

Dong-A Pharmaceutical  
2011 Annual Report

# How We Stay Unswayed

[www.donga-pharm.com](http://www.donga-pharm.com)

# Financial Highlights

[In Accordance with the Korean International Financial Reporting Standards (K-IFRS)]

## Separate Results of Operations

(unit: KRW in billions)

For the years ended	2011	2010	Change
Sales	907.3	846.8	7.1%
Cost of Sales	403.3	342.6	17.7%
Operating Income	95.0	112.9	-15.9%
Selling and Administrative Expenses	405.2	395.9	2.3%
Income before Income Tax Expenses	86.5	91.1	-5.0%
Income Tax Expenses	25.8	25.0	3.2%
Net Income	60.7	66.0	-8.0%

## Separate Financial Position

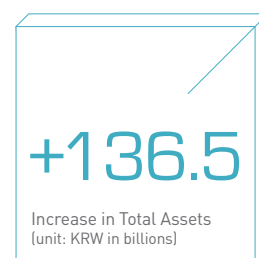
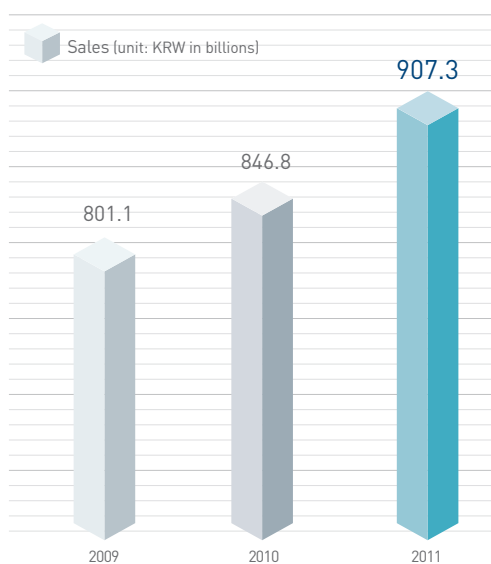
(unit: KRW in billions)

As of the years	2011	2010	Change
Total Assets	1,236.8	1,100.3	12.4%
Total Liabilities	504.4	423.4	19.1%
Total Shareholders' Equity	732.4	676.9	8.2%

## Separate Key Performance Indicators

(unit: %)

Key financial ratios	2011	2010	Change
Operating Profit Margin	10.5%	13.3%	-2.8%p
Net Profit Margin	6.7%	7.8%	-1.1%p
ROE	8.3%	9.8%	-1.5%p



# R&D Pipeline

- New Chemical Entity
- Phytomedicine
- Bio-pharmaceutical Products

<b>DA-3111</b>	Code Name
Breast Cancer	Indication
Trastuzumab Biosimilar	Description

<b>DA-3808</b>	Code Name
Hemophilia A	Indication
Factor VIII Biosimilar	Description
Available	Licensing Availability

<b>DA-3811</b>	Code Name
Gaucher Disease	Indication
Analogue of B-Glucocerebrosidase	Description
Available	Licensing Availability

<b>DA-3880</b>	Code Name
Anemia of Chronic Renal Failure	Indication
Glyco-Engineered Darbepoetin a	Description
Available	Licensing Availability



<b>DA-3091</b>	Code Name
Type 2 Diabetes	Indication
Sustained-Release Formulation of Exenatide	Description
Available	Licensing Availability

<b>DA-3607</b>	Code Name
Brain Tumor	Indication
TRAIL (Tumor Necrosis Factor-Related Apoptosis Inducing Ligand)	Description
Available	Licensing Availability

<b>DA-6886</b>	Code Name
IBS-C (Irritable Bowel Syndrome-Constipation)	Indication
5-HT <sub>4</sub> (Hydroxytryptamine) <sub>4</sub> agonist	Description
Available	Licensing Availability

<b>DA-8031</b>	Code Name
Premature Ejaculation	Indication
SERT (Serotonin Transporter) inhibitor	Description
Available	Licensing Availability

<b>DA-8159</b>	Code Name
BPH (Benign Prostatic Hyperplasia)	Indication
PDE (Phosphodiesterase)-5 inhibitor	Description
Ph I (Japan)	Latest Phase
Some territory available	Licensing Availability



## Pre-clinical

## Ph I

### Key Pipeline Items

#### [DA-8159; Udenafil; Zydena®]

Dong-A Pharmaceutical (Dong-A) launched udenafil in December of 2005 as the fourth oral entrant in the ED (Erectile Dysfunction) market in Korea and successfully completed a phase II trial in the USA. On the successful completion of the phase II trial in the USA and a positive EOP (End-of-Phase) II meeting with the USFDA (Food and Drug Administration), a licensing agreement was sealed in early 2009 for ED indication with Warner-Chilcott, for the USA territory. Warner-Chilcott completed successful pivotal phase III trials in the USA. Udenafil has also shown great potential for the treatment of non-ED indications such as BPH (Benign Prostatic Hyperplasia), PAH (Pulmonary Arterial Hypertension), PH (Portal Hypertension), etc. For the indication of PH, Dong-A has partnered with an EU-based licensee, which is running phase II trials for udenafil in Germany and other EU countries. In 2010, an additional licensing agreement with Warner-Chilcott for BPH indication was made for North

America. In 2011, Dong-A also made an exclusive licensing agreement with Meiji Seika Pharma Co., Ltd., for urologic indications of udenafil, and Meiji Seika is conducting clinical studies in Japan in 2012. In addition, Dong-A is conducting a phase II study in Korea for the indication of PAH.

#### [DA-1229]

DA-1229 is a potential anti-diabetic compound of the DPP-4 (Dipeptidyl Peptidase-4) inhibitor class. In pre-clinical studies, PK-PD (Pharmacokinetics-Pharmacodynamics) correlations between DPP-4 inhibition of DA-1229 and its corresponding plasma concentrations were analyzed in several animal models, in comparison with a product of the same class currently on the market. DA-1229 showed better profiles for EC<sub>50</sub> (Effective Concentration)<sub>50</sub>, a clinically effective concentration at which 80% of plasma DPP-4 is inhibited, over the comparator, in mice, rats, dogs and monkeys. The phase I study for DA-1229 confirmed a favorable

<b>DA-1229</b>	Code Name
Type 2 Diabetes	Indication
DPP (Dipeptidyl Peptidase)-4 inhibitor	Description
Available	Licensing Availability

<b>DA-3030</b>	Code Name
Diabetic Neuropathy	Indication
G-CSF (Granulocyte-Colony Stimulating Factor)	Description
Available	Licensing Availability

<b>DA-8159</b>	Code Name
PH (Portal Hypertension)	Indication
PDE-5 inhibitor	Description
Ph II (Europe)	Latest Phase
Some territory available	Licensing Availability

<b>DA-8159</b>	Code Name
BPH	Indication
PDE-5 inhibitor	Description
Ph II Planned (USA)	Latest Phase
Some territory available	Licensing Availability

<b>DA-8159</b>	Code Name
PAH (Pulmonary Arterial Hypertension)	Indication
PDE-5 inhibitor	Description
Some territory available	Licensing Availability

<b>DA-9801</b>	Code Name
Diabetic Neuropathy	Indication
Herbal extract	Description
Available	Licensing Availability

<b>DA-6034</b>	Code Name
Dry Eye	Indication
Flavone derivative	Description
Available	Licensing Availability



<b>DA-3031</b>	Code Name
Neutropenia	Indication
PEG (Polyethylene Glycol)ylated-G-CSF	Description
Available	Licensing Availability

<b>DA-3051</b>	Code Name
Multiple Sclerosis	Indication
Interferon-beta	Description
Ph III planned (Brazil)	Latest Phase
Available	Licensing Availability

<b>DA-3803</b>	Code Name
Infertility	Indication
Recombinant hCG (human Chorionic Gonadotropin)	Description
Available	Licensing Availability

<b>DA-6034</b>	Code Name
Gastritis	Indication
Flavone derivative	Description
Available	Licensing Availability

<b>DA-7218 (Tedizolid)</b>	Code Name
ABSSSI (Acute Bacterial Skin and Skin Structure Infection)	Indication
Oxazolidinone class antibiotic	Description
Ph III (USA)	Latest Phase

<b>DA-3801</b>	Code Name
Infertility	Indication
Recombinant FSH (Follicle Stimulating Hormone)	Description
Ph III for Ovulation Induction	Latest Phase
Some territory available	Licensing Availability

<b>DA-8159</b>	Code Name
ED (Erectile Dysfunction)	Indication
PDE-5 inhibitor	Description
Ph III (USA)	Latest Phase
Some territory available	Licensing Availability



<b>DA-3801 (Gonadopin®)</b>	Code Name
Infertility	Indication
Recombinant FSH	Description
Launched for COH (Controlled Ovarian Hyperstimulation) in ART (Assisted Reproductive Technology) (Korea) in 2006	Latest Phase
Some territory available	Licensing Availability

<b>DA-8159 (Zydena®)</b>	Code Name
ED	Indication
PDE-5 inhibitor	Description
Launched (Korea) in 2005	Latest Phase
Some territory available	Licensing Availability

<b>DA-9701 (Motilitone™)</b>	Code Name
Functional Dyspepsia	Indication
Herbal extract	Description
Launched (Korea) in 2011	Latest Phase
Available	Licensing Availability



## Ph II

## Ph III

## Launched

PK-PD profile for DA-1229 in humans, and all AEs (Adverse Events) reported in the phase I study were mild. Currently, Dong-A is conducting a phase II study, and plans to enter phase III studies in early 2013.

### [DA-6034: Dry Eye]

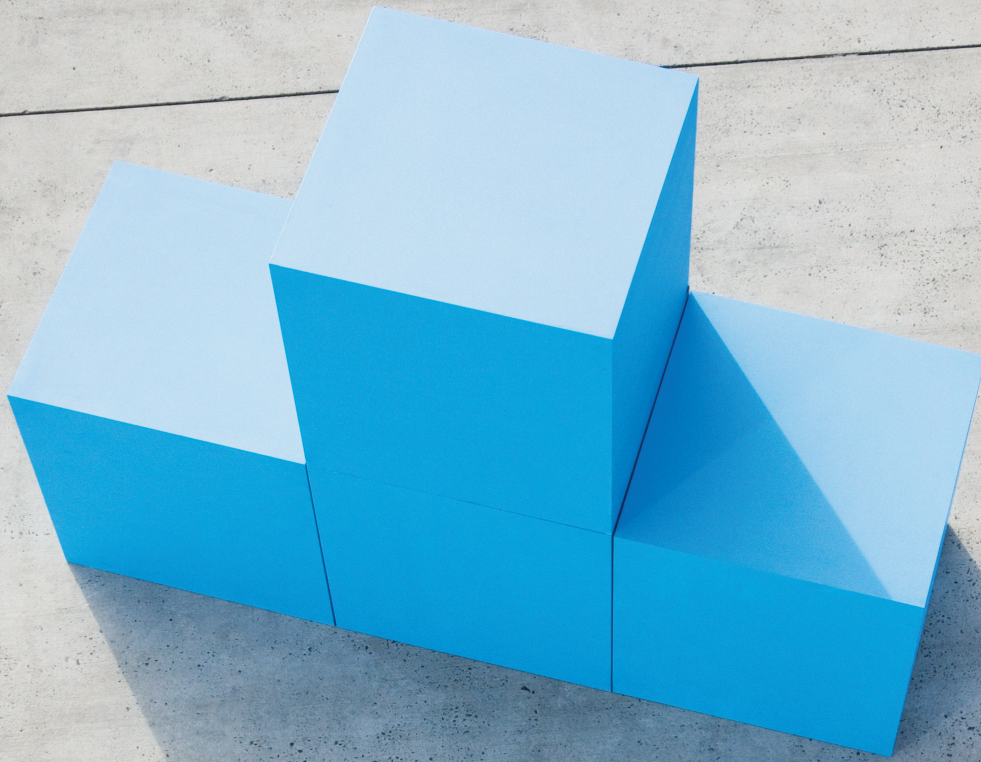
DA-6034, an NCE (New Chemical Entity) with a flavones structure, is under development for the treatment of dry eye syndrome. Chronic dry eye syndrome is a condition characterized by a patient's inability to produce an appropriate amount and quality of tears to keep the eye healthy and comfortable. The absence of efficient prescription treatments for dry eye leads the majority of dry eye patients to rely on OTC (Over-the-Counter) artificial tear products, which temporarily lubricate eyes and provide only limited relief. With an excellent safety profile, DA-6034, which stimulates mucin secretion, increases fluid secretion, controls inflammation and enhances the healing of wounds, is expected to be an excellent prescription drug for dry eye. A phase I

study for DA-6034 was completed in Korea in 2010 and Dong-A is currently running a phase II study.

### [DA-3031]

Dong-A developed and launched a rhG-CSF (recombinant Granulocyte-Colony-Stimulating Factor) product named Leucostim® in 1999 for the treatment of anti-cancer-induced neutropenia. To avoid the inconvenience of daily injection during each chemotherapy cycle, Dong-A is developing a sustained-release formulation of PEG-G-CSF (Polyethylene Glycol-Granulocyte-Colony-Stimulating Factor) (DA-3031) that only needs to be administered once per cycle. In animal studies, DA-3031 was comparable in efficacy and safety to its competitor on the market, whose annual worldwide sales are approximately US\$4.0 billion. Phase I and phase II trials have been successfully completed in Korea, and in 2011, an IND (Investigational New Drug) for a phase III trial was approved, with the initiation of a phase III study planned for early 2012.





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## How we remain at the top

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As a leading pharmaceutical company in Korea, Dong-A is devoted to enhancing the health and welfare of humanity. Thus, our focus goes beyond mere short-term financial performances to the creation of a better future for humankind.

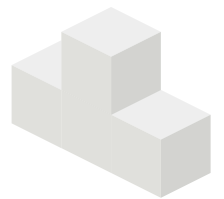
Dong-A utilizes its full range of resources and capabilities for the development of innovative pharmaceutical products for a healthier society. Through these efforts, we firmly believe that mutually beneficial partnerships with stakeholders will help to secure steady and stable management of the company as well as sustainable growth.

Based on a platform for stable growth, Dong-A expects to leap forward as an R&D leader in global markets, with 2012 serving as the starting point for this jump ahead.



# What Makes Us Immune From Crises?

Dong-A has commanded a leading position in the domestic market over the past decades. Nonetheless, to secure and strengthen our market leadership, we have continued to invest heavily in R&D.



# Letter to Shareholders

Undaunted by the many challenges facing the markets in recent times, Dong-A's employees have made concerted efforts to help the company grow through the securing of new growth engines for global expansion. In 2011, these efforts resulted in KRW 900.0 billion in sales, a first for a domestic pharmaceutical company.

## Distinguished shareholders,

I would like to begin this message by expressing my heartfelt appreciation for your unsparing support and encouragement of Dong-A Pharmaceutical.

In retrospect, 2011 was a challenging year due to stricter regulations and intensifying competition among pharmaceutical companies. In meeting these challenges, however, Dong-A's employees made a concerted effort to rise above the difficulties so as to enable the company to continue to grow. As a result, Dong-A became the first in the industry to post KRW 900.0 billion in sales, while securing new growth engines for global expansion.

Specifically, sales reached KRW 907.3 billion, up 7% from the previous year, with operating profit declining slightly to KRW 95.0 billion. Despite a difficult market, sales in the ETC drug segment grew by 3.2% on the back of robust sales of in-house developed drugs such as Stillen® and Zydena® and of blockbuster generic products including Lipinon® and Plavitor®. Additionally, following its reclassification as quasi-drug, Bacchus® sales exceeded the KRW 150.0 billion mark. Our OTC drug segment also realized 10.0% growth in sales as a result of strategic alliances with multinational pharmaceutical companies. Exports, which are expected to be our main source of revenue in the future, saw sales grow by a remarkable 19.3% year-on-year due to Zydena®'s penetration of the Turkish market and expanding sales of Bacchus® in Cambodia.

The R&D sector also achieved the results we expected. On the domestic front, we rolled out our third in-house developed drug, Motilitone™, a functional

dyspepsia treatment, and we concluded pre-clinical trials of two new drug candidates, completing a pipeline of 15 new drugs.

On the global front, Zydena® and super antibiotics are currently in phase III clinical trials overseen by the USFDA. In Brazil, we successfully completed first stage clinical trials for Interferon-beta, one of our bio-similar products, and we are making progress in our efforts to create an extensive R&D network through joint research and outsourcing.

Our focus this past year has been on growing the size of the company and expanding our R&D activities, as well as on securing new growth engines for global expansion. To begin with, we made a strategic alliance with Meiji Seika Pharma Co., Ltd. of Japan for the development of biosimilar products. In addition, our strategic alliance with the German pharmaceutical giant, Bayer, solidified our sales base in the OTC (Over-The-Counter) business.

As you may know, formidable challenges have been forecast for the Korean pharmaceutical industry in 2012. Slated to take effect in the near future, the Korean government has enacted regulations requiring reductions in the pricing of previously-registered drugs and this is expected to result in immediate harm to not only sales, but also to the profitability of pharmaceutical companies. To make matters worse, the Korea-USA FTA (Free Trade Agreement), which is to take effect in January 2012, will enable patent holders in the USA to delay the entry of generic drugs in the USA market, specifically those manufactured and distributed by Korean companies. Moreover, the Korean government keeps reiterating the need for



SHIN-HO KANG      WON-BAE KIM  
Chairman,          CEO,  
Dong-A Socio Group      Dong-A Pharmaceutical

Dong-A sees opportunities in new challenges for the industry. We think this is the right time to step forward as a new drug developer. In 2012, we aim to overcome challenges through early profit-taking from our new drugs, while extending our investment in R&D for the development of new blockbuster products from biosimilar and other innovative drugs.

transparency and innovation as well as investment in R&D and global expansion, while demanding fundamental changes to the infrastructure of the industry. All in all, this will be an extremely challenging environment for the Korean pharmaceutical industry.

Going forward, those who fail to move on in the face of new paradigm changes will fall behind. Dong-A sees opportunities in these new challenges for the industry. We think this is the right time to take another leap forward as a new drug developer. Although short-term profitability will inevitably be compromised, we see it as a necessary step that will allow Dong-A to create an even brighter future as a leading global pharmaceutical company. To this end, we have set forth several missions for 2012, as follows:

**First, we will overcome the challenges of price reductions through early profit-taking from our new in-house developed drugs including Motilitone™, while achieving sustainable growth in sales.**

Dong-A has reinforced its market competitiveness through strategic alliances with major global pharmaceutical companies such as GSK and Bayer. We expect these partnerships to offset the revenues compromised by new regulatory policies.

On top of this, we aim to profit early on from new products such as Motilitone™, for the treatment of functional dyspepsia, and Flivas®, a BPH (Benign Prostatic Hyperplasia) drug, both of which will add to our sales growth. We have also revamped our marketing strategies and re-oriented our sales force in the ETC segment, and are planning to employ a differentiated marketing campaign that appeals to the specific needs of domestic consumers.

In terms of the OTC segment, where regulatory challenges are easing, we will continue to add to our OTC product portfolio to increase sales. Led by Bacchus®,

sales of which are growing rapidly in all of its markets, we expect the OTC segment to strengthen its dominance of the markets.

**Secondly, we will continue to invest in R&D in pursuit of innovative drugs and to license leading overseas products.**

Although we expect the drug price rationalization plan to undermine the profitability of the generic drug business, which has been our main driver of sales growth for the past several years, in response, we will increase the number and allotment of new drugs in our portfolio so as to allow the company to continue to grow.

As early as the 1990s, we realized that products developed in-house would become fundamental to the success of the pharmaceutical business. Hence, we have made consistent investment in R&D since then. Our three products developed in-house, Stillen®, Zydena®, and Motilitone™, were the result of our on-going commitment to developing new drugs in-house.

In 2011, a phase II clinical trial for DA-1229, a treatment of Type 2 Diabetes Mellitus, was initiated and DA-1229 was licensed out to a Chinese company in early 2012. Also, the year of 2012 will see the start-ups of a phase II clinical trial for DA-6034, a treatment for dry eye, and a phase III trial for DA-3031, a treatment for anti-cancer induced neutropenia. In addition, we will rigorously pursue the development of more in-house drugs through greater investment in R&D and a focus on increasing the capabilities of our R&D sector. To this end, we are planning to conduct more joint research with leading researchers in the private sector and academia, and to make new investments in developing treatments for cancer and senile diseases, the prevalence of which are forecast to increase rapidly in the future.

We also intend to seek new licensing agreements for foreign drugs in the areas of viral infections and anticancer treatments, thereby solidifying the groundwork for Dong-A to become a leading global pharmaceutical company.

**Finally, we are working to develop competitive blockbuster products from biosimilar to help us gain a foothold in global markets.**

In 2011, Dong-A entered into a strategic alliance with Meiji Seika of Japan to invest in the development of biosimilars, a new area of promise as a future growth engine. At the same time, development of new drugs entails a large commitment in terms of cost and time for R&D and for the construction of an infrastructure for the manufacture of biosimilar products, not to mention the costs associated with taking new products to markets around the globe. However, we remain confident that our partnership with Meiji Seika will broaden our global sales network without adding to the burden of creating our own networks alone, minimizing the risks associated with investment in a global network.

In 2012, we will break ground for a biosimilar cGMP plant in the Songdo District in Incheon City, Korea, and plan to begin clinical trials of the first biosimilar product, Herceptin®, a treatment for breast cancer to be released simultaneously in Korea and Japan. As we plan to develop two more blockbuster products from biosimilar capable of meeting the requirements of global markets, we expect sales of biosimilar products to become drivers of growth for Dong-A.

**While we vigorously push ahead with these three missions, we will remain steadfast in our efforts to establish transparent and sound corporate governance based on our corporate philosophy of respect for human life.**

As you may well know, Dong-A celebrates its 80<sup>th</sup> anniversary in 2012. Thus, we will make the year 2012 the starting point in renewing our commitment to becoming a leading global pharmaceutical company. Looking ahead, we will make every effort to realize our vision of becoming a “global company renowned for its innovative pharmaceutical products” while continuing to work to enhance shareholder value. We are determined to create sustained growth by turning risks into opportunities through innovation.

Before closing, I would like to express my sincere appreciation to our shareholders for your unwavering support and encouragement of Dong-A Pharmaceutical as we face all challenges with determination and a plan for success.

Thank you.



SHIN-HO KANG

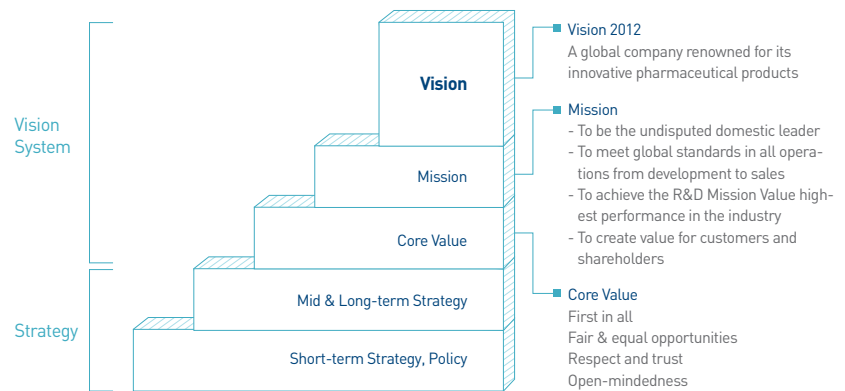
Chairman,  
Dong-A Socio Group



WON-BAE KIM

CEO,  
Dong-A Pharmaceutical

# Vision & Strategies



Under the vision of becoming “a global company renowned for its innovative pharmaceutical products,” we have set four missions to be accomplished in the coming year and beyond: to reinforce our capabilities in all areas; to foster a highly-skilled workforce capable of meeting the demands of a global marketplace; to strengthen our R&D sector so as to be a global leader in R&D; and to consistently and effectively meet the needs of the market while creating greater value for all stakeholders.

Dong-A Pharmaceutical has set a vision of becoming “a global company renowned for its innovative pharmaceutical products.” This vision is what stands behind our efforts to meet the rapidly changing demands of pharmaceuticals markets as we aim to grow beyond our current boundaries to become one of the leading global pharmaceutical companies. In order to make this vision a reality, we have determined that the following four missions must be brought to fruition via several mid- to long-term strategies.

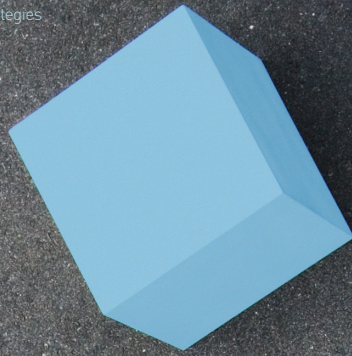
Our first mission is to reinforce our capabilities so as to respond more effectively to changes in markets. This will allow Dong-A to solidify its dominant position in Korea’s domestic market while growing to be one of the top 20 pharmaceutical companies in the world. In order to deal with sluggish sales for the pharmaceutical industry due to regulatory challenges regarding drug prices, we have focused on enhancing the efficiency of our operations by concentrating our resources on a few major products. In addition, we have diversified our portfolio of top drugs with increased sales of the new drug Zydena®, expanded exports of active pharmaceutical ingredients (APIs) to Japan, grown sales of our signature product, Bacchus, and made strategic alliances with global players such as GSK and Bayer.

Our second mission is to foster a globally competent workforce and reinforce our competencies to meet global standards. In order to strengthen our sales network, we offer specialized training courses to

develop super MRs (Marketing Representatives) by increasing their expertise in our products. Furthermore, for the development of a monoclonal antibody biosimilar, we have entered into an MOU (Memorandum of Understanding) with Meiji Seika Pharma Co., Ltd. and signed an agreement to invest in a large global bio-industrial complex within the Incheon Songdo District as part of our efforts to extend our reach in global markets.

Our third mission is based on our determination to make our R&D sector an industry leader as we seek to build a portfolio of innovative products and develop our core technologies further. For instance, Motilitone™, our third and newest in-house developed product, was launched in December, 2011. In addition, Zydena®, an erectile dysfunction drug, and DA-7218, a super antibiotic, are currently in phase III clinical trials in the USA. In May 2011, Dong-A’s new R&D Center was completed, which will be the foundation for an advanced R&D infrastructure for the development of innovative new drugs.

With our fourth mission, we seek to channel all of our resources into more effectively meeting the needs of the market to create greater value, for the company as well as its stakeholders. As a cutting-edge pharmaceutical company, we have the opportunity and responsibility to improve the lives of people around the world. Our Vision 2012 forms the basis for the four missions and is at the heart of our expanding efforts to become a global leader in pharmaceuticals industry.



Being a leader requires leadership qualities uniquely suited to each position within a company. That is to say, managing is not the same as leading. Leadership requires authenticity in terms of transparency of purpose and action as well as time-honored qualities of honesty, integrity and loyalty.



# Board of Directors

Dong-A's board of directors consists of members of executive management who are leaders in the pharmaceutical industry and outside directors who are experts in several fields. Outside directors monitor and advise executive management, thus making the management's decision-making processes more transparent.

## Inside Directors

### WON-BAE KIM

Chief Executive Officer and Chairman of the Board

- 2007 Chairman of the Board
- 2004 Chief Executive Officer and President
- 2003 Director of BOD
- 1996 Chief Researcher, Research Center
- 1990 Ph.D. in Microbiology, Seoul National University
- 1971 M.S. in Pharmacy, Seoul National University

### JUNG-SUK KANG

Chief Operating Officer and Executive Vice-President

- 2009 M.S. in Pharmacy, Sungkyunkwan University
- 2007 Chief Operating Officer and Executive Vice-President
- 2005 Director of BOD
- 2005 Head of Marketing & Sales
- 1999 Head of Medical Equipment
- 1996 Head of Business Management
- 1988 B.A. in Philosophy, Chung-Ang University

### CHAN-IL PARK

Head of Development & International Business and Executive Vice-President

- 2011 Executive Vice-President
- 2008 Senior Executive Director
- 2006 Director of BOD
- 2005 Head of Development & Licensing
- 2001 Head of Ethical Drug Product Management
- 1978 B.A. in Pharmacy, Seoul National University

### JOONG-KOO HEO

Head of Marketing & Sales and Senior Executive Managing Director

- 2011 Director of BOD
- 2007 Head of Sales Headquarters One
- 2005 Head of Hospital Sales Division
- 2005 Head of Clinic Sales Division
- 1982 B.A. in Applied Statistics, Chung-Ang University

## Affiliated Directors

### CHUNG-SIK YOO

Affiliated Director

- 2003 Vice-Chairman (retired in 2007)
- 1993 Chief Executive Officer
- 1978 Director of BOD
- 1962 B.A. in Business Administration, Seoul National University

### JIN-HO KIM

Vice President & Managing Director, Korea & Head of Business Development, AP/Japan, GlaxoSmithKline

- 2011 Affiliated Director
- 2008 Vice President & Managing Director, Korea & Head of Business Development, AP/Japan, GlaxoSmithKline
- 2000 Managing Director, GlaxoSmithKline Korea
- 1997 Managing Director, Glaxo Wellcome Korea
- 1977 CEO and President, Youngjin Pharmaceutical Co.
- 1976 Master of Science in Computer Science, Columbia University

## Outside Directors

### KYOUNG-BO KANG, CPA

Certified Public Accountant, Daehyun Accounting & Tax Firm

- 2006 Outside Director
- 2005 CPA, Daehyun Accounting & Tax Firm
- 1991 Master of Business Administration, Korea University
- 1989 B.A. in Business Administration, Korea University

### DAE-KYUNG KIM

Professor of Pharmacy, Chung-Ang University

- 2010 Outside Director
- 2009 Dean of Pharmacy, Chung-Ang University
- 1994 Professor of Pharmacy, Chung-Ang University
- 1990 Ph.D. in Pharmacological Biotechnology, University of Tokyo
- 1986 M.S. in Hygienic Chemistry, Seoul National University
- 1983 B.S. in Pharmacy, Seoul National University

### YOUNG-JE SUH

Dean of Chungnam National University Law School

- 2011 Outside Director
- 2005 Chief Prosecutor, Daegu High Prosecutors' Office
- 2001 Ph.D. in Law, Sungkyunkwan University
- 1979 District Attorney, Seoul District Prosecutors' Office
- 1972 B.S. in Law, Sungkyunkwan University

# Corporate Governance

A transparent corporate culture and ethical business practices contribute to corporate value. Dong-A's executive management draws on the expertise of its members to make rational and objective decisions so as to achieve sustainable growth and to enhance shareholder value.

The BOD (Board of Directors) of Dong-A Pharmaceutical is keenly aware that sound corporate governance is a requirement for earning the trust of stakeholders and for making Dong-A one of the leading global pharmaceutical companies. Thus, the board is tasked with maximizing shareholder value through greater management transparency, and through active communications within the company and with shareholders while complying with all relevant laws and regulations. In particular, since 2008, the company has been the only Korean pharmaceutical company to publish an annual report in English as part of our efforts to communicate more effectively with our international shareholders.

Also since 2008, we have followed an ESOP (Employee Stock Ownership Plan) to encourage employees to take a direct stake in the company. Approximately 84% of Dong-A's employees participate in the ESOP program, which stipulates a monthly contribution from regular pay to the ESOP, which the company then matches. As a result, 6.45% or 717,871 Dong-A shares are now in ESOP accounts as of the end of 2011. The ESOP has been successful in stabilizing the company's stock prices while enhancing the concept of ownership in the minds of employees. In recognition of these accomplishments, the Korean Ministry of Labor awarded Dong-A the ESOP grand prize in 2009.

## Composition and Operations of the BOD

The board of directors of Dong-A consists of nine directors, including five standing directors, three independent directors and one non-standing director. Candidates for new independent directors are recommended by the Independent Director Candidate Recommendation Committee, consisting of three inde-



A Board of Directors Meeting in 2011

pendent directors, chosen from among the candidates demonstrating expertise, integrity and leadership. All elected directors serve a three-year term and all resolutions are adopted based on a majority of votes at regular BOD meetings.

## BOD Activities

In 2011, the BOD held a total of 13 meetings to deliberate on 21 agenda items. The rate of participation by all directors stood at 98.2%, with a 94.9% rate of participation by independent directors.

