



FINANCIAL RESULTS  
Q3 & 9 MONTHS  
ENDED SEPTEMBER 30, **2018**

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## About this report

The condensed interim consolidated financial statements including notes (refer to section 2 from page 7 to 48) according to K-IFRS are reviewed and not audited by our group auditor Ernst & Young Han Young (Ernst & Young Korea) – the review conclusion on the quarterly financial statements can be found at the end of this report. The review is applicable to the three and nine months ended September 30, 2018 and the three and nine months ended September 30, 2017.

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

The condensed interim financial statements for the three as well as nine months ended September 30, 2018 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, 2017, which have been prepared in accordance with K-IFRS, too. The annual financial statements for the year 2017 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

	Q3 2018			Q3 2017			For the nine months ended September 30,		
	Million KRW	Million KRW	Δ%	2018	2017	Δ%	2018	2017	Δ%
Sales	204,403	180,832	13.0%	592,716	542,539	9.2%	592,716	542,539	9.2%
Gross profit	42,974	38,621	11.3%	119,116	120,618	-1.2%	119,116	120,618	-1.2%
<i>Gross profit margin</i>	21.0%	21.4%		20.1%	22.2%		20.1%	22.2%	
Operating profit	17,400	14,478	20.2%	44,109	45,966	-4.0%	44,109	45,966	-4.0%
EBITDA	25,721	23,133	11.2%	70,117	70,723	-0.9%	70,117	70,723	-0.9%
<i>EBITDA margin</i>	12.6%	12.8%		11.8%	13.0%		11.8%	13.0%	
EBIT	17,159	15,031	14.2%	44,933	46,654	-3.7%	44,933	46,654	-3.7%
<i>EBIT margin</i>	8.4%	8.3%		7.6%	8.6%		7.6%	8.6%	
Profit for the period	13,115	9,473	38.4%	32,831	30,036	9.3%	32,831	30,036	9.3%
Total assets				915,087	905,664	1.0%	915,087	905,664	1.0%
Total equity				408,648	379,410	7.7%	408,648	379,410	7.7%
<i>Equity ratio</i>				44.7%	41.9%		44.7%	41.9%	
Headcounts				1,030	956	7.7%	1,030	956	7.7%

## Sales development

### Products

	Q3 2018			Q3 2017			For the nine months ended September 30,		
	Million KRW	Million KRW	Δ%	2018	2017	Δ%	2018	2017	Δ%
Alkylphenols and Intermediates	1,053	10	10,430%	2,229	788	182.9%	2,229	788	182.9%
Plasticizers	1,925	2,117	-9.1%	6,142	6,212	-1.1%	6,142	6,212	-1.1%
Polyester Diols	2,765	2,201	25.6%	8,282	8,200	1.0%	8,282	8,200	1.0%
Polymer Stabilizers (AOX & UVs)	145,441	124,789	16.5%	417,097	376,464	10.8%	417,097	376,464	10.8%
Polyurethanes	10,753	10,339	4.0%	30,782	31,459	-2.2%	30,782	31,459	-2.2%
PVC Stabilizers	8,900	12,493	-28.8%	28,831	35,774	-19.4%	28,831	35,774	-19.4%
SAP and Flocculants	2,179	2,271	-4.1%	6,074	6,723	-9.7%	6,074	6,723	-9.7%
Tin Intermediates	19,400	20,260	-4.2%	61,856	59,124	4.6%	61,856	59,124	4.6%
Others	11,987	6,352	88.7%	31,423	17,795	76.6%	31,423	17,795	76.6%
<b>Total sales</b>	<b>204,403</b>	<b>180,832</b>	<b>13.0%</b>	<b>592,716</b>	<b>542,539</b>	<b>9.2%</b>	<b>592,716</b>	<b>542,539</b>	<b>9.2%</b>

### Regions

	Q3 2018			Q3 2017			For the nine months ended September 30,		
	Million KRW	Million KRW	Δ%	2018	2017	Δ%	2018	2017	Δ%
Korea	42,814	49,784	-14.0%	133,389	146,107	-8.7%	133,389	146,107	-8.7%
Rest of Asia	55,811	46,570	19.8%	162,829	138,850	17.3%	162,829	138,850	17.3%
Europe	47,287	37,828	25.0%	136,798	115,228	18.7%	136,798	115,228	18.7%
North and South America	44,855	32,364	38.6%	122,705	106,071	15.7%	122,705	106,071	15.7%
Australia	886	941	-5.8%	1,908	2,024	-5.7%	1,908	2,024	-5.7%
Middle East and Africa	12,750	13,345	-4.5%	35,087	34,259	2.4%	35,087	34,259	2.4%
<b>Total sales</b>	<b>204,403</b>	<b>180,832</b>	<b>13.0%</b>	<b>592,716</b>	<b>542,539</b>	<b>9.2%</b>	<b>592,716</b>	<b>542,539</b>	<b>9.2%</b>

## Business development

SONGWON Industrial Group reports consolidated sales of 204,403 Mil. KRW in the 3rd quarter of 2018, ending September 30, 2018. Compared to sales for Q3/2017 (180,832 Mil. KRW), revenue rose by 13%. The Group reported a net profit for the quarter of 13,115 Mil. KRW, which is a 38.4% increase over Q3/2017. The gross profit margin in Q3/2018 remained almost the same at 21.0% compared to Q3/2017. Year-to-date, SONGWON realized consolidated sales of 592,716 Mil. KRW, marking a 9.2% increase over YTD September 2017 (542,539 Mil. KRW), and a 9.3% increase in net profit of 32,831 Mil. KRW.

In Q3/2018, demand for SONGWON's key product lines continued to be strong. In particular, sales revenues for polymer stabilizers exceeded those generated in Q2 and Q1 of this year. The market was stable throughout the quarter, with some month-over-month fluctuations, but overall it remained aligned with the Group's expectations and plan. This was achieved through the combination of the Group's successfully implemented price increases and the positive impact of favorable foreign currency in Q3/2018. The price increases are succeeding in compensating for the YTD raw material increases and balancing the YTD negative effects of ongoing currency variations. Looking ahead, SONGWON expects key material prices to rise over the coming months.

Due to scheduled plant shutdowns carried out by large customers in North America, as well as customers' traditional destocking and the quieter summer holiday period in North East Asia, SONGWON observed a slight decline in demand for certain products. The Group reports that despite price competition and a significant reduction in the PVC market in Korea, SONGWON was still able to sell at the same level volume-wise. Tin Intermediates sales also remained as strong as they have been in previous months.

All of the Group's manufacturing facilities ran smoothly and at high utilization rates throughout Q3/2018. After a long period of repeated audits and inspections, SONGWON's plant in Pingdu, China was granted government permission to resume operations from July 2018. This enabled the organization to return to its normal level of OPS production. Construction of the new workshop for thioesters which began in May 2018, is progressing well and will contribute to increasing SONGWON's overall capacity when completed in 2019.

## Outlook

Going into the final quarter of 2018, SONGWON expects to see sustained market growth continue over the next periods especially for PS and Lube AO where growth should slightly exceed GDP. For Lube AO in particular, this will be driven by the introduction of the new regulatory/environmental standards (GF6, PC11). Furthermore, the organization anticipates that the growth of demand would be most notably sustained in the Asian region. Strategically, SONGWON is very well-positioned to serve these markets by offering reliable supply and short delivery routes. SONGWON intends to continue to promote its broad offering and expertise at key trade fairs and conferences, as well as in important industry publications.

As in the past, Q4/2018 is expected to bring a moderate slowdown in the final half of the quarter, as customers typically make their year-end reductions. However, SONGWON anticipates the structural market demand to stay strong in the mid-term, but also sees a possible increase in aggressive price behavior to offset the decline in demand. The organization believes, however that this will only be temporary. In the mid-term, SONGWON expects supply and demand to remain balanced.

For the remainder of the year, SONGWON will continue focusing its efforts on cost leadership and operational efficiency, to ensure that the quality of earnings can be maintained and improved going forward. In addition, the company will continue its innovation drive to capitalize on the long-term growth opportunities in the markets it serves.

