.2.2, 25	3,510	3,516
Intangible assets	6.2.2, 9	16,261	17,826
Investments accounted for using the equity method	5	5,489	4,760
Other non-current assets		103	1,515
Other non-current financial assets	13, 22, 23	12,047	11,129
Deferred tax assets		3,606	2,830
<b>Current assets</b>		<b>452,471</b>	<b>391,646</b>
Inventories	10	217,756	201,368
Trade and other receivables	11, 22, 23	150,939	115,969
Income tax receivables		874	610
Other current assets	14	9,228	4,387
Other current financial assets	13, 20, 22, 23	4,373	6,006
Cash and cash equivalents	12, 22	69,301	63,306
<b>Total assets</b>		<b>957,355</b>	<b>872,544</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		<b>432,596</b>	<b>411,198</b>
<i>Non-controlling interests</i>		1,424	-714
<i>Equity attributable to owners of the parent</i>		431,172	411,912
Issued capital		12,000	12,000
Capital surplus		22,359	24,361
Reserves	15.1	27,975	27,591
Retained earnings	15.1	370,216	352,906
Accumulated other comprehensive income	15.2	-1,378	-4,946
<b>Non-current liabilities</b>		<b>172,545</b>	<b>84,690</b>
Interest-bearing loans and borrowings	16, 22, 25, 26	81,672	17,180
Pension liability		19,826	16,037
Other long-term employee-related liabilities		6,237	5,111
Non-current lease liabilities	22, 26.3	20,103	-
Other non-current financial liabilities	19, 20, 22, 26.3	2,511	3,361
Other non-current liabilities		48	41
Deferred tax liabilities		42,148	42,960
<b>Current liabilities</b>		<b>352,214</b>	<b>376,656</b>
Interest-bearing loans and borrowings	16, 22, 24, 25, 26	216,019	267,930
Trade and other payables	22, 23, 26.3	114,240	100,529
Current lease liabilities	22, 26.3	2,410	-
Other current financial liabilities	19, 20, 22, 26.3	3,148	1,978
Other current liabilities		4,363	1,883
Income tax payable		12,034	4,336
<b>Total liabilities</b>		<b>524,759</b>	<b>461,346</b>
<b>Total equity and liabilities</b>		<b>957,355</b>	<b>872,544</b>



## Interim condensed consolidated statements of financial position (unaudited)

	As of (refer to note 2.1)	
	June 30, 2019	December 31, 2018
	Thousand USD	Thousand USD
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>436,476</b>	<b>415,742</b>
Property, plant and equipment	380,536	379,798
Right-of-use assets	20,483	-
Investment properties	3,034	3,040
Intangible assets	14,058	15,411
Investments accounted for using the equity method	4,745	4,115
Other non-current assets	89	1,310
Other non-current financial assets	10,415	9,621
Deferred tax assets	3,116	2,447
<b>Current assets</b>	<b>391,166</b>	<b>338,581</b>
Inventories	188,252	174,084
Trade and other receivables	130,488	100,256
Income tax receivables	756	527
Other current assets	7,978	3,793
Other current financial assets	3,781	5,192
Cash and cash equivalents	59,911	54,729
<b>Total assets</b>	<b>827,642</b>	<b>754,323</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>373,983</b>	<b>355,485</b>
<i>Non-controlling interests</i>	<i>1,231</i>	<i>-617</i>
<i>Equity attributable to owners of the parent</i>	<i>372,752</i>	<i>356,102</i>
Issued capital	10,374	10,374
Capital surplus	19,330	21,060
Reserves	24,185	23,853
Retained earnings	320,054	305,091
Accumulated other comprehensive income	-1,191	-4,276
<b>Non-current liabilities</b>	<b>149,166</b>	<b>73,215</b>
Interest-bearing loans and borrowings	70,606	14,852
Pension liability	17,140	13,864
Other long-term employee-related liabilities	5,392	4,419
Non-current lease liabilities	17,379	-
Other non-current financial liabilities	2,171	2,906
Other non-current liabilities	41	35
Deferred tax liabilities	36,437	37,139
<b>Current liabilities</b>	<b>304,493</b>	<b>325,623</b>
Interest-bearing loans and borrowings	186,751	231,628
Trade and other payables	98,762	86,908
Current lease liabilities	2,083	-
Other current financial liabilities	2,721	1,710
Other current liabilities	3,772	1,628
Income tax payable	10,404	3,749
<b>Total liabilities</b>	<b>453,659</b>	<b>398,838</b>
<b>Total equity and liabilities</b>	<b>827,642</b>	<b>754,323</b>

## Interim condensed consolidated statements of comprehensive income (unaudited)

	Notes	For the three months ended	
		2019	2018
		Million KRW	Million KRW
Sales	6, 23	218,467	197,841
Cost of sales	23	-166,607	-162,075
<b>Gross profit</b>		<b>51,860</b>	<b>35,766</b>
Selling and administration costs	23	-28,586	-24,319
<b>Operating profit</b>		<b>23,274</b>	<b>11,447</b>
Other income	23	511	1,097
Other expenses		-245	-203
Share of result from investments accounted for using the equity method	5	329	328
Finance income	23	6,777	7,452
Finance expenses		-10,436	-9,409
<b>Profit before tax</b>		<b>20,210</b>	<b>10,712</b>
Income tax expenses	17	-7,384	-2,533
<b>Profit for the period</b>		<b>12,826</b>	<b>8,179</b>
<b>Other comprehensive income, net of taxes</b>			
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		1,987	285
(Losses) / gains on valuation of interest rate swaps	15.2	-970	-53
Exchange differences on translation of foreign operations	15.2	2,957	338
<b>Total other comprehensive income, net of taxes</b>		<b>1,987</b>	<b>285</b>
<b>Total comprehensive income</b>		<b>14,813</b>	<b>8,464</b>
<b>Profit for the period attributable to:</b>			
Owners of the parent	18	12,813	8,801
Non-controlling interests		13	-622
<b>Profit for the period</b>		<b>12,826</b>	<b>8,179</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		14,835	9,202
Non-controlling interests		-22	-738
<b>Total comprehensive income</b>		<b>14,813</b>	<b>8,464</b>
<b>Earnings per share</b>		<b>KRW</b>	<b>KRW</b>
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	18	534	367