## Auditor

Dong-A currently does not have an audit committee, but the standing auditor oversees the auditing of management. The auditor attends BOD meetings to monitor BOD activities as an independent director and is empowered to demand documents or filings from relevant departments when deemed necessary for the completion of audits. When required, the auditor can request briefings by management on the status of management activities and has access to all management information relevant to an audit.





15 R&D pipeline items

# Our Strengths Are Our Active Immunity

Dong-A is devoted to developing and providing better pharmaceutical products for a healthier future for society.

# Research & Development

The development of new drugs entails long-term investment and the input of company-wide resources. Therefore, we take a long-term approach to R&D through consistent investment so as to reinforce our R&D competences, while aggressively pursuing overseas markets on the strength of our expanding R&D infrastructure.

The development of new drugs entails long-term investment and the input of company-wide resources. Therefore, we take a long-term approach to R&D through consistent investment so as to reinforce our R&D competences, while aggressively pursuing overseas markets on the strength of our expanding R&D infrastructure. Dong-A's vision is to become a respected global pharmaceutical company that offers innovative pharmaceutical products. To attain this goal, we are utilizing our extensive R&D network for the development of innovative new drug ingredients, while laying a foothold for advancement into overseas markets with portfolios tailored to market demand.

## R&D Network for Developing Innovative New Drug Ingredients

The success of Dong-A's new drugs in the market since 2000 has enabled us to solidify our market leading position based on a superior product portfolio. Released in 2002, the success of the newly-developed drug, Stillen® was followed by Zydena®, launched in 2005. The combined sales of these drugs totaled KRW 108.3 billion as of 2011, demonstrating the company's success in developing new drugs in-house. In 2011, we released Motilitone™, also based on a natural plant extract. Furthermore, phase III clinical trials of Zydena® have been successfully completed in the USA, while clinical trials for DA-7218 (tedizolid), an antibiotic, are expected to be completed in the near future. Based on its advanced technologies and extensive experience in the development of new drugs, Dong-A will continue to channel its R&D resources into the research and development of selected quality-of-life products.

In terms of natural new drugs, Dong-A continuously pursues globally competitive products that are compatible with existing therapeutics. At the same time, in response to increasing demand for 'well-being' products such as health functional foods that are safe and of high quality, Dong-A is actively engaged in the development of individually-approved functional foods possessing rigorous proprietary profiles.

In seeking to make a leap into the next phase of growth, Dong-A must diversify and take practical steps in developing "innovative pharmaceutical products" in selected areas. As a result, the company is now reinforcing the capabilities of its R&D network to develop new products based on APIs (Active Pharmaceutical Ingredients) capable of significantly enhancing the quality of life of patients while garnering recognition in global markets. Taking advantage of its close relationships with renowned experts in the areas of pharmaceutical R&D and clinical trials, Dong-A aims to develop new products and create new missions from its vast R&D network. Dong-A also plans to develop a system for evaluating the feasibility of commercializing innovative products from newly developed APIs.



Dong-A has used technologies in genetic recombination and animal cell cultures since the 1980s as primary research tools in researching a variety of bio-pharmaceutical products tailored to consumer demand.





### Developing Globally Competitive Bio-Pharmaceutical Products

Dong-A has used technologies in genetic recombination and animal cell cultures since the 1980s as primary research tools in researching a variety of bio-pharmaceutical products tailored to consumer demand. Following the success of such first-generation protein drugs as Growtropin<sup>®</sup>, Leucostim<sup>®</sup> and Eporon<sup>®</sup>, which collectively claim the lion's share of the company's global sales revenues, Dong-A is currently developing second-generation protein drugs using PEG (Polyethylene Glycol). In pursuit of new markets for its products, Dong-A is actively working to secure stable exports of its first-generation protein drugs, and is administering clinical trials at the local level in international markets.

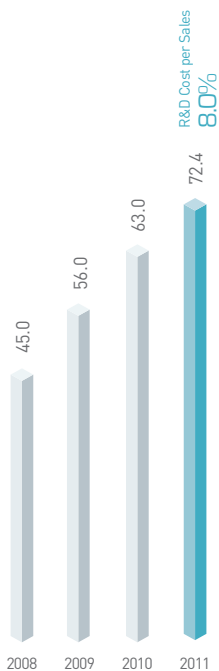
On the global front, antibody treatments have become the newest trend, with market leadership moving to bio-pharmaceuticals. In a bid to take advantage of this trend, Dong-A is collaborating with global partners on R&D activities both at home and abroad. The company selected a leading global player for the joint development of biosimilar, an antibody treatment, while moving forward with a new vision of global growth so as to generate greater profitability in global markets.

Moreover, we have expanded the scope of our R&D activities to include innovative new antibody treatments, which are currently underway in accordance with global standards.

### Developing Blockbuster IMDs

Dong-A is focused on developing blockbuster IMDs (Incrementally Modified Drugs) in a timely manner through the securing of its expanding drug delivery system. With a system whose efficacy has been proven through successful clinical tests, we aim to gain an advantage in new markets with products differentiated from conventional generic products. In practice, the initial launch of the first generic drug can lead to strong profitability in the short term. However, after this initial stage, competition for generic drugs intensifies, causing fluctuations in pricing, thus squeezing profit margins. Thus, the development of competitive and original technologies is critical to ensuring a sustainable profit model.

Going forward, we have selected several next-generation drugs capable of being engines of growth in the future and are focusing on the development of new drug formulations of existing therapeutics demonstrating enhanced efficacy. Thus far, Dong-A's R&D



R&D INVESTMENT  
(unit: KRW in Billions)  
2008, 2009 (K-GAAP)  
2010, 2011 (K-IFRS)



processes have established the company as a specialist in the development of new drugs, which will enable us to compete aggressively in global markets.

#### Developing

##### Blockbuster OTC Products to Boost Sales

Capitalizing on years of expertise in the development and sale of such steady sellers as Bacchus<sup>®</sup>, Panpyrin<sup>®</sup>, and Circulan<sup>®</sup>, our OTC strategy is focused on the release of name brand OTCs tailored to consumer needs. In addition, the rigorous clinical testing required to raise the therapeutic efficacy of OTCs has contributed to Dong-A's advantageous market position in rapidly-changing pharmaceuticals markets the world over.

##### Achieving Global Standards in R&D

Dong-A has continued to set new standards while remaining at the forefront of paradigm changes in the industry through consistent investment in R&D and new drug development. Going forward, we plan to build on our success by expanding our investment in R&D from the current level of 10% of sales while re-orienting our R&D infrastructure for the development of innovative new drugs meeting global standards.

At the center of Dong-A's expertise in R&D is a dedicated group of leading researchers. To maintain our pool of experts, we have continually strived to recruit and retain individuals demonstrating superior skills and knowledge. We are now planning to expand the number of researchers on staff to 400 persons by 2017 to meet increasing need due to the extensive joint research projects Dong-A is currently involved in and new projects we aim to pursue in conjunction

with prominent domestic and overseas experts in the future. Our goal is to strengthen and expand our research network with global leading pharmaceutical companies and research institutes.

We have also made upgrades to our hardware with the adoption of new documentation and QA (Quality Assurance) systems to better manage the results of our R&D activities. In conjunction with our new R&D building, completed in 2010, the new systems will enable us to systematically and efficiently control R&D activities companywide, while raising the level of the company's R&D competences to global standards. The overall impact of such improvements will be to strengthen Dong-A's competencies in R&D so as to be fully capable of providing innovative new drugs meeting global standards of production and development.





## Major R&D history

Stillen®,  
Zydena®,  
Motilitone™

### Stillen®, First Drug Developed In-house

As the company's first drug developed in-house, Stillen® was the result of exhaustive planning and market research. The development and discovery of new drugs requires a long-term commitment of more than ten years on average in terms of R&D and investment. Even at that, success is never guaranteed. Accordingly, few pharmaceutical companies are willing or able to risk their resources and time on such uncertain endeavors.

However, encouraged by the popular success of its energy drink, Bacchus®, Dong-A initiated an unprecedented R&D effort in 1993 to create and develop new drugs. At that time, Professor Lee of the Natural Products Research Institute of Seoul National University and his research team confirmed the effectiveness of eupatilin, the active ingredient of Stillen®, in the treatment of ulcers. Noting the potential of new drug development as a long-term engine of growth for the company, Dong-A conducted a review of the feasibility of using eupatilin as a new drug. Based on the findings of the review, the Dong-A R&D Center entered into a joint industry-academia research project with the Natural Products Research Institute in 1995, commencing with new R&D activities focused on developing eupatilin as a new drug.

Artemisia asiatica was chosen for further research, due to the plant's effectiveness in treating gastritis. Being an extract taken from artemisia asiatica, eupatilin would show a higher efficacy in treating gastritis. To test the theory, the researchers established comprehensive and systematic procedures, ranging from pre-clinical to clinical trials, to determine the drug's higher efficacy in treating gastritis than existing medications.

The conventional treatment of gastritis mostly focused on controlling the secretion of acids in the stomach



and the removal of *Helicobacter pylori*, a relatively inefficient process that resulted in a high rate of recurrence. The researchers discovered that Stillen® facilitated the reproduction of the gastric mucous membranes, which protect the stomach, significantly reducing the rate of recurrence, effectively differentiating the new drug from conventional treatments. Having been launched in 2002, sales of Stillen® reached KRW 88.1 billion in 2011, due to its efficacy and marketability.

2

3

## DRUG DEVELOPED IN-HOUSE

1



2



3



### Zydena<sup>®</sup>, Second Drug Developed In-house

Zydena<sup>®</sup> was Korea's first and the world's fourth treatment for ED (Erectile Dysfunction). It was commercialized eight years after the commencement of R&D activities into the drug's efficacy, in 1997. Recording sales of KRW 10.0 billion in its first year, the drug has become a blockbuster pharmaceutical product. In 2011, Zydena<sup>®</sup> accounted for 27.2% of the market based on the number of prescriptions filled. This was an unprecedented achievement, as sales of domestically developed drugs had in the past been insignificant.

Zydena<sup>®</sup> is now making advances in global markets, and is available in Russia under the same name. Phase III clinical trials have also been completed in the USA. We expect sales of the product to expand in overseas markets due to strong demand for erectile dysfunction drugs, a market worth an estimated US\$ 2.8 billion.

To date, Dong-A has signed export contracts worth US\$ 300 million with distributors in 42 countries including Russia, Latin America and Southeast Asia. Zydena<sup>®</sup> is all set to make forays into global markets as it is patented in 32 nations including Japan and most European countries. Relaying this success in the domestic market, we are conducting further research to determine the drug's efficacy as a treatment for LUTS (Lower Urinary Tract Symptoms) associated with BPH (Benign Prostatic Hyperplasia), PAH (Pulmonary Arterial Hypertension), and PH (Portal Hypertension).

Zydena<sup>®</sup> has demonstrated its efficacy in treating benign prostatic hyperplasia in animal tests, for which patents were registered with domestic authorities in 2007 and filed in major markets including the USA and Japan.

### Motilitone<sup>™</sup>, Third Drug Developed In-house

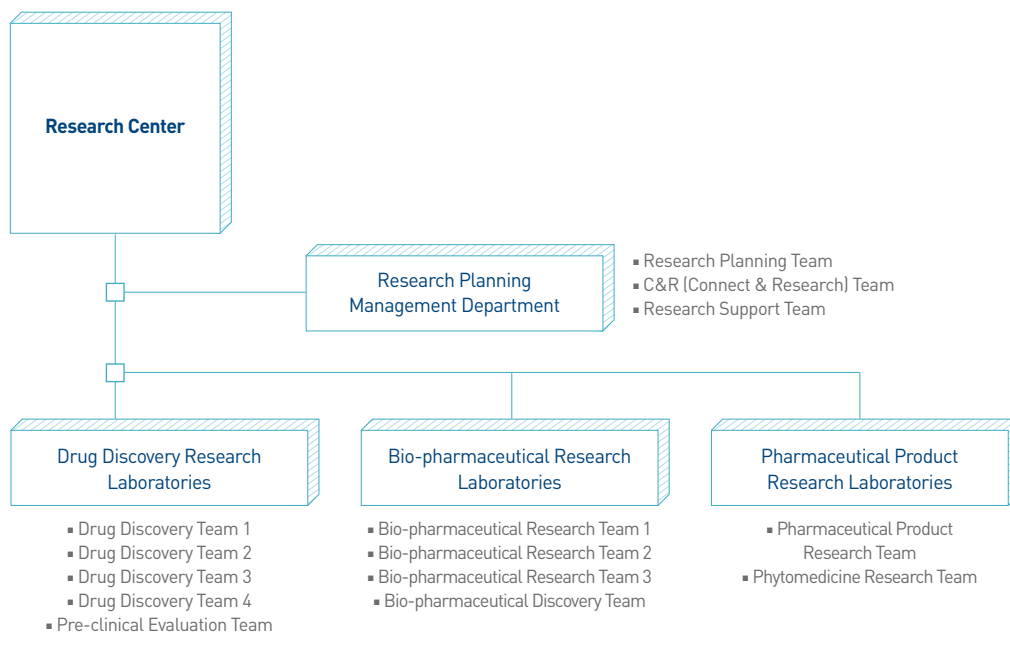
Motilitone<sup>™</sup>, the third drug developed in-house by Dong-A, acquired approval from the Korea FDA as a treatment for functional dyspepsia. Based on a natural plant extract from morning glory seeds and corydalis tuber, the drug is free of side effects, while significantly enhancing gastric emptying and the alleviation of visceral hypersensitivity.

Having discovered early on the potential for growth of natural drugs, Dong-A has concentrated on developing gastrointestinal drugs with no side effects for the treatment of gastrointestinal tract disorders. The company began research on a treatment in 2005 and after clinical trials at 18 prestigious hospitals in Korea, a new drug was successfully commercialized six years later. This proved to be a breakthrough in new drug discovery as the time needed for development, from the discovery stage to commercialization, took a mere six years as opposed to the usual ten years.

Furthermore, Motilitone<sup>™</sup> is capable of enhancing gastric functions by facilitating gastric emptying, improving gastric accommodation and alleviating visceral hypersensitivity, while conventional drugs merely accelerate gastric emptying. Functional dyspepsia is usually diagnosed when symptoms of the disorder, such as early satiety, bloating, belching, vomiting and heartburn, continue for more than three weeks without the occurrence of any other disease. In Korea and most Asian countries, motility-like dyspepsia accounts for 75% of this disorder. The Korean prokinetic agents market is estimated at KRW 200 billion.

Motilitone<sup>™</sup> is a natural drug for the treatment of functional dyspepsia and is effective in treating Korean patients who are suffering various gastric diseases and patients with gastric disorders due to psychological stress without a specific cause. We expect Motilitone<sup>™</sup> to be a highly successful addition to our stable of drugs, just as Stillen<sup>®</sup> has proven to be.

### Research Center Organization



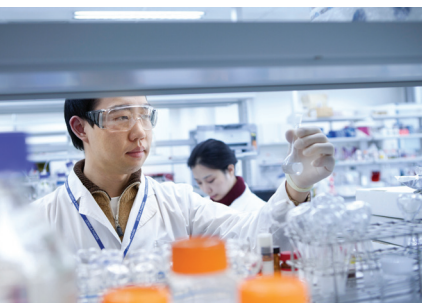
## R&D Center

The Drug Discovery Research Laboratories research and seek to discover and develop innovative new drugs with the aim of developing pharmaceutical products for global markets. For instance, Dong-A's successful clinical trials of Zydena®, an oral treatment for erectile dysfunction, and a super antibiotic, DA-7218 (tedizolid), laid the foundation for a globally competitive drug discovery system. Currently, the laboratories are focused on developing various treatments for gastrointestinal tract disorders, metabolic disease, and urinary disorders, but will further expand the scope of R&D activities to the treatment of age-related diseases and cancers, which are expected to increase along with a high prevalence rate. In addition, target evaluation for new drugs is critical to the development of new products, we will seek new opportunities for joint domestic and overseas research and investment. By developing new strategies for R&D customized to the needs and conditions of individual nations and markets, the drug discovery laboratories aim to diversify their target markets from a focus on Western countries to emerging markets.

As one of the leading bio-pharmaceutical research organizations in Korea, the Bio-pharmaceutical Research Laboratories have developed several bio-pharmaceutical products based on genetic recombinant and animal cell culture technology, including Dong-A's Interferon-alfa™, Growtropin®, Eporon®, Leucostim®

and Gonadopin®. Second generation products based on proprietary PEG (Polyethylene Glycol)ylation are currently being developed to maximize patient compliance. Dong-A is actively pursuing entry into global markets with the export and development of biosimilar products. Also being readied for global markets are such important biologics as Recombinant FSH (Follicle Stimulating Hormone) and recombinant hCG (human Chorionic Gonadotropin), treatments for infertility, IFN (Interferon)-beta for multiple sclerosis and Factor VIII for hemophilia. Therapeutic antibodies are another area of rapid growth, and a major focus of the laboratories' research in collaboration with Japanese pharmaceutical companies. The pipeline also includes novel biological products such as antibodies against novel targets and anti-cancer gene therapies.

The Pharmaceutical Product Research Laboratories focus on developing optimal formulations of individual drug properties to enhance the efficacy of existing therapeutics and to improve patient compliance. Utilizing advanced nano-technologies and solubilization technologies, the laboratories are seeking to optimize new drug formulations, by enhancing the absorption of drugs with maximum safety and efficacy. Moreover, currently under development is a new drug based on natural ingredients with stable efficacy to be used as an ingredient in health functional foods.



## Partnership & Leadership

In addition to our ongoing and consistent investment in R&D, we have been working to reinforce our R&D network while building alliances with global leading pharmaceutical companies. These partnerships will enable us to tap into the advanced knowledge and extensive networks of our partners in researching and developing new and innovative products.

Since licensing out the oral and injectable forms of DA-7218 (tedizolid) to Trius Therapeutics of the USA in 2007, Dong-A has developed a solid partnership with Trius. DA-7218 is a second generation oxazolidinone antibiotic originally developed by Dong-A, which has formed the basis of a fruitful long-term partnership between the two companies.

With the successful completion of a phase I clinical trial in the USA in 2008 and a phase II clinical trial in 2009, Trius initiated the first of two pivotal phase III clinical trials in 2010 for the oral dosage form of DA-7218 for the treatment of ABSSSI (Acute Bacterial Skin And Skin Structure Infections) caused by gram positive bacteria, especially MRSA (Methicillin-resistant Staphylococcus Aureus). The purpose of the first study was to determine the efficacy and safety of a once daily 200 mg dose of DA-7218 over a 6-day course of therapy as compared to a twice daily 600 mg dose of oral linezolid over a 10-day course of therapy in 667 patients recruited across sites in North America, South America and Europe. Trius announced positive results from this first phase III clinical trial, in December of 2011. Trius then initiated the second phase III clinical trial for its IV (intravenous) to oral transition therapy in September of 2011 and top-line data from the study is expected to be available in early 2013. This second phase III clinical trial is the first study conducted in collaboration with Bayer, which entered into a strategic collaboration with Trius in July of 2011, to develop and commercialize DA-7218 in the Asia-Pacific region and emerging markets.

DA-7218 has distinctive advantages over rival products in the market including high potency, bactericidal activity, lower incidence of adverse events, once-daily treatment, a shorter treatment period and a lower overall treatment cost. Dong-A expects that, upon commercialization, these benefits will allow DA-7218 to capture a substantial share of the global target market for DA-7218, which totaled approximately US\$2.5 billion in 2010.

As for Zydena® (udenafil), another new drug developed in-house, phase III clinical trials were completed this year by USA partner, Warner-Chilcott, for the indication of ED. The trials confirmed the safety and efficacy of Zydena®, bringing the drug one step closer to launch as a global new drug. In addition to the partnership with Warner-Chilcott through Zydena® for ED indication, the partnership with Warner-Chilcott has been strengthened through an additional licensing agreement in 2010 for BPH (Benign Prostatic Hyperplasia) indication. Dong-A also signed an agreement with Meiji Seika Pharma Co., Ltd. of Japan in 2011, which gives us the opportunity to enter the Japanese urologic market with udenafil. Meiji Seika plans to initiate clinical studies for udenafil in Japan in 2012.

Dong-A has been developing bio-products, as well as NME (New Molecule Entities) and antibody biosimilars to bring to global markets. Dong-A's partnership agreement with Meiji Seika, signed in 2011 for biosimilar products, was intended to accelerate the entry of such products into global markets. Under the agreement, Dong-A and Meiji Seika will set up a cGMP factory and establish a joint venture for collaborative research, development, manufacturing and marketing for the worldwide market.

For successful expansion into global markets, we are reinforcing our R&D network and building alliances with global leading pharmaceutical companies. Through these partnerships, we will be able to tap into the advanced knowledge and extensive networks of our partners in researching and developing new and innovative products. Dong-A is also searching for new partners to conclude contract licensing agreements with for the strategic global development of its innovative R&D pipeline.



# Key Products

Our key products act as pillars upon which Dong-A stands. Boasting a comprehensive line-up of products ranging from ethical drugs and over-the-counter products to health care products and quasi-drugs, Dong-A is proud to contribute to the health and betterment of humanity.

## Core Products

Stillen® Tab.  
Zydena® Tab.  
Bacchus® Energy Drink

## Main Product

Opalmon® Tab.  
Plavitor® Tab.  
Orodipine® Tab.  
Growthropin® Inj.  
Lipinon® Tab.

## ETC (Ethical Drug)

Gaster® Tab.  
Glimel® Tab.  
Motilitone™  
ONON® Capsule & Dry Syrup  
Talion® Tab.  
Cozartan® Tab., Aprtan® Tab.,  
Valosartan® Tab.

## OTC and others (Over-The-Counter Drug)

Panpyrin®  
Garglin®  
Morning Care®  
Circular®  
Bigen Cream Tone®  
Tempo®

## Core Products

ETC  
(Ethical Drug)

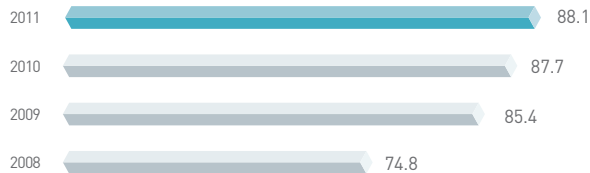


### Stillen® Tab.

#### Gastritis

Stillen®, a treatment for gastritis, is the company's first commercial product developed in-house. It is based on eupatilin and jaceosidin, which are extracted from artemisia asiatica. Stillen® has commanded a dominant market share of 40% of domestic gastric mucosal protective drug sales since 2005, its third year in the market. This figure speaks to the product's efficacy and stability. In 2011, its sales were KRW 88.1 billion. Going forward, we will conduct post-release research and increase the effectiveness of our marketing of the product, while inspiring the development of new drugs in the domestic market for gastric mucosal protective drugs.

SALES PERFORMANCE  
(unit: KRW in Billions)



Through post-release research, we aim to enhance the effectiveness of Stillen®, while inspiring the development of new drugs in the domestic market.

## Core Products

ETC  
(Ethical Drug)



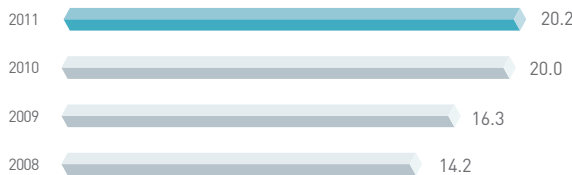
### Zydena® Tab.

#### Erectile Dysfunction

Zydena®, an oral ED (Erectile Dysfunction) treatment, is the first such drug to be developed in Korea and the fourth in the world. Thanks to rising demand for the treatment of erectile dysfunction, Zydena® sold rapidly in its first year on the market, setting a record for unprecedented sales of KRW 10 billion. Well received in Korea due to its strong efficacy, appropriate duration and enhanced safety, Zydena® is aggressively making its way into overseas markets. Since 2006, Dong-A has signed export contracts worth US\$ 300 million with distributors in Russia, Latin America and Southeast Asia. Upon completion of phase III clinical trials in the USA, Zydena® will be readied for commercial launch in the USA market in the near future.

In October 2010, Dong-A launched the Zydena® 50mg daily low-dose formulation, the second of daily low-dose launched in the world. A daily single dosage enables patients with erectile dysfunction to effectively treat their condition. Due to its efficacy and safety, this new product is expected to spur even greater sales of Zydena®. Coming in a variety of dosages, from 100mg/200mg as needed or the daily low dose of 50mg, Zydena® is expected to become one of the leading drugs for the treatment of erectile dysfunction. In 2011, also in the pipeline are clinical trials to determine the efficacy and safety of Zydena® for the treatment of BPH (Benign Prostatic Hyperplasia) and PAH (Pulmonary Arterial Hypertension).

SALES PERFORMANCE  
(unit: KRW in Billions)



Available in a variety of dosages, Zydena® is expected to become one of the leading drugs for the treatment of erectile dysfunction.



## Core Products

OTC  
(Over-The-Counter Drug)

2011 Sales Performance

# 150.1

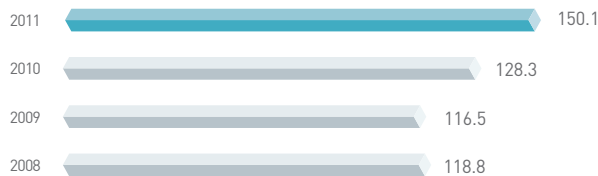
KRW in billions

Bacchus® has been a strong source of the company's revenue and has helped to finance Dong-A's active investments in R&D and the launch of new drugs, propelling our growth to the top of the nation's pharmaceutical industry.

### Bacchus® Energy Drink

Bacchus® has become a popular brand nationwide and an icon in the industry since its launch in 1963. Its annual sales stood at KRW 150.1 billion as of 2011. As myth has it, Dong-A's chairman, Shin-Ho Kang, named the energy drink after the god of wine and intoxication upon seeing a statue of Bacchus during a visit to Hamburg, Germany. For the past fifty years in production, Bacchus® has propelled our growth to the top of the nation's pharmaceutical industry as a strong source of the company's revenue and has helped to finance Dong-A's active investments in R&D and the launch of new drugs. Backed by localization strategies tailored to each of the company's overseas markets, Bacchus® is gaining in recognition and expanding its market share around the world. Building on its success in the domestic market, it is now exported to more than 30 countries and we aim to extend sales of Bacchus®, forecasting its success in the domestic market to carry on into ever more global markets.

SALES PERFORMANCE  
(unit: KRW in Billions)



Building on its success in the domestic market, Bacchus® is now exported to more than 30 countries.



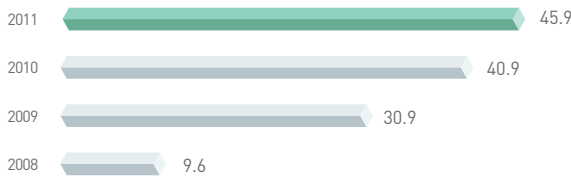
## Main Products

ETC  
(Ethical Drug)

### Lipinon® Tab. | Arteriosclerosis

Lipinon® is a hyperlipidemia treatment. Since its release in June 2008, it has maintained strong growth in sales, recording KRW 9.6 billion for the first year of launch and KRW 30.9 billion for 2009, positioning itself as one of the company's flagship brands. Being a generic version of Pfizer's Lipitor®, one of the world's bestselling drugs, its active ingredient is atorvastatin. It has demonstrated excellent performance, especially in the fast and effective lowering of cholesterol levels, while reducing the side effects of conventional drugs for muscle pain. In addition, Lipinon® comes in dosages that facilitate increased compliance in patients as it can be taken at any time, regardless of food intake, while conventional statin drugs have restricted dosage policies, to be taken at bedtime only. The domestic atorvastatin drug market amounted to KRW 279.0 billion in 2011. Among more than 30 generic versions of atorvastatin drugs now available on the market, Lipinon® claims the number one position in terms of monthly prescription volume. Dong-A recorded sales of KRW 45.9 billion for 2011.

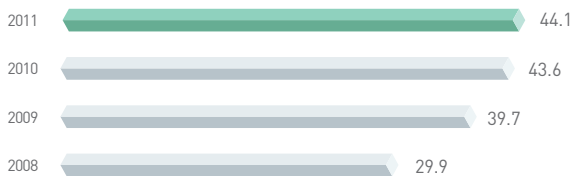
SALES PERFORMANCE  
(unit: KRW in Billions)



### Plavitor® Tab. | Peripheral Artery

Plavitor® is a generic version of Plavix®. As a cardiovascular drug developed by Sanofi-aventis, Plavix® uses clopidogrel as its main ingredient. It acts as a selective brake on the binding of ADP (Adenosine Diphosphate) to its receptor on platelets, and clopidogrel effectively reduces the symptoms of cardiovascular disease in patients suffering from stroke, myocardial infarction or peripheral arterial symptoms. In fact, its prescription rates are on the rise in many Korean hospitals and clinics for its superiority to existing antithrombotic agents. To name a few, Plavitor® boasts rapid effectiveness, convenient low daily dosages, reduced GI (Gastrointestinal) bleeding and safety, for a broad range of patients, including the elderly. Clinical studies have also shown it to be safer than aspirin therapy. First released in November 2006, Plavitor® holds the highest share of the domestic market for clopidogrel generic drugs with sales of KRW 44.1 billion in 2011.

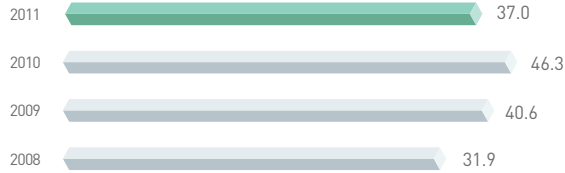
SALES PERFORMANCE  
(unit: KRW in Billions)



**Opalmon® Tab.** | Antithrombotic Agent

Opalmon® is an oral derivative of prostaglandin E1. Its first indication was for Buerger’s disease, which causes acute inflammation and thrombosis of blood vessels. In 2001, LSS (Lumbar Spinal Stenosis) was added to its indications. Since then, sales of Opalmon® have grown steadily from KRW 1.4 billion in 2001 to KRW 37.0 billion in 2011, at a compound annual growth rate of 38.7%. At the moment, Opalmon® is the only treatment for LSS available in Korea, in a market estimated to be at least KRW 100 billion. Therefore, it will have the potential to become a new addition to Dong-A’s line of blockbuster drugs.

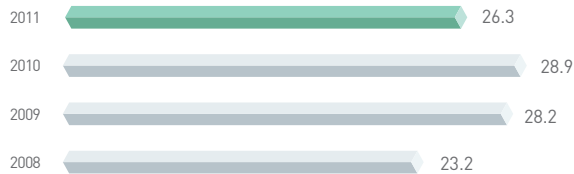
SALES PERFORMANCE  
(unit: KRW in Billions)



**Orodipine® Tab.** | Hypertension

Korea’s hypertension market has grown in tandem with the nation’s rapidly aging population. Orodipine®, a calcium antagonist with amlodipine orotate as its active ingredient, was released in January 2006, targeted at this expanding hypertension market. It acts to lower blood pressure by blocking the entry of calcium ions into smooth muscle cells, thereby inhibiting vasoconstriction. Orodipine® now commands a 12.1% share in a domestic amlodipine market worth about KRW 170 billion. Its net sales for 2011 stood at KRW 26.3 billion. With sales increasing concurrently with the growing population suffering from hypertension, this drug is expected to remain a major contributor to Dong-A’s sales in the coming years.

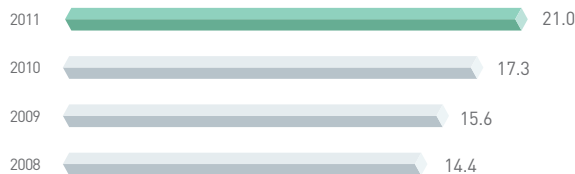
SALES PERFORMANCE  
(unit: KRW in Billions)



**Growtropin® Inj.** | Growth Hormone

Growtropin® has indications for stunted growth resulting from pituitary hormone deficiency. It is a bioengineered growth hormone drug, the first such drug developed in Korea. Of its many convenient dosages, including 4IU, 12IU, 16IU and 30IU forms, the 30IU pen cartridge form has earned a good reputation from both doctors and patients since its release in 2008. In 2011, Growtropin® continued its steady growth and posted net sales of KRW 21.0 billion, solidifying its share in the bio-pharmaceutical product market.