# **SECTION 2:**

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

## Interim consolidated statement of financial position (unaudited)

		As at	
		September 30, 2018	December 31, 2017
	Notes	Million KRW	Million KRW
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>482,071</b>	<b>487,614</b>
Property, plant and equipment	6.3, 7, 24	441,167	441,721
Investment properties	6.3, 24	3,519	3,530
Intangible assets	6.3, 8	19,233	21,609
Investments accounted for using the equity method	5	4,458	7,035
Available-for-sale financial investments	21	-	900
Other non-current assets		1,528	33
Other non-current financial assets	12, 19, 21, 22	9,327	10,265
Deferred tax assets		2,839	2,521
<b>Current assets</b>		<b>433,016</b>	<b>377,507</b>
Inventories	9	216,308	166,641
Trade and other receivables	10, 21, 22	133,165	130,894
Income tax receivables		357	518
Other current assets	13	8,715	3,502
Other current financial assets	12, 19, 21, 22	13,945	20,548
Cash and cash equivalent	11, 21	60,526	55,404
<b>Total assets</b>		<b>915,087</b>	<b>865,121</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		<b>408,648</b>	<b>378,127</b>
<i>Non-controlling interests</i>		-371	-2,733
<i>Equity attributable to owners of the parent</i>		409,019	380,860
Issued capital		12,000	12,000
Capital surplus		24,361	24,361
Reserves	14	27,591	27,255
Retained earnings	14	351,859	322,085
Accumulated other comprehensive income	14.2	-6,792	-4,841
<b>Non-current liabilities</b>		<b>84,464</b>	<b>162,354</b>
Interest-bearing loans and borrowings	15, 21, 23.3, 25.3	18,420	98,783
Pension liability		12,894	8,311
Other long-term employee-related liabilities		5,919	5,585
Other non-current financial liabilities	18, 21, 25.3	3,203	4,625
Other non-current liabilities		40	40
Deferred tax liabilities		43,988	45,010
<b>Current liabilities</b>		<b>421,975</b>	<b>324,640</b>
Interest-bearing loans and borrowings	15, 21, 23.3, 25.3	285,921	208,754
Trade and other payables	21, 22, 25.3	121,714	109,538
Other current liabilities		6,868	1,801
Other current financial liabilities	18, 19, 21, 25.3	2,136	1,743
Income tax payable		5,336	2,804
<b>Total liabilities</b>		<b>506,439</b>	<b>486,994</b>
<b>Total equity and liabilities</b>		<b>915,087</b>	<b>865,121</b>



## Interim consolidated statement of financial position (unaudited)

	As at (refer to note 2.1)	
	September 30, 2018	December 31, 2017
	Thousand USD	Thousand USD
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>433,846</b>	<b>438,834</b>
Property, plant and equipment	397,034	397,532
Investment properties	3,167	3,177
Intangible assets	17,309	19,447
Investments accounted for using the equity method	4,012	6,331
Available-for-sale financial investments	-	810
Other non-current assets	1,375	30
Other non-current financial assets	8,394	9,238
Deferred tax assets	2,555	2,269
<b>Current assets</b>	<b>389,699</b>	<b>339,743</b>
Inventories	194,670	149,971
Trade and other receivables	119,844	117,800
Income tax receivables	321	466
Other current assets	7,843	3,152
Other current financial assets	12,550	18,492
Cash and cash equivalent	54,471	49,862
<b>Total assets</b>	<b>823,545</b>	<b>778,577</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>367,768</b>	<b>340,300</b>
<i>Non-controlling interests</i>	<i>-334</i>	<i>-2,460</i>
<i>Equity attributable to owners of the parent</i>	<i>368,102</i>	<i>342,760</i>
Issued capital	10,800	10,800
Capital surplus	21,924	21,924
Reserves	24,830	24,528
Retained earnings	316,660	289,864
Accumulated other comprehensive income	-6,112	-4,356
<b>Non-current liabilities</b>	<b>76,015</b>	<b>146,112</b>
Interest-bearing loans and borrowings	16,577	88,901
Pension liability	11,604	7,480
Other long-term employee-related liabilities	5,327	5,026
Other non-current financial liabilities	2,883	4,162
Other non-current liabilities	36	36
Deferred tax liabilities	39,588	40,507
<b>Current liabilities</b>	<b>379,762</b>	<b>292,165</b>
Interest-bearing loans and borrowings	257,319	187,871
Trade and other payables	109,538	98,580
Other current liabilities	6,181	1,621
Other current financial liabilities	1,922	1,569
Income tax payable	4,802	2,524
<b>Total liabilities</b>	<b>455,777</b>	<b>438,277</b>
<b>Total equity and liabilities</b>	<b>823,545</b>	<b>778,577</b>

## Interim consolidated statement of comprehensive income (unaudited)

	Notes	For the three months ended	
		2018	September 30, 2017
		Million KRW	Million KRW
Sales*	6.1, 6.2, 22	204,403	180,832
Cost of sales*	22	-161,429	-142,211
<b>Gross profit*</b>		<b>42,974</b>	<b>38,621</b>
Selling and administration costs*	22	-25,574	-24,143
<b>Operating profit</b>		<b>17,400</b>	<b>14,478</b>
Other income	22	128	532
Other expenses		-369	21
Share of result from investments accounted for using the equity method	5	227	262
Finance income	22	2,222	3,361
Finance expenses		-3,381	-6,328
<b>Profit before tax</b>		<b>16,227</b>	<b>12,326</b>
Income tax expenses	16	-3,112	-2,853
<b>Profit for the period</b>		<b>13,115</b>	<b>9,473</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>		-2,911	278
(Losses) / gains on valuation of interest rate swaps	14.2	-30	133
Tax effects on valuation of interest rate swaps	14.2, 16	7	-30
Exchange differences on translation of foreign operations	14.2	-2,888	175
<b>Total other comprehensive income, net of taxes</b>		<b>-2,911</b>	<b>278</b>
<b>Total comprehensive income</b>		<b>10,204</b>	<b>9,751</b>
<b>Profit for the period attributable to:</b>			
Owners of the parent	17	12,969	9,680
Non-controlling interests		146	-207
<b>Profit for the period</b>		<b>13,115</b>	<b>9,473</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		10,167	9,966
Non-controlling interests		37	-215
<b>Total comprehensive income</b>		<b>10,204</b>	<b>9,751</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	17	540	403

\*refer to note 3. for further details

## Interim consolidated statement of comprehensive income (unaudited)

	For the three months ended	
	September 30, (refer to note 2.1)	
	2018	2017
	Thousand USD	Thousand USD
Sales*	183,956	162,742
Cost of sales*	-145,281	-127,985
<b>Gross profit*</b>	<b>38,675</b>	<b>34,757</b>
Selling and administration costs*	-23,016	-21,728
<b>Operating profit</b>	<b>15,659</b>	<b>13,029</b>
Other income	115	479
Other expenses	-332	19
Share of result from investments accounted for using the equity method	204	236
Finance income	2,000	3,025
Finance expenses	-3,043	-5,695
<b>Profit before tax</b>	<b>14,603</b>	<b>11,093</b>
Income tax expenses	-2,801	-2,567
<b>Profit for the period</b>	<b>11,802</b>	<b>8,526</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>	-2,620	250
(Losses) / gains on valuation of interest rate swaps	-27	120
Tax effects on valuation of interest rate swaps	6	-27
Exchange differences on translation of foreign operations	-2,599	157
<b>Total other comprehensive income, net of taxes</b>	<b>-2,620</b>	<b>250</b>
<b>Total comprehensive income</b>	<b>9,182</b>	<b>8,776</b>
<b>Profit for the period attributable to:</b>		
Owners of the parent	11,672	8,712
Non-controlling interests	130	-186
<b>Profit for the period</b>	<b>11,802</b>	<b>8,526</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	9,149	8,969
Non-controlling interests	33	-193
<b>Total comprehensive income</b>	<b>9,182</b>	<b>8,776</b>
<b>Earnings per share</b>		
	USD	USD
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	0.49	0.36

\*refer to note 3. for further details

## Interim consolidated statement of comprehensive income (unaudited)

	Notes	For the nine months ended September 30,	
		2018	2017
		Million KRW	Million KRW
Sales*	6.1, 6.2, 22	592,716	542,539
Cost of sales*	22	-473,600	-421,921
<b>Gross profit*</b>		<b>119,116</b>	<b>120,618</b>
Selling and administration costs*	22	-75,007	-74,652
<b>Operating profit</b>		<b>44,109</b>	<b>45,966</b>
Other income	22	1,713	1,442
Other expenses		-889	-754
Share of result from investments accounted for using the equity method	5	1,096	948
Finance income	22	17,533	19,350
Finance expenses		-23,268	-28,652
<b>Profit before tax</b>		<b>40,294</b>	<b>38,300</b>
Income tax expenses	16	-7,463	-8,264
<b>Profit for the period</b>		<b>32,831</b>	<b>30,036</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>		-2,166	-1,455
(Losses) / gains on valuation of interest rate swaps	14.2	-170	232
Tax effects on valuation of interest rate swaps	14.2, 16	39	-53
Exchange differences on translation of foreign operations	14.2	-2,035	-1,634
<b>Total other comprehensive income, net of taxes</b>		<b>-2,166</b>	<b>-1,455</b>
<b>Total comprehensive income</b>		<b>30,665</b>	<b>28,581</b>
<b>Profit for the period attributable to:</b>			
Owners of the parent	17	33,470	30,451
Non-controlling interests		-639	-415
<b>Profit for the period</b>		<b>32,831</b>	<b>30,036</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		31,519	28,933
Non-controlling interests		-854	-352
<b>Total comprehensive income</b>		<b>30,665</b>	<b>28,581</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	17	1,395	1,269

