



FINANCIAL RESULTS  
FIRST QUARTER  
ENDING MARCH 31, **2018**

It's all about **the chemistry™**

## About this report

The condensed interim consolidated financial statements (refer to section 2 from page 7 to 40) according to K-IFRS are reviewed 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 condensed interim financial statements for the three months ended March 31, 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 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

	Q1 2018	Q1 2017	
	Million KRW	Million KRW	Δ%
Sales of goods	190,472	174,965	8.9%
Gross profit	42,596	37,862	12.5%
<i>Gross profit margin</i>	22.4%	21.6%	
Operating profit	15,262	12,983	17.6%
EBITDA	23,704	21,225	11.7%
<i>EBITDA margin</i>	12.4%	12.1%	
EBIT	15,433	13,102	17.8%
<i>EBIT margin</i>	8.1%	7.5%	
Profit for the period	11,537	8,284	39.3%
Total assets	910,348	874,318	4.1%
Total equity	386,764	356,277	8.6%
<i>Equity ratio</i>	42.5%	40.7%	
Headcounts	985	903	9.1%

## Sales development

### Products

	Q1 2018	Q1 2017	
	Million KRW	Million KRW	Δ%
Alkylphenols and Intermediates	1,067	427	149.9%
Plasticizers	2,042	2,090	-2.3%
Polyester Diols	2,258	3,296	-31.5%
Polymer Stabilizers (AOX & UVs)	133,063	113,619	17.1%
Polyurethanes	10,373	10,570	-1.9%
PVC Stabilizers	10,812	18,994	-43.1%
SAP and Flocculants	1,830	2,046	-10.6%
Tin Intermediates	18,654	18,330	1.8%
Others	10,373	5,593	85.5%
<b>Total sales of goods</b>	<b>190,472</b>	<b>174,965</b>	<b>8.9%</b>

### Regions

	Q1 2018	Q1 2017	
	Million KRW	Million KRW	Δ%
Korea	46,353	48,597	-4.6%
Rest of Asia	50,178	43,133	16.3%
Europe	45,169	38,963	15.9%
North and South America	36,458	33,416	9.1%
Australia	401	462	-13.2%
Middle East and Africa	11,913	10,394	14.6%
<b>Total sales of goods</b>	<b>190,472</b>	<b>174,965</b>	<b>8.9%</b>

## Business development

During the 1st quarter of 2018, ended March 31, 2018, Songwon Industrial Group achieved consolidated sales of 190,472 Mil. KRW, and a net profit of 11,537 Mil. KRW. When compared to sales for Q1/2017 (174,965 Mil. KRW), this marks a 9.0% increase in revenue and a net profit increase of 39% over Q1/2017 (8,284 Mil. KRW).

In Q1 2018, SONGWON's polymer stabilizers (PS) business performance was in line with the organization's expectations, as the demand for PS continues to be strong across the portfolio and in all regions.

Although SONGWON's other businesses experienced a slightly slower start to the year, demand remained stable, with some regions such as the Middle East and Europe showing clear signs of growth over the same period last year. Traditionally, due to the Chinese New Year celebrations which took place this year in February, SONGWON experienced a slowdown in both China and Korea during this period. However, overall when compared to Q1 2017, volumes and revenues are growing at a rate which exceeds estimated market growth.

From a revenues perspective, the impact of the price increases that were initiated by SONGWON in Q4 2017 is now visible and offsetting the increase in the cost of raw materials. Contrary to this, unfavorable FX developments continue to have a negative impact on SONGWON's results, mainly due to the weaker USD compared to the KRW.

## Outlook

The Group's positive start to the year, provides grounds for SONGWON to be cautiously optimistic looking ahead. Historically, the second and third quarters have always been strong quarters and SONGWON foresees the general demand for its products across the portfolio to continue to grow steadily. However, given the general weak and volatile economic situation and high political uncertainties worldwide, the organization does not disregard the potential for negative surprises. For example, from an upcoming trade war between China and the US. In response, SONGWON will carry on exercising prudent capital management and press forward on a variety of initiatives to secure profitability and support further growth going forward.

The Group will also continue the implementation of price increases to offset the ever-increasing cost of raw materials. Tight supply/demand situations for its key products may possibly result in the organization announcing further price increases.

For the next few years, the demand for Fuel & Lubricant antioxidants is expected to remain strong and above the GDP. This growth, particularly in the US is driven by the introduction of new stringent emissions and fuel economy legislation which forces combustion engines to achieve lower emissions, as well as longer oil drainage intervals.

At the same time, the Group continues to build on its strong local presence in Asia and its effective supply chain. In Korea, increased government spending is expected to boost the local economy in 2018. SONGWON also stands to benefit from the fact that many leading lubricant producers from the US and Europe are relocating their oil blending activities, to Asia. Sitting in the heart of North East Asia, SONGWON is ideally positioned to serve these producers who are looking for local partners to source their demand in additives.

Focusing on the future, the company aims to consistently drive its strategy forward with the appropriate level of financial prudence. While ensuring its core business remains stable, the Group will proactively seek opportunities to further support long-term growth. SONGWON continues to make progress in the optimization of its global supply chain which is expected to drive further working capital efficiencies, and it remains committed to improving its return on investments.