SALES PERFORMANCE  
(unit: KRW in Billions)



## ETC (Ethical Drug)



### Gaster® Tab.

#### Peptic Ulcer

Gaster® was first released by Astellas in Japan in 1975 as a result of years of research on a safer and more effective treatment for peptic ulcers. With 20mg of famotidine as the major ingredient, Gaster® is a histamine-2 receptor antagonist that effectively and consistently restrains the production of gastric acids. As a result, it has a wide range of applications, from the treatment of various types of peptic ulcer complaints and upper gastrointestinal bleeding to reflux esophagitis and gastritis. In addition, its wide safety margin, which ranges from LD (Lethal Dose) 50 to ED (Effective Dose) 50, guarantees fewer side effects than competing drugs. Gaster® has acquired USFDA approval for its efficacy in the treatment of ulcers and is widely prescribed in 140 countries around the world as well as in Japan and Korea. Sales of the drug reached KRW 18.4 billion in 2011.



### ONON® Capsule & Dry Syrup

#### Asthma & Rhinitis

Onon® was the world's first leukotriene receptor antagonist. It is widely recognized for its effectiveness in treating asthma and allergic rhinitis. By selectively combining with leukotriene receptors, Onon® intensifies the efficacy of the action, improving the overall condition as well as the symptoms of asthma and allergic rhinitis. With different activation from existing bronchodilators or steroids, it inhibits bronchoconstriction. In addition, its anti-inflammatory properties help to improve pulmonary functions with less side effects than other drugs. On the strengths of reduced side effects and economical pricing, Onon® has sustained steady growth in net sales, from KRW 8.5 billion for 2006 to KRW 11.5 billion for 2011.



### Glimel® Tab.

#### Diabetes

Glimel® is a generic version of Amaryl®, the safety and efficacy of which has been established in a number of clinical tests. Glimel® is an oral hypoglycemic agent with glimepiride as its main ingredient and a popular prescription drug. Glimepiride acts to stimulate the secretion of insulin from islets of langerhans cells in the pancreas, thereby lowering blood sugar and enhancing insulin sensitivity in peripheral tissues, which in turn raises glucose uptake. Glimel®'s superiority over conventional drugs lies in its effectiveness in significantly reducing the risk of low blood sugar, a common side effect of conventional sulfonylurea drugs, without weight gain. It is a synthetic drug produced using patented particle-finishing technology, which boosts the drug's dissolution rate and gives it a higher bioavailability than other generics. Rigorous testing has shown Glimel® to be a biological equivalent of Amaryl®. Sales for 2011 stood at KRW 15.4 billion, making Glimel® the nation's top generic drug, based on IMS Health Data.

With strong sales, Dong-A's ETC (Ethical Drug) segment is a main driver of the company's profitable growth. In addition, the partnership with GSK for ethical drugs is expected to enhance our capabilities in the ETC drug segment.



### Talion® Tab.

#### Antihistamines

Talion® is a second-generation antihistamine with bepotastine besilate as its active ingredient. On the strengths of rapid induction and high H1 receptor selectivity, it ranked number one among prescription antihistamines in only three years on the market (based on IMS Health Data) since its launch in 2004. A number of clinical studies proved the safety and effectiveness of Talion® in inhibiting the production of IL-5 and its high H1 selectivity. Furthermore, the most conspicuous advantage of Talion® is that it can be prescribed concomitantly with other drugs as it is free of side effects from drug interaction. Its range of indications includes allergic rhinitis and pruritis accompanying skin ailments, and chronic hives. Since launch, Talion® has recorded consistent growth in sales, which reached KRW 20.2 billion in 2011. Based on past performance, the drug is expected to gain a dominant position in the market.



### Motilitone™

#### Functional Dyspepsia

Launched in December 2011, Motilitone™, a treatment of functional dyspepsia, was the third new drug developed in-house by Dong-A. In addition, with the banning of cisapride, a leading drug for the treatment of functional dyspepsia, due to the drug's side effects on the cardiovascular system, many multinational pharmaceutical companies have endeavored to develop a new drug with a similar efficacy and less toxicity. Against this backdrop, beginning in 2004, Dong-A worked tirelessly to find a successor to cisapride, which resulted in the development of Motilitone™. Its triple action (D<sub>2</sub> antagonism, 5-HT<sub>4</sub> exasperation, 5-HT<sub>4</sub> exasperation) enhances the depletion of gastric acids and improves gastric accommodation while alleviating pain due to visceral hypersensitivity.



### Cozartan® Tab. Aptartan® Tab. Valosartan® Tab.

#### Hypertension

Cozartan® tab., Aptartan® tab., and Valosartan® tab. are ARB (Angiotensin II Receptor Blocker) drugs, which are the CCB (Calcium-Channel Blocker) products that drive the growth of the anti-hypertensive drug market. The ARB (Angiotensin II Receptor Blocker) drugs do not produce a dry cough, the major side effect of ACE-I (Angiotensin Converting Enzyme-inhibitors) types, which have a similar mechanism of action. By increasing patient control over their own blood pressure with few side effects, these drugs are expected to see sustained growth in the market. Cozartan®, launched in November 2008, was the world's first ARB drug based on losartan. In its first year on the market, the drug sold KRW 13.5 billion, and sales grew to KRW 18.8 billion in 2011, claiming the second largest market share among losartan-based generic drugs. Aptartan® tab. came to market in June, 2011. It is an irbesartan-based drug that provides effective protection of kidney functions. Valosartan® is based on valsartan, the world's most popular prescription drug for controlling blood pressure, and has excellent organ protection efficacy. These three ARB drugs are expected to enable Dong-A to further increase its share of the domestic anti-hypertensive drug market.

## OTC and others (Over-The-Counter Drug)



### Panpyrin®

#### Cold Medicine

First launched in 1956 in tablet form, Panpyrin® has been Dong-A's flagship OTC product much loved by Korean consumers for its efficacy and efficiency in providing cold relief. For the past fifty years, it has evolved through several versions, from "Panpyrin Solution®," "Panpyrin S®," and "Panpyrin F®." It was in 2007 that it assumed its current brand name, "Panpyrin Q®." Panpyrin Q® is a reinforced version of the previous formula with 5mg of tipepidine citrate, which augments the antitussive and mucolytic effects of the drug. Accordingly, the medication's scope broadened beyond colds, achiness and headaches to the treatment of coughs and phlegm. The modernized packaging also includes a five-bottle pack, each fitted with a convenient one-touch opening cap, and with revamped labeling of easy-to-understand characters representing the symptoms of "cold," "achiness" and "headache." Panpyrin® has consistently claimed a dominant 80% share of the market in terms of sales since its launch, making the drug synonymous with cold relief in Korea. In 2011, it posted sales of KRW 22.3 billion.



### Circulan®

#### Blood Circulation

Circulan® is a synthetic mixture of traditional ingredients known to boost blood circulation in the human circulatory system. Derived from the word "circulate," it comprises extracts of hawthorn berries along with extracts of the ginkgo leaf, mellissa leaf and garlic oil. These have been widely used in Asia to safely treat cardiovascular ailments, especially in elderly patients, as they are free of unpleasant side effects. For seventeen years since its launch in 1994, Circulan® has been a popular tonic for improving blood circulation and treating age-related illnesses. It is also a popular gift item for parents. It recorded sales of KRW 4.9 billion for 2011.



### Garglin®

#### Mouthwash

Garglin® was an innovative product that created a new market for antiseptic mouthwash products in Korea. Since its introduction in 1982, it has been the top-ranking brand for 29 straight years. To revive the sales records of Garglin® in its heyday, the brand underwent a renewal in 2009, repositioned as a total oral care brand. This decisive move turned out to be a resounding success with KRW 13.1 billion in sales for 2011. Garglin® has expanded its applications and consumer base by adding cavity prevention and effectiveness as an antibacterial to its traditional properties of fighting bad breath. Available in five different types—Mild, Regular, Strong, Therapeutic and Children's, the mouthwash provides consumers with a wider range of choices suited to differing needs. Also on offer are "Garglin Fresh®" spray and "Garglin Coolkis®," which comes in tablet form to fight odor and coated or furred tongue, living up to its name as a total oral care brand both significantly and substantially.

Strategic alliances with leading global pharmaceutical companies such as GSK and Bayer have served to reinforce Dong-A's product line-up. Following its reclassification as a quasi-drug, Bacchus® has achieved sustained growth in sales, enhancing its standing as an important source of revenue for the company. At the same time, our health care product line-up continued to strengthen its sales base in 2011.



### Bigen Cream Tone®

#### Hair Dye

Bigen Cream Tone® is a ready-to-use cream-type hair dye imported from HOYU Co., Japan's number one hair dye manufacturer. Recording sales of KRW 14.9 billion in 2011, Bigen Cream Tone® has solidified its stance as the leading brand in the domestic hair dye market. In 2009, Dong-A provided strong marketing support for an extension of the Bigen brand with the release of "Men's Bigen Speedy®," a fast-acting hair dye that moisturizes more effectively by minimizing moisture loss. Bigen Cream Foam®, which is a foam type of dye, was released in 2011 in four different colors. Since then, it has achieved an average of 8.7% annual growth. With additional product launches in the pipeline and an expanded distribution network, we look forward to the continued growth of the Bigen line.



### Morning Care®

#### Overconsumption Drinks

Morning Care®'s basic effectiveness is as a hangover remedy, and recently it added new efficacies in protecting the liver. The product eases the symptoms of hangovers such as headaches, nausea, bad breath and thirstiness, and its pleasant flavor and aroma have proven appealing to younger generations, especially women in their 20s and 30s, establishing it as a favorite morning-after drink. The popularity of Morning Care® continues to grow through word-of-mouth marketing and giveaway events. As a result, it posted sales of KRW 11.1 billion in 2011.



### Tempo®

#### Tampon

Tempo® is a compact tubular-shaped piece of cotton with a plastic applicator that women insert into their vaginas to absorb menstrual blood. Many women in western countries prefer the use of tampons to pads because they find them to be much more comfortable than menstrual pads. Tempo comes in various sizes, which are related to their absorbency ratings and packaging. Many women feel more comfortable wearing a tampon since it cannot be sensed and greatly minimizes the chance of leakage if inserted properly. Its sales for 2011 stood at KRW 6.5 billion.

# Distribution Network

## Boasting Korea's largest drug marketing and distribution network

For the past several decades, Dong-A Pharmaceutical has supplied ETC (ethical) drugs, OTC (Over-the-Counter) drugs, quasi-drugs, medical equipment, diagnostic agents and diagnostic devices to hospitals, clinics and pharmacies across the nation through its extensive distribution network. This network, the largest in the nation, has enabled the company to enter into strategic alliances with leading global pharmaceutical companies such as GSK and Bayer, and to partner with leading global medical equipment companies such as Biomet and Abbott to distribute their products in Korea.

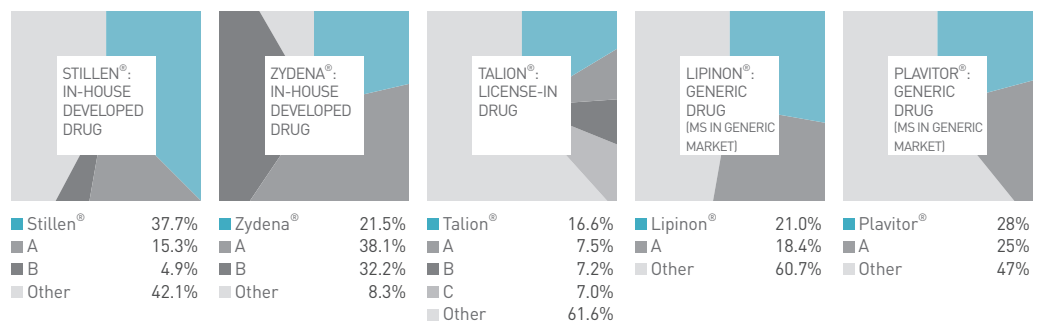
### Hospitals and Clinics

Dong-A continually provides updates on the latest information on its products and services to more than 850 hospitals and 10,000 clinics nationwide to ensure that proper procedures for use and dosage are disseminated by dispensers and properly followed by customers. With near 500 salespersons dedicated to the distribution of ETC drugs, Dong-A has achieved the highest productivity in the market with annual sales per salesperson of KRW 1 billion. Further, in step with rapidly changing market conditions over the

past several years, we have opted for marketing approaches based on statistical and medical data, such as clinical trials, while competitors have continued to utilize the old system of relationship-based marketing strategies. With our years of experience, we are now able to compete on an equal footing with multinational pharmaceutical companies around the world. Moreover, thanks to our extensive network of distribution channels, we have maintained an unrivalled share of the market in licensed-in products, generic drugs and in-house developed drugs.

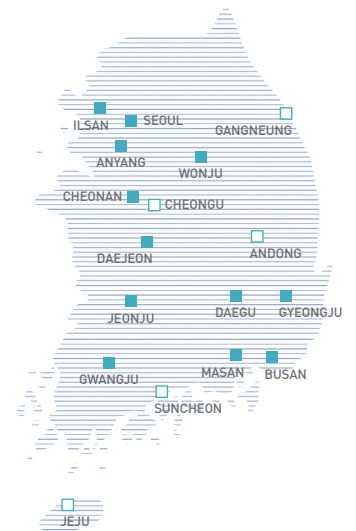
Dong-A provides hospitals with products and information on appropriate diagnostic agents and medical devices as well as ETC drugs. For instance, we import and supply Biomet's artificial joints and microfixation implants for cosmetic maxillofacial surgery, which are delivered to orthopedic hospitals and plastic surgery clinics across the nation, and import various surgical devices and other medical devices for thoracic and cardiovascular surgery for use at cardiology clinics. We also import and supply diagnostic agents and devices from Becton Dickinson, Thermo Fisher, and Medion, an automated blood tube labeling and trans-

MARKET SHARE OF DONG-A'S ETC DRUGS



12 BRANCHES AND 5 SUB-BRANCHES NATIONWIDE

- Branches: Seoul, Anyang, Gyeongju, Cheonan, Busan, Daegu, Daejeon, Gwangju, Jeonju, Wonju, Masan, Ilsan
- Sub-branches: Gangneung, Cheongu, Andong, Suncheon, Jeju



fer system from Lisom, and high-speed closed blood tube sorter from MUT to over 800 hospitals and clinics across the country.

**Pharmacies and General Distribution Channels**

Dong-A supplies OTC drugs, health functional foods, and quasi-drugs directly to pharmacies and through general distribution channels to retailers throughout the country. The OTC Division’s near 100 dedicated salespersons capitalize on their industry-leading customer relationship management skills and the division’s efficient organizational structure to provide over 60 OTC drugs to more than 20,000 pharmacies, and quasi drugs and health functional foods such as Garglin®, Bigen Cream Tone®, Morning Care®, and New Tempo® to wholesale marts, convenience stores and supermarkets nationwide. In addition, Dong-A has established specialized OTC branches in Seoul, Busan, Daegu, Gwangju, and Jeonju to supply OTC drugs directly to pharmacies. In Daejeon, Cheonan, Wonju and other major cities, the company’s sales branches distribute OTC drugs along with other drugs. These branches monitor inventories and the turnover of receivables with wholesalers. We also distribute quasi-drugs and other health functional foods to major wholesale marts such as E-mart, Lotte Mart, and Home Plus as well as convenience store franchises such as GS Mart, Top Mart, Family Mart, GS25, and Ministop.

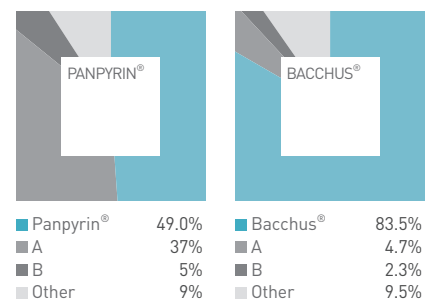
**Bacchus® Channel**

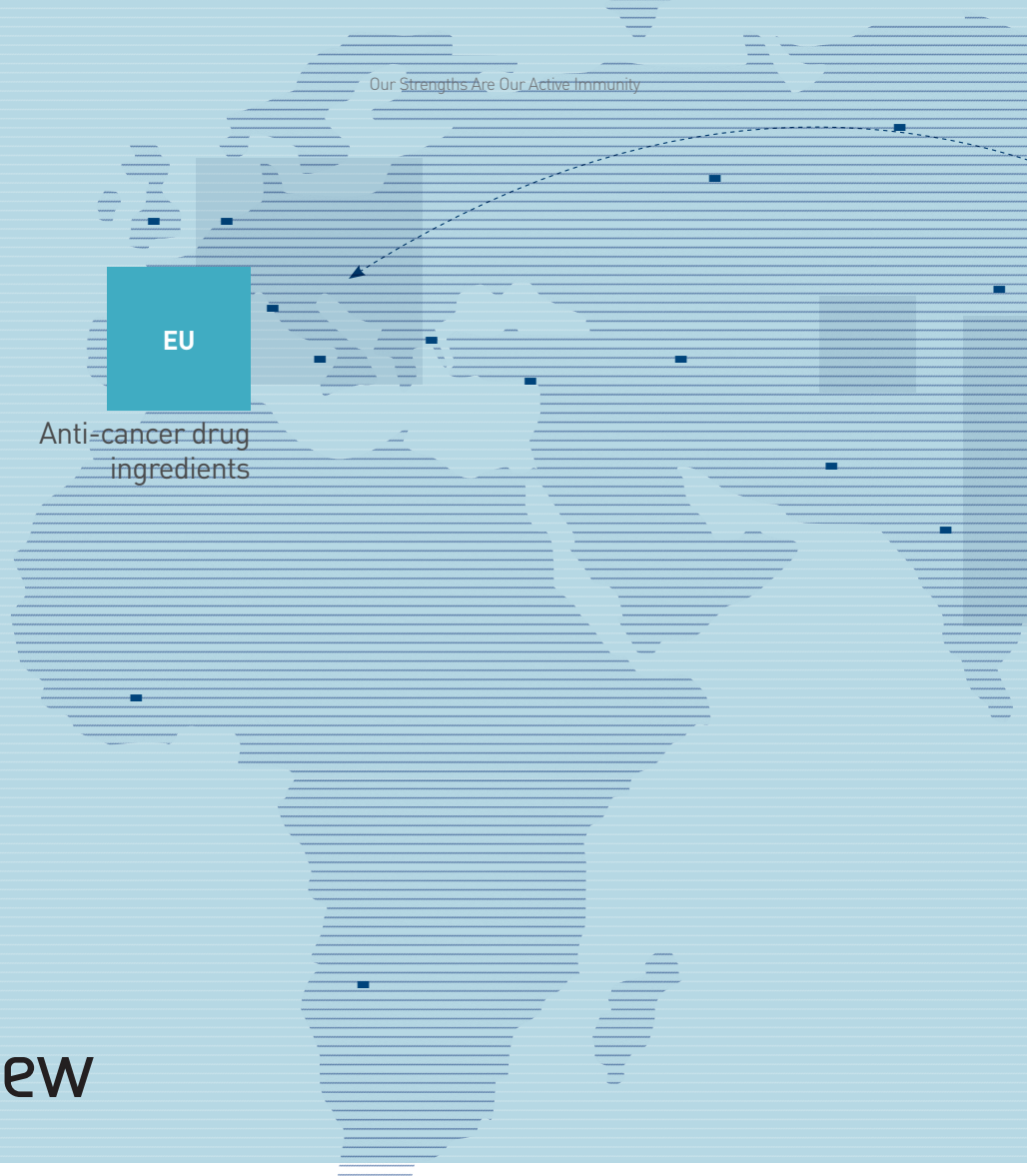
The Bacchus® Division is dedicated to the distribution of our signature product Bacchus®. The division’s 140 salespersons utilizing our fleet of 70 Bacchus® vehicles deliver our flagship product to 20,000 pharmacies across the nation. This system of direct sales

routes allows for the timely delivery of product and facilitates the monitoring of inventories and cash flows with pharmacies. This system is key in its dominance of the market with an 83.5% share of the energy drink market. As Bacchus® was reclassified as a quasi-drug in 2011, it can now be sold at non-pharmacy stores, expanding its network of distribution channels. Because of this, we have adopted a dual channel system to distribute Bacchus D® and Bacchus F®. While supplying Bacchus F® to convenience stores through distributors, we still distribute Bacchus D® directly to pharmacies to maintain an advantage in price negotiations.

Dedicated to the fast and efficient delivery of various high quality drugs, health functional drinks and medical devices, Dong-A continues to expand its network of distribution and sales channels. We are also continuing to reinforce the expertise of our sales force and improve the efficiency of our sales networks, while reducing overhead. In the future, we aim to enhance customer satisfaction and brand recognition domestically and overseas through localization strategies so as to grow as a leading global pharmaceutical company.

MARKET SHARE OF DONG-A'S OTC DRUGS





# Global Performance Review

## Overview

Determined to become a respected pharmaceutical company for its innovative products, Dong-A aggressively pursues sales in overseas markets. At the moment, we export prescription drugs, APIs (Active Pharmaceutical Ingredients) and OTCs (Over-the-counter drugs) to more than 40 countries in Europe, Latin America and Asia.

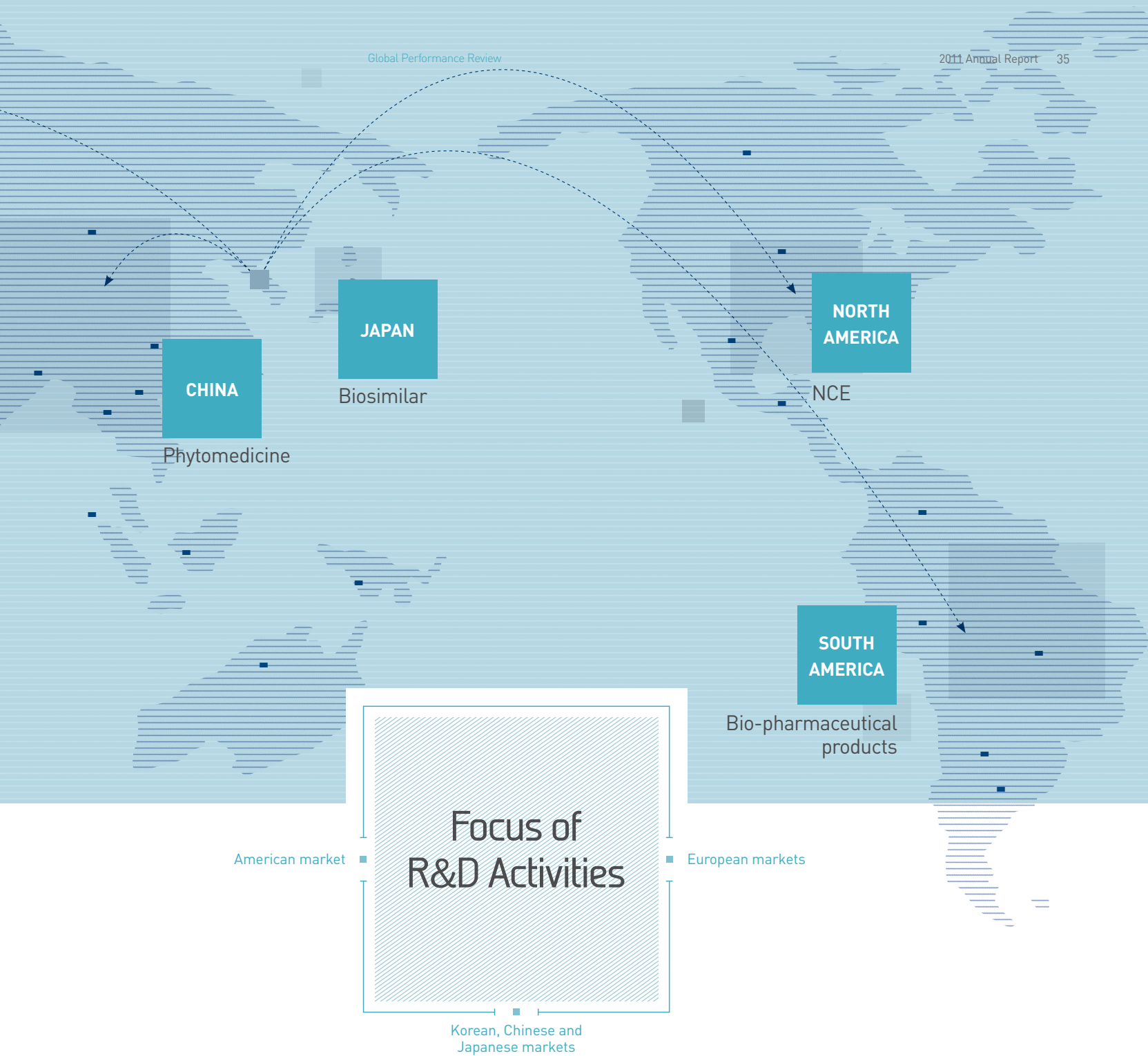
By category, major exports of the drug product segment include the in-house developed drug Zydena® (an erectile dysfunction drug), and Stillen® (a gastric mucosal protective agent). Products exported from the biologics segment are Eporon® (an anemia drug), Leucostim® (a neutropenia drug), Growtropin® (a human growth hormone), Interferon-alfa™ (a hepatitis B drug), and Gonadopin® (an ovulation induction). The API segment exports are Cycloserine and Terizidone (anti-tuberculosis medicines), and Epirubicin and Gemcitabine (anti-cancer drugs.)

The company's extensive line-up of exports spans from OTCs such as Bacchus D® (an energy drink), Korea's No.1 most popular energy drink, to health functional food including Circulan® (a blood circulation drug) and Panpyrin® (a cold medicine), as well as healthcare products such as Garglin® (a mouth wash). These have been the main engines of the company's growth in global markets, enhancing its corporate value.

## R&D Globalization

In order to grow as a leading global pharmaceutical company, Dong-A focuses its R&D efforts on meeting differing local needs.

Dong-A's R&D center carries out its R&D activities under a two-pronged globalization strategy. First, the center attunes its R&D activities to the geographical characteristics and values of Korean, Chinese and Japanese markets. Second, the company applies globali-



zation strategies differentiated by the features of new drugs and products. For example, we license NCE (New Chemical Entity drugs in the North American market; conduct clinical trials of bio-pharmaceutical products in Latin American markets; conduct local clinical trials and produce phytomedicines in the Chinese market; and export APIs of anti-cancer drugs to European markets.

### Global Network

**USA**

Dong-A America Corporation  
7215 Studebaker Road, Suite #335, Cerritos CA90703, USA  
Phone: +1-213-840-6684

**China**

Suzhou Dong-A Beverage Co., Ltd.  
391 Pugangnan Rd Luxu, Wujiang City, Jiangsu Province, China 215211  
Phone: +86-512-6327-4002

# Global Business Strategy

While actively developing new products tailored to individual markets, Dong-A is reinforcing its core competences and global networks. At the same time, we are strategically developing globally-competitive products targeted at overseas markets. We will continue to harness new opportunities out of the unlimited possibilities in the global pharmaceutical markets.

## New Markets, Greater Opportunities

In 2011, Dong-A witnessed accelerated progress in its continuing efforts to grow as a global leading pharmaceutical company. We not only had continuous sales growth with existing products, but also signed contracts and registered our products in Japan, China and Russia, transferred technologies to markets overseas for local production and supply, and aligned with the WHO (World Health Organization) to develop new market opportunities. Furthermore, we established a cooperative relationship with our subsidiary ST-Pharm to expand API (Active Pharmaceutical Ingredient) products; developed new business models with Abdi Ibrahim of Turkey and Asahi Kasei Pharma Corp. of Japan; exercised local clinical trials overseas, the first of the same industries in Korea; and opened an overseas liaison office. All of these efforts have been setting a foundation for Dong-A to become a leading global pharmaceutical company.

### *In terms of ready-to-use products:*

Sales of Zydena® heralded the advent of this new era of increasing global reach with remarkable growth in exports to more than 30 countries, spanning Russia, Asia and Latin America. The total value of these contracts amounted to US\$300 million, the most of all Korean pharmaceutical exports. Our strategy for rapidly increasing our overseas earnings is to form close working relationships with prominent local partners. At the moment, we have completed the required registration, paperwork and technology transfers for local production and distribution in Turkey. We have also entered into new contracts with Chinese partners and registered our products with the appropriate authorities in India, Brazil and Thailand, giving the company a foothold in these markets. As one exam-

ple of our aggressive efforts to penetrate new markets, we have invited product managers from seven countries to learn about our products and provided briefings on our marketing plans for future expansion into the seven countries. We will continue to engage in aggressive marketing strategies, while attending various international academic forums to promote our products and inviting key opinion leaders to symposiums for launches of our products.

First stage clinical trials for Interferon-beta were completed in Brazil in 2011, a first among bio-pharmaceuticals for this type of drug, and this remarkable achievement has opened the door to not only the Latin American market for value-added bio-pharmaceutical products, but other markets, as well.

As for Monotaxel®, we have completed technological transfers to the chosen CMO (Contract Manufacturing Organization) for the development of a ready-to-use product. And we are now in talks with Asahi Kasei Pharma Corp. of Japan for a Flivas® (a benign prostatic hyperplasia drug)-based business model.

With our strenuous efforts to gain worldwide recognition and renown for our finished pharmaceutical products, such as the API (Active Pharmaceutical Ingredient) cycloserine (an anti-tuberculosis medicine), we have mostly depended on local markets for tendering our products through local partners. However, we are breaking fresh ground to supply, as a form of finished product, Closerin®, having worked with the WHO in 2011. Closerin® is also on the brink of being registered with the relevant authorities in Russia and CIS (Commonwealth of Independent Countries) countries as well as in the Middle East and Africa.

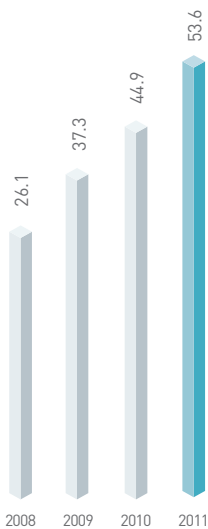




As well as anti-tuberculosis treatments have seen sustained growth, we also continue to work towards the export of other APIs to advanced pharmaceutical markets overseas, and were one step closer to doing so in 2011. For instance, atorvastatin was registered in Japan after the Japanese Authority (PMDA)'s site inspection and we have begun to supply products to Kobayashi Kako Co., Ltd. and Elmed Eisai Co., Ltd. for their launches of the drugs as first generics from June, 2011 with sales for 2012 estimated at US\$10 million. We also seek to develop various measures for improving the selection and evaluation of APIs for export in cooperation with ST-Pharm.

and roll out products in many more overseas markets. Based on extensive market research and analysis, we seek to develop high value-added products tailored to customer need while providing excellent customer service.

Dong-A will further enhance its brand value in global markets through these systematic and aggressive global strategies, thereby securing market leadership along the way. All in all, our ultimate commitment is to provide greater value for our customers around the world.



OVERSEAS PERFORMANCE  
[unit: KRW in Billions]

Another one of Dong-A's leading export brands is our Bacchus® energy drink, which is now marketed in more than 30 countries, including the USA, China and Philippines. A noteworthy accomplishment for the product in 2011 was the export of 19 million cans to Cambodia with a value of US\$4.74 million. Considering the GDP of the country, this figure is equivalent to the selling of approximately 400 million bottles of the same product in Korea. With these exports, Bacchus® has become one of the most popular drinks in Cambodia. Relaying this success to other markets, we are pursuing expansion in the markets of China and Kazakhstan.

Plus, we are placing local subsidiaries in India and Brazil as the beginning of our drive to expand globally.

Going forward, we will continue to expand Dong-A's export platform and plan to develop an overseas sales force in pursuit of greater opportunities for global expansion. While strengthening our presence in existing markets, we aim to develop markets and to register

# 53.6

KRW in billions

Booming exports resulted in a remarkable 19.3% growth, rising to KRW 44.9 billion, thanks mainly to growing exports to India.