\*refer to note 3. for further details

## Interim consolidated statement of comprehensive income (unaudited)

	For the nine months ended September 30, (refer to note 2.1)	
	2018	2017
	Thousand USD	Thousand USD
Sales*	533,423	488,266
Cost of sales*	-426,223	-379,714
<b>Gross profit*</b>	<b>107,200</b>	<b>108,552</b>
Selling and administration costs*	-67,504	-67,184
<b>Operating profit</b>	<b>39,696</b>	<b>41,368</b>
Other income	1,542	1,298
Other expenses	-800	-679
Share of result from investments accounted for using the equity method	986	853
Finance income	15,779	17,414
Finance expenses	-20,940	-25,786
<b>Profit before tax</b>	<b>36,263</b>	<b>34,468</b>
Income tax expenses	-6,716	-7,436
<b>Profit for the period</b>	<b>29,547</b>	<b>27,032</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>	-1,949	-1,309
(Losses) / gains on valuation of interest rate swaps	-153	209
Tax effects on valuation of interest rate swaps	35	-48
Exchange differences on translation of foreign operations	-1,831	-1,470
<b>Total other comprehensive income, net of taxes</b>	<b>-1,949</b>	<b>-1,309</b>
<b>Total comprehensive income</b>	<b>27,598</b>	<b>25,723</b>
<b>Profit for the period attributable to:</b>		
Owners of the parent	30,122	27,405
Non-controlling interests	-575	-373
<b>Profit for the period</b>	<b>29,547</b>	<b>27,032</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	28,366	26,039
Non-controlling interests	-768	-316
<b>Total comprehensive income</b>	<b>27,598</b>	<b>25,723</b>
<b>Earnings per share</b>		
	USD	USD
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	1.26	1.14

\*refer to note 3. for further details

## Interim consolidated statement of changes in equity (unaudited)

For the nine months ended September 30, 2017 and 2018

	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 at January 1, 2017</b>	<b>12,000</b>	<b>24,361</b>	<b>26,919</b>	<b>290,544</b>	<b>2,602</b>	<b>356,426</b>	<b>-2,237</b>	<b>354,189</b>
Profit for the period	-	-	-	30,451	-	30,451	-415	30,036
Gains on valuation of interest rate swaps, net of tax	-	-	-	-	179	179	-	179
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,697	-1,697	63	-1,634
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,451</b>	<b>-1,518</b>	<b>28,933</b>	<b>-352</b>	<b>28,581</b>
Dividends	-	-	-	-3,360	-	-3,360	-	-3,360
Appropriation to reserves	-	-	336	-336	-	-	-	-
<b>As at September 30, 2017</b>	<b>12,000</b>	<b>24,361</b>	<b>27,255</b>	<b>317,299</b>	<b>1,084</b>	<b>381,999</b>	<b>-2,589</b>	<b>379,410</b>
<b>As at 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	-	-	-	33,470	-	33,470	-639	32,831
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-131	-131	-	-131
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,820	-1,820	-215	-2,035
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,470</b>	<b>-1,951</b>	<b>31,519</b>	<b>-854</b>	<b>30,665</b>
Dividends	-	-	-	-3,360	-	-3,360	-	-3,360
Appropriation to reserves	-	-	336	-336	-	-	-	-
Non-controlling interest due to step up	-	-	-	-	-	-	3,216	3,216
<b>As at September 30, 2018</b>	<b>12,000</b>	<b>24,361</b>	<b>27,591</b>	<b>351,859</b>	<b>-6,792</b>	<b>409,019</b>	<b>-371</b>	<b>408,648</b>

## Interim consolidated statement of changes in equity (unaudited)

For the nine months ended September 30, 2017 and 2018 (refer to note 2.1)

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital Surplus	Reserves	Retained earnings	Accumulated OCI	Total		
	TUSD	TUSD	TUSD	TUSD	TUSD	TUSD		
<b>As at January 1, 2017</b>	<b>10,800</b>	<b>21,924</b>	<b>24,226</b>	<b>261,479</b>	<b>2,342</b>	<b>320,771</b>	<b>-2,013</b>	<b>318,758</b>
Profit for the period	-	-	-	27,405	-	27,405	-373	27,032
Gains on valuation of interest rate swaps, net of tax	-	-	-	-	161	161	-	161
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,527	-1,527	57	-1,470
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,405</b>	<b>-1,366</b>	<b>26,039</b>	<b>-316</b>	<b>25,723</b>
Dividends	-	-	-	-3,024	-	-3,024	-	-3,024
Appropriation to reserves	-	-	302	-302	-	-	-	-
<b>As at September 30, 2017</b>	<b>10,800</b>	<b>21,924</b>	<b>24,528</b>	<b>285,558</b>	<b>976</b>	<b>343,786</b>	<b>-2,329</b>	<b>341,457</b>
<b>As at January 1, 2018</b>	<b>10,800</b>	<b>21,924</b>	<b>24,528</b>	<b>289,864</b>	<b>-4,356</b>	<b>342,760</b>	<b>-2,460</b>	<b>340,300</b>
Profit for the period	-	-	-	30,122	-	30,122	-575	29,547
Losses on valuation of interest rate swaps, net of tax	-	-	-	-	-118	-118	-	-118
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-1,638	-1,638	-193	-1,831
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,122</b>	<b>-1,756</b>	<b>28,366</b>	<b>-768</b>	<b>27,598</b>
Dividends	-	-	-	-3,024	-	-3,024	-	-3,024
Appropriation to reserves	-	-	302	-302	-	-	-	-
Non-controlling interest due to step up	-	-	-	-	-	-	2,894	2,894
<b>As at September 30, 2018</b>	<b>10,800</b>	<b>21,924</b>	<b>24,830</b>	<b>316,660</b>	<b>-6,112</b>	<b>368,102</b>	<b>-334</b>	<b>367,768</b>

## Interim consolidated statement of cash flows (unaudited)

	Notes	For the nine months ended September 30,	
		2018	2017
		Million KRW	Million KRW
<b>Profit for the period</b>		<b>32,831</b>	<b>30,036</b>
<b>Adjustments total</b>	<b>26</b>	<b>30,815</b>	<b>40,092</b>
<b>Changes in operating assets and liabilities</b>	<b>26</b>	<b>-25,748</b>	<b>-28,381</b>
Interest received		725	273
Payments of income tax		-6,179	-12,898
Dividends received from third parties		-	7
<b>Net cash flow from operating activities</b>		<b>32,444</b>	<b>29,129</b>
Proceeds from sale of property, plant and equipment	7	35	25
Proceeds from sale of intangible assets	8	-	42
Proceeds from sale of available-for-sale financial investments		-	178
Purchases of property, plant and equipment	7	-21,713	-33,549
Purchases of intangible assets	8	-1,199	-508
Purchase of available-for-sale financial investments		-	-5
Dividends received from investments using equity method	5	534	-
Acquisition of a subsidiary, net of cash acquired	4	2,103	-
Increase of other financial assets, net		8,852	-17,483
<b>Net cash flow from investing activities</b>		<b>-11,388</b>	<b>-51,300</b>
Proceeds from borrowings (current)		455,709	303,356
Repayments of borrowings (current)		-459,493	-282,083
Proceeds from interest-bearing borrowings (non-current)		-	10,230
Repayments of borrowings (non-current)		-2,113	-
(Decrease) / increase in other financial liabilities, net		-1,194	5,996
Interest paid		-7,159	-6,997
Dividends paid	14.1	-3,360	-3,360
<b>Net cash flow from financing activities</b>		<b>-17,610</b>	<b>27,142</b>
Increase in cash and cash equivalents		3,446	4,971
Net foreign exchange differences		1,676	-1,044
Cash and cash equivalent at January 1,	11	55,404	49,300
<b>Cash and cash equivalent at September 30,</b>	<b>11</b>	<b>60,526</b>	<b>53,227</b>



## Interim consolidated statement of cash flows (unaudited)

	For the nine months ended September 30, (refer to note 2.1)	
	2018	2017
	Thousand USD	Thousand USD
<b>Profit for the period</b>	<b>29,547</b>	<b>27,032</b>
<b>Adjustments total</b>	<b>27,732</b>	<b>36,081</b>
<b>Changes in operating assets and liabilities</b>	<b>-23,172</b>	<b>-25,542</b>
Interest received	652	246
Payments of income tax	-5,561	-11,608
Dividends received from third parties	-	6
<b>Net cash flow from operating activities</b>	<b>29,198</b>	<b>26,216</b>
Proceeds from sale of property, plant and equipment	31	22
Proceeds from sale of intangible assets	-	38
Proceeds from sale of available-for-sale financial investments	-	160
Purchases of property, plant and equipment	-19,541	-30,193
Purchases of intangible assets	-1,079	-457
Purchase of available-for-sale financial investments	-	-4
Dividends received from investments using equity method	481	-
Acquisition of a subsidiary, net of cash acquired	1,893	-
Increase of other financial assets, net	7,966	-15,734
<b>Net cash flow from investing activities</b>	<b>-10,249</b>	<b>-46,168</b>
Proceeds from borrowings (current)	410,122	273,010
Repayments of borrowings (current)	-413,527	-253,865
Proceeds from interest-bearing borrowings (non-current)	-	9,207
Repayments of borrowings (non-current)	-1,902	-
(Decrease) / increase in other financial liabilities, net	-1,075	5,396
Interest paid	-6,443	-6,297
Dividends paid	-3,024	-3,024
<b>Net cash flow from financing activities</b>	<b>-15,849</b>	<b>24,427</b>
Increase in cash and cash equivalents	3,100	4,474
Net foreign exchange differences	1,509	-940
Cash and cash equivalent at January 1,	49,862	44,368
<b>Cash and cash equivalent at September 30,</b>	<b>54,471</b>	<b>47,903</b>

## Notes to the condensed interim consolidated financial statements

### 1. Corporate information

#### 1.1. The Group

SONGWON Industrial Group (the "Group") consists of the parent company, Songwon Industrial Co. Ltd. (the "Company") and its consolidated subsidiaries as listed below. The Company was incorporated on December 15, 1965 under the laws of the Republic of Korea to engage in the manufacture and commercial sale of antioxidants, stabilizers and polyurethane. The Company's main manufacturing plants are located in Ulsan, Maeam and Suwon, all in Korea and in Ankleshwar, India. The Company listed its common shares on the Korea Exchange in June 1977.