# **SECTION 2:**

# **Interim Condensed**

# **Consolidated Financial**

# **Statements**

## Interim consolidated statement of financial position

	Notes	As at	
		March 31, 2018	December 31, 2017
		Million KRW	Million KRW
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>488,292</b>	<b>487,614</b>
Property, plant and equipment	5.3, 6, 23	441,098	441,721
Investment properties	5.3, 23	3,528	3,530
Intangible assets	5.3, 7	20,571	21,609
Investments accounted for using the equity method	4	7,800	7,035
Available-for-sale financial investments	20	-	900
Other non-current assets		73	33
Other non-current financial assets	11, 20, 21	12,762	10,265
Deferred tax assets		2,460	2,521
<b>Current assets</b>		<b>422,056</b>	<b>377,507</b>
Inventories	8	188,002	166,641
Trade and other receivables	9, 20, 21	140,687	130,894
Income tax receivables		549	518
Other current assets	12	5,822	3,502
Other current financial assets	11, 20, 21	30,918	20,548
Cash and cash equivalent	10, 20	56,078	55,404
<b>Total assets</b>		<b>910,348</b>	<b>865,121</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		<b>386,764</b>	<b>378,127</b>
<i>Non-controlling interests</i>		<i>-2,886</i>	<i>-2,733</i>
<i>Equity attributable to owners of the parent</i>		<i>389,650</i>	<i>380,860</i>
Issued capital	13	12,000	12,000
Capital surplus	13	24,361	24,361
Reserves	13	27,591	27,255
Retained earnings	13	330,089	322,085
Accumulated other comprehensive income	13.2	-4,391	-4,841
<b>Non-current liabilities</b>		<b>157,937</b>	<b>162,354</b>
Interest-bearing loans and borrowings	14, 20, 22.3, 24.3	93,850	98,783
Pension liability		10,107	8,311
Other long-term employee-related liabilities		6,561	5,585
Other non-current financial liabilities	17, 20, 24.3	2,800	4,625
Other non-current liabilities		42	40
Deferred tax liabilities		44,577	45,010
<b>Current liabilities</b>		<b>365,647</b>	<b>324,640</b>
Interest-bearing loans and borrowings	14, 20, 22.3, 24.3	234,117	208,754
Trade and other payables	20, 21, 24.3	118,925	109,538
Other current liabilities		3,032	1,801
Other current financial liabilities	17, 20, 24.3	5,521	1,743
Income tax payable		4,052	2,804
<b>Total liabilities</b>		<b>523,584</b>	<b>486,994</b>
<b>Total equity and liabilities</b>		<b>910,348</b>	<b>865,121</b>



## Interim consolidated statement of financial position

	As at	
	March 31, 2018	December 31, 2017
	Thousand USD	Thousand USD
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>459,507</b>	<b>458,869</b>
Property, plant and equipment	415,095	415,682
Investment properties	3,320	3,322
Intangible assets	19,358	20,335
Investments accounted for using the equity method	7,340	6,620
Available-for-sale financial investments	-	847
Other non-current assets	69	31
Other non-current financial assets	12,010	9,660
Deferred tax assets	2,315	2,372
<b>Current assets</b>	<b>397,175</b>	<b>355,253</b>
Inventories	176,919	156,817
Trade and other receivables	132,393	123,178
Income tax receivables	517	487
Other current assets	5,479	3,296
Other current financial assets	29,095	19,337
Cash and cash equivalent	52,772	52,138
<b>Total assets</b>	<b>856,682</b>	<b>814,122</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>363,963</b>	<b>355,835</b>
<i>Non-controlling interests</i>	<i>-2,716</i>	<i>-2,572</i>
<i>Equity attributable to owners of the parent</i>	<i>366,679</i>	<i>358,407</i>
Issued capital	11,293	11,293
Capital surplus	22,925	22,925
Reserves	25,963	25,647
Retained earnings	310,630	303,097
Accumulated other comprehensive income	-4,132	-4,555
<b>Non-current liabilities</b>	<b>148,627</b>	<b>152,784</b>
Interest-bearing loans and borrowings	88,318	92,960
Pension liability	9,511	7,821
Other long-term employee-related liabilities	6,174	5,256
Other non-current financial liabilities	2,635	4,352
Other non-current liabilities	40	38
Deferred tax liabilities	41,949	42,357
<b>Current liabilities</b>	<b>344,092</b>	<b>305,503</b>
Interest-bearing loans and borrowings	220,316	196,448
Trade and other payables	111,914	103,081
Other current liabilities	2,853	1,695
Other current financial liabilities	5,196	1,640
Income tax payable	3,813	2,639
<b>Total liabilities</b>	<b>492,719</b>	<b>458,287</b>
<b>Total equity and liabilities</b>	<b>856,682</b>	<b>814,122</b>

## Interim consolidated statement of comprehensive income

	Notes	For the three months ended	
		2018	March 31, 2017
		Million KRW	Million KRW
Sales of goods	5.1, 5.2, 21	190,472	174,965
Cost of sales	21	-147,876	-137,103
<b>Gross profit</b>		<b>42,596</b>	<b>37,862</b>
Selling and administration costs	21	-27,334	-24,879
<b>Operating profit</b>		<b>15,262</b>	<b>12,983</b>
Other income	21	488	407
Other expenses		-317	-288
Share of result from investments accounted for using the equity method	4	541	293
Finance income	21	7,859	12,139
Finance expenses		-10,478	-14,802
<b>Profit before tax</b>		<b>13,355</b>	<b>10,732</b>
Income tax expenses	15	-1,818	-2,448
<b>Profit for the period</b>		<b>11,537</b>	<b>8,284</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>		460	-2,836
Gains/(Losses) on valuation of interest rate swaps	13.2	-71	70
Tax effects on valuation of interest rate swaps	13.2, 15	16	-16
Exchange differences on translation of foreign operations	13.2	515	-2,890
<b>Total other comprehensive income, net of taxes</b>		<b>460</b>	<b>-2,836</b>
<b>Total comprehensive income</b>		<b>11,997</b>	<b>5,448</b>
<b>Profit for the period attributable to:</b>			
Owners of the parent	16	11,700	8,342
Non-controlling interests		-163	-58
<b>Profit for the period</b>		<b>11,537</b>	<b>8,284</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		12,150	5,407
Non-controlling interests		-153	41
<b>Total comprehensive income</b>		<b>11,997</b>	<b>5,448</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	16	487	348

## Interim consolidated statement of comprehensive income

	For the three months ended	
	2018	March 31, 2017
	Thousand USD	Thousand USD
Sales of goods	179,244	164,651
Cost of sales	-139,159	-129,021
<b>Gross profit</b>	<b>40,085</b>	<b>35,630</b>
Selling and administration costs	-25,723	-23,412
<b>Operating profit</b>	<b>14,362</b>	<b>12,218</b>
Other income	459	383
Other expenses	-298	-271
Share of result from investments accounted for using the equity method	509	276
Finance income	7,396	11,423
Finance expenses	-9,860	-13,929
<b>Profit before tax</b>	<b>12,568</b>	<b>10,100</b>
Income tax expenses	-1,711	-2,303
<b>Profit for the period</b>	<b>10,857</b>	<b>7,797</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>	433	-2,669
Gains/(Losses) on valuation of interest rate swaps	-68	66
Tax effects on valuation of interest rate swaps	16	-15
Exchange differences on translation of foreign operations	485	-2,720
<b>Total other comprehensive income, net of taxes</b>	<b>433</b>	<b>-2,669</b>
<b>Total comprehensive income</b>	<b>11,290</b>	<b>5,128</b>
<b>Profit for the period attributable to:</b>		
Owners of the parent	11,010	7,851
Non-controlling interests	-153	-54
<b>Profit for the period</b>	<b>10,857</b>	<b>7,797</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	11,434	5,089
Non-controlling interests	-144	39
<b>Total comprehensive income</b>	<b>11,290</b>	<b>5,128</b>
<b>Earnings per share</b>	<b>USD</b>	<b>USD</b>
Basic / diluted, profit for the period attributable to ordinary equity holders of the parent	0.46	0.33