## Interim condensed consolidated statements of comprehensive income (unaudited)

	For the three months ended June 30, (refer to note 2.1)	
	2019	2018
	Thousand USD	Thousand USD
Sales	188,867	171,035
Cost of sales	-144,034	-140,115
<b>Gross profit</b>	<b>44,833</b>	<b>30,920</b>
Selling and administration costs	-24,713	-21,024
<b>Operating profit</b>	<b>20,120</b>	<b>9,896</b>
Other income	442	948
Other expenses	-212	-175
Share of result from investments accounted for using the equity method	284	284
Finance income	5,859	6,442
Finance expenses	-9,022	-8,134
<b>Profit before tax</b>	<b>17,471</b>	<b>9,261</b>
Income tax expenses	-6,383	-2,190
<b>Profit for the period</b>	<b>11,088</b>	<b>7,071</b>
<b>Other comprehensive income, net of taxes</b>		
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>	1,717	246
(Losses) / gains on valuation of interest rate swaps	-839	-46
Exchange differences on translation of foreign operations	2,556	292
<b>Total other comprehensive income, net of taxes</b>	<b>1,717</b>	<b>246</b>
<b>Total comprehensive income</b>	<b>12,805</b>	<b>7,317</b>
<b>Profit for the period attributable to:</b>		
Owners of the parent	11,077	7,609
Non-controlling interests	11	-538
<b>Profit for the period</b>	<b>11,088</b>	<b>7,071</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	12,824	7,955
Non-controlling interests	-19	-638
<b>Total comprehensive income</b>	<b>12,805</b>	<b>7,317</b>
<b>Earnings per share</b>		
	USD	USD
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	0.46	0.32

## Interim condensed consolidated statements of comprehensive income (unaudited)

	Notes	For the six months ended June 30,	
		2019	2018
		Million KRW	Million KRW
Sales	6, 23	408,884	388,313
Cost of sales	23	-317,311	-312,171
<b>Gross profit</b>		<b>91,573</b>	<b>76,142</b>
Selling and administration costs	23	-54,537	-49,433
<b>Operating profit</b>		<b>37,036</b>	<b>26,709</b>
Other income	23	979	1,585
Other expenses		-530	-520
Share of result from investments accounted for using the equity method	5	555	869
Finance income	23	11,119	15,311
Finance expenses		-17,704	-19,887
<b>Profit before tax</b>		<b>31,455</b>	<b>24,067</b>
Income tax expenses	17	-9,852	-4,351
<b>Profit for the period</b>		<b>21,603</b>	<b>19,716</b>
<b>Other comprehensive income, net of taxes</b>			
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		3,635	745
(Losses) / gains on valuation of interest rate swaps	15.2	-1,004	-108
Exchange differences on translation of foreign operations	15.2	4,639	853
<b>Total other comprehensive income, net of taxes</b>		<b>3,635</b>	<b>745</b>
<b>Total comprehensive income</b>		<b>25,238</b>	<b>20,461</b>
<b>Profit for the period attributable to:</b>			
Owners of the parent	18	21,534	20,501
Non-controlling interests		69	-785
<b>Profit for the period</b>		<b>21,603</b>	<b>19,716</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		25,102	21,352
Non-controlling interests		136	-891
<b>Total comprehensive income</b>		<b>25,238</b>	<b>20,461</b>
<b>Earnings per share</b>			
		<b>KRW</b>	<b>KRW</b>
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	18	897	854

## Interim condensed consolidated statements of comprehensive income (unaudited)

	For the six months ended June 30, (refer to note 2.1)	
	2019	2018
	Thousand USD	Thousand USD
Sales	353,485	335,700
Cost of sales	-274,319	-269,875
<b>Gross profit</b>	<b>79,166</b>	<b>65,825</b>
Selling and administration costs	-47,148	-42,735
<b>Operating profit</b>	<b>32,018</b>	<b>23,090</b>
Other income	846	1,370
Other expenses	-458	-450
Share of result from investments accounted for using the equity method	480	751
Finance income	9,612	13,237
Finance expenses	-15,305	-17,193
<b>Profit before tax</b>	<b>27,193</b>	<b>20,805</b>
Income tax expenses	-8,517	-3,762
<b>Profit for the period</b>	<b>18,676</b>	<b>17,043</b>
<b>Other comprehensive income, net of taxes</b>		
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>	3,143	644
(Losses) / gains on valuation of interest rate swaps	-868	-93
Exchange differences on translation of foreign operations	4,011	737
<b>Total other comprehensive income, net of taxes</b>	<b>3,143</b>	<b>644</b>
<b>Total comprehensive income</b>	<b>21,819</b>	<b>17,687</b>
<b>Profit for the period attributable to:</b>		
Owners of the parent	18,616	17,723
Non-controlling interests	60	-680
<b>Profit for the period</b>	<b>18,676</b>	<b>17,043</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	21,701	18,458
Non-controlling interests	118	-771
<b>Total comprehensive income</b>	<b>21,819</b>	<b>17,687</b>
<b>Earnings per share</b>	<b>USD</b>	<b>USD</b>
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	0.78	0.74

## Interim condensed consolidated statements of changes in equity (unaudited)

For the six months ended June 30, 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		
<b>As of January 1, 2018</b>	<b>12,000</b>	<b>24,361</b>	<b>27,255</b>	<b>322,085</b>	<b>-4,841</b>	<b>380,860</b>	<b>-2,733</b>	<b>378,127</b>
Profit for the period	-	-	-	20,501	-	20,501	-785	19,716
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-108	-108	-	-108
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	959	959	-106	853
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,501</b>	<b>851</b>	<b>21,352</b>	<b>-891</b>	<b>20,461</b>
Dividends	-	-	-	-3,360	-	-3,360	-	-3,360
Appropriation to reserves	-	-	336	-336	-	-	-	-
Change in non-controlling interest due to interest increase	-	-	-	-	-	-	3,216	3,216
<b>As of June 30, 2018</b>	<b>12,000</b>	<b>24,361</b>	<b>27,591</b>	<b>338,890</b>	<b>-3,990</b>	<b>398,852</b>	<b>-408</b>	<b>398,444</b>
<b>As of January 1, 2019</b>	<b>12,000</b>	<b>24,361</b>	<b>27,591</b>	<b>352,906</b>	<b>-4,946</b>	<b>411,912</b>	<b>-714</b>	<b>411,198</b>
Profit for the period	-	-	-	21,534	-	21,534	69	21,603
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-1,004	-1,004	-	-1,004
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	4,572	4,572	67	4,639
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,534</b>	<b>3,568</b>	<b>25,102</b>	<b>136</b>	<b>25,238</b>
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	-
<b>As of June 30, 2019</b>	<b>12,000</b>	<b>22,359</b>	<b>27,975</b>	<b>370,216</b>	<b>-1,378</b>	<b>431,172</b>	<b>1,424</b>	<b>432,596</b>