##### Scope of consolidation

As of September 30, 2018, the scope of consolidation for the consolidated financial statements encompasses 14 entities (2017: 10 entities). Additionally, one entity is classified as a joint venture (2017: 2 entities) and accounted for using the equity method.

During nine months of 2018, the following changes in the legal structure of the Group and scope of consolidation took place:

- Establishment of Songwon Europe GmbH, Songwon Chemicals GmbH and Songwon Trading GmbH;
- Increase of shareholding through a capital increase which equated to 22% of the shares of Qingdao Long Fortune Songwon Chemical Co., Ltd. (SWDM-CN). Therefore, the conditions to obtain control were met and SWDM-CN became a subsidiary (before a joint venture) starting from May 1, 2018 (refer to note 4 for further details).

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	September 30, 2018		December 31, 2017	
		Status	Interest	Status	Interest
<b>Consolidated entities</b>					
Songwon Industrial Co., Ltd.	Korea	Parent		Parent	
Songwon International-Japan KK	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 (former: Songwon EMEA AG)	Switzerland	Subsidiary	100%	Subsidiary	100%
Songwon Group Holding AG (former: Songwon International 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%	-	-
Songwon Chemicals GmbH	Germany	Subsidiary	100%	-	-
Songwon Trading GmbH	Germany	Subsidiary	100%	-	-
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	China	Subsidiary	72%	-	-
Songwon International Middle East FZE	UAE	Subsidiary	100%	Subsidiary	100%
Songwon Polysys Additives LLC	UAE	Subsidiary	55.5%	Subsidiary	55.5%

\*refer to note 4 for further details

<b>Entities accounted for using the equity method (joint ventures)</b>					
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	China	Joint venture	30%	Joint venture	30%
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	China	-	-	Joint venture	50%

\*refer to note 4 for further details

## 2. Basis of preparation

The interim condensed financial statements for the three and nine months ended September 30, 2018 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, 2017, which have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”).

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

The Group maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with Korea International Financial Reporting Standards (“K-IFRS”). In the event of any differences in interpreting the financial statements or the independent auditors 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 1,111.16 to USD 1, the exchange rate in effect on September 30, 2018. 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, 2017, except for the adoption of the new standards as of January 1, 2018, listed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2018, 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 1115 from Contracts with Customers

K-IFRS 1115 supersedes K-IFRS 1011 Construction Contracts, K-IFRS 1018 Revenue, K-IFRS 2113 Customer Loyalty Programs and relevant interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under K-IFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

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

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group applied the new standard using a modified retrospective method with initial date of application of January 1, 2018, with no significant impact identified to the financial statements. Therefore, the financial statements do not restate comparative information and have been prepared in accordance with K-IFRS 1011 Construction Contracts, K-IFRS 1018 Revenue and related interpretations. The Group omits related disclosures, because the initial impact of K-IFRS 1115 to the beginning retained earnings is not material.

The Group is in the business of the manufacture and commercial sale of antioxidants, stabilizers and polyurethane. The goods are sold both on their own in separately identified contracts with customers and together as a bundled package of goods and transportation services.

##### (a) Sales of goods

The Group's contracts with customers for the sale generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of K-IFRS 1115 did not have an impact on the timing of revenue recognition. Also, the amount of revenue to be recognized in adopting K-IFRS 1115 was not affected since no variable consideration or significant financing components are included.

##### (b) Sales of services

The Group provides transportation service in combination with the sales of goods. The services can be provided by others and are not significantly modified or customized.

Prior to the adoption of K-IFRS 1115, the Group accounted for the goods and transportation service as a single deliverable within the bundled sales and recognized revenue based on the invoiced amounts.

Under K-IFRS 1115, the Group assessed that there are two performance obligations in a contract for bundled sales of goods and transportation services, because its promises to transfer goods and provide transportation services are capable of being distinct and separately identifiable.

Under K-IFRS 1115, the Group concluded that revenue for transportation services, will be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group.

The impact on the statement of financial position as of December 31, 2017 is not material. Further, the impact on the statement of profit or loss, the other comprehensive income the statement of cash flows and the basic and diluted EPS for the three and nine months ended September 30, 2018 is material. In accordance with K-IFRS 1115, the outbound

logistic costs related to third party sales have been reclassified from selling and administration costs to cost of sales. This reclassification led to a lower gross profit and the corresponding margin. For the nine months ended September 30, 2018, the effect was 7,294 Mil. KRW (gross profit margin: -1.2%). For Q3/2018, the effect was 2,551 Mil. KRW (gross profit margin: -1.3%). However, both operating profit and net profit remained unchanged.

### K-IFRS 1109 Financial Instruments

K-IFRS 1109 Financial Instruments replaces K-IFRS 1039 *Financial Instruments: Recognition and Measurement* for periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied K-IFRS 1109 retrospectively, with the initial application date of January 1, 2018. The Group has elected to apply the limited exemption in K-IFRS 1109 paragraph 7.2.15 relating to the transition for classification and measurement and impairment, and accordingly will not be restating the 2017 comparative period.

#### (a) Classification and measurement

Except for certain trade receivables, under K-IFRS 1109, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under K-IFRS 1109, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Loans included under other non-current financial assets.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under K-IFRS 1039, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under K-IFRS 1109. Under K-IFRS 1039, the Group's unquoted equity instruments were classified as AFS financial assets
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The assessment of the Group's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under K-IFRS 1039. Similar to the requirements of K-IFRS 1039, K-IFRS 1109 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognized in the statement of profit or loss.

Under K-IFRS 1109, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by K-IFRS 1039.

#### (b) Impairment

The adoption of K-IFRS 1109 has changed the Group's accounting for impairment losses for financial assets by

replacing the K-IFRS 1039 incurred loss approach with a forward-looking expected credit loss (ECL) approach.

K-IFRS 1109 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

#### (c) Hedge accounting

The Group applied hedge accounting prospectively. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of K-IFRS 1109 had no significant impact on the Group's financial statements.

Under K-IFRS 1039, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under K-IFRS 1109, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. Therefore, upon adoption of K-IFRS 1109, the Net gain or loss on cash flow hedges was presented under 'Other comprehensive income not to be reclassified to profit or loss in subsequent periods'.

This change only applies prospectively from the date of initial application of K-IFRS 1109 and has no impact on the presentation of comparative figures.

Therefore, the Group omits related disclosures, because the effect is not significant as a result of the adoption of K-IFRS 1109

#### **K-IFRS 2122 Foreign Currency Transactions and Advance Considerations**

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

#### **K-IFRS 1040 Transfers of Investment Property**

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

#### **K-IFRS 1102 Classification and Measurement of Share-based Payment Transactions**

The IASB issued amendments to K-IFRS 1102 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's

accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

## 4. Business combinations

### 4.1. 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 provisional fair value on the date of acquisition. If the cost exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the balance is reported as goodwill. If the cost fall under the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the badwill will be recorded in the consolidated statement of comprehensive income.

The amounts recognized below are all provisional as the Company is finalizing the valuations due to the complexity of the transaction. The Company may recognized changes in accordance with K-IFRS 1103 in the permitted twelve months measurement period from the date of acquisition.

#### Assets acquired and liabilities assumed

The provisional 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):

*Provisional Fair value recognized on acquisition*

	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 equivalent	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>11,487</b>

Non-controlling interest measured at fair value	-3,216
Preliminary revaluation of previously held interest in SWDM-CN	-3,154
Badwill	-877
Consideration transferred	4,240

#### Provisional 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 remeasured its previously held interest resulting in no significant gain or loss.

#### Provisional gain (badwill) arising on acquisition

In 2017, SWDM-CN achieved a small positive net income. Under the consideration of the higher burden of environmental regulations as well as new competitors entering the market, the badwill is reasonable. In addition, the Asian market remains to be volatile driven by spot business for SWDM-CN. The resulting gain of 877 Mil. KRW (badwill) was recognized in the statement of comprehensive income and included in the financial statement line item "Other Income".

#### Cash flow on acquisition

From the acquisition of SWDM-CN, the Group acquired cash of 2,103 Mil. KRW. As the capital increase took place after the full consolidation of SWDM-CN, there is no impact on Group level from the actual cash paid in.