## Interim consolidated statement of changes in equity

For the three months ended March 31, 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	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	-	-	-	8,342	-	8,342	-58	8,284
Gain on valuation of interest rate swaps, net of tax	-	-	-	-	54	54	-	54
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-2,989	-2,989	99	-2,890
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,342</b>	<b>-2,935</b>	<b>5,407</b>	<b>41</b>	<b>5,448</b>
Dividends	-	-	-	-3,360	-	-3,360	-	-3,360
Appropriation to reserves	-	-	336	-336	-	-	-	-
<b>As at March 31, 2017</b>	<b>12,000</b>	<b>24,361</b>	<b>27,255</b>	<b>295,190</b>	<b>-333</b>	<b>358,473</b>	<b>-2,196</b>	<b>356,277</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	-	-	-	11,700	-	11,700	-163	11,537
Loss on valuation of interest rate swaps, net of tax	-	-	-	-	-55	-55	-	-55
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	505	505	10	515
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,700</b>	<b>450</b>	<b>12,150</b>	<b>-153</b>	<b>11,997</b>
Dividends	-	-	-	-3,360	-	-3,360	-	-3,360
Appropriation to reserves	-	-	336	-336	-	-	-	-
<b>As at March 31, 2018</b>	<b>12,000</b>	<b>24,361</b>	<b>27,591</b>	<b>330,089</b>	<b>-4,391</b>	<b>389,650</b>	<b>-2,886</b>	<b>386,764</b>

## Interim consolidated statement of changes in equity

For the three months ended March 31, 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>11,293</b>	<b>22,925</b>	<b>25,332</b>	<b>273,416</b>	<b>2,449</b>	<b>335,415</b>	<b>-2,105</b>	<b>333,309</b>
Profit for the period	-	-	-	7,851	-	7,851	-54	7,797
Gain on valuation of interest rate swaps, net of tax	-	-	-	-	51	51	-	51
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-2,813	-2,813	93	-2,720
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,851</b>	<b>-2,762</b>	<b>5,089</b>	<b>39</b>	<b>5,128</b>
Dividends	-	-	-	-3,162	-	-3,162	-	-3,162
Appropriation to reserves	-	-	316	-316	-	-	-	-
<b>As at March 31, 2017</b>	<b>11,293</b>	<b>22,925</b>	<b>25,648</b>	<b>277,789</b>	<b>-313</b>	<b>337,342</b>	<b>-2,066</b>	<b>335,275</b>
<b>As at January 1, 2018</b>	<b>11,293</b>	<b>22,925</b>	<b>25,647</b>	<b>303,097</b>	<b>-4,555</b>	<b>358,407</b>	<b>-2,572</b>	<b>355,835</b>
Profit for the period	-	-	-	11,010	-	11,010	-153	10,857
Loss on valuation of interest rate swaps, net of tax	-	-	-	-	-52	-52	-	-52
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	475	475	9	484
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,010</b>	<b>423</b>	<b>11,433</b>	<b>-144</b>	<b>11,289</b>
Dividends	-	-	-	-3,162	-	-3,162	-	-3,162
Appropriation to reserves	-	-	316	-316	-	-	-	-
<b>As at March 31, 2018</b>	<b>11,293</b>	<b>22,925</b>	<b>25,963</b>	<b>310,629</b>	<b>-4,132</b>	<b>366,678</b>	<b>-2,716</b>	<b>363,962</b>

## Interim consolidated statement of cash flows

	Notes	For the three months ended	
		2018	2017
		Million KRW	Million KRW
<b>Profit for the period</b>		<b>11,537</b>	<b>8,284</b>
<b>Adjustments total</b>	<b>25</b>	<b>10,242</b>	<b>16,569</b>
<b>Changes in operating assets and liabilities</b>	<b>25</b>	<b>-22,144</b>	<b>-27,710</b>
Interest received		49	94
Payment of income tax		-978	-2,490
<b>Net cash flow from operating activities</b>		<b>-1,294</b>	<b>-5,253</b>
Proceeds from sale of property, plant and equipment	6	23	25
Proceeds from sale of intangible assets	7	-	42
Purchase of property, plant and equipment	6	-4,894	-9,570
Purchase of intangible assets	7	-50	-85
Increase of other financial assets, net		-11,806	-15,103
<b>Net cash flow from investing activities</b>		<b>-16,727</b>	<b>-24,691</b>
Proceeds from borrowings (current)		181,465	111,065
Repayment of borrowings (current)		-161,784	-61,719
Proceeds from interest bearing borrowings (non-current)		-	230
Increase / (decrease) in other financial liabilities, net		-339	3,470
Interest paid		-2,254	-2,321
<b>Net cash flow from financing activities</b>		<b>17,088</b>	<b>50,725</b>
Increase in cash and cash equivalents		-933	20,781
Net foreign exchange differences		1,607	-2,443
Cash and cash equivalent at January 1,	10	55,404	49,300
<b>Cash and cash equivalent at March 31,</b>	<b>10</b>	<b>56,078</b>	<b>67,638</b>

## Interim consolidated statement of cash flows

	For the three months ended	
	2018	March 31, 2017
	Thousand USD	Thousand USD
<b>Profit for the period</b>	<b>10,857</b>	<b>7,797</b>
<b>Adjustments total</b>	<b>9,638</b>	<b>15,592</b>
<b>Changes in operating assets and liabilities</b>	<b>-20,839</b>	<b>-26,076</b>
Interest received	46	88
Payment of income tax	-920	-2,343
<b>Net cash flow from operating activities</b>	<b>-1,218</b>	<b>-4,942</b>
Proceeds from sale of property, plant and equipment	22	24
Proceeds from sale of intangible assets	-	40
Purchase of property, plant and equipment	-4,605	-9,006
Purchase of intangible assets	-47	-80
Increase of other financial assets, net	-11,110	-14,213
<b>Net cash flow from investing activities</b>	<b>-15,741</b>	<b>-23,235</b>
Proceeds from borrowings (current)	170,768	104,518
Repayment of borrowings (current)	-152,247	-58,081
Proceeds from interest bearing borrowings (non-current)	-	216
Increase / (decrease) in other financial liabilities, net	-318	3,265
Interest paid	-2,121	-2,184
<b>Net cash flow from financing activities</b>	<b>16,082</b>	<b>47,735</b>
Increase in cash and cash equivalents	-877	19,557
Net foreign exchange differences	1,510	-2,299
Cash and cash equivalent at January 1,	52,138	46,394
<b>Cash and cash equivalent at March 31,</b>	<b>52,771</b>	<b>63,652</b>