# Strategic Alliances

## Enhancing market competitiveness through strategic alliances

Dong-A has entered into strategic alliances with leading global pharmaceutical companies such as GSK and Bayer Korea, winning licenses for the domestic sale and distribution of their popular products. These licenses will further enhance our market competitiveness and generate synergies as we will be able to tap into the global marketing infrastructure of these leading pharmaceutical companies.



Dong-A and GSK enters into an OTC co-marketing agreement in 2011



Dong-A enters into an OTC co-marketing agreement with Bayer in 2011



### Enhancing market competitiveness through sales of GSK products

In May 2010, Dong-A entered into a strategic partnership with GSK, for co-sales of various GSK ETC drugs to hospitals and clinics, resulting in increased commission income and sales for Dong-A. In 2011, GSK's Polident® tab, Polident® adhesive cream, Sensodyne® and Breathe Right® products were newly added to the ETC product list distributed by Dong-A to Korean pharmacies. Denture cleaner Polident® contains the natural enzyme, everase, which removes deposits or plaque from dentures, and Polident® adhesive cream enhances the performance of dentures. Sensodyne® alleviates tooth sensitivity. Breathe Right® nasal strips provide relief for nasal congestion, stuffiness and snoring. The addition of these popular products to its line-up has reinforced Dong-A's competitiveness in the oral care product market, while generating new sources of revenue.



### Sales and distribution of Bayer Korea's products

In August, 2011, Dong-A signed an agreement with Bayer Korea for the sale and distribution of OTC products. According to the agreement, Dong-A is to distribute and sell eight products for Bayer, including Aspirin Protect® for primary prevention of cardiovascular diseases; Mylvar®, Minivlar®, Melian®, and Triquilar®, oral derivatives of contraceptive treatments; vitamins Berocca® and Redoxon®; and Bepanthol® lip cream. Aspirin Protect® has won approval in 38 countries worldwide and is recommended by the WHO and AHA (American Health Association) as a primary agent in the prevention of cardiovascular diseases. Mylvar® is the nation's best selling oral derivative of a contraceptive treatment, and Berocca® is a multivitamin noted for its high rate of absorption. As the proprietor of the nation's largest sales network, Dong-A expects that sales of Bayer's advanced pharmaceutical products will create new synergies, thus enhancing our competitiveness in the OTC markets.





Dong-A entered into a partnership with Meiji Seika on biosimilar in 2011

明日をもっとすこやかに

**meiji**

**Meiji Seika Pharma Co., Ltd.**

#### Partnering with Meiji Seika Pharma Co., Ltd. of Japan

In September, 2011, Dong-A signed a comprehensive strategic partnership agreement with Meiji Seika of Japan for the development of biosimilar, taking a first step towards reaching its vision of becoming a leading global pharmaceutical company. The development of biosimilar requires a heavy commitment in terms of investment, time for research and development, and a complex manufacturing process. Dong-A and Meiji Seika, R&D leaders in their respective nations, agreed to collaborate on the entire process of development for biosimilar, from R&D and manufacture to commercialization and sales of three biosimilar products including Herceptin®. To this end, Dong-A's Bio-pharmaceutical Research Laboratories will use its accumulated biotechnologies from the experience of developing protein drugs including growth hormones to develop highly marketable antibody biosimilars and new antibodies. The successful development of a new product will lead to exclusive distribution licenses for the two companies in their respective nations, while both companies cooperate in overseas markets. The two companies will share expenses and infrastructure for the creation of a state-of-the-art bio R&D industrial complex in Songdo International City in the Incheon Free Economic Zone. The cooperative agreement will enable both companies to reduce the risks inherent in undertaking the heavy commitment required for the project, while increasing synergies from the sharing of a global distribution network.

Coupled with our industry-leading sales network and accumulated expertise, these partnerships will pave the way for another leap forward in our effort to become a leading global pharmaceutical company. Along with our entry into bio markets, domestic sales of products of these global majors will play a pivotal role in our pursuit of new growth engines.





Six-way CSR activities

# Our Commitment Nourishes a Healthy Society

Dong-A is committed to increasing its corporate value while fulfilling the company's corporate social responsibilities.

# Overview of Sustainability

Critical to Dong-A's continued growth and development is the responsible management of the company on an on-going basis. To this end, improving the social and environmental sustainability of our business is a priority and we have launched an executive committee to oversee management practices for sustainability company-wide.

An executive committee has been established by Dong-A to oversee the creation of an enterprise-wide strategy for reducing the company's overall production of waste, environmental impact and rate of accidents. It is the responsibility of the committee to set standards, monitor progress and issue reports to stakeholders with the goal of increasing understanding and encouraging greater participation in making Dong-A a truly environmentally-friendly company.

## Stakeholder Capital Regulatory

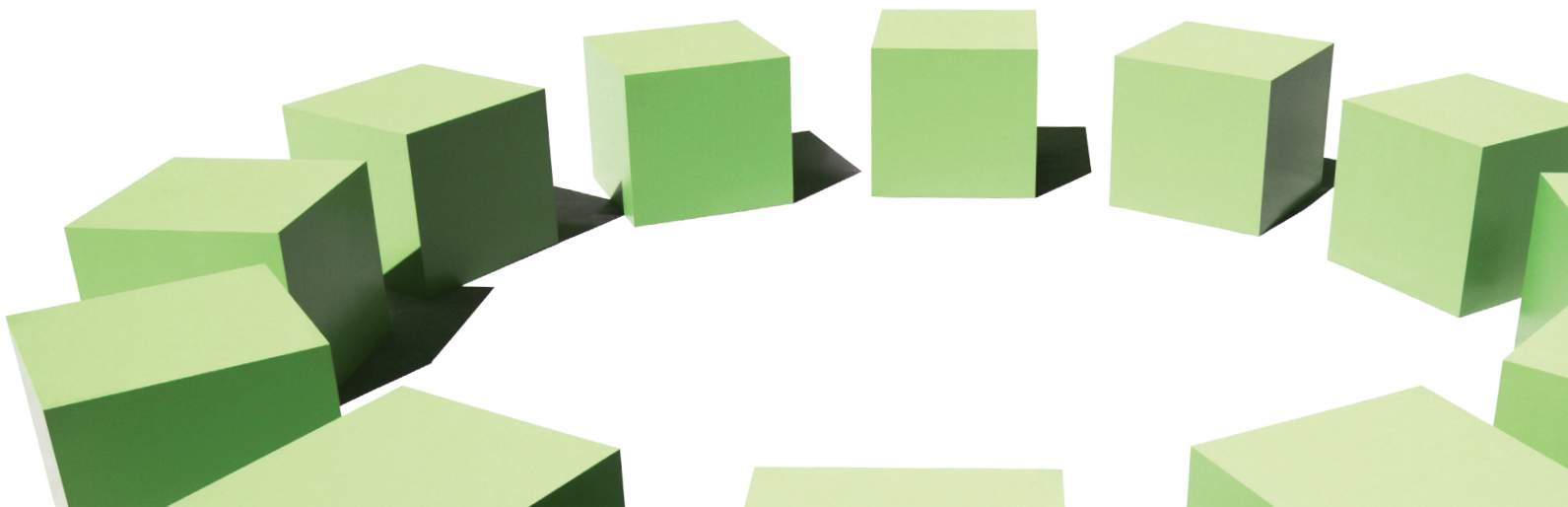
In the business world, it takes time and effort to establish a good reputation, yet a good reputation is very easy to lose. In our contemporary world of instantaneous communication, any occurrence of impropriety can damage faith in management and generate an atmosphere of distrust in the general public, ultimately impacting product sales. In a bid to prevent such problems from arising, Dong-A has carefully crafted and enforces a strict internal code of conduct for personal and corporate behavior, which all employees are expected to adhere to.

## Opening of The New 'GREEN' R&D Building

In 2010, Dong-A completed construction of a new Re-

- Maximum use of natural lighting
- Exterior energy-reflecting cladding to minimize power consumption for cooling in the summertime
- White bituminous roofing material to maximize solar energy reflection
- Interior finishes selected to minimize emission of airborne contaminants
- High performance fume hoods installed in laboratory areas to reduce flow through by 20%
- 'Sick Building' syndrome mitigated by using 100% outside air for feeding to the main air supply system
- Heat wheels built to improve energy efficiency.

search Center, which was designed by HDR CUH2A, a USA company with extensive experience in the design of environmental research and educational facilities. Employing the latest technologies in green building construction, the new center's environmental footprint has been greatly minimized. Below is a partial list of design features:



# Stakeholders Engagement

Dong-A puts great effort into being a responsible steward of its shareholders' investments. We aim to create greater value through rigorous management of costs and improvements in productivity. We are strongly committed to respecting shareholder rights and thus provide information regarding our finances and operations in a complete and timely manner.

## Expanding our Dialogue with Stakeholders

In order to ensure the fair and open exchange of information between Dong-A's management, its investors and the markets, the company conducts a variety of IR (Investor Relations) activities, including seminars, face-to-face meetings, industry conferences, NDRs (Non-Deal Roadshows) and conference calls. When deemed necessary, conference calls are held to update institutional investors on current information regarding Dong-A's operations and performances. Our IR staff also makes quarterly visits to a number of institutional shareholders following the release of results for each quarter, and hosts up to 160 meetings a year with large and potential investors. We also hold a domestic NDR (Non-Deal Roadshow) at least once a quarter and hold two such NDRs each year in Asia, in Europe and in the USA for major shareholders in each market.

Our corporate website ([www.donga-pharm.com](http://www.donga-pharm.com)) is updated with quarterly results, annual reports, IR presentations and other required disclosures on a regular basis. The website also offers regular updates pertaining to R&D, operations and other information deemed relevant to shareholders. Investors are encouraged to provide feedback on the level and relevance of our information, with the response being very positive to date. Dong-A is firmly committed to transparency and it is the goal of our organization that Dong-A be recognized as a market leader in terms of the accountability and openness of management as well as for the quality of our products.

## Major IR Activities in 2011

- More than 160 onsite inspections for the year
- Quarterly earnings releases and conference calls
- Quarterly non-deal roadshows with 68 institutions including Mirae Asset Securities, Shinhan Investment Securities, Tongyang Securities, and Hana Daetoo Securities
- Local conferences by 28 institutions including Samsung Securities, Merrill Lynch, and Deutsche Securities
- Local "Corporate Day" by Mirae Asset Securities
- Global non-deal roadshow with 28 institutions including Morgan Stanley (Hong Kong), CIMB (USA) and HSBC (USA)
- Global conferences by 35 institutions including Hana Daetoo & DBS (Singapore), Korea Investment Securities (Singapore), and RBS (Great Britain)
- New Drug Forum by Daewoo Securities
- Global Pharma · Bio Forum by Korea Business News-KFDA



Global Pharma · Bio Forum in 2011



Based on the company's corporate values and leadership principles, Dong-A maintains a sound financial structure and adheres to the company's principles for transparency.

#### Respecting Integrity and Responsibility

Based on the company's corporate values and leadership principles, Dong-A has set guidelines for corporate governance to ensure that management complies with a strict code of ethics, maintains a sound financial structure and adheres to the company's principles for transparency. The Board of Directors, as well as its committees and subcommittees, and the highest levels of the company's management are expected to adhere closely to the guidelines.

In terms of Dong-A's IR activities, the company aims for the timely delivery of clear and complete information, so that the company's share price reflects Dong-A's true value. Management's strategy is to invest wisely yet aggressively in R&D while maintaining a vigorous line of high-value drug candidates. Such a strategy is vital in the delivery of greater long-term value for shareholders, especially when implemented with rigorous surveillance of all risk factors. Dong-A does not set limits on the transfer or consignment of shares, and although two classes of shares are available to investors, the company holds to the principle of one share-one vote.

In 2011, Dong-A continued its progress towards becoming a major player in the global pharmaceutical industry as the fundamentals of ethical management and responsible corporate behavior became further ingrained in our corporate culture. We expect to enjoy many more years of working closely with our stakeholders in an atmosphere of mutual respect and trust.

# Ethical Management

A primary goal of our dealings with the investment community is to meet the needs of our investors for transparency and timely disclosure. We actively encourage all enquiries, comments and criticisms while aiming to ensure that our actions meet the standards set by our statement of principles.

## Activities to Practice Sustainable Management

### ■ Launch of Compliance Program

Fundamentally, Dong-A's true customers are the patients, rather than the doctors. For this reason, we support the initiatives taken by the Korean government to improve oversight and eliminate inappropriate transactions involving patients. Moreover, Dong-A implemented its own in-house compliance program and compliance system in 2008 and 2010, respectively, under which it has established a Compliance Team charged with exercising overall control over compliance activities across Dong-A to emphasize the importance of business ethics and compliance with applicable laws, regulations, internal policies and to provide training in proper sales methods, self-monitoring and fair competition. We are hopeful that Dong-A's compliance program will become a model for other CPs (Compliance Programs) in the pharmaceutical field, and that a culture of compliance will take hold throughout the industry. We uphold the ideals of open competition and fairness based on a level playing field, and we are working to raise Dong-A's profile with the hope that the company will be recognized worldwide for its commitment to ethical management.

### ■ Transparency in Novel Drug Development

Transparency is at the core of Dong-A's future growth. Thus, we have opened our novel drug development processes to the scrutiny of the public. This is not only a demonstration of our commitment to fair management practices but also the extent of our efforts to earn the trust of our investors. Taking pride in the largest drug development pipeline in the domestic industry, we have allowed for greater public access for interested parties to follow the progress of our R&D processes. This also speaks to our confidence in our



Compliance Education in 2011

technologies and capabilities. With this approach, the company's apparent devotion and commitment to the protection of life and service to humankind has helped to improve Dong-A's public image.

### ■ Disclosure of the Operations of the Board of Directors and Financial Information

Dong-A's Korean and English-language websites offer continually updated information regarding the company's share price, changes to the BOD, financial results and governance information. It is our belief that such openness will result in higher corporate value, thus appealing to investors who prefer long-term investment and stability over volatility.

### ■ Model Code of Ethics

Dong-A's code of ethics was instituted to address the needs of all of our stakeholders, and was designed to act as a guideline in our internal and external dealings with shareholders, customers, competitors, business partners and employees. We sincerely hope that our model code of ethics can be another element in our quest to achieve sustainable growth and long-term stability as a model company.

# Human Resources

Dong-A seeks to recruit superior candidates to its ranks. Such individuals are expected to be passionate, creative and to have an entrepreneurial spirit as part of their general make-up. On this basis, we then provide all the necessary support to assist new employees in reaching their full potential. In the longer term, we seek to nurture global leaders, people capable of taking the company to new heights, in keeping with our belief that 'our people are the company.'



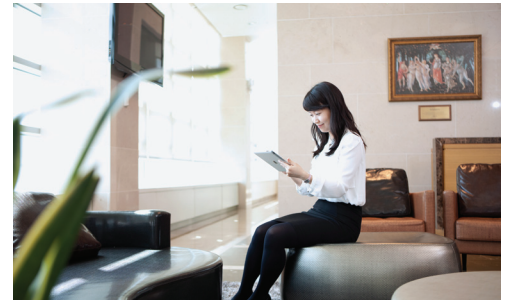
## People Unlocking Potential

One of Dong-A's fundamental principles is to truly be "a company that respects people and human rights." Dong-A's HR (Human Resources) policies seek to cultivate global leaders capable of leading the company through change and competition while providing outreach to the marginalized in society. Ultimately, we seek leaders who can build the company while helping to make a better society for all.

To cultivate flexibility and creativity in our employees, we recently revamped our HR (Human Resources) system to offer more effective support for employees. For instance, in the revised system, employees are initially screened for their knowledge of Chinese characters. Such a step is the beginning of a long-term process in which Dong-A aims to develop advanced

skills in its people while discovering individuals showing greater potential. We require uniquely qualified applicants, but then build on this foundation. To this end, we have developed a database that lists the individual competencies of our employees, which allows management to more effectively place the right person in the right place in the organization. We also continue to expand the number of potential candidates through partnerships and special relationships with prominent Korean universities.

Dong-A's commitment to education is well-known in the industry in Korea, beginning with the establishment of a professional training institute, a first by a Korean pharmaceutical company, as far back as the early 1970s. Since then, we have continued to offer educational opportunities and training courses cus-



tomized to the particular requirements and needs of individual employees.

The HRD (Human Resources Development) Center's educational programs are classified into three categories: company training, customized job training and self-directed learning. The purpose of the company's training programs, offered through classes at the institute and via e-learning courses, is to cultivate the competences and core values required of our employees to attain Dong-A's "Vision 2012." The customized job training programs, which are offered through courses at the institute or are outsourced, are based on the requirements of particular job classifications or levels and are tailored to meet individual needs in each department. The self-directed learning programs are offered through e-learning programs or reading sessions, and include career development programs aimed at reinforcing individual competences as tailored to individual needs.

On an on-going basis, Dong-A encourages its employees to reinforce such competences as foreign language acquisition, which is achieved through formal and informal channels of learning. In addition, we offer mentoring and smart-learning programs that integrate training into an individual's work processes so as to more effectively harmonize work and training. Classes offered at the HRD Center aim to cultivate creativity, teamwork and a spirit of volunteerism in attendees and two classes of new employees graduate from the HRD Center every year.

### Culture of Possibilities and Opportunities

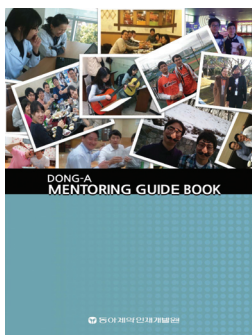
Dong-A's public recruitment accounts for 95% of our total workforce. The average number of years of ser-

vice with the company is an industry high of 9.7 years, far in excess of the industry average of 5.14 years, and is a demonstration of the loyalty of our people and the quality of our corporate culture. The results of the company's efforts to develop industry-leading competences in its employees and an advanced corporate culture led to Dong-A's nomination as one of the "40 Best Korean Companies to Work For" in 2008, as compiled by the Dong-A Ilbo, one of Korea's major daily newspapers.

An inherent aspect of Dong-A's unique corporate culture is the selection of individuals based on merit, and mutual respect between individuals. It is also the responsibility of team members to work efficiently and effectively to achieve individual as well as company goals. Our culture constitutes one of the company's most valuable assets and is the driving force behind Dong-A's continuing success as it expands into broader markets offering boundless opportunities.

### Dong-A Mentoring

Dong-A operates the "Dong-A Mentoring" program to assist new hires in becoming acclimated to the organization and its culture and to promote active communication among employees. Having started with 21 newly-employed salespeople in March 2010, the program has been expanded to include new employees throughout the organization. With a total of 315 mentors and mentees having completed the six-month course, the program serves as an introduction to Dong-A's corporate culture, reinforces the company's corporate competences, and helps participants to grow personally and professionally.



# Social Responsibilities

A company can thrive in a society that is well-off and healthy, and profitability soars when a company gives back to society. This being one of Dong-A's firmly-held beliefs, the company has long engaged in a number of community programs for the benefit and prosperity of society.

## A Prosperous Company that Engages Communities

As a responsible corporate citizen, Dong-A is dedicated to improving the health and welfare of humankind. We are involved in a variety of programs, which seek to contribute to the development of communities, return a portion of profits to society and earn the respect and trust of society at large. In addition to such company-wide endeavors as proactive efforts to address pressing social concerns and to offer financial support to the needy, our employees volunteer for a variety of programs designed to assist the underprivileged.

Dong-A's community engagement programs span different sectors, ranging from education and culture to academic circles. For instance, the company established the Sooseok Cultural Foundation to foster the development of 'good citizens,' and regularly offers scholarships, sponsors projects promoting culture, and supports the publication of cultural, community and academic materials.

In recognition of its commitment to corporate social responsibility, Dong-A was awarded a special prize at the 2010 Corporate Social Responsibility Awards organized by the Korea Economic Daily; and in 2011, we received the distinguished service prize awarded by the Arts Council Korea.

Inspiring people with the spirit of community, Dong-A devotes its resources to developing and implementing practical ways of contributing to society so as to extend a helping hand to every corner of society, wherever needed. We will continue to spare no effort or resources in our dedication to creating a happier and more prosperous society, one in which humanity and life are both respected and protected.



## 2011 CSR Highlights

### Volunteerism



Dong-A Pharmaceutical and its employees work hand-in-hand to help local communities in need. We serve free meals to homeless persons on a regular basis at the Dail Community NGO's soup kitchen, and new employees volunteer to visit and lend a hand to Hyanggrimwon, a charity for children who are physically-challenged.

### Sponsorships



Committed to the development of local communities, Dong-A hosts bazaars and uses the proceeds to provide supplies for winter to multicultural families, low-income families and underprivileged people in local neighborhoods. In addition, the company donated 2,000 multi-functional blood pressure monitors for underprivileged people and sponsors cultural field trips for children from low-income families twice a year. We also donate rice to the Jjokbangchon people near Dongdaemun and pharmaceuticals for use by volunteer medical service corps.

### Global Social Contribution Activities



Dong-A also cares about needy people overseas. Last year, we contributed to restora-

tion efforts in Japan and Turkey following devastation by powerful earthquakes that hit both countries. We also sponsored Somalian children suffering from malnutrition due to a famine brought about by a severe drought and a resulting skyrocket in food prices. We also sponsored a volunteer medical service corps in Tones, a town in Sudan, where the late father Lee Tae-seok served.

### Scholarships



To help future generations become good citizens and responsible global leaders, Dong-A sponsors a number of scholarships through the Sooseok Cultural Foundation. Marking the company's 60<sup>th</sup> anniversary in 1992, Dong-A revamped the old Sooseok Scholarship Association to create the current Sooseok Cultural Foundation. The mission of the foundation is to support students demonstrating excellence in academic achievement and as recommended by a school principal, to act as peer role models. Since its establishment in 1987, the foundation has provided scholarships to approximately 1,498 students from middle schools and high schools as well as universities across the nation.

## 2011 CSR Highlights

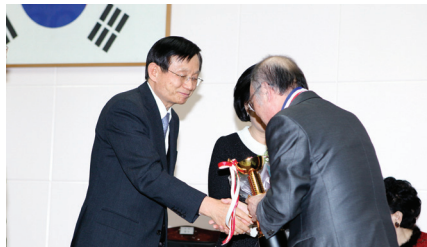
### Academic Support

#### Hamchun Medical Science Award



Since 1969, Dong-A and the Korean Medical Association (KMA) have been co-presenters of a yearly award to outstanding medical researchers for research and publications targeting human welfare and the advancement of the medical profession. Originally the “Dong-A Medical Culture Award,” then renamed the “Dong-A Medical Science Award,” the award is currently known as the “Hamchun Medical Science Award.” It boasts a prestigious forty-year history and tradition, and is now co-sponsored by Dong-A and the Sooseok Cultural Foundation.

#### Excellent Pharmacist Award



Co-sponsored by Dong-A and the Korean Pharmaceutical Association (KPA) since 1973, this award honors the contributions of pharmacists in improving public health. Also co-sponsored by Dong-A and the Sooseok Cultural Foundation are awards offered in five categories—clinical pharmacy, KPA development, exemplary service, pharmaceutical research and social contributions—every year on the anniversary of the foundation of the KPA.

### Mecenat

#### Marronnier Women's Composition Contest



Dedicated to the promotion of creative writing and the support of female writers, Dong-A hosts the contest every October at the Guro Neighborhood Park in Seoul. Open to any professional female writer over the age of 23, the competition offers prizes in the categories of poetry, prose and children's literature. The Grand Prize winners have their works printed in an Arts & Culture journal and are supported in making a literary debut. Marking its 29<sup>th</sup> anniversary in 2011, the competition is one of only a handful of offline contests in an age when online platforms have become the norm. The contest is also highly regarded as a valuable contribution to Mecenat philanthropy.

#### Tour Korea for College Students Sponsored by Bacchus®



Since 1998, the “Tour Korea with Bacchus®” walkathon for college students has grown to

represent a true spirit of adventure and the passion of youth. The youthful participants devote 21 days and 20 nights to the completion of a 600 km-walk from one end of Korea to the other. Along the way, participants attend special lectures on traditional Korean culture and participate in local events such as "Walk Next to Your Parent" events. As the walkathon has gained a higher profile over time, the competition for participation has grown more intense every year, with over 20,000 now applying yearly. The aim of the program is to help participants to gain confidence in their own abilities to overcome challenges and hardships.

#### Environment-friendly and Living with Nature Class for Youth:



Dong-A hosts this program as part of a back-to-nature experience offered to 50 middle school students. Over a span of five days and four nights, participants learn about ecology and conservation, and more importantly, gain a greater respect for nature while discovering how to better protect the natural environment. In 2011, the program was held in the Seongjubong Natural Forests in Sangju City in North Gyeongsang Province.

#### Bacchus® Cup Junior Golf Championship:



Dong-A has sponsored the championships since 2005 to promote up-and-coming golfers and to raise Korea's status as a home to many of the world's top golfers. The tournament provides aspiring young amateur golfers with opportunities to test their mettle and pursue careers as professional golfers.

#### Bacchus® Cup Professional Baduk Competitions:



In commemoration of Dong-A's 50th anniversary, the company initiated the "Bacchus® Cup Professional Baduk Competition" in June, 1983 to promote the development of the baduk game industry and its attendant cultural traditions. As the first baduk championship sponsored by a company, the tournament has garnered the warm response and support of baduk fans through its 16<sup>th</sup> year. In 1996, the competition was renamed

the "Bacchus® Cup Chunwon (Center Point) Title." In addition, the "Bacchus® Cup Korea-China Chunwon Title" was inaugurated, to which the top baduk players from Korea and China are invited each year. The competition alternates between the two countries from year to year. The tournament has proven to be an enormous success in raising the profile of Bacchus® in China, where baduk is a popular game.

#### Garglin® Cup Professional Women's Baduk Championship:



With the aim of increasing women's interest and participation in baduk while promoting Dong-A's signature Garglin® brand, Dong-A has resurrected the old discontinued "Professional Women's Kusu Title" which ran for twelve years from 2000.



KRW 907.3 billion in sales

# 907.3 Our Performances Strengthen Our Growth

Dong-A is dedicated to improving the company's financial performances while building on a foundation of strong fundamentals.

# 2011 Financial Review

Management's Discussion & Analysis

Independent Auditors' Report

Separate Statements of Financial Position

Separate Statements of Comprehensive Income

Separate Statements of Changes in Equity

Separate Statements of Cash Flows

Notes to the Separate Financial Statements

Internal Accounting Control System Review Report

Independent Auditors' Report

Consolidated Statements of Financial Position

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Consolidated Statements of Changes in Equity

Consolidated Statements of Cash Flows

## Dong-A Pharmaceutical Management's Discussion & Analysis

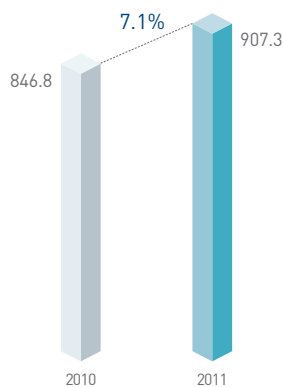
### Changes to Accounting Principles

Starting from 2011, Dong-A Pharmaceutical has prepared its financial reports in accordance with the Korean International Financial Reporting Standards (K-IFRS). Thus, the company's use of the depreciation method and other cost calculations may differ materially from methods used previously by the company in its financial reports.

### I. Executive Summary

In 2011, markets remained fearful of the possibility of a 'double dip' recession, despite slow, steady growth in the aftermath of the global financial crisis in 2008. Against this backdrop, the global pharmaceutical industry struggled to make headway despite the dim outlook throughout the year. In particular, companies in the Korean market had their worst performances in the 10 years since the introduction of regulations requiring the separation of pharmacies from clinics in the domestic market. Sales remained flat, while operating profit and net income plummeted from the previous year. \*Overall growth in sales by Korean pharmaceutical companies was anemic at 1.1% from 2010 to KRW 9,197.7 billion, while operating profit declined 18.8% to KRW 794.6 billion and net income shrank by 17% year-on-year to KRW 584.4 billion.<sup>(\*source : medipana.com)</sup> Amid these disappointing figures, Dong-A recorded sales of KRW 1,055.7 billion based on the consolidated financial statements under the K-IFRS. Furthermore, the company's operating profit declined 26.0 year-on-year to KRW 113.5 billion and net income was posted at KRW 74.9 billion, down 29.9 from 2010. These declines were mainly due to the introduction of strict regulatory measures on the pharmaceutical industry by the Korean government, including new drug pricing system.

On a separate basis, however, Dong-A's sales posted 7.1% year-on-year growth to KRW 907.3 billion, marking record-high sales for the company of KRW 900.0 billion. In 2011, sales of the company's 21 best-selling products, each of which surpassed KRW 10.0 billion, accounted for 70% of total sales. Total sales for the 21 products stood at KRW 637.5 billion.



2011(YoY)  
(unit: KRW in billions)

### II. Sales

Despite slow growth in the industry overall in 2011, Dong-A achieved relatively strong sales growth of 7.1% year-on-year, to reach KRW 907.3 billion for the year. This strong performance can be attributed to steadily increasing sales of Bacchus®, the company's most stable source of revenue, and to strategic alliances with multinational pharmaceutical companies such as GSK and Bayer in pursuit of new growth engines.

#### Ethical (ETC) Drug Segment

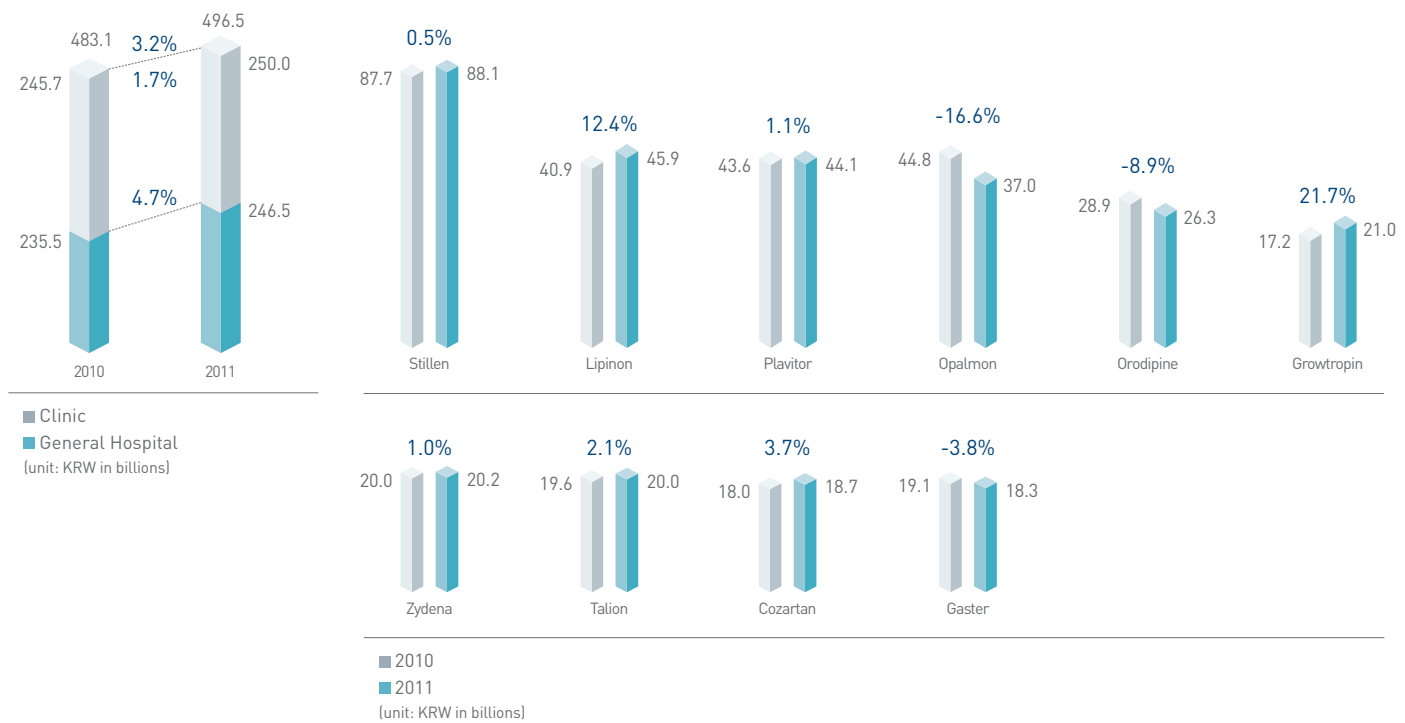
Affected by a slow-down in the overall ETC market, the ETC segment grew by 3.2% to KRW 496.5 billion for 2011. In particular, Stillen® and Zydena®, two of Dong-A's leading drugs developed in-house, saw growth of 0.5% and 1.0%, respectively, both of which have contributed to growing sales over the past several years. Another contributor was increasing sales of a hyperlipidemia treatment, Lipinon®, and a human growth hormone, Growtropin®, which grew by a robust 12.4% and 21.7% year-on-year, respectively, despite a slowdown in sales growth of cardio products due to intensifying competition.