## 4.2. Business combinations in 2017

During the financial year 2017 there were no business combinations.

## 5. Investment accounted for using the equity method

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

Statement of financial position	Cash and cash equivalents	Total current assets	Total non-current assets	Current financial liabilities	Total current liabilities	Non-current financial liabilities	Total non-current liabilities	Equity	Carrying amount
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	2,365	9,584	7,108	2,164	2,590	-	-	14,102	4,231
Qingdao Long Fortune Songwon Chemical Co., Ltd.	2,488	12,917	3,085	6,760	7,066	3,328	3,328	5,608	2,804
<b>December 31, 2017</b>	<b>4,853</b>	<b>22,501</b>	<b>10,193</b>	<b>8,924</b>	<b>9,656</b>	<b>3,328</b>	<b>3,328</b>	<b>19,710</b>	<b>7,035</b>
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	1,540	8,239	8,152	1,264	1,531	-	-	14,860	4,458
<b>September 30, 2018</b>	<b>1,540</b>	<b>8,239</b>	<b>8,152</b>	<b>1,264</b>	<b>1,531</b>	<b>-</b>	<b>-</b>	<b>14,860</b>	<b>4,458</b>



<b>Statement of comprehensive income</b>	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.	5,884	-18	1	-	598	-150	448	-377	71
Qingdao Long Fortune Songwon Chemical Co., Ltd.	6,798	-61	3	-63	331	-77	254	16	270
<b>For the three months ended September 30, 2017</b>	<b>12,682</b>	<b>-79</b>	<b>4</b>	<b>-63</b>	<b>929</b>	<b>-227</b>	<b>702</b>	<b>-361</b>	<b>341</b>
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	6,169	-30	-	-	1,006	-248	758	-600	158
<b>For the three months ended September 30, 2018</b>	<b>6,169</b>	<b>-30</b>	<b>-</b>	<b>-</b>	<b>1,006</b>	<b>-248</b>	<b>758</b>	<b>-600</b>	<b>158</b>

\*refer to note 4 for further details

<b>Statement of comprehensive income</b>	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.	18,543	-52	2	-11	2,108	-527	1,581	-413	1,168
Qingdao Long Fortune Songwon Chemical Co., Ltd.	19,325	-173	12	-187	1,051	-104	947	-268	679
<b>For the nine months ended September 30, 2017</b>	<b>37,868</b>	<b>-225</b>	<b>14</b>	<b>-198</b>	<b>3,159</b>	<b>-631</b>	<b>2,528</b>	<b>-681</b>	<b>1,847</b>
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	19,883	-96	11	-	3,672	-918	2,754	-217	2,537
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	10,656	-84	11	-91	746	-207	539	160	699
<b>For the nine months ended September 30, 2018</b>	<b>30,539</b>	<b>-180</b>	<b>22</b>	<b>-91</b>	<b>4,418</b>	<b>-1,125</b>	<b>3,293</b>	<b>-57</b>	<b>3,236</b>

\*refer to note 4 for further details

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

	As of January 1, 2017	Dividends	Share of result from equity method revaluation	Change in scope of consolidation	Exchange rate effects	As of September 30, 2017
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	3,849	-	474	-	-124	4,199
Qingdao Long Fortune Songwon Chemical Co., Ltd.	2,703	-	474	-	-134	3,043
<b>Total</b>	<b>6,552</b>	<b>-</b>	<b>948</b>	<b>-</b>	<b>-258</b>	<b>7,242</b>

	As of January 1, 2018	Dividends	Share of result from equity method revaluation	Change in scope of consolidation	Exchange rate effects	As of September 30, 2018
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	4,231	-534	826	-	-65	4,458
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	2,804	-	270	-3,154	80	-
<b>Total</b>	<b>7,035</b>	<b>-534</b>	<b>1,096</b>	<b>-3,154</b>	<b>15</b>	<b>4,458</b>

\*refer to note 4 for further details

## 6. Segment information and disaggregated revenue information

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

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

### 6.1. Product information

Set out below is the disaggregation of the Group's revenue from contracts with customers. In terms of timing, all goods are transferred at a point in time. The nature of the products is disclosed below:

	For the three months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Alkylphenols and Intermediates	1,053	10
Plasticizers	1,925	2,117
Polyester Diols	2,765	2,201
Polymer Stabilizers (AOX and UVs)	145,441	124,789
Polyurethanes	10,753	10,339
PVC Stabilizers	8,900	12,493
SAP and Flocculants	2,179	2,271
Tin Intermediates	19,400	20,260
Others	11,987	6,352
<b>Total sales</b>	<b>204,403</b>	<b>180,832</b>

	For the nine months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Alkylphenols and Intermediates	2,229	788
Plasticizers	6,142	6,212
Polyester Diols	8,282	8,200
Polymer Stabilizers (AOX and UVs)	417,097	376,464
Polyurethanes	30,782	31,459
PVC Stabilizers	28,831	35,774
SAP and Flocculants	6,074	6,723
Tin Intermediates	61,856	59,124
Others	31,423	17,795
<b>Total sales</b>	<b>592,716</b>	<b>542,539</b>

	For the three months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Sales of goods	201,852	180,832
Sales of services*	2,551	-
<b>Total sales</b>	<b>204,403</b>	<b>180,832</b>

\*Sales of services is a sale recognized over time in accordance with K-IFRS 1115, refer to note 3. for further details

	For the nine months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Sales of goods	585,422	542,539
Sales of services*	7,294	-
<b>Total sales</b>	<b>592,716</b>	<b>542,539</b>

\*Sales of services is a sale recognized over time in accordance with K-IFRS 1115, refer to note 3. for further details

## 6.2. Geographic information

	For the three months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Korea	42,814	49,784
Rest of Asia	55,811	46,570
Europe	47,287	37,828
North and South America	44,855	32,364
Australia	886	941
Middle East and Africa	12,750	13,345
<b>Total sales</b>	<b>204,403</b>	<b>180,832</b>

	For the nine months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Korea	133,389	146,107
Rest of Asia	162,829	138,850
Europe	136,798	115,228
North and South America	122,705	106,071
Australia	1,908	2,024
Middle East and Africa	35,087	34,259
<b>Total sales of goods</b>	<b>592,716</b>	<b>542,539</b>

The revenue information above 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.

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

### 6.3. Non-current assets

	<b>As of</b>	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	Million KRW	Million KRW
Korea	408,018	407,183
Rest of Asia	20,768	22,509
Europe	13,971	16,033
North and South America	4,799	4,896
Middle East and Africa	16,363	16,239
<b>Total</b>	<b>463,919</b>	<b>466,860</b>

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

## 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>At January 1, 2017</b>	<b>147,904</b>	<b>85,352</b>	<b>65,640</b>	<b>462,827</b>	<b>17,895</b>	<b>10,537</b>	<b>790,155</b>
Additions	-	469	6	250	1,379	31,442	33,546
Disposals	-	-	-2	-33	-839	-	-874
Reclassifications	-	4,685	111	27,984	51	-32,831	-
Net exchange differences	-	-813	-	-21	69	-38	-803
<b>At September 30, 2017</b>	<b>147,904</b>	<b>89,693</b>	<b>65,755</b>	<b>491,007</b>	<b>18,555</b>	<b>9,110</b>	<b>822,024</b>
<b>At 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	-	5	58	141	1,235	19,085	20,524
Disposals	-	-	-	-9	-255	-	-264
Reclassifications	-	353	71	15,052	511	-15,987	-
Business acquisition	-	-	-	1,138	293	52	1,483
Net exchange differences	-	276	-	-712	-90	-40	-566
<b>At September 30, 2018</b>	<b>147,904</b>	<b>89,350</b>	<b>66,324</b>	<b>515,480</b>	<b>20,486</b>	<b>7,425</b>	<b>846,969</b>
<b>Depreciation</b>							
<b>At January 1, 2017</b>	-	<b>-20,132</b>	<b>-34,311</b>	<b>-292,056</b>	<b>-12,172</b>	-	<b>-358,671</b>
Depreciation charge	-	-1,797	-2,323	-15,330	-1,177	-	-20,627
Disposals	-	-	2	13	817	-	832
Net exchange differences	-	24	-1	-247	-99	-	-323
<b>At September 30, 2017</b>	-	<b>-21,905</b>	<b>-36,633</b>	<b>-307,620</b>	<b>-12,631</b>	-	<b>-378,789</b>
<b>At 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	-	-1,808	-2,337	-16,579	-1,242	-	-21,966
Disposals	-	-	-	-	247	-	247
Net exchange differences	-	-23	-	47	-36	-	-12
<b>At September 30, 2018</b>	-	<b>-24,270</b>	<b>-39,744</b>	<b>-327,970</b>	<b>-13,818</b>	-	<b>-405,802</b>
<b>Net book value</b>							
<b>At September 30, 2018</b>	<b>147,904</b>	<b>65,080</b>	<b>26,580</b>	<b>187,510</b>	<b>6,668</b>	<b>7,425</b>	<b>441,167</b>
<b>At January 1, 2018</b>	<b>147,904</b>	<b>66,277</b>	<b>28,788</b>	<b>188,432</b>	<b>6,005</b>	<b>4,315</b>	<b>441,721</b>
<b>At September 30, 2017</b>	<b>147,904</b>	<b>67,788</b>	<b>29,122</b>	<b>183,387</b>	<b>5,924</b>	<b>9,110</b>	<b>443,235</b>

There was no impairment during the reported financial period. Non-cash transactions amounting to 2,795 Million KRW (YTD September 30, 2017: 5,082 Million KRW) are included in the additions for the nine months ended September 30, 2018.