## Notes to the condensed interim consolidated financial statements

### 1. Corporate information

#### 1.1. The Company

SONGWON Industrial Group (the “Group”) consists of the parent company, Songwon Industrial Co. Ltd. (the “Company”) and its consolidated subsidiaries as listed below. The Company was incorporated on December 15, 1965 under the 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 March 31, 2018, the scope of consolidation for the consolidated financial statements encompasses 13 entities (2017: 10 entities). Additionally, two entities are classified as joint ventures (2017: 2 entities) and accounted for using the equity method.

In the course of the first three months ended March 31, 2018, the following changes in the legal structure of the Group and scope of consolidation have taken place:

- Establishment of Songwon Europe GmbH, Songwon Chemicals GmbH and Songwon Trading GmbH

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

Name	Location	March 31, 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%	-	-
Songwon International Middle East FZE	UAE	Subsidiary	100%	Subsidiary	100%
Songwon Polysys Additives LLC	UAE	Subsidiary	55.5%	Subsidiary	55.5%



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

## 2. Basis of preparation

The interim condensed financial statements for the three months ended March 31, 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 1,062.64 to USD 1, the exchange rate in effect on March 31, 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 1 January 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 has not included related disclosures in the interim condensed financial statements, because there is no significant change as a result of the adoption of K-IFRS 1115 and the amount effect is insignificant.

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) Sale 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) Rendering 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 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 months ended March 31, 2017 is not material. Therefore, the Group has not included related disclosures in the interim condensed consolidated financial statements, because the effect is not significant as a result of the adoption of K-IFRS 1115.

### **K-IFRS 1109 Financial Instruments**

K-IFRS 1109 Financial Instruments replaces K-IFRS 1039 Financial Instruments: Recognition and Measurement for annual 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 1 January 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, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 January 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 fundamentally 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 Contract assets and 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 recognises 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. 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.	2,242	10,108	7,339	1,667	2,038	-	-	15,409	4,623
Qingdao Long Fortune Songwon Chemical Co., Ltd.	1,796	14,398	3,191	6,655	6,969	4,266	4,266	6,354	3,177
<b>March 31, 2018</b>	<b>4,038</b>	<b>24,506</b>	<b>10,530</b>	<b>8,322</b>	<b>9,007</b>	<b>4,266</b>	<b>4,266</b>	<b>21,763</b>	<b>7,800</b>

Statement of comprehensive income	Revenue	Depreciation & Amortization	Interest income	Interest expense	Profit before tax	Income tax expenses	Profit for the period	Other comp. income	Total comp. income
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	5,971	-16	-	-11	626	-158	468	-243	225
Qingdao Long Fortune Songwon Chemical Co., Ltd.	6,210	-54	4	-63	252	53	305	-404	-99
<b>For the three months ended March 31, 2017</b>	<b>12,181</b>	<b>-70</b>	<b>4</b>	<b>-74</b>	<b>878</b>	<b>-105</b>	<b>773</b>	<b>-647</b>	<b>126</b>
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	7,213	-33	8	-	1,413	-353	1,060	247	1,307
Qingdao Long Fortune Songwon Chemical Co., Ltd.	7,606	-63	10	-65	621	-175	446	300	746
<b>For the three months ended March 31, 2018</b>	<b>14,819</b>	<b>-96</b>	<b>18</b>	<b>-65</b>	<b>2,034</b>	<b>-528</b>	<b>1,506</b>	<b>547</b>	<b>2,053</b>

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

	As of January 1, 2017	Additions	Share of result from equity method revaluation	Exchange rate effects	As of March 31, 2017
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	3,849	-	140	134	4,123
Qingdao Long Fortune Songwon Chemical Co., Ltd.	2,703	-	153	180	3,036
<b>Total</b>	<b>6,552</b>	<b>-</b>	<b>293</b>	<b>314</b>	<b>7,159</b>

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

## 5. 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.

### 5.1. 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 are disclosed below:

	For the three months ended	
	2018	2017
	Million KRW	Million KRW
Alkyphenols and Intermediates	1,067	427
Plasticizers	2,042	2,090
Polyester Diols	2,258	3,296
Polymer Stabilizers (AOX and UVs)	133,063	113,619
Polyurethanes	10,373	10,570
PVC Stabilizers	10,812	18,994
SAP and Flocculants	1,830	2,046
Tin Intermediates	18,654	18,330
Others	10,373	5,593
<b>Total sales of goods</b>	<b>190,472</b>	<b>174,965</b>

## 5.2. Geographic information

	Q1 2018	Q1 2017	
	Million KRW	Million KRW	Δ%
Korea	46,353	48,597	-4.6%
Rest of Asia	50,178	43,133	16.3%
Europe	45,169	38,963	15.9%
North and South America	36,458	33,416	9.1%
Australia	401	462	-13.2%
Middle East and Africa	11,913	10,394	14.6%
<b>Total sales of goods</b>	<b>190,472</b>	<b>174,965</b>	<b>8.9%</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 three months ended March 31, 2018.

## 5.3. Non-current assets

	As of	
	March 31, 2018	December 31, 2017
	Million KRW	Million KRW
Korea	407,411	407,183
Rest of Asia	21,595	22,509
Europe	15,453	16,033
North and South America	4,750	4,896
Middle East and Africa	15,988	16,239
<b>Total</b>	<b>465,197</b>	<b>466,860</b>