\*refer to note 1.1 for further details

## Interim condensed consolidated statements of changes in equity (unaudited)

For the six months ended June 30, 2018 and 2019 (refer to note 2.1)								
	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI			
	TUSD	TUSD	TUSD	TUSD	TUSD	TUSD	TUSD	TUSD
<b>As of January 1, 2018</b>	<b>10,374</b>	<b>21,060</b>	<b>23,562</b>	<b>278,446</b>	<b>-4,184</b>	<b>329,258</b>	<b>-2,363</b>	<b>326,895</b>
Profit for the period	-	-	-	17,723	-	17,723	-680	17,043
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-93	-93	-	-93
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	829	829	-92	737
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,723</b>	<b>736</b>	<b>18,459</b>	<b>-772</b>	<b>17,687</b>
Dividends	-	-	-	-2,905	-	-2,905	-	-2,905
Appropriation to reserves	-	-	290	-290	-	-	-	-
Change in non-controlling interest due to interest increase	-	-	-	-	-	-	2,779	2,779
<b>As of June 30, 2018</b>	<b>10,374</b>	<b>21,060</b>	<b>23,852</b>	<b>292,974</b>	<b>-3,448</b>	<b>344,812</b>	<b>-356</b>	<b>344,456</b>
<b>As of January 1, 2019</b>	<b>10,374</b>	<b>21,060</b>	<b>23,853</b>	<b>305,091</b>	<b>-4,276</b>	<b>356,102</b>	<b>-617</b>	<b>355,485</b>
Profit for the period	-	-	-	18,616	-	18,616	60	18,676
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-868	-868	-	-868
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	3,953	3,953	58	4,011
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,616</b>	<b>3,085</b>	<b>21,701</b>	<b>118</b>	<b>21,819</b>
Dividends	-	-	-	-3,321	-	-3,321	-	-3,321
Appropriation to reserves	-	-	332	-332	-	-	-	-
Change in non-controlling interest due to interest increase*	-	-1,730	-	-	-	-1,730	1,730	-
<b>As of June 30, 2019</b>	<b>10,374</b>	<b>19,330</b>	<b>24,185</b>	<b>320,054</b>	<b>-1,191</b>	<b>372,752</b>	<b>1,231</b>	<b>373,983</b>

\*refer to note 1.1 for further details

## Interim condensed consolidated statements of cash flows (unaudited)

	Notes	For the six months ended	
		2019	June 30, 2018
		Million KRW	Million KRW
<b>Profit for the period</b>		<b>21,603</b>	<b>19,716</b>
<b>Total adjustments</b>	<b>27</b>	<b>30,559</b>	<b>19,520</b>
<b>Changes in operating assets and liabilities</b>	<b>27</b>	<b>-30,405</b>	<b>-24,080</b>
Interest received		307	126
Payments of income tax		-4,311	-2,387
<b>Net cash flow from operating activities</b>		<b>17,753</b>	<b>12,895</b>
Proceeds from sale of property, plant and equipment	7	66	26
Purchases of property, plant and equipment	7	-12,767	-10,516
Purchases of intangible assets	9	-345	-1,018
Dividends received from investments using equity method	5	-	534
Acquisition of a subsidiary, net of cash acquired	4.2	-	2,103
Decrease / (increase) of other financial assets, net		786	-12,223
<b>Net cash flow from investing activities</b>		<b>-12,260</b>	<b>-21,094</b>
Proceeds from borrowings		423,230	328,228
Repayments of borrowings		-412,430	-308,782
Payment of lease liabilities	3	-1,573	-
Decrease in other financial liabilities, net		-1,872	-1,412
Interest payments		-4,611	-4,880
Dividends paid	15.1	-3,840	-3,360
<b>Net cash flow from financing activities</b>		<b>-1,096</b>	<b>9,794</b>
Increase in cash and cash equivalents		4,397	1,595
Net foreign exchange differences		1,598	2,397
Cash and cash equivalents as of January 1	12	63,306	55,404
<b>Cash and cash equivalents as of June 30</b>	<b>12</b>	<b>69,301</b>	<b>59,396</b>



## Interim condensed consolidated statements of cash flows (unaudited)

	For the six months ended June 30, (refer to note 2.1)	
	2019	2018
	Thousand USD	Thousand USD
<b>Profit for the period</b>	<b>18,676</b>	<b>17,043</b>
<b>Total adjustments</b>	<b>26,419</b>	<b>16,875</b>
<b>Changes in operating assets and liabilities</b>	<b>-26,285</b>	<b>-20,817</b>
Interest received	265	109
Payments of income tax	-3,727	-2,064
<b>Net cash flow from operating activities</b>	<b>15,348</b>	<b>11,146</b>
Proceeds from sale of property, plant and equipment	57	22
Purchases of property, plant and equipment	-11,037	-9,091
Purchases of intangible assets	-298	-880
Dividends received from investments using equity method	-	462
Acquisition of a subsidiary, net of cash acquired	-	1,818
Decrease / (increase) of other financial assets, net	679	-10,567
<b>Net cash flow from investing activities</b>	<b>-10,599</b>	<b>-18,236</b>
Proceeds from borrowings	365,886	283,756
Repayments of borrowings	-356,550	-266,945
Payment of lease liabilities	-1,360	-
Decrease in other financial liabilities, net	-1,618	-1,221
Interest paid	-3,986	-4,219
Dividends paid	-3,320	-2,905
<b>Net cash flow from financing activities</b>	<b>-948</b>	<b>8,467</b>
Increase in cash and cash equivalents	3,801	1,377
Net foreign exchange differences	1,381	2,072
Cash and cash equivalents as of January 1	54,729	47,897
<b>Cash and cash equivalents as of June 30</b>	<b>59,911</b>	<b>51,347</b>

## Notes to the interim condensed 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 June 30, 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 half of 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%.

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	June 30, 2019		June 30, 2018	
		Status	Interest	Status	Interest
<b>Consolidated entities</b>					
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%
<b>Entities accounted for using the equity method (joint ventures)</b>					
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 and six months ended June 30, 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 1,156.73 to USD 1, the exchange rate in effect on June 30, 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.

### 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 transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying K-IFRS 1017 and K-IFRS 2104 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
<b>Assets</b>	
Right-of-use assets	24,025
Prepayments	-1,345
<i>Total assets</i>	<i>22,680</i>
<b>Liabilities</b>	
Provisions	12
Non-current lease liability	2,190
Current lease liability	20,478
<i>Total liabilities</i>	<i>22,680</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.

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
<b>Operating lease commitments as of December 31, 2018</b>	11,920
Weighted average incremental borrowing rate as of January 1, 2019	3.66%
Discounted operating lease commitments of January 1, 2019	10,675
<b>Less:</b>	
Commitments relating to short-term leases	-70
Commitments relating to leases of low-value assets	-78
<b>Add:</b>	
Commitments relating to newly identified leasing contracts and optional extension periods not recognised as of December 31, 2018	12,141
<b>Lease liabilities as of January 1, 2019</b>	<b>22,668</b>

## 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 half of 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
<b>Assets</b>	
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
<b>Total assets</b>	<b>19,420</b>
<b>Liabilities</b>	
Other non-current financial liabilities	34
Trade and other payables	7,208
Other current liabilities	33
Income tax payable	657
<b>Total liabilities</b>	<b>7,932</b>
<b>Total identifiable net assets at fair value</b>	<b>11,488</b>
Bargain purchase gain arising on acquisition	-2,258
<b>Consideration satisfied by:</b>	
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
<b>Total consideration</b>	<b>9,230</b>