## 8. 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>At January 1, 2017</b>	<b>3,329</b>	<b>2,772</b>	<b>853</b>	<b>32,351</b>	<b>3,818</b>	<b>44,890</b>	<b>1,361</b>	<b>89,374</b>
Additions	-	4	-	-	-	-	504	508
Disposals	-	-87	-20	-	-	-	-	-107
Reclassifications	273	-	-	-	-	-	-273	-
Net exchange differences	-1	-47	-2	-2,010	-287	-1,474	-	-3,821
<b>At September 30, 2017</b>	<b>3,601</b>	<b>2,642</b>	<b>831</b>	<b>30,341</b>	<b>3,531</b>	<b>43,416</b>	<b>1,592</b>	<b>85,954</b>
<b>At 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	-	-	-	-	1,193	1,199
Reclassifications	775	-	-	-	-	-	-775	-
Net exchange differences	-	31	-	627	90	876	-	1,624
<b>At September 30, 2018</b>	<b>4,378</b>	<b>2,636</b>	<b>831</b>	<b>28,254</b>	<b>3,232</b>	<b>41,667</b>	<b>1,903</b>	<b>82,901</b>
<b>Amortization</b>								
<b>At January 1, 2017</b>	<b>-1,365</b>	<b>-2,381</b>	<b>-</b>	<b>-21,760</b>	<b>-2,301</b>	<b>-34,315</b>	<b>-</b>	<b>-62,122</b>
Amortization charge	-248	-137	-	-2,667	-382	-	-	-3,434
Disposals	-	45	-	-	-	-	-	45
Net exchange differences	-	29	-	1,576	226	1,607	-	3,438
<b>At September 30, 2017</b>	<b>-1,613</b>	<b>-2,444</b>	<b>-</b>	<b>-22,851</b>	<b>-2,457</b>	<b>-32,708</b>	<b>-</b>	<b>-62,073</b>
<b>At 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	-287	-61	-	-2,494	-357	-	-	-3,199
Net exchange differences	-	-25	-	-745	-107	-1,123	-	-2,000
<b>At September 30, 2018</b>	<b>-1,987</b>	<b>-2,517</b>	<b>-</b>	<b>-24,668</b>	<b>-2,718</b>	<b>-31,778</b>	<b>-</b>	<b>-63,668</b>
<b>Net book value</b>								
<b>At September 30, 2018</b>	<b>2,391</b>	<b>119</b>	<b>831</b>	<b>3,586</b>	<b>514</b>	<b>9,889</b>	<b>1,903</b>	<b>19,233</b>
<b>At January 1, 2018</b>	<b>1,901</b>	<b>170</b>	<b>831</b>	<b>6,198</b>	<b>888</b>	<b>10,136</b>	<b>1,485</b>	<b>21,609</b>
<b>At September 30, 2017</b>	<b>1,988</b>	<b>198</b>	<b>831</b>	<b>7,490</b>	<b>1,074</b>	<b>10,708</b>	<b>1,592</b>	<b>23,881</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 at December 31. No triggering events occurred in the nine months ended September 30, 2018 and 2017.

## 9. Inventories

Description	September 30,	December 31,
	2018	2017
	Million KRW	Million KRW
Raw materials and supplies	38,402	33,752
Construction in progress	983	199
Finished goods	138,644	108,134
Goods in transit	36,702	24,438
Consignment stocks	1,577	118
<b>Total inventories at the lower of cost and net realizable value</b>	<b>216,308</b>	<b>166,641</b>

As of September 30, 2018, inventory write-off amounted to 4,016 Million KRW for raw materials and finished goods (December 31, 2017: 3,480 Million KRW).

## 10. Trade and other receivables

Description	September 30,	December 31,
	2018	2017
	Million KRW	Million KRW
Trade and notes receivables (net) – third parties	128,697	121,822
Trade and notes receivables (net) – related parties	-	4,876
Other receivables (net) – third parties	4,385	3,853
Other receivables (net) – related parties	-	268
Accrued income – third parties	48	35
Accrued income – related parties	35	40
<b>Total</b>	<b>133,165</b>	<b>130,894</b>

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

## 11. Cash and cash equivalent

Description	September 30,	December 31,
	2018	2017
	Million KRW	Million KRW
Cash on hand	149	95
Bank accounts	56,778	52,618
Time deposit (< 3 months)	3,599	2,691
<b>Total</b>	<b>60,526</b>	<b>55,404</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.



## 12. Other financial assets

Description	September 30, 2018		December 31, 2017	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Bank deposits (> 3 months)	8,149	3,261	8,187	2,009
Interest-bearing loans	-	9,342	1,641	18,000
Derivative financial assets (note 19)	4	646	131	92
Equity Instrument at FVOCI	900	-	-	-
Guarantee deposits	274	696	306	447
<b>Total</b>	<b>9,327</b>	<b>13,945</b>	<b>10,265</b>	<b>20,548</b>

## 13. Other current assets

Description	September 30, 2018	December 31, 2017
	Million KRW	Million KRW
Advance payments	688	185
Prepaid expenses	2,146	2,663
VAT refundable	5,881	654
<b>Total</b>	<b>8,715</b>	<b>3,502</b>

## 14. Equity

### 14.1. Reserves and dividends paid

At the regular general meeting of shareholders, held on March 23, 2018, dividends with the total amount of 3,360 Million KRW were approved by the shareholders. On April 10, 2018 dividends were paid. Legal reserves increased by 336 Million KRW due to the appropriation to the reserve decided by the shareholders on March 23, 2018.

### 14.2. Accumulated other comprehensive income

Accumulated other comprehensive income, net of tax as of September 30, 2018 and December 31, 2017 is composed of the following:

Description	September 30, 2018	December 31, 2017
	Million KRW	Million KRW
Exchange differences on translation of foreign operations	-6,834	-5,014
Interest rate swaps	42	173
<b>Total</b>	<b>-6,792</b>	<b>-4,841</b>

## 15. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings as of September 30, 2018 and December 31, 2017 are as follows:

Description	September 30,	December 31,
	2018	2017
	Million KRW	Million KRW
Long-term borrowings	18,420	98,783
<b>Non-current interest-bearing loans and borrowings</b>	<b>18,420</b>	<b>98,783</b>
Current portion of long-term borrowings	86,788	21,454
Short-term borrowings	199,133	187,300
<b>Current interest-bearing loans and borrowings</b>	<b>285,921</b>	<b>208,754</b>
<b>Total</b>	<b>304,341</b>	<b>307,537</b>

Due to the fact that three-year long-term bank loan agreements will elapse in May 2019, the current portion was reclassified into current interest-bearing loans and borrowings. The contract renewal is planned in early 2019.

## 16. 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	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Current income tax charge	-3,519	-3,286
Deferred income taxes related to origination and reversal of deferred taxes	414	403
Income tax recognized in other comprehensive income	-7	30
<b>Income tax expenses</b>	<b>-3,112</b>	<b>-2,853</b>

Income taxes	For the nine months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Current income tax charge	-8,472	-9,156
Deferred income taxes related to origination and reversal of deferred taxes	1,048	839
Income tax recognized in other comprehensive income	-39	53
<b>Income tax expenses</b>	<b>-7,463</b>	<b>-8,264</b>

## 17. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the average number of ordinary shares outstanding during the year. There is no difference between basic and diluted earnings per share as of September 30, 2018 and 2017.