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



## 6. Property, plant and equipment

	Land	Buildings	Structures	Machinery	Other	Construction in progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
<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	-	425	-	75	912	9,341	10,753
Disposals	-	-	-2	-33	-633	-	-668
Reclassifications	-	3,239	40	5,957	41	-9,277	-
Net exchange differences	-	-1,207	-	-1,060	87	-136	-2,316
<b>At March 31, 2017</b>	<b>147,904</b>	<b>87,809</b>	<b>65,678</b>	<b>467,766</b>	<b>18,302</b>	<b>10,465</b>	<b>797,924</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	-	-	-	39	449	6,499	6,987
Disposals	-	-	-	-	-151	-	-151
Reclassifications	-	87	54	2,974	97	-3,212	-
Net exchange differences	-	-147	-	-181	-30	-16	-374
<b>At March 31, 2018</b>	<b>147,904</b>	<b>88,656</b>	<b>66,249</b>	<b>502,702</b>	<b>19,157</b>	<b>7,586</b>	<b>832,254</b>
<b>Depreciation</b>							
<b>At January 1, 2017</b>	-	-20,132	-34,311	-292,056	-12,172	-	-358,671
Depreciation charge	-	-582	-775	-5,208	-405	-	-6,970
Disposals	-	-	2	13	633	-	648
Net exchange differences	-	47	-1	13	-216	-	-157
<b>At March 31, 2017</b>	-	-20,667	-35,085	-297,238	-12,160	-	-365,150
<b>At January 1, 2018</b>	-	-22,439	-37,407	-311,438	-12,787	-	-384,071
Depreciation charge	-	-601	-778	-5,436	-385	-	-7,200
Disposals	-	-	-	-	143	-	143
Net exchange differences	-	10	-	-38	-	-	-28
<b>At March 31, 2018</b>	-	-23,030	-38,185	-316,912	-13,029	-	-391,156
<b>Net book value</b>							
<b>At March 31, 2018</b>	<b>147,904</b>	<b>65,626</b>	<b>28,064</b>	<b>185,790</b>	<b>6,128</b>	<b>7,586</b>	<b>441,098</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 March 31, 2017</b>	<b>147,904</b>	<b>67,142</b>	<b>30,593</b>	<b>170,528</b>	<b>6,142</b>	<b>10,465</b>	<b>432,774</b>

There was no impairment during the reported financial period. Non-cash transactions amounting to 6,077 Million KRW (Q1/2017: 6,269 Million KRW) are included in the additions for the three months ended March 31, 2018.

## 7. Intangible assets

	Industrial rights	Software	Memberships	Customer relationships	Non-compete contracts	Capitalization process technology	Goodwill	Construction in progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
<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>14,938</b>	<b>3,818</b>	<b>44,890</b>	<b>1,361</b>	<b>104,312</b>
Additions	-	4	4	-	-	-	-	77	85
Disposals	-	-87	-	-	-	-	-	-	-87
Net exchange differences	-	-65	-	-2,923	-	-421	-2,855	-	-6,264
<b>At March 31, 2017</b>	<b>3,329</b>	<b>2,624</b>	<b>857</b>	<b>29,428</b>	<b>14,938</b>	<b>3,397</b>	<b>42,035</b>	<b>1,438</b>	<b>98,046</b>
<b>At January 1, 2018</b>	<b>3,601</b>	<b>2,601</b>	<b>831</b>	<b>27,627</b>	<b>14,938</b>	<b>3,142</b>	<b>40,791</b>	<b>1,485</b>	<b>95,016</b>
Additions	-	1	-	-	-	-	-	47	48
Disposals	-	-	-	-	-	-	-	-	-
Reclassifications	153	-	-	-	-	-	-	-153	-
Net exchange differences	1	4	-	-303	-	-43	-120	-	-461
<b>At March 31, 2018</b>	<b>3,755</b>	<b>2,606</b>	<b>831</b>	<b>27,324</b>	<b>14,938</b>	<b>3,099</b>	<b>40,671</b>	<b>1,379</b>	<b>94,603</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>-14,938</b>	<b>-2,301</b>	<b>-34,315</b>	<b>-</b>	<b>-77,060</b>
Amortization charge	-80	-48	-	-893	-	-128	-	-	-1,149
Disposals	-	45	-	-	-	-	-	-	45
Net exchange differences	-1	41	-	2,322	-	331	2,311	-	5,004
<b>At March 31, 2017</b>	<b>-1,446</b>	<b>-2,343</b>	<b>-</b>	<b>-20,331</b>	<b>-14,938</b>	<b>-2,098</b>	<b>-32,004</b>	<b>-</b>	<b>-73,160</b>
<b>At January 1, 2018</b>	<b>-1,700</b>	<b>-2,431</b>	<b>-</b>	<b>-21,429</b>	<b>-14,938</b>	<b>-2,254</b>	<b>-30,655</b>	<b>-</b>	<b>-73,407</b>
Amortization charge	-88	-21	-	-839	-	-120	-	-	-1,068
Disposals	-	-	-	-	-	-	-	-	-
Net exchange differences	-1	-	-	260	-	37	147	-	443
<b>At March 31, 2018</b>	<b>-1,789</b>	<b>-2,452</b>	<b>-</b>	<b>-22,008</b>	<b>-14,938</b>	<b>-2,337</b>	<b>-30,508</b>	<b>-</b>	<b>-74,032</b>
<b>Net book value</b>									
<b>At March 31, 2018</b>	<b>1,966</b>	<b>154</b>	<b>831</b>	<b>5,316</b>	<b>-</b>	<b>762</b>	<b>10,163</b>	<b>1,379</b>	<b>20,571</b>
<b>At January 1, 2018</b>	<b>1,901</b>	<b>170</b>	<b>831</b>	<b>6,198</b>	<b>-</b>	<b>888</b>	<b>10,136</b>	<b>1,485</b>	<b>21,609</b>
<b>At March 31, 2017</b>	<b>1,883</b>	<b>281</b>	<b>857</b>	<b>9,097</b>	<b>-</b>	<b>1,299</b>	<b>10,031</b>	<b>1,438</b>	<b>24,886</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 three months ended March 31, 2018 and 2017.

## 8. Inventories

Description	March 31,	December 31,
	2018	2017
	Million KRW	Million KRW
Raw materials and supplies	32,834	33,752
Work in progress	313	199
Finished goods	114,422	108,134
Goods in transit	40,361	24,438
Consignment stocks	72	118
<b>Total inventories at the lower of cost and net realizable value</b>	<b>188,002</b>	<b>166,641</b>

As of March 31, 2018, inventory write-off amounted to 3,484 Million KRW for raw materials and finished goods (December 31, 2017: 3,480 Million KRW).

## 9. Trade and other receivables

Description	March 31,	December 31,
	2018	2017
	Million KRW	Million KRW
Trade and notes receivables (net) – third parties	128,133	121,822
Trade and notes receivables (net) – related parties	5,543	4,876
Other receivables (net) – third parties	6,447	3,853
Other receivables (net) – related parties	31	268
Accrued income – third parties	287	35
Accrued income – related parties	246	40
<b>Total</b>	<b>140,687</b>	<b>130,894</b>

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

## 10. Cash and cash equivalent

Description	March 31,	December 31,
	2018	2017
	Million KRW	Million KRW
Cash on hand	111	95
Bank accounts	54,151	52,618
Time deposit (< 3 months)	1,816	2,691
<b>Total</b>	<b>56,078</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.