**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
<b>December 31, 2018</b>	<b>1,964</b>	<b>9,317</b>	<b>8,326</b>	<b>1,461</b>	<b>1,777</b>	<b>-</b>	<b>-</b>	<b>15,866</b>	<b>4,760</b>
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	2,495	11,261	8,841	1,240	1,602	201	203	18,297	5,489
<b>June 30, 2019</b>	<b>2,495</b>	<b>11,261</b>	<b>8,841</b>	<b>1,240</b>	<b>1,602</b>	<b>201</b>	<b>203</b>	<b>18,297</b>	<b>5,489</b>

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.	6,501	-33	3	-	1,253	-317	936	136	1,072
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	3,050	-21	1	-26	125	-32	93	-140	-47
<b>For the three months ended June 30, 2018</b>	<b>9,551</b>	<b>-54</b>	<b>4</b>	<b>-26</b>	<b>1,378</b>	<b>-349</b>	<b>1,029</b>	<b>-4</b>	<b>1,025</b>
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	6,895	-40	1	-6	1,447	-352	1,095	-103	992
<b>For the three months ended June 30, 2019</b>	<b>6,895</b>	<b>-40</b>	<b>1</b>	<b>-6</b>	<b>1,447</b>	<b>-352</b>	<b>1,095</b>	<b>-103</b>	<b>992</b>

\*refer to note 4.2 for further details

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.	13,714	-66	11	-	2,666	-670	1,996	383	2,379
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	10,656	-84	11	-91	746	-207	539	160	699
<b>For the six months ended June 30, 2018</b>	<b>24,370</b>	<b>-150</b>	<b>22</b>	<b>-91</b>	<b>3,412</b>	<b>-877</b>	<b>2,535</b>	<b>543</b>	<b>3,078</b>
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	12,849	-72	1	-6	2,453	-604	1,849	580	2,429
<b>For the six months ended June 30, 2019</b>	<b>12,849</b>	<b>-72</b>	<b>1</b>	<b>-6</b>	<b>2,453</b>	<b>-604</b>	<b>1,849</b>	<b>580</b>	<b>2,429</b>

\*refer to note 4.2 for further details

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

	<b>As of January 1, 2018</b>	<b>Dividends</b>	<b>Share of result from equity method revaluation</b>	<b>Change in scope of consolidation</b>	<b>Exchange rate effects</b>	<b>As of June 30, 2018</b>
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	4,231	-534	599	-	115	4,411
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	2,804	-	270	-3,154	80	-
<b>Total</b>	<b>7,035</b>	<b>-534</b>	<b>869</b>	<b>-3,154</b>	<b>195</b>	<b>4,411</b>

\*refer to note 4.2 for further details

	<b>As of January 1, 2019</b>	<b>Dividends</b>	<b>Share of result from equity method revaluation</b>	<b>Change in scope of consolidation</b>	<b>Exchange rate effects</b>	<b>As of June 30, 2019</b>
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	4,760	-	555	-	174	5,489
<b>Total</b>	<b>4,760</b>	<b>-</b>	<b>555</b>	<b>-</b>	<b>174</b>	<b>5,489</b>

## 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		June 30,	
	Industrial Chemicals	Performance Chemicals	Total	2019	2018	2018
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales*	161,720	145,138	56,747	54,405	218,467	199,543
Adjusted operating profit*	23,231	13,560	43	-1,646	23,274	11,914

Description	For the six months ended					
	2019		2018		June 30,	
	Industrial Chemicals	Performance Chemicals	Total	2019	2018	2018
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales*	302,611	288,218	106,273	104,264	408,884	392,482
Adjusted operating profit*	37,965	29,016	-929	-1,583	37,036	27,433

\* 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					
	June 30,					
	2019	2018	2019	2018	2019	2018
	Industrial Chemicals		Performance Chemicals		Total	
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales*	161,720	145,138	56,747	54,405	218,467	199,543
Difference in consolidation scope and others	-	-1,606	-	-96	-	-1,702
<b>Total sales</b>	<b>161,720</b>	<b>143,532</b>	<b>56,747</b>	<b>54,309</b>	<b>218,467</b>	<b>197,841</b>

Description	For the six months ended					
	June 30,					
	2019	2018	2019	2018	2019	2018
	Industrial Chemicals		Performance Chemicals		Total	
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales*	302,611	288,218	106,273	104,264	408,884	392,482
Difference in consolidation scope and others	-	-3,902	-	-267	-	-4,169
<b>Total sales</b>	<b>302,611</b>	<b>284,316</b>	<b>106,273</b>	<b>103,997</b>	<b>408,884</b>	<b>388,313</b>

Description	For the three months ended					
	June 30,					
	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*	23,231	13,560	43	-1,646	23,274	11,914
Difference in consolidation scope and others					-	-467
<b>Operating profit per consolidated income statement</b>					<b>23,274</b>	<b>11,447</b>

Description	For the six months ended					
	June 30,					
	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*	37,965	29,016	-929	-1,583	37,036	27,433
Difference in consolidation scope and others					-	-724
<b>Operating profit per consolidated income statement</b>					<b>37,036</b>	<b>26,709</b>

\* Internally reported figures to the Chief Operating Decision Maker

## 6.2. Revenue from contracts with customers

Description	For the three months ended June 30,					
	2019	2018	2019	2018	2019	2018
	Industrial Chemicals		Performance Chemicals		Total	
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales of goods	159,479	141,683	56,138	53,636	215,617	195,319
Sales of services	2,241	1,849	609	673	2,850	2,522
<b>Total sales</b>	<b>161,720</b>	<b>143,532</b>	<b>56,747</b>	<b>54,309</b>	<b>218,467</b>	<b>197,841</b>

Description	For the six months ended June 30,					
	2019	2018	2019	2018	2019	2018
	Industrial Chemicals		Performance Chemicals		Total	
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sales of goods	298,443	280,840	105,257	102,730	403,700	383,570
Sales of services	4,168	3,476	1,016	1,267	5,184	4,743
<b>Total sales</b>	<b>302,611</b>	<b>284,316</b>	<b>106,273</b>	<b>103,997</b>	<b>408,884</b>	<b>388,313</b>

## 6.3. Geographic information

### 6.3.1. 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 June 30,	
	2019	2018
	Million KRW	Million KRW
Korea	44,635	44,221
Rest of Asia	63,237	56,841
Europe	51,751	44,342
North and South America	46,306	41,392
Australia	677	621
Middle East and Africa	11,861	10,424
<b>Total sales</b>	<b>218,467</b>	<b>197,841</b>

	For the six months ended	
	June 30,	
	2019	2018
	Million KRW	Million KRW
Korea	87,876	90,575
Rest of Asia	112,432	107,018
Europe	98,960	89,511
North and South America	87,473	77,850
Australia	1,200	1,022
Middle East and Africa	20,943	22,337
<b>Total sales</b>	<b>408,884</b>	<b>388,313</b>

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

### 6.3.2. 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	
	June 30,	December 31,
	2019	2018
	Million KRW	Million KRW
Korea	403,393	405,051
Rest of Asia	25,960	21,402
Europe	18,665	13,249
North and South America	16,091	4,689
Middle East and Africa	19,530	16,273
<b>Total</b>	<b>483,639</b>	<b>460,664</b>