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

Description	For the three months ended	
	September 30,	
	2018	2017
	KRW	
Net profit attributable to ordinary equity holders of the parent	12,968,735,309	9,680,386,153
Weighted average number of ordinary shares	24,000,000	24,000,000
<b>Earnings per share (basic / diluted)</b>	<b>540</b>	<b>403</b>

Description	For the nine months ended	
	September 30,	
	2018	2017
	KRW	
Net profit attributable to ordinary equity holders of the parent	33,469,682,672	30,450,624,731
Weighted average number of ordinary shares	24,000,000	24,000,000
<b>Earnings per share (basic / diluted)</b>	<b>1,395</b>	<b>1,269</b>

## 18. Other financial liabilities

Description	September 30, 2018		December 31, 2017	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Derivative liabilities (note 19)	-	119	-	-
Deposits	3,203	1,392	4,625	1,237
Accrued interest expenses	-	623	-	504
Unpaid dividends	-	2	-	2
<b>Total</b>	<b>3,203</b>	<b>2,136</b>	<b>4,625</b>	<b>1,743</b>

## 19. Derivatives financial instruments

Description	September 30, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	Million KRW		Million KRW	
Forward exchange contracts (current portion)	597	119	-	-
Interest rate swaps (current portion)	49	-	92	-
Interest rate swaps (non-current portion)	4	-	131	-
<b>Total</b>	<b>650</b>	<b>119</b>	<b>223</b>	<b>-</b>

## 19.1. 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 September 30, 2018 (December 31, 2017: none) are as follows:

### As of September 30, 2018

Contractual party	Position	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Busan Bank	Sell	EUR 2,790,000	31.10.2018 – 31.12.2018	1,329.63 – 1,333.03
Citibank Korea	Sell	EUR 14,850,000	31.10.2018 – 28.06.2019	1,317.00 – 1,340.00
	Sell	JPY 420,000,000	31.10.2018 – 31.05.2019	10.2650
KEB Hana Bank	Sell	EUR 4,710,000	31.10.2018 – 31.12.2018	1,313.30 – 1,341.90
	Sell	JPY 319,500,000	31.10.2018 – 31.12.2018	10.2100 – 10.2340
Kyongnam Bank	Sell	EUR 1,500,000	31.10.2018 – 28.12.2018	1,313.21 – 1,315.98
	Sell	JPY 532,500,000	31.10.2018 – 28.12.2018	10.2080 – 10.3430
Woori Bank	Sell	EUR 7,560,000	31.10.2018 – 28.06.2019	1,318.00 – 1,332.40
	Sell	JPY 424,000,000	31.10.2018 – 31.05.2019	10.2500

## 19.2. Interest rate swaps

As of September 30, 2018 the Group had entered into the following interest rate swap contracts:

### As of September 30, 2018

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

As of December 31, 2017 the Group has entered into the following interest rate swap contracts:

**As of December 31, 2017**

<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 2017. The balances included in accumulated other comprehensive income are 42 Million KRW as of September 30, 2018 and 173 Million KRW as of December 31, 2017, respectively (refer to note 14.2) net of income tax.

## 20. 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 September 30, 2018 are as follows (Unit: Korean Allowance Unit - KAU):*

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

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

	2015		2016		2017		Total	
	Quantity	Book value	Quantity	Book value	Quantity	Book value	Quantity	Book value
<b>Beginning</b>	-	-	32,769	-	-	-	-	-
Allocation	161,693	-	154,498	-	151,361	-	467,552	-
Allocation cancel	-63	-	-513	-	-	-	-576	-
Additional allocation	-	-	-	-	53,567	-	53,567	-
Purchase	-	-	22,000	453	-	-	22,000	453
Borrowed	-	-	24,319	-	-24,319	-	-	-
Disposal	-	-	-110,581	-	-22,000	-	-132,581	-
Delivery to government	-128,861	-	-122,492	-453	-131,427	-	-382,780	-453
Carryforward	-32,769	-	-	-	-27,182	-	-27,182	-
<b>Ending</b>	-	-	-	-	-	-	-	-

- 3) *There are no emission rights provided as collateral as of September 30, 2018.*
- 4) *Changes in emission liabilities during the current and prior reporting period are as follows (in Mil. KRW):*

	2018	2017
Beginning	-	-
Increase	291	-
Decrease	-	-
At the end of half year	291	-

- 5) *The greenhouse gas emission rights granted during 2018 are 110,651 KAU.*
- 6) *Estimated greenhouse gas emissions in 2018 are 150,961 KAU.*

## 21. Fair values

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied K-IFRS 1109, with the initial application date of January 1, 2018 and will not be adjusting comparative information for the period beginning January 1, 2017.

As of September 30, 2018

		Carrying amount		Fair value	
		Non-current	Current	Non-current	Current
		Million KRW	Million KRW	Million KRW	Million KRW
Financial assets	<b>Financial assets at amortized cost</b>				
	Other financial assets	787	12,309	787	12,309
	Trade and other receivables	-	133,165	-	133,165
	Cash and cash equivalent	-	60,526	-	60,526
	<b>Total</b>	<b>787</b>	<b>206,000</b>	<b>787</b>	<b>206,000</b>
	<b>Financial assets at FVOCI</b>				
	Other financial assets	900	-	900	-
	Interest rate swaps	4	49	4	49
	<b>Total</b>	<b>904</b>	<b>49</b>	<b>904</b>	<b>49</b>
	<b>Financial assets at FVtPL</b>				
	Forward exchange contracts	-	597	-	597
	Other financial assets	7,636	990	7,636	990
<b>Total</b>	<b>7,636</b>	<b>1,587</b>	<b>7,636</b>	<b>1,587</b>	
<b>Total</b>	<b>9,327</b>	<b>207,636</b>	<b>9,327</b>	<b>207,636</b>	

Financial liabilities	<b>Financial liabilities at amortized cost</b>				
	Other financial liabilities	3,203	2,017	3,203	2,017
	Trade and other payables	-	121,714	-	121,714
	Interest-bearing loans and borrowings	18,420	285,921	18,420	285,921
	<b>Total</b>	<b>21,623</b>	<b>409,652</b>	<b>21,623</b>	<b>409,652</b>
	<b>Financial liabilities at FVtPL</b>				
Forward exchange contracts	-	119	-	119	
<b>Total</b>	<b>-</b>	<b>119</b>	<b>-</b>	<b>119</b>	
<b>Total</b>	<b>21,623</b>	<b>409,771</b>	<b>21,623</b>	<b>409,771</b>	

As of December 31, 2017

		Carrying amount		Fair value	
		Non-current	Current	Non-current	Current
		Million KRW	Million KRW	Million KRW	Million KRW
Financial assets	<b>Loans and receivables</b>				
	Other financial assets	10,134	20,456	10,134	20,456
	Trade and other receivables	-	130,894	-	130,894
	Cash and cash equivalent	-	55,404	-	55,404
	<b>Total</b>	<b>10,134</b>	<b>206,754</b>	<b>10,134</b>	<b>206,754</b>
	<b>Financial assets at FVOCI</b>				
	Other financial assets (Derivatives)	131	92	131	92
	<b>Total</b>	<b>131</b>	<b>92</b>	<b>131</b>	<b>92</b>
	<b>Available-for-sale financial investments</b>				
	Available-for-sale financial investments	900	-	900	-
<b>Total</b>	<b>900</b>	<b>-</b>	<b>900</b>	<b>-</b>	
<b>Total</b>	<b>11,165</b>	<b>206,846</b>	<b>11,165</b>	<b>206,846</b>	

Financial liabilities	<b>Financial liabilities at amortized cost</b>				
	Other financial liabilities	4,625	1,743	4,625	1,743
	Trade and other payables	-	109,538	-	109,538
	Interest-bearing loans and borrowings	98,783	208,754	98,783	208,754
<b>Total</b>	<b>103,408</b>	<b>320,035</b>	<b>103,408</b>	<b>320,035</b>	
<b>Total</b>	<b>103,408</b>	<b>320,035</b>	<b>103,408</b>	<b>320,035</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 21.1.).

## 21.1. 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 September 30, 2018 and December 31, 2017, the Group held the following financial instruments carried at fair value on the statement of financial position:

		September 30, 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	597	-	597	-
	Interest Rate Swaps	53	-	53	-
<b>Total</b>		<b>650</b>	<b>-</b>	<b>650</b>	<b>-</b>
<b>Financial liabilities</b>	<b>Derivatives</b>				
	Forward exchange contracts	119	-	119	-
<b>Total</b>		<b>119</b>	<b>-</b>	<b>119</b>	<b>-</b>
		December 31, 2017	Level 1	Level 2	Level 3
		Million KRW	Million KRW	Million KRW	Million KRW
<b>Financial assets</b>	<b>Derivatives</b>				
	Interest Rate Swaps	223	-	223	-
<b>Total</b>		<b>223</b>	<b>-</b>	<b>223</b>	<b>-</b>

During the reporting periods ended September 30, 2018 and December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements. For the financial assets and financial liabilities for which the fair value is disclosed the carrying amount is a reasonable approximation of fair values and is measured using Level 3 measurement methods, except for cash and cash equivalent.