## 11. Other financial assets

Description	March 31, 2018		December 31, 2017	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Bank deposits (> 3 months)	9,386	2,077	8,187	2,009
Loans	2,116	28,000	1,641	18,000
Derivative financial assets (Note 24)	54	376	131	92
Equity Instrument at FVOCI	900	-	-	-
Guarantee deposits	306	465	306	447
<b>Total</b>	<b>12,762</b>	<b>30,918</b>	<b>10,265</b>	<b>20,548</b>

## 12. Other current assets

Description	Mar-31 2018	December 31, 2017
	Million KRW	Million KRW
Advance payments	225	185
Prepaid expenses	2,983	2,663
VAT refundable	2,614	654
<b>Total</b>	<b>5,822</b>	<b>3,502</b>

## 13. Equity

### 13.1. 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.

### 13.2. Accumulated other comprehensive income

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

Description	March 31, 2018	December 31, 2017
	Million KRW	Million KRW
Exchange differences on translation of foreign operations	-4,509	-5,014
Interest rate swaps	118	173
<b>Total</b>	<b>-4,391</b>	<b>-4,841</b>

## 14. Interest bearing loans and borrowings

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

Description	March 31,	December 31,
	2018	2017
	Million KRW	Million KRW
Long-term borrowings	93,850	98,783
<b>Non-current interest bearing loans and borrowings</b>	<b>93,850</b>	<b>98,783</b>
Current portion of long-term borrowings	21,454	21,454
Short-term borrowings	212,663	187,300
<b>Current interest bearing loans and borrowings</b>	<b>234,117</b>	<b>208,754</b>
<b>Total</b>	<b>327,967</b>	<b>307,537</b>

## 15. Income tax expenses

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

Income taxes	For the three months ended	
	March 31,	March 31,
	2018	2017
	Million KRW	Million KRW
Current income tax charge	-2,118	-2,926
Deferred income taxes related to origination and reversal of deferred taxes	316	462
Income tax recognized in other comprehensive income	-16	16
<b>Income tax expenses</b>	<b>-1,818</b>	<b>-2,448</b>

## 16. 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 March 31, 2018 and 2017.

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

Description	For the three months ended	
	March 31,	March 31,
	2018	2017
	KRW	KRW
Net profit attributable to ordinary equity holders of the parent	11,699,796,157	8,342,005,240
Weighted average number of ordinary shares	24,000,000	24,000,000
<b>Earnings per share (basic / diluted)</b>	<b>487</b>	<b>348</b>

## 17. Other financial liabilities

Description	March 31, 2018		December 31, 2017	
	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Derivative liabilities (Note 24)	-	293	-	-
Deposits	2,800	1,333	4,625	1,237
Accrued interest expenses	-	533	-	504
Unpaid dividends	-	3,362	-	2
<b>Total</b>	<b>2,800</b>	<b>5,521</b>	<b>4,625</b>	<b>1,743</b>

## 18. Derivatives financial instruments

Description	March 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	Million KRW		Million KRW	
Forward foreign exchange contracts (current portion)	278	293	-	-
Interest rate swaps (current portion)	98	-	92	-
Interest rate swaps (non-current portion)	54	-	131	-
<b>Total</b>	<b>430</b>	<b>293</b>	<b>223</b>	<b>-</b>

### 18.1. Currency forwards

Currency forward contracts which the Group has entered into in order to hedge the risk of foreign exchange rate fluctuation of assets denominated in foreign currencies as of March 31, 2018 (December 31, 2017: none) are as follows:

#### As of March 31, 2018

Contractual party	Position	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
KEB Hana Bank	Sell	EUR 7,470,000	30.04.2018 – 31.12.2018	1,330.51 – 1,341.90
Kyongnam Bank	Sell	JPY 639,000,000	27.04.2018 – 28.12.2018	10.2670 – 10.3430
Citibank Korea	Sell	EUR 21,240,000	30.04.2018 – 26.03.2019	1,330.00 – 1,388.00
Woori Bank	Sell	EUR 7,200,000	30.04.2018 – 29.03.2019	1,360.14 – 1,366.00
Citibank Korea	Sell	JPY 1,456,500,000	30.04.2018 – 19.03.2019	10.1620 – 10.5200
Woori Bank	Sell	JPY 919,000,000	30.04.2018 – 29.03.2019	10.4800 – 10.5507

## 18.2. Interest rate swaps

As of March 31, 2018 the Group had entered into the following interest rate swap contracts:

### As of March 31, 2018

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

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

### As of December 31, 2017

Description	Bonds contract	Interest rate swap contract
Contract date	08.03.2016	08.03.2016
Maturity date	08.05.2019	08.05.2019
Contract amount	40,000 Million KRW	40,000 Million KRW
Fixed interest rate	N/A	3.48%
Floating interest rate	3MCD+1.90%	3MCD+1.90%
Contract date	08.03.2016	08.03.2016
Maturity date	08.05.2019	08.05.2019
Contract amount	60,000 Million KRW	60,000 Million KRW
Fixed interest rate	N/A	3.30%
Floating interest rate	3MCD+1.57%	3MCD+1.57%
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 118 Million KRW as of March 31, 2018 and 173 Million KRW as of December 31, 2017, respectively (refer to Note 13) net of income tax.

## 19. Emission rights and emission liabilities

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

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

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

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

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

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

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

- 1) *Details of annual quantity of allocated emission allowances as of March 31, 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	-	-	-251,353	-453
Carryforward	-32,769	-	-	-	-27,215	-	-27,215	-
<b>Ending</b>	-	-	-	-	131,394	-	131,394	-

- 3) *There are no changes in emission liabilities during the three months ended March 31, 2018.*
- 4) *The greenhouse gas emission rights granted during 2018 are 110,651 tCO<sub>2</sub>-eq.*
- 5) *Estimated greenhouse gas emissions in 2018 are 137,866 tCO<sub>2</sub>-eq.*



## 20. Fair values

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9, with the initial application date of 1 January 2018 and will not be adjusting comparative information for the period beginning 1 January 2017.