Stillen® recorded KRW 88.1 billion in sales for 2011, up 0.5% from the previous year. Lipinon®, a hyperlipidemia treatment, saw sales grow by 12.4% from KRW 40.9 billion in 2010 to KRW 45.9 billion in 2011. Plavitor®, a peripheral artery treatment, had slight growth of 1.1% year-on-year to KRW 44.1 billion. In the meantime, Opalmon®, an antithrombotic agent, suffered a 16.6% decline in sales, from KRW 44.8 billion in 2010—the second highest among ETCs for the year—to KRW 37.0 billion in 2011. Sales of Orodipine®, a hypertension treatment, also dropped by 8.9%

from 2010, to KRW 26.3 billion in 2011. On a positive note, sales of Growtropin®, a human growth hormone, jumped 21.7% year-on-year to KRW 21.0 billion for 2011.

Zydena®, one of our drugs developed in-house for erectile dysfunction, saw sales inch up 1.0% to KRW 20.2 billion, while sales of Talion®, an allergic rhinitis drug, reached KRW 20.0 billion, up 2.1% year-on-year. Cozartan®, a treatment for hypertension, achieved sales growth of 3.7% to KRW 18.7 billion, while sales of Gaster®, a treatment for peptic ulcer, dropped by 3.8% to KRW 18.3 billion.

Dong-A also commenced the co-marketing of six products in conjunction with GSK as part of a strategic alliance with the multinational that began in May, 2010. The six products included Hepsera®, Zeffix®, Avodart®, Vaxar®, Seretide Avohaler®, and Avamys Nasal Spray®. Starting from the third quarter of 2011, three products; Hepsera®, Zeffix®, and Seretide Avohaler®, were booked as sales by Dong-A, thus contributing to the company's overall growth in sales in the second half of the year. Previously, sales of the three products had been booked as sales by GSK Korea. Facing a scheduled reduction in drug prices as mandated by the Korean government, Dong-A has secured the groundwork for sustained growth through strategic alliances with multinational pharmaceutical companies.



## By Major Therapeutic Area

### Cardiovascular, Endocrinal

Despite the 12.4% increase in sales of Lipinon, the sales of cardiovascular products decreased by 2.0% due to the competition with generics upon its patent expiry of Opalmon® in November 2010. Sales of Opalmon® are likely to remain sluggish as 4-5 generic products are to be introduced in the market.

Among our hypertension products, Cozartan®, an ARB (Angiotensin II Receptor Blocker), and Perdipine®, a CCB (Calcium Channel Blocker) posted 3.7% and 5.5% growth while sales of other hypertension products such as Orodipine®, a CCB, Vasotrol®, a β Blocker, and Tanatril®, an ACE (Angiotensin-Converting-Enzyme) inhibitor, dropped by 8.9%, 3.7%, and 22.3%, respectively. Aptan®, a newly introduced irbersartan generic, posted sound sales of KRW 2.1 billion within six months from its initial launch in June, 2011, demonstrating the new drug's potential to carry on Dong-A's legacy in the hypertension or ARB market.

With our diabetes products, Glimel<sup>®</sup> and Gluconon<sup>®</sup> showing 0.5% and 25.0% growth, our endocrine business grew 2.8% overall. Diabetes is an area in which we have extensive capabilities in both R&D and marketing and we expect to roll out new diabetes products such as DA-1229, a new drug being developed in our R&D pipeline, in the near future. Currently, DA-1229 is well into Phase II clinical trials in Korea. We are also developing DA-3091, an improved biopharmaceutical product for type II diabetes, which is presently in phase I clinical trials.

#### Digestive, Urological

Our digestive segment had stable growth of 1.0% as our best-seller, Stillen<sup>®</sup>, a gastritis treatment, posted a 0.5% increase in sales as the product is reaching its peak in sales. Our new digestive medicine, Motilitone<sup>™</sup>, a functional dyspepsia treatment, recently launched in December 2011, came under spotlight in the markets and is likely to strengthen Dong-A's presence in the digestive market. Our other digestive products such as Pantoline<sup>®</sup>, a duodenal ulcer treatment posted increased sales of 12.6%; however, Gaster<sup>®</sup>, a peptic ulcer treatment, declined 3.8% due to a 7.0% price-reduction in accordance with government mandated regulations requiring the re-pricing of pre-registered lists of drugs.

In the urology segment, sales of Zydena<sup>®</sup>, our well-known erectile dysfunction treatment, grew by 1.0%, while the segment itself grew by 0.4%. We, however, have strengthened our product line up through the co-marketing of a GSK product, Avodart<sup>®</sup>, a BPH (Benign Prostatic Hyperplasia) treatment, and are planning to launch a new product called Flivas, another BPH treatment licensed in from Japan in 2012. Urology is one of our strongest sectors as we have both the R&D and marketing capabilities to make an impact in the markets. We plan to introduce our own BPH treatment as our DA-8159 for BPH indication is now in Phase II clinical trials in the USA.

#### Antibiotics, Antiviral

Antibiotics became our third largest area in terms of sales thanks to new contributions to sales from the co-marketing of GSK products, Zeffix<sup>®</sup> and Hepsera<sup>®</sup>, hepatitis B treatments, which added KRW 36.1 billion in sales during 2011, thus contributing to 173% year-on-year growth in the antibiotics segment. Meanwhile, our existing antibiotic products including Epocelin<sup>®</sup> and Suprax<sup>®</sup>, posted drops in sales of 1.2% and 18.6% due to the aforementioned 7.0% price-reduction in accordance with the regulations governing the re-pricing of pre-registered lists of drugs, while Cefamezin<sup>®</sup> posted growth of 42.9% despite the re-pricing requirements. Antivirus products such as Zovirax<sup>®</sup>, a genital herpes treatment, showed no growth due to the 7.0% price reduction, while Valtrex<sup>®</sup>, a zoster herpes treatment, Diflex<sup>®</sup>, an antifungal, and Melanon Cream<sup>®</sup>, a melanosis, declined 27.5%, 15.8% and 9.2%, respectively, as each has reached product maturity.

#### Respiratory, Anti-inflammatory

Respiratory, our fourth largest therapeutic area, also posted moderate growth of 2.3% with our major product, Talion<sup>®</sup>, an allergic rhinitis treatments, showing growth of 2.1%. While our major anti-inflammatory product, Aclofen<sup>®</sup>, an NSAID (Non-Steroidal Anti-Inflammatory Drug), posted a 4.0% drop in growth due to the 7.0% price-cut, Gabapentin<sup>®</sup>, a PHN (Post-Herpetic Neuralgia) treatment, Paramacet<sup>®</sup>, an analgesic, Ostron<sup>®</sup>, an osteoporosis treatment, and Melocox<sup>®</sup>, an NSAID, grew 4.5%, 11.6%, 6.8% and 3.3% year-on-year, respectively. As a result, the anti-inflammatory drugs segment showed growth of 2.4% for 2011.

#### Oncological, Nuerotics

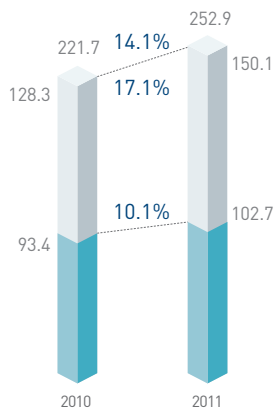
Our products Luecostim<sup>®</sup>, and Gemcit<sup>®</sup>, cancer treatments, had a very strong year with growth of 9.0% and 12.2%, respectively. A cancer treatment launched in 2010, Monotxel, posted sales of KRW 3.0 billion, an increase of 469% year-on-year. Our neurotic drugs business, however, is shrinking as we are having difficulty in sourcing APIs (Active Pharmaceutical Ingredients) for our major neurotic product, Nicitile<sup>®</sup>, a treatment for dementia.

#### Biological

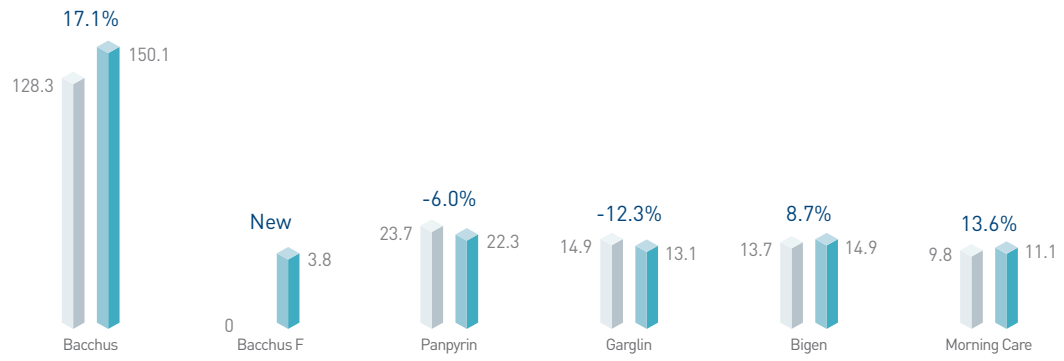
Biological products, however, have grown quite strongly with growth of 19.0% year-on-year, largely due to a 21.7% jump in sales of our major biological product, Growtropin<sup>®</sup>, a growth hormone, which has taken market share from our competitors. Biological products are Dong-A's most lucrative products going forward as they are usually free from insurance reimbursement and thus free from regulatory pressure. We are preparing a new sector within the biological segment with a strategic tie-in with Meiji-Seika Pharma Co., Ltd. in the area of biosimilar for monoclonal antibody development, which we believe will be another driver of growth in the future.

## OTC Segment

The OTC segment saw significant growth in sales thanks to a steady increase in sales of the Bacchus®, an energy drink, and a strategic alliance with Bayer. In particular, sales of Bacchus® grew by 17.1% due to an expansion in the distribution of the product as a result of reclassification as a quasi-drug in 2011. At the same time, Panpyrin®, a cold medicine, and Garglin®, a mouthwash, suffered drops in sales of 6.0% and 12.3%, respectively, while sales of Bigen®, a hair color product, and Morning Care®, a drink for hangover, grew by 8.7% and 13.6%. Also contributing to overall growth in the segment were sales of eight Bayer products, sold in accordance with a strategic alliance commencing in the third quarter of 2011, including Aspirin Protect®, a heart disease prevention medicine, which added sales of KRW 5.4 billion to lead the company's OTC segment.



■ Bacchus  
■ Other OTC  
(unit: KRW in billions)

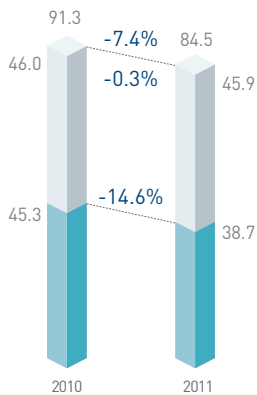


■ 2010  
■ 2011  
(unit: KRW in billions)

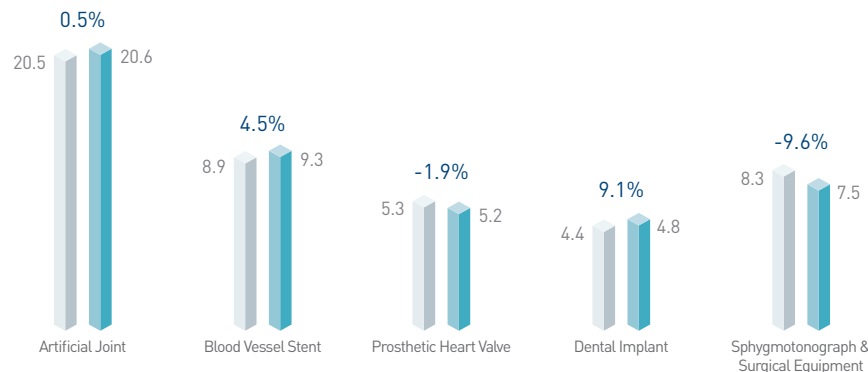
## Medical Equipment & Diagnostics Segment

Dong-A's medical equipment segment posted sales of KRW 84.5 billion, down 7.4% from the previous year, mainly due to sluggishness in the ETC market and the termination of a contract with Beckman Coulter. Sales of medical equipment were KRW 45.9 billion, similar to the previous year's, while sales of diagnostic equipment decreased in the second half of the year, due to the termination of the Beckman Coulter contract.

By item, sales of artificial joints, which accounted for the lion's share of medical equipment sales, edged up 0.5%, while sales of prosthetic heart valves, and dental and microfixation implants rose by 4.5% and 9.1%, respectively. The diagnostic segment will soon commence the selling of automated blood collection tube labeling and transfer systems through domestic distribution channels as a result of a strategic alliance with Lisom, a Korean manufacturer of such devices, as a replacement for its now-defunct alliance with Beckman Coulter.



■ Diagnostics  
■ Medical Equipment  
(unit: KRW in billions)



■ 2010  
■ 2011  
(unit: KRW in billions)

## Overseas Business Segment

Buoyed by solid exports of Cycloserine, an API of tuberculosis treatment, to India and Growthropin®, a human growth hormone, to Brazil, the global business segment recorded growth of 19.3% to KRW 53.6 billion for 2011. In particular, unprecedented sales in Cambodia boosted overall sales of Bacchus®, an energy drink, by 106.2% to KRW 8.7 billion for the year. Zydena®, an erectile dysfunction treatment, also posted exceptional growth of 52.2% to reach KRW 3.3 billion, mainly thanks to penetration of the Turkish market. Sales of Eporon®, an anemia treatment, saw strong growth of 29.3% to KRW 3.3 billion for 2011. In 2012, we will commence the export of Atorvastatin, an API of Lipinon®, to Japan, of which sales are expected to grow steadily for years to come.

### PROFIT AND COST ANALYSIS

(unit: KRW in billions)

	2010(K-IFRS)	2011(K-IFRS)	YoY
Sales	846.8	907.3	7.1%
COGS	342.6	403.3	17.7%
Gross Profit	504.2	504.0	0.0%
SG&A	395.9	405.2	2.4%
Operating Profit	112.9	95.0	-15.8%
Interest Cost	14.8	13.5	-8.7%
EBT	91.1	86.5	-5.0%
Net Profit	66.0	60.7	-8.1%

(unit: KRW in billions)

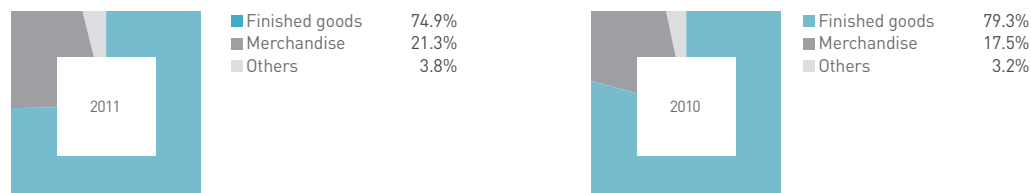
Account	2010	2011	YoY
COGS Ratio	40.5%	44.4%	3.9%p
SG&A Cost per Sales	46.8%	44.7%	-2.1%p
HR Related Cost per Sales*	13.5%	12.8%	-0.7%p
R&D Cost per Sales (Reflected in SG&A)/R&D Cost	7.4%/63.0	8.0%/72.4	0.6%p/14.9%
Advertisement Cost per Sales	5.0%	5.3%	0.3%p
Other Marketing Related Cost per Sales	11.4%	8.7%	-2.7%p
K-GAAP Operating Profit Margin	11.6%	10.0%	-1.6%p
Other Income per Sales	1.4%	1.1%	-0.3%p
Other Losses per Sales	0.8%	1.5%	0.7%p
Operating Profit Margin	13.3%	10.5%	-2.8%p
Earnings before Taxes	10.8%	9.5%	-1.3%p
Tax Expense Ratio	27.5%	29.9%	2.9%p

\* Salary+Severance +Fringe Benefit

Operating profit was KRW 95.0 billion for 2011, down 15.8% year-on-year and the operating profit margin dropped by 2.8%p, from 13.3% in 2010 to 10.5% in 2011. Despite a decline of 2.1%p in SG&A (Selling, General & Administrative) cost per sales, the COGS (Cost of Goods Sold) ratio climbed by 3.9% due to a decrease in sales of high margin products. Also, a one-time depreciation of KRW 2.4 billion arising from the disposition of experimental products caused the COGS ratio to grow by 1.0%.

SG&A cost per sales stood at 44.7%, down 2.1%p year-on-year. Of this, labor cost per sales edged down by 0.7%p to 12.8%, while marketing related costs dropped 2.7%p to 8.7%. However, R&D cost per sales inched up by 0.6%p year-on-year to 8.0%, to KRW 724 billion for the year. The advertisement cost per sales also inched up by 0.3%p from the previous year to 5.3%.

## FINISHED GOODS VS. MERCHANDISE PORTION



### III. Financial Condition

Dong-A Pharmaceutical's total assets grew by 12.4% year-on-year to KRW 1,236.8 billion, buoyed by an increase in cash and equivalents and other non-current assets. Despite a decrease in non-current liabilities, however, liabilities grew by 19.1% from the previous year to reach KRW 504.4 billion, due to an increase in borrowings and other current liabilities.

Account	10 4Q	11 4Q	YoY
Assets	1,100.3	1,236.8	12.4%
Current Assets	380.0	466.2	22.7%
Cash & Equivalents	132.6	194.6	46.7%
Receivables	128.2	143.6	12.0%
Inventories	115.0	120.4	4.7%
Non-Current Assets	720.3	770.6	7.0%
Liabilities	423.4	504.4	19.1%
Shareholders' Equity	676.9	732.4	8.2%
Borrowing	242.6	278.0	14.6%
Net borrowing	110.0	83.5	-24.1%

(unit: KRW in billions)

As a result, the liability-to-equity ratio rose by 6.3%p from 62.5% at the end of 2010 to 68.9% in 2011, mainly due to a KRW 35.4 billion increase in borrowings. However, net borrowings declined by KRW 26.5 billion, from KRW 110.0 billion in 2010, to KRW 83.5 billion in 2011. The growth in borrowings can be attributed to the adoption of the K-IFRS accounting standards. For instance, preferred stocks of KRW 50.0 billion, which were issued to fund a strategic alliance with Meiji Seika of Japan for the research and development of biosimilar, were classified as borrowings under the new K-IFRS.

Meanwhile, the current ratio improved from 1.6x in 2010 to 1.8x in 2011, up 13.7% year-on-year, while the inventory ratio declined slightly, from 10.5% in 2010 to 9.7% in 2011. The receivable ratio also remained steady from the previous year at 11.6%.

Account	10 4Q	11 4Q	%P Change
Debt-to-Equity Ratio (Total Liabilities/Total Shareholders' Equity)	62.5%	68.9%	6.3%
Borrowings Ratio (Total Borrowings/Total Shareholders' Equity)	35.8%	38.0%	2.1%
Net Gearing Ratio (Total Borrowings-Cash/Total Shareholders' Equity)	16.3%	11.4%	-4.9%
Inventory Ratio	10.5%	9.7%	-0.8%
Receivable Ratio	11.6%	11.7%	-0.1%
Current Ratio (Current Assets/Current Liabilities)	1.6x	1.8x	13.7%

## IV. Cash Flow

In 2011, Dong-A's operating activities generated KRW 113.0 billion of cash flow. Of this, net cash outflow increased by KRW 16.6 billion from the previous year to KRW 112.5 billion for 2011, mainly due to the increase in the financial investment assets. Despite the decrease in the current portion of debenture, net cash inflow from financing activities stood at KRW 141.1 billion thanks to the growing short- and long-term borrowings.

	(unit: KRW in billions)	
	2011	2010
Cashflows from operating activities	1,130	1,239
Cashflows from investing activities	-1,125	959
Cashflows from financing activities	211	595

## V. 2012 Outlook

In 2012, reduced drug sales are expected to lead to reduced profitability for domestic pharmaceutical companies as a result of the Korean government's regulatory price reduction measures. In response, Dong-A has signed strategic alliances with global players and undertaken a reorganization of operations in preparation for the challenges the new regulations will present.

In terms of the ETC segment, we are making a shift in our marketing strategies to mitigate against the effects of the new pricing policies. In other words, we are shifting our relationship-based marketing strategies to evidence-based marketing strategies; that is, rather than relying on the relationships built between our salespeople and doctors, we will now focus on persuading doctors to use our products based on scientific evidence of the effectiveness of our products. Moreover, in order to enhance the knowledge of each salesperson, we have divided our sales force into two parts, internal and external, which will enable our salespeople to develop greater expertise in a limited number of products. At the same time, we will ramp up sales of products unaffected by the new regulations, such as Stillen<sup>®</sup>, Zydene<sup>®</sup> and Talion<sup>®</sup>, and new products such as Motilitone<sup>™</sup> and Flivas<sup>®</sup>, so as to fortify profitability and expand market share.

For the year, we also plan to increase investment in R&D by KRW 20.0 billion, despite the forecasted decline in profitability, so as to ensure Dong-A's sustained growth in global markets. Furthermore, we are in talks with Meiji Seika of Japan for joint the research and development of new biosimilar products with the aim of creating new engines of growth.

Dong-A Pharmaceutical expects new opportunities to arise from the new drug pricing policies and the company is fully committed to responding proactively while moving forward as an innovative global leading drug developer. To this end, backed by a solid financial foundation, we expect to strengthen our dominance of the Korean market, and although profitability may suffer in the short term, we expect to harness the new opportunities for greater growth in the longer term. As such, 2012 will mark the beginning of our efforts to maximize corporate value while expanding into new markets.

## Independent Auditors' Report

Based on a report originally issued in Korean

### The Board of Directors and Shareholders

#### Dong-A Pharmaceutical Co., Ltd.:

We have audited the accompanying statements of financial position of Dong-A Pharmaceutical Co., Ltd. (the "Company") as of December 31, 2011, 2010 and January 1, 2010, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010. Management is responsible for the preparation and fair presentation of these financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.

Seoul, Korea  
March 8, 2012

This report is effective as of March 8, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

## Dong-A Pharmaceutical Co., Ltd. Separate Statements of Financial Position

As of December 31, 2011, 2010 and January 1, 2010

	Note	December 31, 2011	December 31, 2010	January 1, 2010
(In thousands of won)				
<b>Assets</b>				
Cash and cash equivalents	37	₩ 154,559,323	132,599,777	44,584,226
Short -term financial instruments	37	40,000,000	-	700,000
Trade receivables	5,15,24,37	143,619,866	128,183,419	127,246,992
Other receivables	6,15,37	2,855,310	703,306	556,010
Other financial assets	7,37	113,077	22,705	23,725
Inventories	8	120,392,517	115,039,528	118,249,372
Other current assets	9	4,620,673	3,420,187	3,257,580
<b>Current assets</b>		<b>466,160,766</b>	<b>379,968,922</b>	<b>294,617,905</b>
Long -term financial instruments	4,37	20,500	20,500	20,500
Trade receivables	5,37	290,663	159,410	-
Other receivables	6,15,37	7,752,839	8,083,155	5,345,560
Other financial assets	7,37	37,971,981	17,087,819	34,443,903
Property, plant and equipment	10	544,749,077	522,349,513	447,733,087
Intangible assets	11	17,017,488	15,305,401	13,550,461
Investment property	10,12	37,045,262	31,067,792	24,413,399
Investments in associates	13,15	49,204,287	49,703,787	49,703,787
Investments in subsidiaries	14,15	76,535,226	76,535,226	75,229,662
Other non-current assets	9	11,951	18,799	52,287
<b>Non-Current assets</b>		<b>770,599,274</b>	<b>720,331,402</b>	<b>650,492,646</b>
<b>Total assets</b>		<b>₩ 1,236,760,040</b>	<b>1,100,300,324</b>	<b>945,110,551</b>

See accompanying notes to the financial statements

## Dong-A Pharmaceutical Co., Ltd. Separate Statements of Financial Position, Continued

As of December 31, 2011, 2010 and January 1, 2010

	Note	December 31, 2011	December 31, 2010	January 1, 2010
(In thousands of won)				
<b>Liabilities</b>				
Trade payables	15,37 ₩	59,031,242	41,135,047	30,834,077
Other payables	16,17,20,37	88,740,939	70,633,358	77,506,792
Borrowings	10,15,18,23,37	191,803,841	99,661,646	214,532,438
Other financial liabilities	19,37	834,864	370,500	751,896
Provisions	22	9,501,673	8,668,058	9,481,572
Other current liabilities	23	1,052,941	1,775,192	265,974
Current tax liabilities	30	14,257,121	10,406,900	13,259,213
<b>Current liabilities</b>		<b>365,222,621</b>	<b>232,650,701</b>	<b>346,631,962</b>
Other payables	17,37	6,645,737	6,067,230	6,089,748
Long- term borrowings	10,18,37	86,234,396	142,895,451	56,308,985
Other financial liabilities	19,37	60,000	340,324	1,646,627
Employee benefits	21	18,858,466	14,684,048	18,250,422
Other non-current liabilities	23	123,099	80,152	62,962
Deferred tax liabilities	30	27,206,716	26,677,163	3,288,828
<b>Non-current liabilities</b>		<b>139,128,414</b>	<b>190,744,368</b>	<b>85,647,572</b>
<b>Total liabilities</b>		<b>504,351,035</b>	<b>423,395,069</b>	<b>432,279,534</b>
<b>Equity</b>				
Share capital	1,25	55,675,000	55,675,000	52,280,000
Share premium	26	73,906,182	73,906,182	28,848,336
Treasury shares	27	(3,518,635)	(14,584,987)	(18,081,306)
Other equity components	7,28	233,974,942	232,735,006	181,123,003
Retained Earnings	29	372,371,516	329,174,054	268,660,984
<b>Total equity</b>		<b>732,409,005</b>	<b>676,905,255</b>	<b>512,831,017</b>
<b>Total equity and liabilities</b>	₩	<b>1,236,760,040</b>	<b>1,100,300,324</b>	<b>945,110,551</b>

# Dong-A Pharmaceutical Co., Ltd.

## Separate Statements of Comprehensive Income

For the years ended December 31, 2011 and 2010

(In thousands of won, except per share information)				
	Note		2011	2010
Revenue	15	₩	907,293,509	846,821,957
Finished Goods			679,574,840	671,479,025
Merchandise			192,243,630	152,528,370
Raw Materials			24,683,192	21,606,675
Commissions	24		10,791,847	1,207,887
Cost of sales	15,32		403,257,141	342,593,886
Finished Goods			247,488,781	233,638,655
Merchandise			139,999,567	95,286,753
Raw Materials			15,768,793	13,668,478
<b>Gross profit</b>			<b>504,036,368</b>	<b>504,228,071</b>
Selling, general and administrative expenses	15,32,33		405,247,802	395,914,920
Other income	12,15,34		10,225,635	11,653,521
Other expenses	32,34		13,999,025	7,055,429
<b>Results from operating activities</b>	35		<b>95,015,176</b>	<b>112,911,243</b>
Finance income	36		6,566,674	7,875,449
Finance costs	36		15,086,849	29,722,746
<b>Net gains on investment in associate</b>			<b>(8,520,175)</b>	<b>(21,847,297)</b>
<b>Profit before income tax</b>			<b>86,495,001</b>	<b>91,063,946</b>
Income tax expense	30		25,841,128	25,032,385
<b>Profit for the year</b>		₩	<b>60,653,873</b>	<b>66,031,561</b>
<b>Other comprehensive income(losses)</b>				
Net change in fair value of available-for-sale financial assets	7,29	₩	2,666,964	(1,386,096)
Defined benefit plan actuarial gains (losses)	21		(6,426,170)	2,673,676
Net change in fair value of derivatives	19,29		-	289,098
<b>Other comprehensive income(losses) for the year, net of income tax</b>			<b>(3,759,206)</b>	<b>1,576,678</b>
<b>Total comprehensive income for the year</b>		₩	<b>56,894,667</b>	<b>67,608,239</b>
<b>Earnings per share</b>				
Basic earnings per share (won)	31	₩	5,578	6,332
Diluted earnings per share (won)	31	₩	5,575	6,330

See accompanying notes to the financial statements

# Dong-A Pharmaceutical Co., Ltd.

## Separate Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

	(In thousands of won)					
	Share Capital	Share premium	Treasury Shares	Other equity	Retained earnings	Total equity
<b>Balance at January 1, 2010</b>						
<b>Total comprehensive income for the year</b>	₩ 52,280,000	28,848,336	(18,081,306)	181,123,003	268,660,984	512,831,017
Profit for the year	-	-	-	-	66,031,561	66,031,561
Change in fair value of available-for-sale financial assets	-	-	-	(1,386,096)	-	(1,386,096)
Defined benefit plan actuarial gains (losses)	-	-	-	-	2,673,676	2,673,676
Change in fair value of derivatives	-	-	-	289,098	-	289,098
Total other comprehensive income	-	-	-	(1,096,998)	2,673,676	1,576,678
<b>Total comprehensive income for the year</b>	-	-	-	(1,096,998)	68,705,237	67,608,239
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Stock dividends	1,045,000	-	-	-	(1,045,000)	-
Cash dividends	-	-	-	-	(7,807,932)	(7,807,932)
Increase in paid-in capital	2,350,000	45,057,846	-	-	-	47,407,846
Exercise in exchangeable bonds	-	-	11,544,874	49,435,772	-	60,980,647
Issuance of bonds with warrants	-	-	-	3,273,229	-	3,273,229
Dividends on exchangeable bonds	-	-	-	-	660,765	660,765
Disposal of treasury stock	-	-	(18,899,665)	-	-	(18,899,666)
Acquisition of treasury stock	-	-	10,851,110	-	-	10,851,110
<b>Total transactions with owners of the Company</b>	3,395,000	45,057,846	3,496,319	52,709,001	(8,192,167)	96,465,999
<b>Balance at December 31, 2010</b>	₩ 55,675,000	73,906,182	(14,584,987)	232,735,006	329,174,054	676,905,255
<b>Balance at January 1, 2011</b>	₩ 55,675,000	73,906,182	(14,584,987)	232,735,006	329,174,054	676,905,255
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	60,653,873	60,653,873
Change in fair value of available-for-sale financial assets	-	-	-	2,666,964	-	2,666,964
Defined benefit plan actuarial gains (losses)	-	-	-	-	(6,426,170)	(6,426,170)
Total other comprehensive income (loss)	-	-	-	2,666,964	(6,426,170)	(3,759,206)
<b>Total comprehensive income for the year</b>	-	-	-	2,666,964	54,227,703	56,894,667
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Cash dividends	-	-	-	-	(11,030,241)	(11,030,240)
Disposal of treasury stock	-	-	11,066,351	(1,427,028)	-	9,639,324
<b>Total transactions with owners of the Company</b>	-	-	11,066,351	(1,427,028)	(11,030,241)	(1,390,916)
<b>Balance at December 31, 2011</b>	₩ 55,675,000	73,906,182	(3,518,635)	233,974,942	372,371,516	732,409,005

# Dong-A Pharmaceutical Co., Ltd.

## Separate Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	Note	2011	2010
(In thousands of won)			
<b>Cash flows from operation activities</b>			
Profit for the period	₩	60,653,873	₩ 66,031,561
Adjustments	38	93,539,570	107,251,901
Changes in assets and liabilities	38	(21,228,873)	(34,394,196)
Income taxes paid		(19,945,472)	(14,949,850)
<b>Net cash provided by (used in) operating activities</b>		<b>113,019,098</b>	<b>123,939,416</b>
<b>Cash flows from investing activities</b>			
Interest received		4,061,097	2,025,812
Dividends received		432,239	546,134
Decrease in short term financial instruments		-	1,200,000
Decrease in short term receivables from employees		546,891	297,227
Decrease in available-for-sale financial assets		-	20,046,620
Decrease in held-to-maturity financial assets		22,705	23,725
Proceeds from sale of property, plant and equipment		11,160,830	998,939
Decrease in deposits		977,168	1,084,429
Increase in short term financial instruments		(40,000,000)	(500,000)
Increase in short term receivables from employees		(673,523)	(285,379)
Increase in available-for-sale financial assets		(17,453,358)	(5,286,682)
Increase in held-to-maturity financial assets		(6,800)	(7,915)
Increase in investment in subsidiaries		-	(3,500,172)
Acquisition of property, plant and equipment		(67,505,993)	(106,914,751)
Acquisition of intangible assets		(3,626,880)	(4,247,031)
Increase in deposits		(436,546)	(1,397,321)
<b>Net cash used in investing activities</b>		<b>(112,502,170)</b>	<b>(95,916,365)</b>
<b>Cash flows from financing activities</b>			
Proceeds from short term borrowings		77,710,842	72,661,646
Proceeds from long term borrowings		51,894,404	30,000,000
Proceeds from bonds		-	10,000,000
Proceeds from bonds with warrants		-	97,499,200
Proceeds from rental deposits received		2,313,348	191,021
Proceeds from issuance of common stocks		-	47,407,846
Proceeds from disposal of treasury stocks		9,183,729	-
Interest paid		(7,661,931)	(8,729,815)
Dividends paid		(11,030,240)	(7,807,932)
Repayment of short-term borrowings		(49,661,646)	(105,074,128)
Repayment of current portion of long-term borrowings		-	(19,000,000)
Repayment of current portion of debentures		(38,000,000)	(20,000,000)

See accompanying notes to the financial statements

## Dong-A Pharmaceutical Co., Ltd. Separate Statements of Cash Flows, Continued

For the years ended December 31, 2011 and 2010

	Note	2011	2010
Repayment of exchangeable bonds		-	(18,759,760)
Repayment of long-term borrowings		(12,016,782)	(15,933)
Repayment of rental deposits received		(1,649,937)	(12,704)
Acquisition of treasury stock		-	(18,899,666)
<b>Net cash provided by financing activities</b>		<b>21,081,787</b>	<b>59,459,775</b>
<b>Net increase(decrease) in cash and cash equivalents</b>		<b>21,598,715</b>	<b>87,482,826</b>
Cash and cash equivalents at 1 January		132,599,777	44,584,226
Effect of exchange rate fluctuations on cash held		360,831	532,725
<b>Cash and cash equivalents at 31 December</b>	₩	<b>154,559,323</b>	<b>132,599,777</b>

See accompanying notes to the financial statements.