## 22. 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 nine months ended	
		2018	September 30, 2017
		Million KRW	Million KRW
Jongho Park, Chairman of the Board of Directors	Finance income	542	627
Maurizio Butti, Chief Executive Officer	Finance income	1	-
Songwon Moolsan Co., Ltd.	Selling and administration costs	-41	-38
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Sales of goods	10	-
	Cost of sales of goods	-11,212	-11,554
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	Sales of goods	5,761	11,657
	Cost of sales of goods	-138	-
	Selling and administration costs	-332	-562
	Other income	11	104
	Finance income	43	89
<b>Total</b>	<b>Sales of goods</b>	<b>5,771</b>	<b>11,657</b>
	<b>Cost of sales of goods</b>	<b>-11,350</b>	<b>-11,554</b>
	<b>Selling and administration costs</b>	<b>-373</b>	<b>-600</b>
	<b>Other income</b>	<b>11</b>	<b>104</b>
	<b>Finance income</b>	<b>586</b>	<b>716</b>

\*refer to note 4 for further details

Related Party	Description	As at	
		September 30, 2018	December 31, 2017
		Million KRW	Million KRW
Jongho Park, Chairman of the Board of Directors	Trade and other receivables	34	40
	Other current financial assets	8,000	18,000
Maurizio Butti, Chief Executive Officer	Trade and other receivables	1	-
	Other current financial assets	1,342	-
Songwon Moolsan Co., Ltd.	Other non-current financial assets	24	24
	Trade and other payables	5	4
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Trade and other payables	1,012	1,834
Qingdao Long Fortune Songwon Chemical Co., Ltd.*	Other non-current financial assets	-	1,641
	Trade and other receivables	-	5,144
<b>Total</b>	<b>Other non-current financial assets</b>	<b>24</b>	<b>1,665</b>
	<b>Trade and other receivables</b>	<b>35</b>	<b>5,184</b>
	<b>Other current financial assets</b>	<b>9,342</b>	<b>18,000</b>
	<b>Trade and other payables</b>	<b>1,017</b>	<b>1,838</b>

\*refer to note 4 for further details

## 22.1. The ultimate parent

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

## 22.2. 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 nine months ended September 30, 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (December 31, 2017: none). This assessment is undertaken periodically through examining the financial position of the related party and the market in which the related party operates.

## 22.3. Transactions with key management personnel

In the first quarter of 2018, the Group granted a loan of 10,000 Million KRW to the Chairman of the Board of Directors of the Group, Jongho Park under normal market conditions. In August 2018, 20,000 Million KRW were paid back to the company. The total granted loan as per September 30, 2018 is 8,000 Million KRW.

During the second quarter of 2018, the Group granted a loan of 1,342 Million KRW (1,185 Thousand CHF) to the Chief Executive Officer of the Group, Maurizio Butti under normal market conditions.

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

Description	For the nine months ended	
	September 30,	
	2018	2017
	Million KRW	Million KRW
Short-term employee benefits	9,800	12,155
Post-employment benefits	591	606
Other long-term benefits	1,098	1,131
Share based payments	-22	-123
<b>Total compensation paid to key management personnel</b>	<b>11,467</b>	<b>13,769</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.

## 22.5. 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.

## 23. Commitments and contingencies

### 23.1. 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 financial position or income.

### 23.2. Operating lease commitments

The Group has entered into commercial leases on certain motor vehicles, items of machinery and offices. The lease periods are between 1 and 30 years with a renewal option included in some contracts. There are no restrictions placed upon the Group by entering into these leases. Future minimum lease payments under non-cancellable operating leases as of September 30, 2018 and December 31, 2017 are as follows:

Description	As at	
	September 30, 2018	December 31, 2017
	Million KRW	Million KRW
Within one year	-1,716	-2,363
After one year but not more than five years	-8,507	-8,259
More than five years	-1,913	-2,049
<b>Total</b>	<b>-12,136</b>	<b>-12,671</b>

### 23.3. Other commitments

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

One check and one promissory note which the Group received from KEB Hana Bank, are outstanding as of September 30, 2018 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 September 30, 2018 are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	23,400	6,473	16,927
D/A and D/P	Thousand USD	111,500	64,921	46,579
	Million KRW	32,000	6,098	25,902
Trade loans	Million KRW	15,000	2,604	12,396
Secured loan of credit sales	Million KRW	9,000	6,522	2,478
Other foreign currency guarantees	Thousand USD	18,270	12,012	6,258
	<b>Total Million KRW</b>	<b>56,000</b>	<b>15,224</b>	<b>40,776</b>
	<b>Total Thousand USD</b>	<b>153,170</b>	<b>83,406</b>	<b>69,764</b>

## 24. 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 September 30, 2018 and December 31, 2017, expressed in the maximum pledge amount are as follows:

<b>Pledged to</b>	<b>Pledged assets</b>		<b>September 30, 2018</b>	<b>December 31, 2017</b>
<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, investment properties and machinery	MKRW	57,000	57,000
Woori Bank	Land, buildings and machinery	MKRW	120,000	120,000
KEB Hana Bank	Land, buildings and machinery	MKRW	60,000	60,000
<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 September 30, 2018 (December 31, 2017: none).

The Group has received payment guarantees amounting to 210,600 Million KRW and 31,284 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 September 30, 2018.

The bank deposits pledged as collateral as of September 30, 2018 and December 31, 2017 are as follows:

<b>Description</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Bank deposits – current (in Thousand USD)	2,041	3,089
Bank deposits – non-current (in Thousand USD)	-	163

## 25. Financial risk management objectives and policies

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

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

## 25.1. Market risk

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

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

Financial instruments affected by market risk include loans and borrowings, deposits, equity instruments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of September 30, 2018 and 2017 as well as December 31, 2017.

### 25.1.1. 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>September 30, 2018</b>	1.00	-832
	-1.00	832
<b>September 30, 2017</b>	1.00	-869
	-1.00	869

### 25.1.2. 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 September 30, 2018 and December 31, 2017 are as follows:

Currency	September 30, 2018		December 31, 2017	
	10% increase	10% decrease	10% increase	10% decrease
	Million KRW	Million KRW	Million KRW	Million KRW
USD	1,336	-1,336	64	-64
EUR	585	-585	-1,056	1,056
JPY	158	-158	275	-275
CNY	-	-	176	-176
CHF	237	-237	602	-602
AED	-81	81	-80	80
INR	968	-968	1,081	-1,081
<b>Total</b>	<b>3,203</b>	<b>-3,203</b>	<b>1,062</b>	<b>-1,062</b>

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

## 25.2. 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 21.

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.

## 25.3. 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 based on contractual undiscounted payments as of September 30, 2018 and December 31, 2017 are as follows:

As of September 30, 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	15,841	44,088	225,992	18,420	-	304,341
Other financial liabilities	561	1,434	141	3,203	-	5,339
Trade and other payables	93,465	11,536	16,713	-	-	121,714
<b>Total</b>	<b>109,867</b>	<b>57,058</b>	<b>242,846</b>	<b>21,623</b>	-	<b>431,394</b>

  

As of December 31, 2017	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	8,954	69,015	130,785	98,783	-	307,537
Other financial liabilities	429	1,252	62	4,625	-	6,368
Trade and other payables	77,555	25,485	6,498	-	-	109,538
<b>Total</b>	<b>86,938</b>	<b>95,752</b>	<b>137,345</b>	<b>103,408</b>	-	<b>423,443</b>

## 25.4. 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 September 30, 2018 and December 31, 2017 is 124% and 129%, respectively.

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

## 26. Cash flow statement

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

The Group's statement of cash flow is prepared using the indirect method. The adjustments to the net profit for the period of the non-cash and non-operating items and changes in operating assets and liabilities for the nine months ended September 30, 2018 and 2017 are as follows:

Adjustments	Notes	For the nine months ended	
		2018	2017
		Million KRW	Million KRW
Depreciation of property, plant and equipment	7	21,966	20,627
Depreciation of investment properties		15	8
Amortization of intangible assets	8	3,199	3,434
Impairment of non-current financial assets		4	3
(Gains) / losses on disposals of property, plant and equipment, net		-18	17
(Gain) on disposal of available-for-sale financial investments		-	-50
Losses on disposals of intangible assets, net		-	20
Share of result from investments accounted using the equity method	5	-1,096	-948
Financial income		-7,422	-6,686
Financial expenses		6,704	15,403
Income tax expenses	16	7,463	8,264
<b>Total</b>		<b>30,815</b>	<b>40,092</b>
<b>Changes in operating assets and liabilities</b>			
Trade receivables		-679	-10,852
Other receivables		2,201	-1,144
Other current assets		-5,256	-4,006
Other current financial assets		-680	91
Inventories		-43,564	-30,362
Trade payables		12,254	17,639
Other payables		-327	28
Other current financial liabilities		466	145
Other current liabilities		5,111	3,384
Pension liabilities		4,414	-3,205
Other long-term employment benefits		312	-99
<b>Total</b>		<b>-25,748</b>	<b>-28,381</b>

## 27. Events after the reporting period

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





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## Report on review of interim condensed consolidated financial statements

### The Board of Directors and Stockholders Songwon Industrial Co., Ltd.

We have reviewed the accompanying interim condensed consolidated financial statements of Songwon Industrial Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim condensed consolidated statement of financial position as at September 30, 2018, 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 nine month periods ended September 30, 2018 and 2017, and notes to the financial statements including 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 fair presentation of these interim condensed consolidated financial statements in accordance with Korean International Financial Reporting Standard (KIFRS) 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of the interim condensed 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 and consequently 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 do not present fairly in all material respects, the financial position of the Company as of September 30, 2018 and of its financial performance and its cash flows for the three and nine month periods then ended in accordance with KIFRS 1034

**Other matters**

We have audited the consolidated statement of financial position of the Group as at December 31, 2017, and the related consolidated statement of comprehensive income, consolidated statement of 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 27, 2018 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as at December 31, 2017, presented for comparative purposes, is not different, in all material respects, from the above audited consolidated statement of financial position.



November 12, 2018

This review report is effective as at November 12, 2018, the independent auditors' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditors' 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 modifications to this review report.

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