	Carrying amount		Fair value	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	Million KRW	Million KRW	Million KRW	Million KRW
<b>Financial assets at fair value through profit and loss</b>	<b>278</b>	-	<b>278</b>	-
Other financial assets (Derivatives)	278	-	278	-
<i>Thereof current</i>	278	-	278	-
<b>Financial assets at fair value through OCI</b>	<b>1,052</b>	<b>223</b>	<b>1,052</b>	<b>223</b>
Equity instruments at FVOCI	900	-	900	-
Other financial assets (Derivatives)	152	223	152	223
<i>Thereof current</i>	98	92	98	92
<i>Thereof non-current</i>	54	131	54	131
<b>Financial assets at amortized cost (Loans and receivables)</b>	<b>239,115</b>	<b>216,888</b>	<b>239,115</b>	<b>216,888</b>
Other financial assets	42,350	30,590	42,350	30,590
<i>Thereof current</i>	30,542	20,456	30,542	20,456
<i>Thereof non-current</i>	11,808	10,134	11,808	10,134
Trade and other receivables	140,687	130,894	140,687	130,894
<i>Thereof current</i>	140,687	130,894	140,687	130,894
Cash and cash equivalent	56,078	55,404	56,078	55,404
<i>Thereof current</i>	56,078	55,404	56,078	55,404
<b>Available-for-sale financial investments</b>	-	<b>900</b>	-	<b>900</b>
<i>Thereof non-current</i>	-	900	-	900
<b>Total</b>	<b>240,445</b>	<b>218,011</b>	<b>240,445</b>	<b>218,011</b>

	Carrying amount		Fair value	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	Million KRW	Million KRW	Million KRW	Million KRW
<b>Financial liabilities at fair value through profit and loss</b>	<b>293</b>	-	<b>293</b>	-
Other financial liabilities (Derivatives)	293	-	293	-
<i>Thereof current</i>	293	-	293	-
<b>Financial liabilities at fair value through OCI</b>	-	-	-	-
Other financial liabilities (Derivatives)	-	-	-	-
<i>Thereof current</i>	-	-	-	-
<i>Thereof non-current</i>	-	-	-	-
<b>Financial liabilities measured at amortized costs</b>	<b>454,920</b>	<b>423,443</b>	<b>454,920</b>	<b>423,443</b>
Interest bearing loans and borrowings	327,967	307,537	327,967	307,537
<i>Thereof current</i>	234,117	208,754	234,117	208,754
<i>Thereof non-current</i>	93,850	98,783	93,850	98,783
Other financial liabilities	8,028	6,368	8,028	6,368
<i>Thereof current</i>	5,228	1,743	5,228	1,743
<i>Thereof non-current</i>	2,800	4,625	2,800	4,625
Trade and other payables	118,925	109,538	118,925	109,538
<i>Thereof current</i>	118,925	109,538	118,925	109,538
<b>Total</b>	<b>455,213</b>	<b>423,443</b>	<b>455,213</b>	<b>423,443</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 20.1).*

## 20.1. Fair value hierarchy

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

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

As of March 31, 2018 and December 31, 2017, the Group held the following financial instruments carried at fair value on the statement of financial position:

		March 31,	Level 1	Level 2	Level 3
		2018			
		Million KRW	Million KRW	Million KRW	Million KRW
<b>Financial Assets</b>	<b>Derivatives</b>				
	Foreign exchange forward contracts	278	-	278	-
	Interest Rate Swaps	152	-	152	-
	Total	430	-	430	-
<b>Financial Liabilities</b>	<b>Derivatives</b>				
	Foreign exchange forward contracts	293	-	293	-
	Total	293	-	293	-

During the reporting periods ending March 31, 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.

## 21. Related party disclosures

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

Related Party	Description	For the three months ended	
		2018	March 31,
		Million KRW	Million KRW
Jongho Park, Chairman of the Board of Directors	Finance income	206	206
Songwon Moolsan Co., Ltd.	Selling and administration costs	-13	-13
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint Venture)	Cost of sales	-3,236	-3,798
Qingdao Long Fortune Songwon Chemical Co., Ltd. (Joint Venture)	Sales of goods	4,514	3,765
	Cost of sales	-138	-
	Selling and administration costs	-266	-237
	Other income	11	37
	Finance income	31	30
<b>Total</b>	<b>Sales of goods</b>	<b>4,514</b>	<b>3,765</b>
	<b>Cost of sales</b>	<b>-3,374</b>	<b>-3,798</b>
	<b>Selling and administration costs</b>	<b>-279</b>	<b>-250</b>
	<b>Other income</b>	<b>11</b>	<b>37</b>
	<b>Finance income</b>	<b>237</b>	<b>236</b>

Related Party	Description	As at	
		March 31, 2018	December 31, 2017
		Million KRW	Million KRW
Jongho Park, Chairman of the Board of Directors	Trade and other receivables	246	40
	Other current financial assets	28,000	18,000
Songwon Moolsan Co., Ltd.	Other non-current financial assets	24	24
	Trade and other payables	4	4
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint Venture)	Trade and other payables	1,854	1,834
Qingdao Long Fortune Songwon Chemical Co., Ltd. (Joint Venture)	Other non-current financial assets	2,116	1,641
	Trade and other receivables	5,574	5,144
	Trade and other payables	265	-
<b>Total</b>	<b>Other non-current financial assets</b>	<b>2,140</b>	<b>1,665</b>
	<b>Trade and other receivables</b>	<b>5,820</b>	<b>5,184</b>
	<b>Other current financial assets</b>	<b>28,000</b>	<b>18,000</b>
	<b>Trade and other payables</b>	<b>2,123</b>	<b>1,838</b>

In Q1 2018, the Group granted a loan of 423 Million KRW to Qingdao Long Fortune Songwon Chemical Co., Ltd. The total granted loan in 2,116 Million KRW.

## 21.1. The ultimate parent

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

## 21.2. Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the three months ended March 31, 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.

## 21.3. 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. Total granted loan is 28,000 Million KRW

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

Description	For the three months ended	
	2018	March 31, 2017
	Million KRW	Million KRW
Short-term employee benefits	3,054	4,593
Post-employment benefits	200	200
Other long-term benefits	370	368
Share based payments	105	-170
<b>Total compensation paid to key management personnel</b>	<b>3,729</b>	<b>4,991</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.