# Dong-A Pharmaceutical Co., Ltd.

## Notes to the Separate Financial Statements

For the years ended December 31, 2011 and 2010

### 1. Reporting Entity

Dong-A Pharmaceutical Co., Ltd. (the "Company") was incorporated on August 9, 1949, to primarily engage in the business of manufacturing and selling pharmaceutical products. The Company's products are produced from four plants located in Cheonan, Banweol, Dalsung and Icheon, Korea.

The Company's shares were listed on the Korea Stock Exchange on February 10, 1970. The Company's capital amounted to ₩ 55,675 million as of December 31, 2011.

### 2. Basis of Preparation

#### (1) Statement of compliance

The separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

These are the Company's first separate financial statements prepared in accordance with K-IFRS and K-IFRS No. 1101 *First-time Adoption of Korean International Financial Reporting Standards ("K-IFRS No. 1101")* has been applied. The Company's date of transition to K-IFRS is January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles ("K-GAAP") to K-IFRS on the Company's reported financial position, financial performance and cash flow is explained in note 39.

These financial statements are separate financial statements prepared in accordance with K-IFRS No. 1027 *Separate and Separate Financial Statements* presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

#### (2) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

#### (3) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the Parent Company's functional currency and the currency of the primary economic environment in which the Company operates.

#### (4) Use of estimates and judgments

The preparation of the separate financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in the following notes:

- Note 5 – Impairment of trade receivables
- Note 7 – Measurement of other financial assets
- Note 11 – Impairment of intangible assets
- Note 21 – Measurement of defined benefit obligations
- Note 22 and 24 - Provisions and contingencies
- Note 30 – Income tax expense

#### **(5) Date of authorization for the separate financial statements**

The separate financial statements were authorized for issue by the Board of Directors on February 2, 2012.

### **3. Significant Accounting Policies**

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purpose of the transition to K-IFRS, unless otherwise indicated.

#### **(1) Operating segment**

The Company consists of a single reporting segment as defined in K-IFRS No.1108 *Operating Segment*.

#### **(2) Basis of consolidation**

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027 *Separate and Separate Financial Statements* presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the cost method. Dividends received from subsidiaries and associates are recognized in profit or loss when declared.

#### **(3) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Company in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents. However, redeemable preference shares, for which the period from the acquisition to redemption is short, are classified as cash and cash equivalents.

#### **(4) Inventories**

The cost of inventories is based on the first-in first-out principle, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

#### **(5) Non-derivative financial assets**

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

#### (i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

#### (ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

#### (iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

#### (iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

#### (v) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

#### (vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the separate statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

### (6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

#### (i) Hedge accounting

The Company holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Company designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

#### *Fair value hedge*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from re-measuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the separate statement of comprehensive income.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

#### *Cash flow hedge*

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

### (ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

### (iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

## (7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

### (i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

**(ii) Financial assets carried at cost**

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

**(iii) Available-for-sale financial assets**

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

**(8) Property, plant and equipment**

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. However, the Company applied *K-IFRS No. 1101* on certain land properties and measured those properties at fair value at the date of transition, which is deemed cost.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Company's assets are as follows:

	Useful lives (years)	Depreciation Method
Buildings	20 ~60	Straight- line basis
Structures	3-40	Straight- line basis
Machinery	2-10	Straight- line basis
Vehicles	5	Straight- line basis
Other property, plant and equipment ("Other PP&E")	5	Straight- line basis

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**(9) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which

certain intangible assets are expected to be available for use, these intangible assets are determined as having indefinite useful lives and not amortized.

	Useful lives (years)
Industrial property rights	5 ~10
Rights to use facility	Indefinite
Other intangible assets	5 , 20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

#### (i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

#### (ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

### (10) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are recognized as deferred income over the useful life of the asset.

Government grants which are intended to compensate the Company for expenses incurred shall be recognized as deduction to related expenses in profit or loss over the periods in which the Company recognizes the related costs as expenses.

### (11) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses. However, the Company applied *K-IFRS No. 1101* on certain land properties and measured those properties at fair value at the date of transition, which is deemed cost.

### (12) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable Company of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **(13) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

### **(14) Borrowing costs**

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

### **(15) Non-derivative financial liabilities**

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

#### **(i) Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

#### **(ii) Other financial liabilities**

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

## (16) Employee benefits

### (i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

### (ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

### (iii) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

### (iv) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

## (17) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be rec-

ognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

## **(18) Convertible bonds and bonds with warrants**

The compound financial instrument issued by the Company is classified as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. The conversion right embedded in compound financial instrument, which are convertible bonds and bonds with warrants, issued by the Company which can, at the option of the holder, be converted into a fixed number of equity instruments in the Company.

The liability component of a convertible bond and a bond with warrants shall be recognized as the fair value of a similar liability on initial recognition and be measured in amortized cost by the effective interest method until it is extinguished. The equity component is determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole on initial recognition. The tax effect shall be reflected and the instrument is not remeasured afterward. Transaction costs that relate to the issuance of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

## **(19) Foreign currencies**

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. When gains and losses from non-monetary assets are recognized in other comprehensive income, effect of foreign exchange rate fluctuation included in the gains and losses is recognized in other comprehensive income. When gains and losses from non-monetary assets are recognized in profit or loss, effect of foreign exchange rate fluctuation included in the gains and losses is recognized in profit or loss.

## **(20) Equity capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Company's shareholders. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

## **(21) Revenue**

Revenue from the sale of goods, rendering of services or use of the Company assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue.

### **(i) Goods sold**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the

associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of timber and paper products, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port of the seller.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

#### (ii) Commission revenue

When the Company is engaged in a transaction as an agent, the Company recognizes only the commission amount as revenue.

#### (iii) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

### (22) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

### (23) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

#### (i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

#### (ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is

settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. Any additional income tax expense resulting from dividend payout is recognized when the related liability is recognized.

## (24) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

## (25) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2011, and the Company has not early adopted them.

### (i) Amendments to K-IFRS No. 1107 *Financial Instruments: Disclosures*

The amendments require disclosing the nature of the transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Company derecognizes transferred financial assets but still has their specific risks and rewards, the amendments require additional disclosures on their effect of risks. The amendments will be applied prospectively for the Company's annual periods beginning on or after July 1, 2011.

### (ii) Amendments to K-IFRS No. 1012 *Income Tax*

Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, will be measured by reflecting the tax effect from selling the investment properties. The amendments will be prospectively applied for the Company's annual periods beginning on or after January 1, 2012.

### (iii) Amendments to K-IFRS No. 1019 *Employee Benefits*

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013.

### (iv) K-IFRS No. 1113 *Fair Value Measurement*

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Company's annual periods beginning on or after January 1, 2013.

## 4. Restricted Deposits

Deposits which are restricted in use for guarantee for checking account as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

	(In thousands of won)			
	December 31, 2011	December 31, 2010	January 1, 2010	Restrictions
Cash and Cash equivalents	₩ 2,897,895	2,897,895	-	Stock swap cash dividends Deposits on checking accounts
Financial instruments	30,500	30,500	30,500	
	₩ 2,928,395	2,928,395	30,500	

## 5. Trade Receivables and Other Receivables

(1) Trade receivables as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

(In thousands of won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Trade receivables	₩ 144,725,929	290,663	136,964,615	159,410	137,608,864	-
Less: provision for impairment	(1,106,063)	-	(8,781,196)	-	(10,361,872)	-
	₩ 143,619,866	290,663	128,183,419	159,410	127,246,992	-

(2) Changes in provision for impairment for the year ended December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

(In thousands of won)

	2011	2010
Opening balance	₩ 8,781,196	10,361,872
Bad debt allowance(reversal of allowance for bad debts)	(495,156)	76,552
Write-offs	(7,182,203)	(1,657,977)
Reversal of write-offs	2,226	749
Ending balance	₩ 1,106,063	8,781,196

## 6. Other Receivables

Other receivables as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

(In thousands of won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Loans to employees	₩ 305,126	-	178,494	-	190,342	-
Other loans	-	2,508,748	-	2,302,626	-	-
Other receivables	2,021,552	1,732,432	245,855	1,732,432	298,801	1,647,230
Accrued revenue	528,632	-	278,957	-	66,867	-
Deposits	-	3,511,659	-	4,048,097	-	3,698,330
	₩ 2,855,310	7,752,839	703,306	8,083,155	556,010	5,345,560

## 7. Other Financial Assets

(1) Other financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

(In thousands of won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Available-for-sale securities	₩ -	37,754,656	-	16,817,439	-	34,158,734
Held-to-maturity securities	59,855	217,325	22,705	270,380	23,725	285,169
Derivatives	53,222	-	-	-	-	-
	₩ 113,077	37,971,981	22,705	17,087,819	23,725	34,443,903

(2) Available-for-sale securities

## ① Available-for-sale securities as of December 31, 2011 are as follows:

(In thousands of won)

	Acquisition cost	Opening balance	Valuation	Unrealized gain (loss)		Accumulated impairment	Book Value (Fair value)
				Realized gain(loss)	Ending balance		
<b>Equity securities</b>							
Marketable securities (*1)	₩ 22,466,999	3,630,667	3,419,185	-	7,049,852	-	29,516,851
Non-marketable securities (*2)	12,758,935	-	-	-	-	(6,021,130)	6,737,805
Debt securities	1,500,000	-	-	-	-	-	1,500,000
	₩ 36,725,934	3,630,667	3,419,185	-	7,049,852	(6,021,130)	37,754,656

(\*1) The Company has agreed with E1 Inc. to mutually exchange the sales values realizable in the future upon the Company's sale of equity investment for 713 thousand shares in LS Networks and E1 Inc.'s sale of equity investment in the Company.

(\*2) Impairment losses on non-marketable securities in amount of ₩ 434,827 thousand were recognized during the year ended December 31, 2011.

## Available-for-sale securities as of December 31, 2010 were as follows:

(In thousands of won)

	Acquisition cost	Opening balance	Valuation	Unrealized gain (loss)		Accumulated impairment	Book Value (Fair value)
				Realized gain(loss)	Ending balance		
<b>Equity securities</b>							
Marketable securities (*1,2)	₩ 11,468,641	5,407,715	4,008,872	(5,785,920)	3,630,667	-	15,099,308
Non-marketable securities (*3,4)	5,804,435	-	-	-	-	(5,586,304)	218,131
Debt securities	1,500,000	-	-	-	-	-	1,500,000
	₩ 18,773,076	5,407,715	4,008,872	(5,785,920)	3,630,667	(5,586,304)	16,817,439

(\*1) The Company has agreed with E1 Inc. to mutually exchange the sales values realizable in the future upon the Company's sale of equity investment for 713 thousand shares in LS Networks and E1 Inc.'s sale of equity investment in the Company.

(\*2) In 2010, the Company recognized ₩ 442,363 thousand of gain and ₩ 7,755,700 thousand of losses from disposal of marketable equity securities.

(\*3) In 2010, the Company recognized ₩ 12,000 thousand of reversal of impairment of available-for-sale securities and ₩ 20,995 thousand of impairment loss.

(\*4) In 2010, convertible bonds of Trius Therapeutics, Inc. with the acquisition cost of ₩ 2,953,000 thousand were converted into 605,745 shares of common stocks, and the Company recognized the gain from the conversion amounting to ₩ 399,568 thousand

## Available-for-sale securities as of January 1, 2010 were as follows:

(In thousands of won)

	Acquisition cost	Opening balance	Valuation	Unrealized gain (loss)		Accumulated impairment	Book Value (Fair value)
				Realized gain(loss)	Ending balance		
<b>Equity securities</b>							
Marketable securities(*)	₩ 25,604,893	87,242	5,320,242	231	5,407,715	-	31,012,608
Non-marketable securities	5,804,435	-	-	-	-	(5,577,309)	227,126
Debt securities	2,919,000	-	-	-	-	-	2,919,000
	₩ 34,328,328	87,242	5,320,242	231	5,407,715	(5,577,309)	34,158,734

(\*) The Company has agreed with E1 Inc. to mutually exchange the sales values realizable in the future upon the Company's sale of equity investment for 786 thousand shares in LS Networks and E1 Inc.'s sale of equity investment in the Company.

② Changes in available- for-sale for the years ended December 31, 2011 and 2010 were as follows:

		2011	2010
			(In thousands of won)
<b>Beginning balance</b>	₩	16,817,439	34,158,734
Acquisition of available-for-sale securities		17,453,359	5,286,682
Transfers(*)		499,500	-
Impairment		(434,827)	(8,996)
Valuation gain/loss(before income taxes)		3,419,185	(1,777,048)
Disposals		-	(20,841,933)
<b>Ending balance at end of year</b>	₩	37,754,656	16,817,439

(\*) Although the ownership percentage is less than 20%, the Investment in Soo Seok Co., Ltd. was classified as investments in associates as the Company has substantial influence over the board of directors and others of the investee.

### (3) Held-to-maturity Securities

① Held-to-maturity securities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		December 31, 2011	December 31, 2010	January 1, 2010
				(In thousands of won)
Housing bonds	₩	152,271	166,471	166,520
Subway bonds		2,340	780	1,170
Urban subway bonds		94,970	96,725	105,445
Regional development bonds		25,740	27,250	33,900
Subordinated bonds		1,859	1,859	1,859
	₩	277,180	293,085	308,894

② Changes in available- for-sale for the years ended December 31, 2011 and 2010 were as follows:

		2011	2010
			(In thousands of won)
<b>Beginning Balance</b>	₩	293,085	308,894
Acquisition		6,800	7,916
Disposals		(22,705)	(23,725)
<b>Ending Balance</b>	₩	277,180	293,085

### (4) Derivative assets

In 2011, the Company entered into the currency forward contract up to USD 2,500,000 which matures in one year to avoid the risk associated with foreign exchange rate fluctuation with Korean development bank with maturity of one year. The Company recognized ₩ 53,222 thousand of gain in valuation of derivatives for the year ended December 31, 2011.

## 8. Inventories

(1) Inventories as of December 31, 2011, 2010 and January 1 2010 are as follows:

(In thousands of won)

		December 31, 2011	December 31, 2010	January 1, 2010
Finished goods	₩	25,351,209	24,177,639	25,024,780
Allowance for inventory valuation		(1,668,130)	(581,083)	(1,090,044)
Merchandise		47,568,974	36,946,786	38,271,313
Allowance for inventory valuation		(912,396)	(2,791,890)	(1,701,831)
Work in progress		24,045,530	29,155,844	24,489,760
Raw materials		21,991,683	24,249,086	28,303,811
Base materials		2,020,279	1,810,870	1,985,186
Other inventories		1,995,368	2,072,276	2,966,397
	₩	120,392,517	115,039,528	118,249,372

(2) During 2011 and 2010, the amounts of supplies, raw materials and changes in finished goods and work in process recognized as cost of sales, and writ-down of inventories to net realizable value and reversal of such write-down also included in cost of sales are as follows:

(In thousands of won)

		2011	2010
Cost of sales			
Including:			
- Loss on valuation of inventories	₩	1,087,047	1,090,059
- Reversal of loss on valuation of inventories		(1,879,494)	(508,960)

## 9. Other assets

(1) Other financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

(In thousands of won)

		December 31, 2011		December 31, 2010		January 1, 2010	
		Current	Non-current	Current	Non-current	Current	Non-current
Advanced payments	₩	4,278,567	-	3,047,829	-	2,700,048	-
Prepaid expense		342,106	11,951	372,358	18,799	557,532	52,287
	₩	4,620,673	11,951	3,420,187	18,799	3,257,580	52,287

## 10. Property, Plant and Equipment

(1) Changes in property, plant and equipment in the year ended December 31, 2011 are summarized as follows:

	Land	Buildings	Structures	Machinery	Vehicles	Others	Constuction-in-progress	Machinery in transit	Total
<b>Acquisition Cost:</b>									
Beginning Balance	₩ 224,042,178	215,465,407	9,528,895	112,184,645	3,191,003	52,852,842	31,137,755	1,666,215	650,068,940
Acquisition	55,669	45,719	-	3,988,140	772,229	3,858,433	51,486,842	7,298,961	67,505,993
Disposals	(1,664,184)	(1,194,437)	(33,103)	(1,788,280)	(512,852)	(24,169,715)	-	-	(29,362,571)
Transfers	4,730	4,474,400	736,400	13,785,334	36,033	1,617,599	(15,826,963)	(5,053,138)	(225,605)
Others(*)	(4,112,113)	(1,827,965)	-	-	-	-	-	-	(5,940,078)
Ending Balance	218,326,280	216,963,124	10,232,192	128,169,839	3,486,413	34,159,159	66,797,634	3,912,038	682,046,679

		Land	Buildings	Structures	Machinery	Vehicles	Others	Constuction- in-progress	Machinery in transit	Total
<b>Accumulated Depreciation/Impairment losses:</b>										
Beginning Balance	₩	-	(26,990,721)	(3,569,615)	(65,565,148)	(1,995,973)	(29,597,970)	-	-	(127,719,427)
Depreciation Expense		-	(5,348,301)	(394,305)	(13,466,270)	(495,323)	(4,579,071)	-	-	(24,283,270)
Disposals		-	374,457	12,793	1,782,770	502,832	12,307,884	-	-	14,980,736
Others(*)		-	(275,641)	-	-	-	-	-	-	(275,641)
Ending Balance	₩	-	(32,240,206)	(3,951,127)	(77,248,648)	(1,988,464)	(21,869,157)	-	-	(137,297,602)
<b>Net Book Value:</b>										
Beginning Balance		224,042,178	188,474,686	5,959,280	46,619,497	1,195,030	23,254,872	31,137,755	1,666,215	522,349,513
Ending Balance		218,326,280	184,722,918	6,281,065	50,921,191	1,497,949	12,290,002	66,797,634	3,912,038	544,749,077

(\*)Reclassified to investment property

**(2) Changes in property, plant and equipment in the year ended December 31, 2010 are summarized as follows:**

		Land	Buildings	Structures	Machinery	Vehicles	Others	Constuction- in-progress	Machinery in transit	Total
<b>Acquisition Cost:</b>										
Beginning Balance	₩	193,171,496	154,938,285	8,791,202	102,513,940	2,883,302	48,865,286	47,621,524	3,113,430	561,898,465
Acquisition		-	357,492	343	2,138,935	761,443	5,598,384	91,755,918	6,302,235	106,914,750
Disposals		-	(185,329)	(170,150)	(4,521,675)	(500,895)	(5,676,526)	-	-	(11,054,575)
Transfers		37,876,752	60,320,777	907,500	12,053,445	47,153	4,065,698	(108,239,687)	(7,749,450)	(717,812)
Others(*)		(7,006,070)	34,182	-	-	-	-	-	-	(6,971,888)
Ending Balance	₩	224,042,178	215,465,407	9,528,895	112,184,645	3,191,003	52,852,842	31,137,755	1,666,215	650,068,940
<b>Accumulated Depreciation/Impairment:</b>										
Beginning Balance	₩	-	(22,576,337)	(3,303,624)	(59,019,632)	(2,084,176)	(27,181,609)	-	-	(114,165,378)
Depreciation Expense		-	(4,576,648)	(357,218)	(11,035,261)	(396,950)	(7,297,915)	-	-	(23,663,992)
Disposals		-	60,890	91,227	4,489,745	485,153	4,881,554	-	-	10,008,569
Others(*)		-	101,374	-	-	-	-	-	-	101,374
Ending Balance	₩	-	(26,990,721)	(3,569,615)	(65,565,148)	(1,995,973)	(29,597,970)	-	-	(127,719,427)
<b>Net Book Value:</b>										
Beginning Balance		193,171,496	132,361,948	5,487,578	43,494,308	799,126	21,683,677	47,621,524	3,113,430	447,733,087
Ending Balance		224,042,178	188,474,686	5,959,280	46,619,497	1,195,030	23,254,872	31,137,755	1,666,215	522,349,513

(\*)Reclassified to investment property

**(3) The following assets were pledged as collateral for borrowings as of December 31, 2011:**

						(In thousands of won)	
Lender	Assets	Type of Borrowings	Borrowing amount	Book value	Collateralized amount		
SC First Bank	Land, buildings and machinery	General loan	₩ 18,000,000	124,969,187	15,866,400		
Kookmin Bank	Land and buildings	Indirect loan		53,658,172	54,759,500		
		General loan	293,052			36,400,000	
Korea Development Bank	Land, buildings and machinery	Bonds and loan for facility funding	24,000,000	236,053,870	USD 4,500,000		
						JPY 1,200,000,000	

**(4) The following assets were insured as of December 31, 2011 as follows:**

(In thousands of won)			
Type of Insurance	Type of Assets	Insured amount(*)	Insurance Company
Fire insurance	Buildings(Headquarter, Factory) and Others	360,537,163	Samsung Fire & Marine Insurance Co., Ltd.

(\*) Of the above amount, W 12,063 million is pledged at Nowon Branch of Korea Development Bank

In addition to the above mentioned fire insurance, the Company maintains an employee injury insurance and product liability insurance.

**II. Intangible Assets****(1) Changes in intangible assets for the years ended December 31, 2011 are as follows:**

(In thousands of won)				
	Industrial property rights	Facility usage right	Other intangible assets	Total
<b>Acquisition costs:</b>				
	₩			
Beginning balance	3,598,139	15,159,835	5,157,894	23,915,868
Acquisitions	486,308	313,886	2,826,686	3,626,880
Transfers	-	-	194,063	194,063
Ending balance	4,084,447	15,473,721	8,178,643	27,736,811
<b>Accumulated amortization and impairment losses:</b>				
Beginning balance	(1,788,441)	(3,393,005)	(3,429,021)	(8,610,467)
Amortization	(418,477)	-	(783,761)	(1,202,238)
Impairment loss	-	(906,618)	-	(906,618)
Ending balance	(2,206,918)	(4,299,623)	(4,212,782)	(10,719,323)
<b>Net book value:</b>				
Beginning balance	1,809,698	11,766,830	1,728,873	15,305,401
Ending balance	1,877,529	11,174,098	3,965,861	17,017,488

**(2) Changes in intangible assets for the years ended December 31, 2010 are as follows:**

(In thousands of won)				
	Industrial property rights	Facility usage right	Other intangible assets	Total
<b>Acquisition costs:</b>				
	₩			
Beginning balance	2,642,320	12,479,358	4,427,671	19,549,349
Acquisitions	955,819	2,680,477	610,735	4,247,031
Transfers	-	-	119,488	119,488
Ending balance	3,598,139	15,159,835	5,157,894	23,915,868
<b>Accumulated amortization and impairment losses:</b>				
Beginning balance	(1,509,350)	(1,817,465)	(2,672,073)	(5,998,888)
Amortization	(279,091)	-	(756,948)	(1,036,039)
Impairment loss	-	(1,575,540)	-	(1,575,540)
Ending balance	(1,788,441)	(3,393,005)	(3,429,021)	(8,610,467)
<b>Net book value:</b>				
Beginning balance	1,132,970	10,661,893	1,755,598	13,550,461
Ending balance	1,809,698	11,766,830	1,728,873	15,305,401

(3) Research and development costs incurred for the years ended December 31, 2011 and 2010 were ₩ 61,671,664 thousand and ₩ 55,472,541 thousand, respectively, which were classified as selling, development and administrative expenses.

## 12. Investment Property

### (1) Changes in intangible assets for the years ended December 31, 2011 are as follows:

				(In thousands of won)		
		Land	Building	Total		
<b>Acquisition costs:</b>		₩				
Beginning balance		23,579,615	9,005,666	32,585,281		
Transfers		4,112,113	1,827,965	5,940,078		
Ending balance		27,691,728	10,833,631	38,525,359		
<b>Accumulated depreciation and impairment losses:</b>						
Beginning balance		-	(1,517,489)	(1,517,489)		
Depreciation		-	(238,249)	(238,249)		
Transfers		-	275,641	275,641		
Ending balance		-	(1,480,097)	(1,480,097)		
<b>Net book value:</b>						
Beginning balance		23,579,615	7,488,177	31,067,792		
Ending balance		27,691,728	9,353,534	37,045,262		

### (2) Changes in intangible assets for the years ended December 31, 2010 are as follows:

				(In thousands of won)		
		Land	Building	Total		
<b>Acquisition costs:</b>		₩				
Beginning balance		16,573,545	9,039,848	25,613,393		
Transfers		7,006,070	(34,182)	6,971,888		
Ending balance		23,579,615	9,005,666	32,585,281		
<b>Accumulated depreciation and impairment losses:</b>						
Beginning balance		-	(1,199,994)	(1,199,994)		
Depreciation		-	(216,121)	(216,121)		
Transfers		-	(101,374)	(101,374)		
Ending balance		-	(1,517,489)	(1,517,489)		
<b>Net book value:</b>						
Beginning balance		16,573,545	7,839,854	24,413,399		
Ending balance		23,579,615	7,488,177	31,067,792		

### (3) Recognized profit or loss related to investment property for the years ended December 31, 2011 and 2010 are as follows:

			(In thousands of won)	
			2011	2010
Rental income		₩	951,223	841,793
Operation expense			(114,147)	(101,015)
Total			837,076	740,778

### (4) Fair value and the book value of the investment property as of December 31, 2011, 2010 and January 1, 2010 are as follows:

		December 31, 2011		December 31, 2010		January 1, 2010	
		Fair Value	Book Value	Fair Value	Book Value	Fair Value	Book Value
Land	₩	21,681,580	27,691,728	16,193,332	23,579,615	11,429,575	16,573,545
Buildings		5,118,254	9,353,534	4,071,332	7,488,177	4,249,906	7,839,854
Total		26,799,834	37,045,262	20,264,664	31,067,792	15,679,481	24,413,399

### 13. Investments in associates

Investments in associates as of December 31, 2011, 2010 and January 1, 2010 are as follows:

(In thousands of won)						
Company	December 31, 2011		December 31, 2010		January 1, 2010	
	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Dong-A Otsuka Co., Ltd.	49.99	36,841,988	49.99	36,841,988	49.99	36,841,988
Korea Sinto Co., Ltd.	50.00	6,085,000	50.00	6,085,000	50.00	6,085,000
MBC Ad Co., Ltd.	25.00	810,000	25.00	810,000	25.00	810,000
Soo Seok Trading Co., Ltd. (*1)	-	-	2.99	499,500	2.99	499,500
Dong-A Pharmtech Co., Ltd.	33.72	4,301,595	33.72	4,301,595	33.72	4,301,595
Dong-A America Corp. (*2)	100.00	588,470	100.00	588,470	100.00	588,470
Suzhou Dong-A Beverage Corp. (*3)	45.00	577,234	45.00	577,234	45.00	577,234
<b>Total</b>		<b>49,204,287</b>		<b>49,703,787</b>		<b>49,703,787</b>

(\*1) This was classified as investment in associates despite its ownership interest under 20% as the Company had ability to substantially influence financial and operating policy decision of the board of directors of the invested company in prior years. During 2011, it was reclassified to available-for-sale securities as the Company lost the substantial influence.

(\*2) Impairment loss of W 5,296 million was recognized for this investment during the year ended December 31, 2011 as the recoverable amount is less than the carrying amount.

(\*3) Impairment loss of W 1,514 million was recognized for this investment during the year ended December 31, 2011 as the recoverable amount is less than the carrying amount.

### 14. Investments in subsidiaries

Investments in subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are as follows:

(In thousands of won)						
Company	December 31, 2011		December 31, 2010		January 1, 2010	
	Ownership	Carrying amount	Ownership	Carrying amount	Ownership	Carrying amount
Soo Seok Co., Ltd.	100.00%	47,182,033	100.00%	47,182,033	100.00%	47,182,033
Soo Seok Nong San Co., Ltd.	100.00%	4,278,179	100.00%	4,278,179	100.00%	4,278,179
Yong-Ma Logis Co., Ltd.	99.50%	22,207,257	99.50%	22,207,257	99.50%	22,207,257
DA Information Co., Ltd	100.00%	1,562,193	100.00%	1,562,193	100.00%	1,562,193
ST Pharm Co., Ltd. (*)	13.18%	1,305,564	13.18%	1,305,564	-	-
<b>Total</b>		<b>76,535,226</b>		<b>76,535,226</b>		<b>75,229,662</b>

(\*) This was classified as investments in subsidiaries despite its ownership interest is below 50% as the Company owns a majority of the voting interests in the election of board members.

### 15. Related Parties

(1) Subsidiaries and their controlling companies as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Company	Controlling company	December 31, 2011		December 31, 2010		January 1, 2010	
		Ownership	Subsidiaries	Ownership	Subsidiaries	Ownership	Subsidiaries
Soo Seok Co., Ltd.	Dong-A Pharmaceutical Co., Ltd.	100.00%	-	100.00%	-	100.00%	-
Soo Seok Nong San Co., Ltd.	Dong-A Pharmaceutical Co., Ltd.	100.00%	-	100.00%	-	100.00%	-
Yong-Ma Logis Co., Ltd.	Dong-A Pharmaceutical Co., Ltd.	97.69%	1.81%	97.69%	1.81%	97.69%	1.81%
DA Information Co., Ltd	Dong-A Pharmaceutical Co., Ltd.	100.00%	-	100.00%	-	100.00%	-
ST Pharm Co., Ltd. (*)	Dong-A Pharmaceutical Co., Ltd.	13.18%	-	13.18%	-	-	-
Induspark Co., Ltd.	Soo Seok Co., Ltd.	-	80.00%	-	80.00%	-	80.00%

(\*) This was classified as investments in subsidiaries despite its ownership interest under 50% as the Company owns a majority of the voting interests in the election of board members.