## 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
<b>Cost</b>							
<b>As of January 1, 2018</b>	<b>147,904</b>	<b>88,716</b>	<b>66,195</b>	<b>499,870</b>	<b>18,792</b>	<b>4,315</b>	<b>825,792</b>
Additions	-	1	42	131	783	12,669	13,626
Disposals	-	-	-	-2	-193	-	-195
Reclassifications	-	138	70	6,508	153	-6,869	-
Business acquisition	-	-	-	1,138	293	52	1,483
Net exchange differences	-	514	-	170	47	-18	713
<b>As of June 30, 2018</b>	<b>147,904</b>	<b>89,369</b>	<b>66,307</b>	<b>507,815</b>	<b>19,875</b>	<b>10,149</b>	<b>841,419</b>
<b>As of January 1, 2019</b>	<b>149,508</b>	<b>90,233</b>	<b>66,943</b>	<b>513,257</b>	<b>19,726</b>	<b>3,498</b>	<b>843,165</b>
Additions	-	15	115	1,059	744	12,436	14,369
Disposals	-	-73	-	-646	-212	-	-931
Reclassifications	42	196	34	4,595	107	-4,974	-
Net exchange differences	-	661	-	1,436	383	68	2,548
<b>As of June 30, 2019</b>	<b>149,550</b>	<b>91,032</b>	<b>67,092</b>	<b>519,701</b>	<b>20,748</b>	<b>11,028</b>	<b>859,151</b>
<b>Depreciation</b>							
<b>As of January 1, 2018</b>	-	<b>-22,439</b>	<b>-37,407</b>	<b>-311,438</b>	<b>-12,787</b>	-	<b>-384,071</b>
Depreciation charge	-	-1,202	-1,557	-10,930	-792	-	-14,481
Disposals	-	-	-	-	187	-	187
Net exchange differences	-	-43	-	-102	-64	-	-209
<b>As of June 30, 2018</b>	-	<b>-23,684</b>	<b>-38,964</b>	<b>-322,470</b>	<b>-13,456</b>	-	<b>-398,574</b>
<b>As of January 1, 2019</b>	-	<b>-24,908</b>	<b>-40,393</b>	<b>-325,992</b>	<b>-12,550</b>	-	<b>-403,843</b>
Depreciation charge	-	-1,232	-1,538	-11,390	-942	-	-15,102
Disposals	-	-	-	646	211	-	857
Net exchange differences	-	-69	-	-554	-265	-	-888
<b>As of June 30, 2019</b>	-	<b>-26,209</b>	<b>-41,931</b>	<b>-337,290</b>	<b>-13,546</b>	-	<b>-418,976</b>
<b>Net book value</b>							
<b>As of June 30, 2019</b>	<b>149,550</b>	<b>64,823</b>	<b>25,161</b>	<b>182,411</b>	<b>7,202</b>	<b>11,028</b>	<b>440,175</b>
<b>As of January 1, 2019</b>	<b>149,508</b>	<b>65,325</b>	<b>26,550</b>	<b>187,265</b>	<b>7,176</b>	<b>3,498</b>	<b>439,322</b>
<b>As of June 30, 2018</b>	<b>147,904</b>	<b>65,685</b>	<b>27,343</b>	<b>185,345</b>	<b>6,419</b>	<b>10,149</b>	<b>442,845</b>

There was no impairment during the reported financial period. Non-cash transactions amounting to 3,750 Million KRW (YTD June 30, 2018: 7,095 Million KRW) are included in the additions for the six months ended June 30, 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
<b>Cost</b>						
<b>As of January 1, 2019</b>	-	<b>22,301</b>	<b>803</b>	<b>241</b>	<b>680</b>	<b>24,025</b>
Additions	-	-	246	-	167	413
Modification of contract	-	4	-	-169	-	-165
Depreciation	-	-869	-330	-28	-167	-1,394
Net exchange differences	-	778	1	11	24	814
<b>As of June 30, 2019</b>	-	<b>22,214</b>	<b>720</b>	<b>55</b>	<b>704</b>	<b>23,693</b>

For the six months ended June 30, 2019, the Group recognized rent expenses from short-term leases of 86 Million KRW, leases of low-value assets of 34 Million KRW and variable lease payments of 200 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
<b>Cost</b>								
<b>As of January 1, 2018</b>	<b>3,601</b>	<b>2,601</b>	<b>831</b>	<b>27,627</b>	<b>3,142</b>	<b>40,791</b>	<b>1,485</b>	<b>80,078</b>
Additions	2	4	-	-	-	-	1,012	1,018
Reclassifications	382	-	-	-	-	-	-382	-
Net exchange differences	-	35	-	1,093	157	1,213	-	2,498
<b>As of June 30, 2018</b>	<b>3,985</b>	<b>2,640</b>	<b>831</b>	<b>28,720</b>	<b>3,299</b>	<b>42,004</b>	<b>2,115</b>	<b>83,594</b>
<b>As of January 1, 2019</b>	<b>5,539</b>	<b>2,709</b>	<b>831</b>	<b>28,685</b>	<b>3,294</b>	<b>41,929</b>	<b>196</b>	<b>83,183</b>
Additions	-	28	-	-	-	-	317	345
Disposals	-	-82	-	-	-	-	-	-82
Reclassifications	370	-	-	-	-	-	-370	-
Net exchange differences	-	35	-	1,346	193	1,329	-	2,903
<b>As of June 30, 2019</b>	<b>5,909</b>	<b>2,690</b>	<b>831</b>	<b>30,031</b>	<b>3,487</b>	<b>43,258</b>	<b>143</b>	<b>86,349</b>
<b>Accumulated amortization</b>								
<b>As of January 1, 2018</b>	<b>-1,700</b>	<b>-2,431</b>	<b>-</b>	<b>-21,429</b>	<b>-2,254</b>	<b>-30,655</b>	<b>-</b>	<b>-58,469</b>
Amortization charge	-183	-41	-	-1,667	-239	-	-	-2,130
Net exchange differences	-	-31	-	-1,147	-164	-1,232	-	-2,574
<b>As of June 30, 2018</b>	<b>-1,883</b>	<b>-2,503</b>	<b>-</b>	<b>-24,243</b>	<b>-2,657</b>	<b>-31,887</b>	<b>-</b>	<b>-63,173</b>
<b>As of January 1, 2019</b>	<b>-2,103</b>	<b>-2,546</b>	<b>-</b>	<b>-25,882</b>	<b>-2,892</b>	<b>-31,934</b>	<b>-</b>	<b>-65,357</b>
Amortization charge	-274	-46	-	-1,666	-239	-	-	-2,225
Disposals	-	82	-	-	-	-	-	82
Net exchange differences	-	-28	-	-1,331	-191	-1,038	-	-2,588
<b>As of June 30, 2019</b>	<b>-2,377</b>	<b>-2,538</b>	<b>-</b>	<b>-28,879</b>	<b>-3,322</b>	<b>-32,972</b>	<b>-</b>	<b>-70,088</b>
<b>Net book value</b>								
<b>As of June 30, 2019</b>	<b>3,532</b>	<b>152</b>	<b>831</b>	<b>1,152</b>	<b>165</b>	<b>10,286</b>	<b>143</b>	<b>16,261</b>
<b>As of January 1, 2019</b>	<b>3,436</b>	<b>163</b>	<b>831</b>	<b>2,803</b>	<b>402</b>	<b>9,995</b>	<b>196</b>	<b>17,826</b>
<b>As of June 30, 2018</b>	<b>2,102</b>	<b>137</b>	<b>831</b>	<b>4,477</b>	<b>642</b>	<b>10,117</b>	<b>2,115</b>	<b>20,421</b>

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 of December 31. No triggering events occurred in the six months ended June 30, 2019 and 2018.