## 21.5. 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.

## 22. Commitments and contingencies

### 22.1. 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.

### 22.2. 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 March 31, 2018 and December 31, 2017 are as follows:

Description	As at	
	March 31, 2018	December 31, 2017
	Million KRW	Million KRW
Within one year	2,186	2,363
After one year but not more than five years	8,092	8,259
More than five years	981	2,049
<b>Total</b>	<b>11,259</b>	<b>12,671</b>

### 22.3. Other commitments

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

One check and one promissory note which the Group received from KEB Hana Bank, are outstanding as of March 31, 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 March 31, 2018 are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	23,900	7,351	16,549
D/A and D/P	Thousand USD	111,500	62,398	49,102
	Million KRW	32,000	16,946	15,054
Trade loans	Million KRW	15,000	11,866	3,134
Secured loan of credit sales	Million KRW	9,000	4,868	4,132
Other foreign currency guarantees	Thousand USD	18,270	12,669	5,601
	<b>Total Million KRW</b>	<b>56,000</b>	<b>33,680</b>	<b>22,320</b>
	<b>Total Thousand USD</b>	<b>153,670</b>	<b>82,418</b>	<b>71,252</b>

## 23. Assets pledged as collateral and guarantees

Details of property, plant and equipment and investment properties pledged by the Group as collateral for interest-bearing loans and borrowings as of March 31, 2018 and December 31, 2017, expressed in the maximum pledge amount are as follows:

Pledged to		Pledged assets		March 31, 2018	December 31, 2017
<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
Gyeon Nam 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 March 31, 2018 (December 31, 2017: none).

The Group has received payment guarantees amounting to 294,400 Million KRW and 81,284 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 March 31, 2018.

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

Description	March 31, 2018	December 31, 2017
Bank deposits – current (in Thousand USD)	1,860	3,089
Bank deposits – non-current (in Thousand USD)	163	163

## 24. Financial risk management objectives and policies

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

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

### 24.1. Market risk

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

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

Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of March 31, 2018 and 2017 as well as December 31, 2017.

### 24.1.1. 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>March 31, 2018</b>	1.00	-283
	-1.00	283
<b>March 31, 2017</b>	1.00	-281
	-1.00	281

### 24.1.2. Foreign currency risk

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

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

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

#### Foreign currency sensitivity

The Group carries out a sensitivity analysis for the dominant foreign currencies: US Dollars (USD), Euro (EUR), Japanese Yen (JPY), Chinese Yuan Renminbi (CNY), Swiss Francs (CHF), United Arab Emirates Dirham (AED) and to Indian Rupee (INR). The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments. The following table demonstrates the sensitivity of consolidated net profit before tax to a reasonably possible shift in exchange rates related to financial instruments held in the balance sheet. Assuming that the other variables are constant but only the foreign exchange rate changes by 10%, the impacts on net profit for the period ended on March 31, 2018 and December 31, 2017 are as follows:

Currency	March 31, 2018		December 31, 2017	
	10% increase	10% decrease	10% increase	10% decrease
	Million KRW	Million KRW	Million KRW	Million KRW
USD	-1,187	1,187	64	-64
EUR	-1,070	1,070	-1,056	1,056
JPY	301	-301	275	-275
CNY	215	-215	176	-176
CHF	224	-224	602	-602
AED	-67	67	-80	80
INR	982	-982	1,081	-1,081
<b>Total</b>	<b>-602</b>	<b>602</b>	<b>1,062</b>	<b>-1,062</b>

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

## 24.2. 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 9 and 15.

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.

## 24.3. Liquidity risk

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

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

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

The details of maturity profile of the Group's financial liabilities, excluding financial derivative instruments, based on contractual undiscounted payments as of March 31, 2018 and December 31, 2017 are as follows:



As of March 31, 2018	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	7,077	119,380	107,660	93,850	-	327,967
Other financial liabilities	3,863	1,350	15	2,800	-	8,028
Trade and other payables	93,104	19,610	6,211	-	-	118,925
<b>Total</b>	<b>104,044</b>	<b>140,340</b>	<b>113,886</b>	<b>96,650</b>	<b>-</b>	<b>454,920</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>-</b>	<b>423,443</b>

## 24.4. Capital management

The capital managed by the Group is identical to the total amount of equity presented in the consolidated statement of financial position. The primary objective of the Group's capital management is to ensure its continued ability to provide consistency for its equity shareholders through a combination of capital growth and distribution. In order to achieve this objective, the Group monitors its gearing to balance risk and returns at an acceptable level, and also maintains a sufficient funding base to enable the company to meet its working capital and strategic investment needs. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares considering not only the short-term position, but also its long-term operational and strategic objectives. At Group level the debt ratio is reviewed regularly. The debt-equity ratio as of March 31, 2018 and December 31, 2017 is 136% and 129%, respectively.

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

## 25. 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 three months ended March 31, 2018 and 2017 are as follows:

Adjustments	Notes	For the three months ended	
		March 31, 2018	March 31, 2017
		Million KRW	Million KRW
Depreciation of property, plant and equipment	6	7,200	6,970
Depreciation of investment properties		-	4
Amortization of intangible assets	7	1,068	1,149
Gain on disposal of property, plant and equipment, net		-15	-5
Share of result from investments accounted using the equity method	4	-541	-293
Financial income		-1,611	-6,486
Financial expenses		2,323	12,782
Income tax expenses	13	1,818	2,448
<b>Total</b>		<b>10,242</b>	<b>16,569</b>
<b>Changes in operating assets and liabilities</b>			
Trade receivables		-5,855	-13,620
Other receivables		-2,437	-4,067
Other current assets		-2,505	-2,416
Other current financial assets		-360	-184
Inventories		-21,064	-6,047
Trade payables		16,226	7,655
Other payables		-10,292	-7,758
Other current financial liabilities		223	249
Other current liabilities		1,188	94
Pension liabilities		1,764	-1,499
Other long-term employment benefits		968	-117
<b>Total</b>		<b>-22,144</b>	<b>-27,710</b>

## 26. Events after the reporting period

In May 2018, Songwon increased its share ownership in the joint venture Qingdao Long Fortune Songwon Chemical Co., Ltd. After the acquisition of shares, Songwon increased its ownership from 50% to 72% and therefore the entity will be fully consolidated from May 2018.

No other 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 March 31, 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 ended March 31, 2018 and 2017, all presented in Korean won, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the interim condensed consolidated financial statements

Management is responsible for the preparation and 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.

### Auditors' responsibility

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

### Conclusion

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

**Other matters**

We have audited the consolidated statement of financial position of the Group as at December 31, 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.

A stylized, handwritten signature in black ink that reads 'Ernst & Young Han Young'.

May 14, 2018

For more information, please contact:

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