**(2) Related party transactions which occurred in the normal course of business for the years ended December 31, 2011 and 2010 are as follows:**

(In thousands of won)

Relationship	Name	Transaction	2011	2010
Subsidiaries	Soo Seok Co., Ltd.	Rent	₩ 924	-
		Other income	16,992	18,323
	Soo Seok Nong San Co., Ltd.	Purchase - materials	37,983,515	32,744,692
		Purchase - materials	499,488	378,294
	Yong-Ma Logis Co., Ltd.	Rent	69,840	70,901
		Other income	240,314	683,070
	DA Information Co., Ltd.	Outside service fees	11,524,607	10,625,520
		Commissions	5,322,788	4,567,993
		Sales - goods	-	2,340
		Rent	48,280	46,553
		Other income	275	4,659
	ST Pharm Co., Ltd.	Purchase - goods	3,779,788	4,202,339
		Outside service fees	807,202	52,800
		Sales- goods	21,000	-
		Rent	1,951	-
		Purchase - materials	22,506,676	12,183,370
	Associates	Dong-A Pharmtech Co., Ltd.	Commission revenue	94,876
Commissions			874,132	640,288
Dong-A Otsuka Co., Ltd.		Sales -merchandise	1,676,877	343,799
		Rent	172,127	204,334
		Other income	33,750	-
Korea Sinto Co., Ltd.		Purchase - goods	6,069,136	1,745,269
		Sales promotion	6,691	35,204
		Other income	23,177	26,222

**(3) Account balances with related companies as of December 31, 2011, 2010 and January 1, 2010 were as follows:**

## ① December 31, 2011

(In thousands of won)

Relationship	Name	Receivables				Payables	
		Accounts receivable - trade	Accounts receivable - other	Accounts payable - trade	Accounts payable - other	Rental deposits received	
Subsidiaries	Yong-Ma Logis Co., Ltd.	₩ -	3,072	-	939,909	856,986	
	Soo Seok Co., Ltd.	-	1,584	6,799,919	-	-	
	Soo Seok Nong San Co., Ltd.	-	-	102,221	-	-	
	DA Information Co., Ltd.	-	-	-	470,443	31,200	
	ST Pharm Co., Ltd.	-	-	5,154,880	250,927	-	
Associates	Dong-A Pharmtech Co., Ltd.	104,364	-	-	154,153	-	
	Dong-A Otsuka Co., Ltd.	781,894	10,023	-	1,068,525	2,549,161	
	Korea Sinto Co., Ltd.	-	1,863	-	-	674,883	
		₩ 886,258	16,542	12,057,020	2,883,957	4,112,230	

## ② December 31, 2010

(In thousands of won)

Relationship	Name	Receivables				Payables	
		Accounts receivable - trade	Accounts receivable - other	Accounts payable - trade	Accounts payable - other	Rental deposits received	
Subsidiaries	Yong-Ma Logis Co., Ltd.	₩	-	3,047	-	875,625	1,048,370
	Soo Seok Co., Ltd.		-	1,584	9,689,653	-	-
	Soo Seok Nong San Co., Ltd.		-	-	102,221	-	-
	DA Information Co., Ltd.		-	4,652	-	36,300	13,916
	ST Pharm Co., Ltd.		-	-	3,923,836	-	-
Associates	Dong-A Pharmtech Co., Ltd.		745,225	-	-	-	-
	Dong-A Otsuka Co., Ltd.		270,059	17,671	3,171	-	2,376,650
	Korea Sinto Co., Ltd.		-	1,987	-	-	674,883
		₩	1,015,284	28,941	13,718,881	911,925	4,113,819

## ③ January 1, 2010

Relationship	Name	Receivables				Payables	
		Accounts receivable - trade	Accounts receivable - other	Accounts payable - trade	Accounts payable - other	Rental deposits received	
Subsidiaries	Yong-Ma Logis Co., Ltd.	₩	-	4,658	531,527	328,188	1,030,819
	Soo Seok Co., Ltd.		-	792	7,210,612	-	-
	Soo Seok Nong San Co., Ltd.		-	-	43,657	-	-
	DA Information Co., Ltd.		-	4,624	24,200	199,888	13,407
Associates	Dong-A Pharmtech Co., Ltd.		180,116	-	-	-	-
	Dong-A Otsuka Co., Ltd.		57,466	15,606	57,914	33,352	2,317,100
	Korea Sinto Co., Ltd.		-	1,910	-	-	650,176
Total		₩	237,582	27,590	7,867,910	561,428	4,011,502

## (4) Key management personnel compensation in total and for each of the following categories for the year ended December 31, 2011 and 2010 was as follows:

(In thousands of won)

Compensation details	2011	2010
Short-term employee benefits	₩ 2,678,101	2,475,892
Post-employment benefits	891,055	842,859

## (5) Details of guarantees which the Company had provided for related companies as of December 31, 2011, 2010 and January 1, 2010 are as follows:

## ① December 31, 2011

(In thousands of won)

Guarantee recipient	Relationship	Description	Creditor	Guaranteed amount
Soo Seok Nong San Co., Ltd.	Subsidiary	Collateral for borrowings	Hana Bank	₩ 1,300,000
			Shinhan Bank	3,900,000
			Citibank Korea	7,150,000
				₩ 12,350,000

## ② December 31, 2010

					(In thousands of won)
Guarantee recipient	Relationship	Description	Creditor		Guaranteed amount
Soo Seok Nong San Co., Ltd.	Subsidiary	Collateral for borrowings	Hana Bank	₩	1,300,000
			Shinhan Bank		3,900,000
			Citibank Korea		3,900,000
			Kookmin Bank		3,250,000
				₩	12,350,000

## ③ January 1, 2010

					(In thousands of won)
Guarantee recipient	Relationship	Description	Creditor		Guaranteed amount
Soo Seok Nong San Co., Ltd.	Subsidiary	Collateral for borrowings	Shinhan Bank		7,800,000
			Kookmin Bank		3,250,000
				₩	11,050,000

## (6) Details of assets which are pledged as collateral for borrowings of related companies as of December 31, 2011, 2010 and January 1, 2010 are as follows:

						(In thousands of won)
Guarantee recipient	Relationship	Assets	Creditor	Guaranteed amount	Book value	
Korea Sinto Co., Ltd.	Related company	Stocks of Korea Sinto Co., Ltd.	Japan Sinto Co., Ltd	900,000	6,085,000	

## 16. Government grants

The Company was awarded in conditional government grants for development project from the Korean government which has future debt obligation based on results of development. The Company entered into development agreement with Ministry of health and welfare for asthma and lung disease cure medicine which is the national research project. As of December 31, 2011, remaining balance of the government grants received is ₩ 7,997,143 thousand and classified as Withholdings.

## 17. Other Liabilities

## Other liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

					(In thousands of won)
		December 31, 2011	December 31, 2010	January 1, 2010	
<b>Current:</b>					
Other payables	₩	51,159,577	37,590,848	43,846,883	
Accrued expenses		19,561,830	12,853,806	8,292,550	
Withholdings		9,644,805	8,365,107	14,243,542	
Taxes withheld		1,311,474	1,482,197	1,147,546	
VAT withheld		7,063,253	10,341,400	9,976,271	
<b>Total</b>		<b>88,740,939</b>	<b>70,633,358</b>	<b>77,506,792</b>	
<b>Non-current:</b>					
Rental Deposits received		7,148,915	6,485,504	6,307,187	
Discount present value		(503,178)	(418,274)	(217,439)	
		₩	6,645,737	6,067,230	6,089,748

## 18. Loans and Borrowings

### (1) Borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of won)						
Lender	Type	Interest Rate	Year of maturity	December 31, 2011	December 31, 2010	January 1, 2010
<b>Current:</b>						
Nonghyup Bank and others	Short-term borrowing	5.67 ~ 6.29	2012	77,849,670	49,661,647	81,832,941
SC First Bank and others	Current portion of long-term borrowing	5.06 ~ 6.34	2012	12,000,000	12,000,000	19,000,000
The Korea development bank	Current bonds	-	-	-	38,000,000	20,000,000
Woori investment& securities	Exchangable bonds	-	-	-	-	93,699,497
E trade securities	Bonds with warrants(*)	4.50	2017	101,954,171	96,602,398	-
<b>Sub-total</b>				191,803,841	196,264,045	214,532,438
<b>Non-current:</b>						
SC First Bank and others	Long-term borrowings	4.54 ~ 5.20	2013 ~ 2023	24,276,271	36,293,052	18,308,985
The Korea development bank	Bonds	6.36	2013	10,000,000	10,000,000	38,000,000
DM Bio Limited	Convertible redeemable preferred stocks	1.00	2019	51,958,126	-	-
<b>Sub-total</b>				86,234,397	46,293,052	56,308,985
<b>Total</b>				278,038,238	242,557,097	270,841,423

(\*) Although the year of maturity of the bonds with warrants is 2017, it was classified as current liabilities as the early repayment option is available within 1 year from December 31, 2011.

### (2) Issues and repayments of borrowings in the year ended December 31, 2011 are as follows:

(In thousands of won)				
	Interest rate[%]	Face value	Carrying amount	Year of maturity
<b>Issues</b>				
Short-term borrowings	4.96 ~ 6.25	71,000,000	71,000,000	2012
Short-term borrowings(*)	-	6,849,670	6,849,670	2012
Convertible redeemable preferred stocks	1.00	51,958,126	51,958,126	2019
<b>Repayments</b>				
Short-term borrowings	5.68 ~ 6.29	45,000,000	45,000,000	2011
Short-term borrowings(*)	-	4,661,646	4,661,646	2011
Current bonds	-	38,000,000	38,000,000	2011
Long-term borrowings	4.54 ~ 5.20	12,016,781	12,016,781	2011

(\*) Discounts on trade receivables before maturity are accounted for as a borrowing transaction and are classified as short-term borrowings.

### (3) Bonds with warrants

#### ① Details of bonds with warrants as of December 31, 2011 are as follows:

(In thousands of won)				
	Issued date	Maturity		2011
Bonds with warrants	May 12, 2010	May 12, 2017	₩	100,000,000
Premium payable				36,086,200
Discount on bonds with warrants				(1,995,097)
Stock warrants adjustment				(32,136,932)
			₩	101,954,171

The Company issued bond with warrants on May 12, 2010 and the the main conditions are as follows:

Interest rate: Interest rate – 0%, yield to maturity – 4.50%

Exercise period: May 12, 2011 ~ April 12, 2017

Exercise price(\*) and shares: ₩ 88,361 per share, 1,131,720 shares

Call option by issuer: 30~60 days before the early redemption date (November 12, 2012)

(\*) The exercise price changes by issuance of common stocks, capital increase, stock dividends, merger, and changes in market value of common stocks, among others.

Record date for dividend pay-out of newly issued shares resulting from exercise of bonds with warrants is the end of the preceding fiscal year, and exercise of the bonds with warrants has no effect on interest costs that relate to the issuance of bonds.

Stock warrants embedded in the bonds with warrants are not accounted for separately as they are accounted as an equity instrument in accordance with the substance of the contractual arrangement.

Although financial characteristics and associated risks of the call features do not clearly and closely relate to the host contract, the call features is not accounted for separately as it is similar to the amortized cost of the debt instrument arising from exercises of the call option.

There were no exercises in 2011.

② Changes in bonds with warrants in the year ended December 31, 2011 are as follows:

	December 31, 2010	Issuance	Amortization	December 31, 2011
Bonds with warrants	100,000,000	-	-	100,000,000
Premium payable	36,086,200	-	-	36,086,200
Discount on bonds with warrants	(2,307,925)	-	312,828	(1,995,097)
Stock warrants adjustments	(37,175,876)	-	5,038,944	(32,136,932)
Book Value	96,602,399	-	5,351,772	101,954,171

(In thousands of won)

#### (4) Exchangeable bonds

The company sold 748,440 treasury shares to an overseas SPC (DPA Limited, DPB Limited) and in return, the SPC issued exchangeable bonds for the Company's stock on July 5, 2007.

The main conditions on the exchangeable bonds are as follows:

- Interest rate : Interest rate – 0%, yield to maturity – 3.95% (DPA), 4.10% (DPB)
- Exchange period : Starting on the day after one year from issuance date to 30 days before maturity date
- Exchange price : ₩ 93,090/share [Adjustment of conversion price when stock dividend was declared]
- Put option by bond holder : Exercisable on the day after three years from issuance date

The sale of treasury stock to SPC was in accordance with commercial law and stock transaction law with regard to the SPC's issuance of exchangeable bonds. However, the Company is exposed to the risk of loss related to the issuance and redemption of exchangeable bond and treasury stock held by SPC, and therefore, the above transaction is accounted for as a borrowing transaction.

The SPC holds the balance representing the difference between the issuance amount of the exchangeable bonds and the proceeds from the sale of treasury shares. This balance, currently recorded as long-term accounts receivable, will be remitted to the Company upon the maturity of the bonds or their conversion.

Exchangeable right embedded in the exchangeable bonds is not accounted for separately as it is classified as an equity instrument in accordance with the substance of the contractual arrangement.

Although financial characteristics and associated risks of the put option do not closely relate to the primary arrangement, the put option is not accounted for separately as it is similar to the amortized cost of the debt obligation arising from exercises of the put option.

Outstanding exchangeable bonds were partially exchanged to 633,674 shares of treasury stocks on June 24, 2010 and put option was exercised for the remaining exchangeable bonds on July 4, 2010. There is no outstanding balance for exchangeable bonds as of December 31, 2011 and 2010.

**(5) Convertible redeemable preferred stocks**

The Company issued convertible redeemable preferred stocks of ₩ 51,958 million to raise funds for purchase of facility on December 30, 2011

The main conditions are as follows:

- Existing Period: 8 years from the issuance (the maturity date), Converted to common stocks upon the maturity date
- Voting rights : No voting rights (Stock holders possesses voting rights only when they do not get certain dividends and the number of voting rights is the same as the number of common stocks which the preferred stocks will be converted into if the conversion occurs)
- Dividend rights: 20% of the face value, cumulative and participating preferred stocks
- Redemption right  
Redemption period : 1~8 years from the date of issuance  
Redemption: Cash redemption in 2 months from the date of issuer's recourse, exercise of the call options  
Redemption amount[\*]: Face value( based on Japanese Yen)+compound annual interest which is 1% of the face value- dividends paid  
Call feature exists
- Conversion right : Exercisable on the day after three years from issuance date

[\*] Face value at redemption date is in won which is converted from the investment amount in Japanese yen per share (the total investment of 3.5 billion divided by the number of preferred shares) based on the conversion rate listed by Seoul money brokerage services.

**(6) Debt repayment schedule is as follows:**

	(In thousands of won)				
	Total	Within 1 year	1~2 years	2~3 years	~3 years
Short-term borrowings	77,849,670	77,849,670	-	-	-
Long-term borrowings	36,276,271	12,000,000	22,000,000	2,000,000	276,271
Bonds	10,000,000	-	10,000,000	-	-
Bonds with warrants	101,954,171	101,954,171	-	-	-
Convertible redeemable preferred stock	51,958,126	-	51,958,126	-	-
<b>Total</b>	<b>278,038,238</b>	<b>191,803,841</b>	<b>83,958,126</b>	<b>2,000,000</b>	<b>276,271</b>

**19. Other financial liabilities****Other financial liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:**

	(In thousands of won)					
	December 31, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Financial guarantee liabilities[*1]	₩ 370,500	60,000	370,500	-	370,500	-
Derivative financial liabilities(Equity swap)[*2]	464,364	-	-	340,324	-	1,646,627
Derivative financial liabilities(Interest rate swap)[*2]	-	-	-	-	381,396	-
	₩ 834,864	60,000	370,500	340,324	751,896	1,646,627

[\*1] The Company pledged for borrowings of Soo Seok Nong San Co., Ltd. and Induspark Co., Ltd.

[\*2] The Company has agreed with E1 Inc. to mutually exchange the sales values realizable in the future upon the Company's sale of equity investment in LS Networks and E1 Inc.'s sale of equity investment in the Company. Both parties agreed that any dividend (inclusive of cash and stocks) and/or interest payments shall not take effect to the benefit of the other party, and that all rights (including voting rights) as shareholder shall remain with the respective party until each party's ownership of the respective shares have been relinquished. For the years ended December 31, 2010 and 2009, the gain (loss) on valuation of derivative instruments recognized by the Company amounted to ₩ 124,040 thousand and ₩ 1,306,303 thousand. In 2008, the company entered into interest rate swap contracts with Kookmin Bank to hedge risks from the changes in interest rate of operating loans. All interest rate swap contracts expired in 2010.

## 20. Share-based Payment

The Company granted share-based payment during the years ended December 31, 2011 and 2010 described as follows:

### (1) Share purchase plan

The Company offers employees the opportunity to participate in an employee share purchase plan. During the years ended December 31, 2011 and 2010, the Company made matching contributions which is 75% of employees' contributions. Contribution amount during 2011 is ₩ 91,200 per share and immediately after the five-year period the employees will become entitled to purchase the shares with the accumulated reserve.

## 21. Employee Benefits

The Company operates a defined benefit retirement plan. According to the defined benefit plan, the Company pays retirement benefits calculated under the plan's benefit formula at the time employees leave the Company. Under the defined benefit plan, the expected payout upon termination of employment is calculated based on the average salary amount for the last 3 months of the employment and number of years employed. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method.

### (1) Expense recognized in profit or loss during the years ended December 31, 2011 and 2010 are as follows:

		2011	2010
Current service costs	₩	10,414,794	10,426,488
Interest on obligation		3,042,868	3,093,928
Expected return on plan assets		(2,108,096)	(2,032,537)
Total	₩	11,349,566	11,487,879

(In thousands of won)

### (2) Defined benefit obligations and other debts as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

		December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligations	₩	82,094,006	66,814,150	62,034,015
Fair value of plan assets		(63,235,540)	(52,130,102)	(43,783,593)
Liability for long-service leave		8,332,292	7,637,250	5,538,178

(In thousands of won)

### (3) Movement in defined benefit obligations for the years ended December 31, 2011 and 2010 are as follows:

		2011	2010
Beginning balance	₩	14,684,048	18,250,422
Current service costs		11,349,566	11,487,879
Actuarial gains or losses(before income taxes)		8,238,680	(3,427,790)
Payments to plan assets		(11,012,754)	(8,000,000)
Benefit paid by the plan		(4,401,074)	(3,626,463)
Ending balance		18,858,466	14,684,048
Present value of the defined benefit obligations		82,094,006	66,814,150
Fair value of the plan assets		(63,235,540)	(52,130,102)
Total	₩	18,858,466	14,684,048

(In thousands of won)

### (4) Movement in present value of defined benefit obligations for the years ended December 31, 2011 and 2010 are as follows:

				(In thousands of won)	
		2011	2010		
Beginning balance	₩	66,814,150	62,034,015		
Current service costs		10,414,794	10,426,488		
Interests		3,042,868	3,093,928		
Actuarial gains or losses		8,327,974	(3,096,183)		
Benefit paid by the plan		(6,505,780)	(5,644,098)		
Ending balance	₩	82,094,006	66,814,150		

**[5] Changes in fair value of the plan assets comprise:**

				(In thousands of won)	
		2011	2010		
Beginning balance	₩	52,130,102	43,783,593		
Expected return on plan assets		2,108,096	2,032,537		
Actuarial gains or losses		89,294	331,607		
Payments to plan assets		11,012,754	8,000,000		
Benefit paid by the plan		(2,104,706)	(2,017,635)		
Ending balance	₩	63,235,540	52,130,102		

Actual interest income from the plan assets for 2011 and 2010 are ₩ 2,197,390 thousand and ₩ 2,364,144 thousand. Expected rate of return is based on the retirement pension plan(guaranteed rate of return) in Mirae asset in which 30.74% of the plan asset is invested.

**[6] Actuarial gain or loss recognized as other comprehensive income in 2011 and 2010 are as follows:**

				(In thousands of won)	
		2011	2010		
Actuarial gain or loss before income taxes	₩	(8,238,680)	3,427,790		
Income taxes		1,812,510	(754,114)		
Actuarial gain or loss after income taxes		(6,426,170)	2,673,676		

**[7] Fair value of plan assets as of December 31, 2011 December 31, 2010 and January 1, 2010 are as follows:**

				(In thousands of won)		
		December 31, 2011	December 31, 2010	January 1, 2010		
Cash and cash equivalents	₩	2,001,356	1,000,504	4,677		
National pension funds		315,843	346,540	393,111		
Deposits in financial institutions		9,617,920	5,151,387	14,410,734		
Available-for-sale securities(guaranteed rate of return)		51,300,421	45,631,671	28,975,071		
Total	₩	63,235,540	52,130,102	43,783,593		

**[8] Actuarial assumptions used for the year ended December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:**

				(In thousands of won)		
		December 31, 2011	December 31, 2010	January 1, 2010		
Future salary increases		3.83%	3.50%	5.30%		
Discount rate		4.23%	5.02%	5.82%		
Expected rate of return on plan assets		3.95%	3.73%	4.38%		

Present value of defined benefit obligations is calculated based on the current market rate of return for a similar corporate bonds

**(9) Sensitivity analysis of the actuarial assumptions are as follows:**

(In thousands of won)

		1% increase	1% decrease
Changes in future salary increases:			
Increase(Decrease) of defined benefit obligations	₩	7,402,822	(6,499,515)
Increase(Decrease) of retirement benefits		1,111,562	(969,107)
Changes in discount rate:			
Increase(Decrease) of defined benefit obligations		(6,414,465)	7,442,641
Increase(Decrease) of retirement benefits		(311,067)	349,534
Changes in expected rate of return on plan assets:			
Increase(Decrease) of retirement benefits		(565,173)	565,173

Increase(decrease) of defined benefit obligations is calculated based on the present value of the defined benefit obligations as of December 31, 2011, and Increase(decrease) of defined benefit is calculated based on the defined benefit expense for the year ended December 31, 2011.

**22. Provision for returns**

(In thousands of won)

		2011	2010
Beginning balance	₩	8,668,058	9,481,572
Increase(Decrease)		833,615	(813,514)
Ending balance		9,501,673	8,668,058

Provisions for returns are calculated based on the expected period for returns and historical return data.

**23. Other liabilities**

(In thousands of won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Advances	692,314	-	1,445,660	-	119,141	-
Unearned revenue	₩ 360,627	123,099	329,532	80,152	146,833	62,962
Total	1,052,941	123,099	1,775,192	80,152	265,974	62,962

**24. Contingencies and provisions**

- (1) The Company has unconditionally guaranteed the repayment of borrowings of Induspark Co., Ltd. up to ₩ 38,000 million from Mirae Asset securities and has pledged a blank check to Mirae Asset securities' special purpose entity, Ms Dangjin 1st. Additionally, the Company is planning to pursue legal actions on three lost checks issued by the Company.
- (2) As of December 31, 2011, the Company maintains agreements with several banks, including SC First Bank, for bank overdraft of up to ₩ 24,000 million, and payment commitment on credit/purchase card of up to ₩ 34,500 million. The Company also has entered into agreements for DA/DP note discounts of up to ₩ 5,000 million and USD 8,000,000 and purchase credit memorandum of up to ₩ 1,000 million and USD 2,500,000 L/C note with several banks, including Citibank Korea. The Company is also committed to import credit memorandum of up to ₩ 11,000 million and USD 32,000,000. Moreover, it has commitment for export bill of exchange of up to USD 50,000.
- (3) Ministry of Health and Welfare provides allowance with a condition of additional data submission for clinical diagnosis of prevention of gastritis with NSAIDs, and the amount of ₩ 76,800 million is to be refunded if the condition is not met. A provision of ₩ 99,800 million, which is calculated based on the price of the medicine in 2010 and the conditional allowance period (3 years), was made in respect of the obligation related to the conditional allowance. The Company maintains a guarantee agreement with Nonghyup up to ₩ 39,000 million related to the obligation for the first year.

**(4) Royalty agreement**

The Company entered into an agreement with Dong-A Pharmtech Co., Ltd., wherein the Company transferred its foreign patent right for Zydena and receives fixed rate of income for the patent right transfer. The agreement will expire in November 2019, the date when the patent expires.

The Company also entered into a license agreement with GENE Techno Science, Inc. According to the agreement, GENE Techno Science, Inc. is authorized to produce, sell, and transfer G-CSF in authorized locations including Japan, America, and Europe. According to the agreement, the Company has the right to receive 3% to 5% on sales of the G-CSF product as royalty income for 10 years starting from the date of sale.

The Company also entered into a license agreement with Trius Therapeutics, Inc. According to the agreement, Trius Therapeutics, Inc. is authorized to develop DA-7218-related products and commercialize them in other countries, except in the Republic of Korea. In addition, as the Company meets the conditions stated in the contract, the Company will receive a certain amount of money during each clinical stage.

The Company also entered into Biosimilar MOU agreement with Meiji corporation. According to the agreement, the Company will receive 4% to 8% on gross profit for 10 years following the release of the products in Japan.

The Company also entered into out-licensing agreement for all medicine and medical supplies which include Udenafil. According to the agreement, the Company will receive 6% to 10% on gross profit.

**(5) Outstanding trade accounts and notes receivables transferred to and discounted with third parties as of December 31, 2011 and 2010 are as follows:**

(In thousands of won)

		December 31, 2011	December 31, 2010	January 1, 2010
Trade accounts receivable	₩	6,849,670	4,661,646	3,832,941

Above mentioned trade accounts and notes receivable transferred to and discounted are accounted as borrowing transactions and has the redemption features.

(6) The Company is involved in various lawsuits and claims in the ordinary course of business. Significant pending lawsuits and claims as of December 31, 2011 are as follows: one claim amounting to ₩ 50,000 thousand for the infringement of patent rights, six claims amounting to ₩ 2,320,290 thousand related to the retirement benefit payments and two claims amounting to ₩ 999,202 thousand for compensation for damages. The ultimate outcome of these cases cannot yet be determined.

**25. Share capital****(1) Details of common stock as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:**

(In thousands of won)

		December 31, 2011	December 31, 2010	January 1, 2010
Number of shares in issue		30,000,000	30,000,000	30,000,000
Value per share		5	5	5
Number of shares issued		11,135,000	11,135,000	10,456,000
Common stock	₩	55,675,000	55,675,000	52,280,000

**(2) Changes of number of shares issued for the years ended December 31, 2011 and 2010 are as follows:**

(In thousands of won)

	2011			2010		
	Number of shares issued	Treasury stock	Outstanding stock	Number of shares issued	Treasury stock	Outstanding stock
Beginning number of shares	11,135,000	(263,707)	10,871,293	10,456,000	(838,045)	9,617,955
Increase in paid-in-capital	-	-	-	470,000	-	470,000
Stock dividends	-	-	-	209,000	-	209,000
Acquisition of treasury stock	-	-	-	-	(160,000)	(160,000)
Disposals of treasury stock	-	98,119	98,119	-	100,664	100,664
Excise in exchangeable bonds	-	-	-	-	633,674	633,674
Ending number of shares	11,135,000	(165,588)	10,969,412	11,135,000	(263,707)	10,871,293

**(3) Issuance of convertible redeemable preferred shares**

During the year ended December 31, 2011, 558,246 convertible redeemable preferred stocks were issued with a par value of ₩ 93,000 per share. All issued shares are fully paid and the convertible preferred stocks are accounted as financial liabilities.

**26. Capital surplus**

Details of capital surplus as of December 31, 2011, 2010 and January 1, 2010 are as follows.

(In thousands of won)

	2011	2010
Beginning balance	73,906,182	28,848,336
Increase in paid-in-capital	-	45,057,846
Number of shares issued	73,906,182	73,906,182

**27. Treasury shares**

(In thousands of won, number of shares)

	2011		2010	
	Number of shares acquired	Book value	Number of shares acquired	Book value
Beginning balance	263,707	14,584,987	838,045	18,081,306
Acquisition of treasury stock	-	-	160,000	18,899,666
Disposals of treasury stock	(98,119)	(11,066,352)	(100,664)	(10,851,110)
Exercise in exchangeable bonds	-	-	(633,674)	(11,544,875)
Ending balance	165,588	3,518,635	263,707	14,584,987

The Company repurchases its own shares at the market value or book value for the purpose of price stabilization, stock dividends, and others. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

**28. Other equity components**

(In thousands of won)

	December 31, 2011	December 31, 2010	January 1, 2010
Gain from valuation of available-for-sale	5,945,143	4,009,794	4,922,966
Loss from valuation of available-for-sale	(446,258)	(1,177,873)	(704,949)
Gain from valuation of derivatives	-	-	26,321
Loss from valuation of derivatives	-	-	(315,419)
Change in retained earnings – change in equity method accounted investments	88,277,993	88,277,993	88,277,993
Stock warrants	3,273,229	3,273,229	-
Exchangeable rights	2,124,975	2,124,975	7,400,653
Others	134,799,860	136,226,888	81,515,438
Total	233,974,942	232,735,006	181,123,003

## 29. Retained Earnings

### (1) Composition of retained earnings as of December 31, 2011, 2010 and January 1, 2010 are as follows

		December 31, 2011	December 31, 2010	January 1, 2010
Legal reserve	₩	12,889,000	11,785,000	10,995,000
Voluntary reserve		305,477,294	246,956,067	192,722,733
Unappropriated retained earnings		54,005,223	70,432,987	64,943,251
Total		372,371,517	329,174,054	268,660,984

(In thousands of won)

### (2) Changes of retained earnings for the years ended December 31, 2011 and 2010 are as follows:

		2011	2010
Balance at beginning of year	₩	329,174,054	268,660,984
Stock dividends		-	(1,045,000)
Cash dividends		(11,030,240)	(7,807,932)
Net income		60,653,873	66,031,561
Dividends related to exchangeable bonds		-	660,765
Actuarial gain/loss [after income taxes]		(6,426,170)	2,673,676
Balance at the end of year		372,371,517	329,174,054

(In thousands of won)

### (3) Statutory Reserve

The Korean Commercial Code requires the Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stock in connection with a free issue of shares.

### (4) Discretionary reserve

#### ① Reserve for business rationalization

Until December 10, 2002 under the Special Tax Treatment Control Law, investment tax credits were allowed for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits received and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Company was no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

#### ② Reserve for improvement of financial structure

Until December 26, 2007, the Regulations on Securities Issuance and Disclosure required the Company to appropriate into a reserve an amount equal to at least 50% of the net gain on sale of property, plant and equipment and 10% of net income for each year until the Company's shareholder's equity equals 30% of total assets. The reserve may be used to reduce a deficit or transferred to common stock in connection with a free issue of shares.

Effective December 27, 2007, the above requirement has been removed and the Company is no longer required to appropriate a reserve for improvement of financial structure and, consequently, the existing balance as of December 31, 2010 is now regarded as a voluntary reserve.

#### ③ Other reserve based on tax law

Under the Special Tax Treatment Control Law, certain tax benefits are reserved separately for technology research and overseas market development based on the type. The reserve is regarded as a voluntary reserve and may be used for dividends.