## 10. Inventories

Description	June 30,	December 31,
	2019	2018
	Million KRW	Million KRW
Raw materials and supplies	40,045	41,559
Construction in progress	722	809
Finished and semi-finished goods	139,013	120,436
Goods in transit	36,856	37,057
Consignment stocks	1,120	1,507
<b>Total inventories at the lower of cost and net realizable value</b>	<b>217,756</b>	<b>201,368</b>

As of June 30, 2019, inventory write-off amounted to 3,567 Million KRW for raw materials and finished goods (December 31, 2018: 3,804 Million KRW).

## 11. Trade and other receivables

Description	June 30,	December 31,
	2019	2018
	Million KRW	Million KRW
Trade and notes receivables (net) – third parties	143,912	112,769
Other receivables (net) – third parties	6,930	3,133
Accrued income – third parties	96	65
Accrued income – related parties	1	2
<b>Total</b>	<b>150,939</b>	<b>115,969</b>

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

## 12. Cash and cash equivalents

Description	June 30,	December 31,
	2019	2018
	Million KRW	Million KRW
Cash on hand	67	72
Bank accounts	63,806	56,813
Time deposit (< 3 months)	5,428	6,421
<b>Total</b>	<b>69,301</b>	<b>63,306</b>

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	June 30, 2019		December 31, 2018	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Financial instruments at amortized cost (bank deposit)	758	2,370	635	2,291
Financial instrument at FVtPL	8,947	699	8,863	1,710
Interest-bearing loans	709	709	-	1,346
Derivative assets at FVOCI	-	-	1	69
Derivative assets at FVtPL	-	4	-	4
Equity Instrument at FVOCI	1,354	-	1,354	-
Guarantee deposits	279	591	276	586
<b>Total</b>	<b>12,047</b>	<b>4,373</b>	<b>11,129</b>	<b>6,006</b>

### 14. Other current assets

Description	June 30, 2019	December 31, 2018
	Million KRW	Million KRW
Advance payments	999	429
Prepaid expenses	3,429	2,755
VAT refundable	4,800	1,203
<b>Total</b>	<b>9,228</b>	<b>4,387</b>

### 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 June 30, 2019 and December 31, 2018 is composed of the following:

Description	June 30, 2019	December 31, 2018
	Million KRW	Million KRW
Exchange differences on translation of foreign operations	-779	-5,351
Interest rate swaps	-949	55
Financial assets FVOCI	350	350
<b>Total</b>	<b>-1,378</b>	<b>-4,946</b>

## 16. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings as of June 30, 2019 and December 31, 2018 are as follows:

Description	June 30,	December 31,
	2019	2018
	Million KRW	Million KRW
Long-term borrowings	81,672	17,180
<b>Non-current interest-bearing loans and borrowings</b>	<b>81,672</b>	<b>17,180</b>
Current portion of long-term borrowings	13,261	82,742
Short-term borrowings	202,758	185,188
<b>Current interest-bearing loans and borrowings</b>	<b>216,019</b>	<b>267,930</b>
<b>Total</b>	<b>297,691</b>	<b>285,110</b>

## 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	
	June 30,	June 30,
	2019	2018
	Million KRW	Million KRW
Current income tax charge	-7,983	-2,835
Deferred taxes related to origination and reversal of deferred taxes	887	318
Income tax recognized in other comprehensive income	-288	-16
<b>Income tax expenses</b>	<b>-7,384</b>	<b>-2,533</b>

Income taxes	For the six months ended	
	June 30,	June 30,
	2019	2018
	Million KRW	Million KRW
Current income tax charge	-11,592	-4,953
Deferred taxes related to origination and reversal of deferred taxes	2,038	634
Income tax recognized in other comprehensive income	-298	-32
<b>Income tax expenses</b>	<b>-9,852</b>	<b>-4,351</b>

## 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 June 30, 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	
	June 30,	
	2019	2018
	KRW	
Net profit attributable to ordinary equity holders of the parent	12,813,146,158	8,801,151,206
Weighted average number of ordinary shares	24,000,000	24,000,000
<b>Earnings per share (basic / diluted)</b>	<b>534</b>	<b>367</b>

Description	For the six months ended	
	June 30,	
	2019	2018
	KRW	
Net profit attributable to ordinary equity holders of the parent	21,534,381,429	20,500,947,363
Weighted average number of ordinary shares	24,000,000	24,000,000
<b>Earnings per share (basic / diluted)</b>	<b>897</b>	<b>854</b>

## 19. Other financial liabilities

Description	June 30, 2019		December 31, 2018	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Derivative liabilities (note 20)	1,029	1,228	-	45
Deposits	1,482	1,446	3,361	1,398
Accrued interest expenses	-	471	-	533
Unpaid dividends	-	3	-	2
<b>Total</b>	<b>2,511</b>	<b>3,148</b>	<b>3,361</b>	<b>1,978</b>

## 20. Derivatives financial instruments

Description	June 30, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
	Million KRW		Million KRW	
Forward exchange contracts (current portion)	4	1,026	4	45
Interest rate swaps (current portion)	-	202	69	-
Interest rate swaps (non-current portion)	-	1,029	1	-
<b>Total</b>	<b>4</b>	<b>2,257</b>	<b>74</b>	<b>45</b>

## 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 June 30, 2019 (December 31, 2018: none) are as follows:

### As of June 30, 2019

Contractual party	Position	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Citibank Korea	Sell	EUR 14,340,000	31.07.2019 – 28.04.2020	1,318.00 – 1,330.00
	Sell	JPY 1,549,900,000	31.07.2019 – 26.05.2020	10.49 – 11.22
KEB Hana Bank	Sell	JPY 660,000,000	31.07.2019 – 30.06.2020	10.76 – 10.87
Woori Bank	Sell	EUR 15,880,000	25.07.2019 – 30.06.2020	1,329.90 – 1,354.00
	Sell	JPY 967,000,000	26.07.2019 – 31.03.2020	10.49 – 10.60

## 20.2. Interest rate swaps

As of June 30, 2019 the Group had entered into the following interest rate swap contracts:

### As of June 30, 2019

Description	Bonds contract	Interest rate swap contract
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%
Contract date	08.05.2019	08.05.2019
Maturity date	08.05.2024	08.05.2024
Contract amount	36,000 Million KRW	36,000 Million KRW
Fixed interest rate	N/A	3.47%
Floating interest rate	3MCD+1.43%	3MCD+1.43%
Contract date	08.05.2019	08.05.2019
Maturity date	08.05.2024	08.05.2024
Contract amount	34,000 Million KRW	34,000 Million KRW
Fixed interest rate	N/A	3.52%
Floating interest rate	3MCD+1.70%	3MCD+1.70%

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

**As of December 31, 2018**

<b>Description</b>	<b>Bonds contract</b>	<b>Interest rate swap contract</b>
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 -949 Million KRW (expenses) as of June 30, 2019 and 55 Million KRW (income) 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 June 30, 2019 are as follows (Unit: Korean Allowance Unit - KAU):*

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
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):*

	<u>2018</u>		<u>2019</u>		<u>2020</u>		<u>Total</u> (2 <sup>nd</sup> planned period)	
	Quantity	Book value	Quantity	Book value	Quantity	Book value	Quantity	Book value
<b>Beginning</b>	<b>27,182</b>	-	<b>6,376</b>	-	-	-	<b>27,182</b>	-
Allocation	122,199	-	122,199	-	122,199	-	366,597	-
Delivery to government	-143,005	-	-	-	-	-	-143,005	-
Carryforward	-6,376	-	-	-	-	-	-	-
<b>Ending</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

- 3) *There are no emission rights provided as collateral as of June 30, 2019.*
- 4) *Changes in emission liabilities during the current and prior reporting period are as follows (in Mil. KRW):*

	2019	2018
Beginning	-	-
Increase	386	417
Decrease	-	-
At the end of half year	386	417

- 5) *Estimated gas emissions in 2019 are 142,320 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 June 30, 2019

	Carrying amount		Fair value		
	Non-current	Current	Non-current	Current	
	Million KRW	Million KRW	Million KRW	Million KRW	
<b>Financial assets</b>	<b>Financial assets at amortized cost</b>				
	Other financial assets	1,746	3,670	1,746	3,670
	Trade and other receivables	-	150,939	-	150,939
	Cash and cash equivalent	-	69,301	-	69,301
	<i>Total financial assets at amortized cost</i>	<i>1,746</i>	<i>223,910</i>	<i>1,746</i>	<i>223,910</i>
	<b>Financial assets at FVOCI</b>				
	Other financial assets	1,354	-	1,354	-
	<i>Total financial assets at FVOCI</i>	<i>1,354</i>	<i>-</i>	<i>1,354</i>	<i>-</i>
	<b>Financial assets at FVtPL</b>				
	Forward exchange contracts	-	4	-	4
	Other financial assets	8,947	699	8,947	699
	<i>Total financial assets at FVtPL</i>	<i>8,947</i>	<i>703</i>	<i>8,947</i>	<i>703</i>
<b>Total financial assets</b>	<b>12,047</b>	<b>224,613</b>	<b>12,047</b>	<b>224,613</b>	
<b>Financial liabilities</b>	<b>Financial liabilities at amortized cost</b>				
	Other financial liabilities	1,482	1,920	1,482	1,920
	Lease liabilities	20,103	2,410	20,103	2,410
	Trade and other payables	-	114,240	-	114,240
	Interest-bearing loans and borrowings	81,672	216,019	81,672	216,019
	<i>Total financial liabilities at amortized cost</i>	<i>103,257</i>	<i>334,589</i>	<i>103,257</i>	<i>334,589</i>
	<b>Financial liabilities at FVOCI</b>				
	Interest rate swaps	1,029	202	1,029	202
	<i>Total financial liabilities at FVOCI</i>	<i>1,029</i>	<i>202</i>	<i>1,029</i>	<i>202</i>
	<b>Financial liabilities at FVtPL</b>				
Forward exchange contracts	-	1,026	-	1,026	
<i>Total financial liabilities at FVtPL</i>	<i>-</i>	<i>1,026</i>	<i>-</i>	<i>1,026</i>	
<b>Total financial liabilities</b>	<b>104,286</b>	<b>335,817</b>	<b>104,286</b>	<b>335,817</b>	

As of December 31, 2018

	Carrying amount		Fair value		
	Non-current	Current	Non-current	Current	
	Million KRW	Million KRW	Million KRW	Million KRW	
<b>Financial assets</b>	<b>Financial assets at amortized cost</b>				
	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>
	<b>Financial assets at FVOCI</b>				
	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>
	<b>Financial assets at FVtPL</b>				
	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>
<b>Total financial assets</b>	<b>11,129</b>	<b>185,281</b>	<b>11,129</b>	<b>185,281</b>	
<b>Financial liabilities</b>	<b>Financial liabilities at amortized cost</b>				
	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>
	<b>Financial liabilities at FVtPL</b>				
	Forward exchange contracts	-	45	-	45
<i>Total financial liabilities at FVtPL</i>	<i>-</i>	<i>45</i>	<i>-</i>	<i>45</i>	
<b>Total financial liabilities</b>	<b>20,541</b>	<b>370,437</b>	<b>20,541</b>	<b>370,437</b>	

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 June 30, 2019 and December 31, 2018, the Group held the following financial instruments carried at fair value on the statement of financial position:

		June 30, 2019	Level 1	Level 2	Level 3
		Million KRW	Million KRW	Million KRW	Million KRW
<b>Financial assets</b>	<b>Derivatives</b>				
	Forward exchange contracts	4	-	4	-
	<i>Total</i>	4	-	4	-
	<b>Debt instruments</b>				
	Exchange traded fund at FVtPL	699	699	-	-
	<i>Total</i>	699	699	-	-
	<b>Equity instruments</b>				
Equity instruments at FVOCI	1,354	-	-	1,354	
<i>Total</i>	1,354	-	-	1,354	
<b>Total</b>		<b>2,057</b>	<b>699</b>	<b>4</b>	<b>1,354</b>
<b>Financial liabilities</b>	<b>Derivatives</b>				
	Forward exchange contracts	1,026	-	1,026	-
	Interest Rate Swaps	1,231	-	1,231	-
	<i>Total</i>	2,257	-	2,257	-
<b>Total</b>		<b>2,257</b>	<b>-</b>	<b>2,257</b>	<b>-</b>

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

During the reporting periods ended June 30, 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 equivalents.

## 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 six months ended	
		2019	June 30, 2018
		Million KRW	Million KRW
Jongho Park, Chairman of the Board of Directors	Finance income	-	416
Maurizio Butti, Chief Executive Officer	Finance income	1	-
Songwon Moolsan Co., Ltd.	Selling and administration costs	-33	-26
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Sales	-	10
	Cost of sales	-7,556	-6,938
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	Sales	-	5,761
	Cost of sales	-	-138
	Selling and administration costs	-	-332
	Other income	-	11
	Finance income	-	43
<b>Total</b>	<b>Sales</b>	<b>-</b>	<b>5,771</b>
	<b>Cost of sales</b>	<b>-7,556</b>	<b>-7,076</b>
	<b>Selling and administration costs</b>	<b>-33</b>	<b>-358</b>
	<b>Other income</b>	<b>-</b>	<b>11</b>
	<b>Finance income</b>	<b>1</b>	<b>459</b>

\*refer to note 4.2 for further details

Related party	Description	As of	
		June 30, 2019	December 31, 2018
		Million KRW	Million KRW
Maurizio Butti, Chief Executive Officer	Trade and other receivables	1	2
	Other current financial assets	709	1,346
	Other non-current financial assets	709	-
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 payables	1,379	1,148
<b>Total</b>	<b>Other non-current financial assets</b>	<b>733</b>	<b>24</b>
	<b>Trade and other receivables</b>	<b>1</b>	<b>2</b>
	<b>Other current financial assets</b>	<b>709</b>	<b>1,346</b>
	<b>Trade and other payables</b>	<b>1,384</b>	<b>1,153</b>

## 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 and six months ended June 30, 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 (1,185 Thousand CHF). During the second quarter of 2019, the Group granted a loan of 1,358 Mil. KRW (1,195 Thousand CHF) to the Chief Executive Officer of the Group, Maurizio Butti under normal market conditions (outstanding loans as of December 31, 2018: 1,346 Million KRW).

## 23.4. Compensation of key management personnel of the Group

Description	For the six months ended	
	2019	June 30, 2018
	Million KRW	Million KRW
Short-term employee benefits	8,555	6,467
Post-employment benefits	423	393
Other long-term benefits	1,254	727
Share based payments	337	-149
<b>Total compensation paid to key management personnel</b>	<b>10,569</b>	<b>7,438</b>

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 June 30, 2019 are as follows:

Description	As of
	June 30, 2019
	Million KRW
<b>Short-term lease commitments</b>	
Within one year	-49
<i>Total short-term lease commitments</i>	-49
<b>Low-value lease commitments</b>	
Within one year	-33
After one year but not more than five years	-29
<i>Total low-value lease commitments</i>	-62
<b>Total</b>	<b>-111</b>

### 24.3. Other commitments

As part of the ordinary business activities, the Group enters into various contractual commitments for the purchase of fixed assets and intangible assets as well as investment properties and promotion properties. As of June 30, 2019, the Group entered into commitments to purchase property, plant and equipment, as well as raw materials amounting to 4,955 Million KRW (December 31, 2018: 2,815 Million KRW).

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 June 30, 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 June 30, 2019 are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	21,000	9,588	11,412
D/A and D/P	Thousand USD	113,500	77,789	35,711
	Million KRW	32,000	7,616	24,384
Trade loans	Million KRW	15,000	-	15,000
Secured loan of credit sales	Million KRW	9,000	4,324	4,676
Other foreign currency guarantees	Thousand USD	17,020	6,613	10,407
	<b>Total Million KRW</b>	<b>56,000</b>	<b>11,940</b>	<b>44,060</b>
	<b>Total Thousand USD</b>	<b>151,520</b>	<b>93,990</b>	<b>57,530</b>

## 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 June 30, 2019 and December 31, 2018, expressed in the maximum pledge amount are as follows:

Pledged to	Pledged assets		June 30, 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
<b>Total</b>		<b>MKRW</b>	<b>285,000</b>	<b>285,000</b>
		<b>TUSD</b>	<b>24,000</b>	<b>24,000</b>

No other items of property, plant and equipment are pledged as collateral for interest-bearing loans and borrowings as of June 30, 2019 (December 31, 2018: none).

The Group has received payment guarantees amounting to 205,428 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 June 30, 2019.

The bank deposits pledged as collateral as of June 30, 2019 and December 31, 2018 are as follows:

Description	June 30, 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 financial instruments at FVOCI and financial instruments at FVtPL 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, financial instruments at FVOCI, financial instruments at FVtPL, instruments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of June 30, 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
<b>June 30, 2019</b>	1.00	-575
	-1.00	575
<b>June 30, 2018</b>	1.00	-561
	-1.00	561

#### 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 June 30, 2019 and December 31, 2018 are as follows:

Currency	June 30, 2019		December 31, 2018	
	10% increase	10% decrease	10% increase	10% decrease
	Million KRW	Million KRW	Million KRW	Million KRW
USD	1,880	-1,880	1,472	-1,472
EUR	567	-567	516	-516
JPY	207	-207	-44	44
CNY	1	-1	-38	38
CHF	141	-141	235	-235
AED	-162	162	-79	79
INR	1,018	-1,018	986	-986
<b>Total</b>	<b>3,652</b>	<b>-3,652</b>	<b>3,048</b>	<b>-3,048</b>

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 June 30, 2019 and December 31, 2018 are as follows:

As of June 30, 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	7,373	40,803	167,843	81,672	-	297,691
Trade and other payables	84,992	19,870	9,378	-	-	114,240
Lease liabilities	271	541	2,361	8,553	17,149	28,875
Other financial liabilities	388	27	1,505	1,482	-	3,402
<b>Total</b>	<b>93,024</b>	<b>61,241</b>	<b>181,087</b>	<b>91,707</b>	<b>17,149</b>	<b>444,208</b>

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
<b>Total</b>	<b>98,063</b>	<b>77,522</b>	<b>194,807</b>	<b>20,541</b>	<b>-</b>	<b>390,933</b>

## 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 June 30, 2019 and December 31, 2018 is 121% 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 equivalents in the consolidated statements of cash flows are equal to those in the consolidated statements of financial position.

The Group's consolidated statement of cash flows 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, 2019 and 2018 are as follows:

Adjustments	Notes	For the six months ended	
		2019	2018
		Million KRW	Million KRW
Depreciation of property, plant and equipment	7	15,102	14,481
Depreciation of right-of-use assets	8	1,394	-
Depreciation of investment properties		9	9
Amortization of intangible assets	9	2,225	2,130
Impairment of non-current financial assets		3	2
Losses / (gains) on disposals of property, plant and equipment, net		8	-18
Share of result from investments accounted using the equity method	5	-555	-869
Financial income		-4,053	-5,819
Financial expenses		6,574	5,253
Income tax expenses	17	9,852	4,351
<b>Total</b>		<b>30,559</b>	<b>19,520</b>
<b>Changes in operating assets and liabilities</b>			
Trade receivables		-27,349	-621
Other receivables		-3,637	-849
Other current assets		-4,599	-4,477
Other current financial assets		85	-504
Inventories		-13,337	-31,310
Trade payables		13,209	15,008
Other payables		-1,849	-6,744
Other current financial liabilities		161	290
Other current liabilities		2,769	2,683
Pension liabilities		3,143	2,780
Other long-term employment benefits		999	-336
<b>Total</b>		<b>-30,405</b>	<b>-24,080</b>

## 28. Events after the reporting period

No significant events occurred during the period from the interim condensed consolidated statement of financial position date up to the date upon which the interim condensed 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 June 30, 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 and six-month periods ended June 30, 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.



August 09, 2019

This review report is effective as of August 09, 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.

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