**(5) Statements of appropriation of retained earnings for the years ended December 31, 2011 and 2010 are as follows:**

(In thousands of won)

		2011	2010
<b>I. Unappropriated retained earnings</b>	₩	54,005,223	70,432,987
Unappropriated retained earnings (undisposed accumulated deficit)	(222,480)		1,066,985
Actuarial gain or loss	(6,426,170)		2,673,676
Dividends	-		660,765
Net income	60,653,873		66,031,561
<b>II. Transfer from voluntary reserves</b>		1,333,333	1,333,333
Reserve for research and human development reserves	1,333,333		1,333,333
<b>III. Total (I + II)</b>		55,338,556	71,766,320
<b>IV. Appropriation of retained earnings</b>		54,751,165	71,988,800
Appropriation of retained earnings	1,169,000		1,104,000
Dividends	11,128,359		11,030,240
Discretionary reserves	42,453,806		59,854,560
<b>IV. Unappropriated retained earnings(undisposed accumulated deficit) to be carried over to subsequent year</b>	₩	587,391	(222,480)

**30. Income Tax Expense****(1) The component of income tax expense(benefit) for the years ended December 31, 2011 and 2010 are as follows:**

(In thousands of won)

		2011	2010
Current tax expense	₩	23,792,652	20,236,709
Adjustment for prior periods		3,040	372,680
Origination and reversal of temporary differences		529,553	23,388,335
Income tax recognized in other comprehensive income		1,515,883	(18,965,339)
Total income tax expense (benefit)	₩	25,841,128	25,032,385

**(2) Income tax related to equity accounts recognized directly in other comprehensive income for the years ended December 31, 2011 and 2010 are as follows:**

(In thousands of won)

		2011	2010
Gains/losses on valuation of available-for-sale securities	₩	(752,221)	390,950
Gains/losses on valuation of derivatives		-	(92,298)
Treasury stocks		-	(4,188,209)
Loss from disposal of treasury stocks		455,594	(15,606,242)
Stock warrants		-	(923,218)
Exchangeable right		-	2,207,792
Actuarial gains/losses		1,812,510	(754,114)
Total	₩	1,515,883	(18,965,339)

**(3) Details of the difference in accounting profit and taxable income for the year ended December 31, 2011 and 2010 are as follows:**

				(In thousands of won)	
		2011	2010		
Profit before income tax	₩	86,495,001	91,063,946		
Income tax using the Company's statutory tax rate		20,931,790	22,037,475		
Adjustments					
Effects of non deductible expenses		16,816,951	8,827,988		
Effects of non taxable income		(6,585,374)	(36,393)		
Effects of tax credits		(5,550,609)	(6,024,935)		
Current adjustments for prior periods		3,040	372,680		
Others		225,330	(144,430)		
Income tax expenses		25,841,128	25,032,385		
Average effective tax rate		29.90%	27.50%		

**(4) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31 are as follows:**

				(In thousands of won)	
		2011	2010		
Deferred liabilities as at the end of the period	₩	27,206,716	26,677,163		
Deferred liabilities as at the beginning of the period		(26,677,163)	(3,288,828)		
Deferred tax expenses by origination and reversal of temporary differences		529,553	23,388,335		

(5) As of December 31, 2011, the tax effects of temporary difference were calculated by expected tax rate of the fiscal period when the temporary differences were reversed. The tax rates in 2011 and 2012 were expected to be 24.2 % and 22.0%, respectively.

(6) The Company set off a deferred tax asset against a deferred tax liability of the same taxable entity as they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

(7) Changes in deferred tax assets (liabilities) for the years ended December 31, 2011 and 2010 are as follows:

① December 31, 2011

					(In thousands of won)	
	Beginning balance	Income tax expense	Other comprehensive income	Ending balance		
Retirement benefit obligations	₩ 412,151	3,763,454	-	4,175,605		
Allowance for impairment	1,963,599	(1,376,465)	-	587,134		
Government grants awarded	1,889,206	444,857	-	2,334,063		
Impairment loss of property, plant and equipment	955,080	78,143	-	1,033,223		
Fictitious dividends	108,854	8,906	-	117,760		
Exchangeable bonds	(381,135)	(31,184)	-	(412,319)		
Premium on bonds	7,938,964	649,552	-	8,588,516		
Provisions for product returns	2,097,670	163,729	-	2,261,399		
Reserves under Special Tax Treatment Control Law	(322,666)	322,666	-	-		
Adjustments of stock warrants	(8,178,693)	530,103	-	(7,648,590)		
Profit/loss on valuation of available-for-sale securities	(798,747)	-	(752,221)	(1,550,968)		
Remeasurement of land	(24,898,921)	(2,037,184)	-	(26,936,105)		
Others	(7,462,525)	(2,293,909)	-	(9,756,434)		
Total	(26,677,163)	222,668	(752,221)	(27,206,716)		

## ② December 31, 2010

(In thousands of won)

		Beginning balance	Income tax expense	Other comprehensive income	Ending balance
Retirement benefit obligations	₩	1,713,576	(1,301,425)	-	412,151
Allowance for impairment		2,341,216	(377,617)	-	1,963,599
Government grants awarded		3,152,303	(1,263,097)	-	1,889,206
Impairment loss of property, plant and equipment		955,080	-	-	955,080
Fictitious dividends		-	108,854	-	108,854
Exchangeable bonds		19,195,338	(19,576,473)	-	(381,135)
Premium on bonds with warrants		1,465,018	(1,465,018)	-	-
Provisions for product returns		2,294,540	(196,870)	-	2,097,670
Reserves under Special Tax Treatment Control Law		(645,333)	322,667	-	(322,666)
Adjustments of stock warrants		-	(8,178,693)	-	(8,178,693)
Profit/loss on valuation of available-for-sale securities		(1,189,697)	-	390,950	(798,747)
Remeasurement of land		(24,898,921)	-	-	(24,898,921)
Others		(7,671,948)	8,240,685	(92,298)	476,439
Total		(3,288,828)	(23,686,987)	298,652	(26,677,163)

## (8) Temporary differences that are not recognized as deferred tax assets(liabilities) are as follows:

(In thousands of won)

		December 31, 2011	December 31, 2010	January 1, 2010
Borrowings(Convertible preferred stocks)	₩	51,980,000	-	-

## (9) Current tax assets and liabilities before netting are as follows:

(In thousands of won)

		December 31, 2011	December 31, 2010	January 1, 2010
Current tax liabilities	₩	23,792,652	20,236,709	22,660,712
Current tax assets		(9,535,531)	(9,829,809)	(9,401,499)
Net amount		14,257,121	10,406,900	13,259,213

## 31. Earnings per Share

## (1) Basic earnings per share

## ① Basic earnings per share

(In won)

		2011	2010
Profit for the period	₩	60,653,872,856	66,031,560,911
Weighted average number of ordinary shares		10,874,369	10,428,397
Earnings per share	₩	5,578	6,332

## ③ Weighted average number of ordinary shares

(In number of shares)

	12/31/2011	12/31/2010
Issued ordinary shares at January 1	11,135,000	10,456,000
Treasury shares held at January 1	(263,707)	(838,045)
Repurchase of treasury shares	-	(18,783)
Disposal of treasury shares	3,076	5,792
Stock dividends	-	209,000
Issuance of common shares	-	284,575
Excise of exchangeable bonds	-	329,858
Weighted average number of ordinary shares on December 31	10,874,369	10,428,397

## (2) Diluted earnings per share

## ① Diluted earnings per share

(In won)

	2011	2010
Profit attributable to ordinary shareholders(diluted)	60,653,872,856	66,697,740,099
Weighted average number of ordinary shares (diluted)	10,878,958	10,536,576
Diluted earnings per share	5,575	6,330

## ② Profit attributable to ordinary shareholders (diluted)

(In won)

	2011	2010
Profit attributable to ordinary shareholders (basic)	₩ 60,653,872,856	66,031,560,911
Expense on exchangeable notes, net of tax	-	666,179,188
Profit attributable to ordinary shareholders (diluted)	₩ 60,653,872,856	66,697,740,099

## ③ Weighted average number of ordinary shares (diluted)

(In number of shares)

	12/31/2011	12/31/2010
Weighted average number of ordinary shares	10,874,369	10,428,397
Bonds with stock warrants	-	108,179
Convertible redeemable preferred stocks	4,589	-
Weighted average number of ordinary shares (diluted)	10,878,958	10,536,576

## 32. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2011 and 2010 are as follows:

	[In thousands of won]	
	2011	2010
Changes in inventories	(5,352,989)	3,209,844
Purchase of materials and merchandise	337,953,938	277,681,703
Salaries	158,764,666	162,641,227
Employee benefits	13,064,238	10,845,461
Travel	15,573,092	11,937,773
Depreciation	25,723,756	24,894,490
Advertisement	47,817,666	42,312,346
Sales promotion	37,378,944	51,925,579
Commissions	32,489,424	20,526,739
Research and development costs	12,087,548	8,834,422
Training	42,344,447	44,749,174
Outside service fees	20,667,742	18,642,354
Others	83,991,497	67,363,122
Total(*)	822,503,969	745,564,234

(\*) Above total represents the sum of the balance of Cost of sales, Selling, general and administrative expenses and Other operating expenses on the separate statements of comprehensive income.

## 33. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2011 and 2010 are as follows:

	[In thousands of won]	
	2011	2010
Salaries	₩ 99,583,816	101,845,777
Retirement benefits	7,667,603	5,043,518
Employee benefits	8,729,181	7,200,844
Travel	14,017,572	10,662,326
Communication	849,713	598,545
Utilities	759,666	729,837
Taxes and dues	5,668,278	4,614,945
Rent	898,130	1,316,388
Depreciation	4,157,338	7,188,750
Amortization of intangible assets	762,061	1,028,629
Repairs and maintenance	1,312,028	683,409
Insurance	297,260	405,039
Public relation expense	1,871,805	3,001,279
Advertisement	47,817,666	42,312,346
Research and development costs	10,746,204	7,536,158
Package	2,013,393	1,589,316
Support for research	61,671,664	55,472,541
Transportation	5,665,892	5,030,383
Bad debt expenses	-	76,552
Vehicle maintenance	1,130,880	982,870

	(In thousands of won)	
	2011	2010
Public relation expense	2,344,975	3,133,372
Training	5,547,417	3,369,518
Support for research	42,162,696	44,601,890
Books and printing	1,178,018	1,283,383
Supplies	949,292	1,501,890
Sale promotions	37,378,944	51,925,579
Commissions	16,990,086	11,970,008
Outside service fees	18,036,181	18,278,079
Export expense	3,284,725	1,960,609
Others	1,755,318	571,140
	₩ 405,247,802	395,914,920

### 34. Other income and other expenses

**(1) Other income for the years ended December 31, 2011 and December 31, 2010 are as follows:**

	(In thousands of won)	
	2011	2010
Compensation for research	3,487,899	9,118,850
Reversal of allowance for bad debts	495,156	-
Commissions	140,840	344,183
Rental income	951,223	841,793
Gain on disposal of property, plant and equipment, net	319,824	215,207
Other income	4,830,693	1,133,488
Total	10,225,635	11,653,521

**(2) Other expenses for the years ended December 31, 2011 and December 31, 2010 are as follows:**

	(In thousands of won)	
	2011	2010
Loss on disposal of property, plant and equipment, net	3,540,829	262,275
Impairment losses on intangible assets	906,618	1,575,540
Loss on disposal of non-current assets	-	61,145
Donations	4,365,216	2,783,254
Others	5,186,362	2,373,215
Total	13,999,025	7,055,429

## 35. Operating Income and Expenses

(1) Effects of the adoption of K-IFRSs on the Company's operating income for the years ended December 31, 2011 and 2010 are as follows:

		2011	2010
(In thousands of won)			
<b>K-GAAP Operating income</b>	₩	98,788,566	108,313,151
<b>Adjustment for:</b>			
Other income:			
Rental income		951,225	841,793
Commissions		140,840	344,183
Compensation for research		3,487,899	9,118,850
Reversal of allowance for bad debts		495,156	-
Gain on disposal of property, plant and equipment, net		319,824	215,207
Others		4,830,692	1,133,487
Other expense:			
Loss on disposal of property, plant and equipment, net		(3,540,829)	(262,275)
Loss in disposal of intangible assets		(906,618)	(1,575,540)
Donations		(4,365,216)	(2,783,254)
Loss on disposal of non-current assets		-	(61,145)
Others		(5,186,362)	(2,373,215)
<b>K-IFRS Operating income</b>	₩	95,015,177	112,911,242

## 36. Financial Instruments Income and Costs by Categories

(1) Financial instruments income and costs for the years ended December 31, 2011 and 2010 are as follows:

		2011	2010
(In thousands of won)			
Finance income:			
Gain from foreign exchange transaction	₩	583,260	563,462
Gain from foreign exchange translation		557,174	1,533,092
Interest income		4,570,279	2,488,366
Dividends income		432,239	546,134
Finance guarantee income		370,500	370,500
Gain on disposal of available-for-sale securities		-	442,363
Reversal of impairment of available-for-sale securities		-	12,000
Gain on exercise in convertible bonds		-	399,568
Gain from exchangeable bonds		-	213,661
Gain from valuation of derivatives		53,222	1,306,303
<b>Total</b>	₩	6,566,674	7,875,449

	(In thousands of won)	
	2011	2010
Finance costs:		
Loss from foreign exchange transaction	300,581	2,856,098
Loss from foreign exchange translation	250,575	973,339
Interest expense	13,546,326	14,835,706
Finance guarantee costs	430,500	370,500
Loss from disposal of available-for-sale securities	-	7,755,700
Impairment loss of available-for-sale securities	434,827	20,995
Loss from redemption of exchangeable bonds	-	2,724,327
Costs related to exchangeable bonds	-	186,081
Loss on valuation of derivatives	124,040	-
Total	₩ 15,086,849	29,722,746

(2) Financial instruments income and costs by categories for the years ended December 31, 2011 and 2010 are detailed as follows:

		Net income		Other comprehensive income	
		2011	2010	2011	2010
Available-for-sale securities	₩	(305,785)	-	2,666,964	(1,386,096)
Held-to-maturity securities		28,055	26,520	-	-
Derivative assets		53,222	-	-	-
Finance guarantee liabilities		(60,000)	-	-	-
Derivative liabilities		(124,040)	1,306,303	-	-

## 37. Financial Risk Management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are also in this note.

### (1) Financial risk management

The Company has exposure to credit risk, liquidity risk, currency risk and interest risk related to financial instruments. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company manages standards and procedures of risk management and the finance department has overall responsibility for the risk management. The finance department monitors and manages financial risk related to the operation based on the risk management policies and processes which are approved by the Board of Directors, and submits internal risk reports regularly to the Risk Management Committee. The Risk Management Committee develops the Company's overall risk management strategies, decides on risk management processes and assesses the effectiveness of the risk management. Also, Internal Audit continuously monitors compliance with the Company's risk management policies and procedures, and exposure to risk. The Company's overall risk management is similar to prior year.

### (2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The Company only transacts with creditworthy customers to manage the credit risk and also maintains a credit policy to enhance the creditworthiness of the financial assets. Each new customer is analyzed individually for

creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Based on the review, the Company sets purchase limits and obtains collateral or financial guarantees. Also, the Company regularly reviews the creditworthiness of the customers and adequacy of the purchase limits and financial guarantees. On a quarterly basis, the Company analyzes the payment history for past due receivables and take further actions based on the individual characteristics of each past due financial asset as necessary.

### (i) Exposure to credit risk

(In thousands of won)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents(*)		154,382,814	132,364,205	44,090,190
Short-term financial instruments		40,000,000	-	700,000
Current trade receivables	5	143,619,866	128,183,419	127,246,992
Current other receivables	6	2,855,310	703,306	556,010
Current other financial assets	7	113,077	22,705	23,725
Non-current financial instruments	4	20,500	20,500	20,500
Non-current trade receivables	5	290,663	159,410	-
Non-current other receivables	6	7,752,839	8,083,155	5,345,560
Non-current other financial assets	7	37,971,981	17,087,819	34,443,903
Total		387,007,050	286,624,519	212,426,880

(\*) Excludes cash on hand.

The Company maintains cash and cash equivalents deposited at financial instruments such as SC First bank and others. The Company limits its exposure to credit risk by transacting with financial institutions that has a high credit rate.

### (ii) Impairment loss

The aging of trade and other receivables as of December 31, 2011 and 2010 are:

(In thousands of won)

	December 31, 2011		December 31, 2010	
	Gross receivables	Impairment	Gross receivables	Impairment
Not past due	₩ 150,785,251	-	131,692,015	-
Past due 0- 12 months	2,864,052	367	3,690,945	17,395
12 months~18 months	379,830	1,355	843,631	71
18 months ~ 24 months	390,393	56	381,436	10,993
More than two years	1,205,215	1,104,285	9,421,711	8,752,737
Total	₩ 155,624,741	1,106,063	146,029,738	8,781,196

Financial assets that are past due but not impaired as of December 31, 2011 and 2010 are summarized as follows:

(In thousands of won)

	December 31, 2011	December 31, 2010	January 1, 2010
Not past due	₩ 2,863,685	3,673,550	3,820,014
Past due 0-30 days	378,475	843,560	2,141,422
Past due 31-120 days	390,337	370,443	989,592
More than one year	100,930	668,974	144,317
Total	₩ 3,733,427	5,556,527	7,095,345

### (3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have suf-

ficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities as of December 31, 2011.

(In thousands of won)

	Carrying amount	Contractual cash flows	Less than 12 months	1-2 years	2-3 years	~3 years
<b>Non-derivative financial liabilities</b>						
Trade payables	₩ 59,031,242	59,031,242	59,031,242	-	-	-
Other payables	51,159,577	51,159,577	51,159,577	-	-	-
Accrued expenses	19,561,830	19,561,830	19,561,830	-	-	-
Short-term borrowings	77,849,670	80,497,147	80,497,147	-	-	-
Bonds with warrants	101,954,171	111,632,500	111,632,500	-	-	-
Long-term borrowings	76,234,397	95,274,055	14,020,999	75,382,159	2,612,623	3,258,274
Bonds	10,000,000	11,304,000	652,000	10,652,000	-	-
Rental deposits	6,645,737	7,148,915	181,433	6,967,482	-	-
Financial guarantee obligations	430,500	430,500	370,500	60,000	-	-
<b>Derivative financial liabilities</b>						
Equity swap	₩ 464,364	464,364	464,364	-	-	-
<b>Total</b>	₩ 403,331,488	436,504,130	337,571,592	93,061,641	2,612,623	3,258,274

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The following are the contractual maturities of financial liabilities as of December 31, 2010

(In thousands of won)

	Carrying amount	Contractual cash flows	Less than 12 months	1-2 years	2-3 years	~3 years
<b>Non-derivative financial liabilities</b>						
Trade payables	₩ 41,135,047	41,135,047	41,135,047	-	-	-
Other payables	37,590,848	37,590,848	37,590,848	-	-	-
Accrued expenses	12,853,806	12,853,806	12,853,806	-	-	-
Short-term borrowings	49,661,646	51,006,212	51,006,212	-	-	-
Bonds with warrants	48,293,052	53,401,693	14,549,928	13,463,943	22,865,359	2,522,463
Long-term borrowings	48,000,000	51,532,749	40,669,110	655,792	10,207,847	-
Bonds	96,602,399	111,632,500	-	111,632,500	-	-
Rental deposits	6,067,230	6,485,504	316,433	6,169,071	-	-
Financial guarantee obligations	370,500	370,500	370,500	-	-	-
Equity swap	₩ 340,324	340,324	-	340,324	-	-
<b>Total</b>	₩ 340,914,852	366,349,183	198,491,884	132,261,630	33,073,206	2,522,463

The following are the contractual maturities of financial liabilities as of January 1, 2010

(In thousands of won)

	Carrying amount	Contractual cash flows	Less than 12 months	1-2 years	2-3 years	~3 years
<b>Non-derivative financial liabilities</b>						
Trade payables	₩ 30,834,077	30,834,077	30,834,077	-	-	-
Other payables	43,846,883	43,846,883	43,846,883	-	-	-
Accrued expenses	8,292,550	8,292,550	8,292,550	-	-	-
Short-term borrowings	81,832,941	83,444,604	83,444,604	-	-	-
Bonds with warrants	37,308,985	40,984,643	21,075,119	12,955,422	2,259,318	4,694,784
Long-term borrowings	58,000,000	62,697,105	22,556,118	40,140,987	-	-
Bonds	93,699,496	124,564,264	124,564,264	-	-	-
Rental deposits	6,089,748	6,307,187	5,401,187	156,000	750,000	-
Financial guarantee obligations	370,500	370,500	370,500	-	-	-
<b>Derivative financial liabilities</b>						
Interest rate swap	381,396	381,396	381,396	-	-	-
Equity swap	₩ 1,646,627	1,646,627	-	-	1,646,627	-
<b>Total</b>	₩ 362,303,203	403,369,836	340,766,698	53,252,409	4,655,945	4,694,784

#### (4) Market risk

##### ① Currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

		December 31, 2011		December 31, 2010		January 1, 2010	
		Denominate in Foreign currency	Converted in won	Denominated in Foreign currency	Converted in won	Denominated in Foreign currency	Converted in won
<b>Assets:</b>							
Cash and cash equivalents	USD	9,160,710.47	10,565,047	7,817,133.39	8,902,933	2,892,795.64	3,377,628
	EUR	194,547.23	290,673	811.28	1,228	122,705.27	205,443
	JPY	528,718.00	7,852	1,115,736.00	15,588	788,038.00	9,952
	CHF	9.06	11	9.06	11	9.06	10
	GBP	1.00	2	1.00	2	1.00	2
	AUD	98.87	116	4.58	5	-	-
Trade receivables	USD	3,065,265.20	3,535,170	607,400.00	691,768	1,427,348.98	1,666,573
<b>Total</b>			14,398,871		9,611,535		5,259,608
<b>Liabilities</b>							
Trade payables	USD	877,293.55	1,011,783	699,556.04	796,724	1,189,709.23	1,389,104
	EUR	140,520.14	209,951	158,159.02	239,389	321,469.12	538,229
	JPY	64,132,000.00	952,463	63,190,000.00	882,814	8,348,120.00	105,422
	CHF	30,636.08	37,556	2,067.35	2,518	19,970.80	22,496
Borrowings	JPY	3,500,000,000.00	51,958,126	-	-	-	-
<b>Total</b>			56,381,632		1,921,445		2,055,251

The following significant exchange rates applied during the year:

(In won)

	Average rate		Reporting date spot rate		
	2011	2010	December 31, 2011	December 31, 2010	January 1, 2010
USD	1,108.11	1,156.26	1,153.30	1,138.90	1,167.60
EUR	1,541.88	1,532.94	1,494.10	1,513.60	1,674.28
JPY (100 yen)	1,390.87	1,320.56	1,485.16	1,397.08	1,262.82
CHF	1,252.92	1,111.87	1,225.87	1,218.01	1,126.43
GBP	1,775.87	1,787.09	1,777.24	1,757.72	1,877.73
AUD	1,775.87	1,063.54	1,169.27	1,157.92	1,045.06

A change of 10% in exchange rate fluctuation as of December 31, 2011, December 31, 2010 and January 1, 2010 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(In thousand of won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	10% strengthening	10% weakening	10% strengthening	10% weakening	10% strengthening	10% weakening
USD	1,308,843	(1,308,843)	879,798	(879,798)	365,510	(365,510)
EUR	8,072	(8,072)	(103,489)	103,489	(172,189)	172,189
JPY	(5,292,521)	5,292,521	(110,662)	110,662	(63,370)	63,370
CHF	(3,755)	3,755	(88,532)	88,532	(12,791)	12,791
AUD	12	(12)	1	(1)	-	-
Total	(3,979,349)	3,979,349	577,116	(577,116)	117,160	(117,160)

## ② Interest rate risk

As of December 31, 2011, December 31, 2010 and January 1, 2010, interest rate profile of the Company's interest-bearing financial instruments was:

(In thousands of won)

	Carrying amount		
	December 31, 2011	December 31, 2010	January 1, 2010
<b>Variable rate instruments</b>			
Short term borrowings	61,000,000	35,000,000	68,000,000
Current portion of long-term borrowings	12,000,000	2,000,000	19,000,000
Long-term borrowings	24,000,000	48,000,000	18,000,000
Total	₩ 97,000,000	85,000,000	105,000,000

A change of 1% in interest rates would have increased (decreased) profit or loss for the years ended December 31, 2011 and 2010 by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(In thousands of won)

	2011		2010	
	1% increase	1% Decrease	1% increase	1% Decrease
Increase(Decrease) of profit/loss	(970,000)	970,000	(850,000)	850,000

### ③ Market price risk

The Company is exposed to market price risk associated with marketable financial instruments. Marketable financial instruments as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of won)			
	Carrying amount		
	December 31, 2011	December 31, 2010	January 1, 2010
Available-for-sale financial instruments	29,516,851	15,099,308	31,012,608

### (5) Capital management

The Company's capital management is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the business, and to maximize the return on capital by minimizing the cost of capital. Management regularly reviews the capital structure, and maintains policies to enhance debt to capital ratio by short-term and long-term funds borrowings, disposal of assets and issuance of common stocks.

The components managed as capital as of December 31, 2011, 2010 and January 1, 2010 are as follows:

(In thousands of won, except equity ratio)			
	December 31, 2011	December 31, 2010	January 1, 2010
<b>Total liabilities</b>			
Current portion of borrowings	191,803,841	99,661,646	214,532,438
Borrowings	86,234,397	142,895,451	56,308,985
Sub total	₩ 278,038,238	242,557,097	270,841,423
<b>Deductions:</b>			
Cash and cash equivalents	154,559,323	132,599,777	44,584,226
Financial deposits	40,020,500	20,500	720,500
Trade receivables	143,910,529	128,342,829	127,246,992
Other receivables	10,608,149	8,786,461	5,901,569
Other financial assets	38,085,058	17,110,524	31,321,502
Sub total	₩ 387,183,559	286,860,091	209,774,789
Net debt(asset)	(109,145,321)	(44,302,994)	61,066,634
Equity	729,636,865	676,954,073	512,831,017

### (6) Fair values of financial instruments

The fair values of financial instruments, together with the carrying amounts shown in the statement of financial position as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows:

(In thousands of won)							
	December 31, 2011		December 31, 2010		January 1, 2010		
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	
<b>Assets carried at fair value</b>							
Available-for-sale financial assets	₩ 29,516,851	29,516,851	15,099,308	15,099,308	31,012,608	31,012,608	
Derivative assets	53,222	53,222	-	-	-	-	
Total	29,570,073	29,570,073	15,099,308	15,099,308	31,012,608	31,012,608	
<b>Liabilities carried at fair value</b>							
Current derivative financial liabilities	464,364	464,364	-	-	381,396	381,396	
Non-current derivative financial liabilities	-	-	340,324	340,324	1,646,627	1,646,627	
Total	464,364	464,364	340,324	340,324	2,028,023	2,028,023	

(In thousands of won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at amortized cost</b>						
Trade receivables	143,619,866	143,619,866	128,183,419	128,183,419	127,246,992	127,246,992
Loans to employees	305,126	305,126	178,494	178,494	190,342	190,342
Available-for-sale financial assets	8,237,805	8,237,805	1,718,131	1,718,131	3,146,126	3,146,126
Current portion of held-to-maturity financial assets	59,855	59,855	22,705	22,705	23,725	23,725
Non-current held-to-maturity financial assets	217,325	217,325	270,379	270,379	285,169	285,169
Other receivables	2,021,552	2,021,552	245,855	245,855	298,801	298,801
Accrued revenue	528,632	528,632	278,957	278,957	66,867	66,867
Long-term trade receivables	290,663	290,663	159,410	159,410	-	-
Long-term other receivables	1,732,432	1,732,432	1,732,432	1,732,432	1,647,230	1,647,230
Long-term borrowings	2,508,748	2,508,748	2,302,626	2,302,626	-	-
Deposits	3,511,659	3,511,659	4,048,097	4,048,097	3,698,330	3,698,330
<b>Total</b>	<b>163,033,663</b>	<b>163,033,663</b>	<b>139,140,505</b>	<b>139,140,505</b>	<b>136,603,582</b>	<b>136,603,582</b>
<b>Liabilities carried at amortized cost</b>						
Trade payables	59,031,242	59,031,242	41,135,047	41,135,047	30,834,077	30,834,077
Accounts payables	51,159,577	51,159,577	37,590,848	37,590,848	43,846,883	43,846,883
Accrued expenses	19,561,830	19,561,830	12,853,806	12,853,806	8,292,550	8,292,550
Withholdings	9,644,805	9,644,805	8,365,107	8,365,107	14,243,542	14,243,542
Taxes withheld	1,311,474	1,311,474	1,482,197	1,482,197	1,147,546	1,147,546
VAT withheld	7,063,253	7,063,253	10,341,400	10,341,400	9,976,272	9,976,272
Short term borrowings	77,849,670	77,849,670	49,661,646	49,661,646	81,832,941	81,832,941
Current bond	-	-	38,000,000	38,000,000	20,000,000	20,000,000
Current exchangeable bonds	-	-	-	-	93,699,497	93,699,497
Bonds with warrants	101,954,171	101,954,171	96,602,398	96,602,398	-	-
Current portion of long-term borrowings	12,000,000	12,000,000	12,000,000	12,000,000	19,000,000	19,000,000
Current financial guarantee liabilities	370,500	370,500	370,500	370,500	370,500	370,500
Rental deposits	6,645,737	6,645,737	6,067,230	6,067,230	6,089,748	6,089,748
Long-term borrowings	76,234,397	76,234,397	36,293,052	36,293,052	18,308,985	18,308,985
Bonds	10,000,000	10,000,000	10,000,000	10,000,000	38,000,000	38,000,000
Non-current financial guarantee liabilities	60,000	60,000	-	-	-	-
<b>Total</b>	<b>432,886,656</b>	<b>432,886,656</b>	<b>360,763,231</b>	<b>360,763,231</b>	<b>385,642,541</b>	<b>385,642,541</b>

**Fair value hierarchy**

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2011.

(In thousands of won)

		Level 1	Level 2	Level 3	Total
<b>December 31, 2011</b>					
Other financial assets	₩	29,516,851	-	-	29,516,851
Derivative instrument assets		-	53,222	-	53,222
Derivative instrument liabilities		-	464,364	-	464,364
Subtotal		29,516,851	517,586	-	30,034,437
<b>December 31, 2010</b>					
Other financial assets		15,099,308	-	-	15,099,308
Derivative instrument liabilities		-	340,324	-	340,324
Subtotal		15,099,308	340,324	-	15,439,632
<b>January 1, 2010</b>					
Other financial assets		26,347,308	4,665,300	-	31,012,608
Derivative instruments liabilities		-	2,028,023	-	2,028,023
<b>Total</b>		<b>26,347,308</b>	<b>6,693,323</b>	<b>-</b>	<b>33,040,631</b>

## 38. Cash flows

(1) Details of adjustments and changes in assets and liabilities which are cash flows from operation for the years ended December 31, 2011 and 2010 are as follows:

(In thousands of won)

		2011	2010
<b>Adjustment for:</b>			
Income tax expense	₩	25,841,128	25,032,385
Interest rate expense		13,546,326	14,835,706
Interest rate income		(4,570,279)	(2,488,366)
Dividends income		(432,239)	(546,134)
Payroll expense		19,248,514	24,032,988
Retirement benefit expense		11,349,566	11,487,879
Foreign currency translation loss		250,575	973,339
Foreign currency translation gain		(557,174)	(1,533,092)
Financial guarantee expense		430,500	370,500
Financial guarantee income		(370,500)	(370,500)
Bad debt expense		-	76,552
Reversal of allowance for impairment of receivables		(495,156)	-
Costs related to exchangeable bonds		-	186,081
Loss from valuation of derivative instruments		124,040	-
Gain from valuation of derivative instruments		(53,222)	(1,306,303)
Loss on disposal of available-for-sale financial assets		-	7,755,700
Gain on disposal of available-for-sale financial assets		-	(442,363)
Impairment loss of available-for-sale financial assets		434,827	20,995
Reversal of impairment loss of available-for-sale financial assets		-	(12,000)
Depreciation		24,521,519	23,880,113
Amortization expense for intangible assets		1,202,238	1,036,039
Loss from disposal of property, plant and equipments		3,540,829	262,275

	(In thousands of won)	
	2011	2010
Gain from disposal of property, plant and equipments	(319,824)	(215,207)
Impairment loss of intangible assets	906,618	1,575,540
Loss from disposal of other current assets	-	61,145
Rent expense	54,923	137,890
Rental income	(321,192)	(251,458)
Loss from valuation of inventories	1,087,047	1,090,059
Reversal of loss from valuation of inventories	(1,879,494)	(508,960)
Gain from conversion	-	(399,568)
Loss from redemption of exchangeable bonds	-	2,724,327
Gain from redemption of exchangeable bonds	-	(213,661)
<b>Subtotal</b>	<b>93,539,570</b>	<b>107,251,901</b>
<b>Changes in assets and liabilities</b>		
Trade receivable	(15,121,669)	(1,156,307)
Other receivable	(1,775,696)	52,946
Advance payments	(1,230,738)	(1,846,387)
Prepaid expense	31,376	125,199
Inventory	(4,528,998)	3,227,067
Trade payable	17,888,147	10,311,916
Other payables	13,568,728	(6,256,034)
Advances	(753,346)	1,326,520
Accrued expenses	(12,557,292)	(7,930,178)
Withholdings	1,279,698	(5,878,435)
Taxes withheld	(170,724)	334,652
VAT withheld	(3,278,147)	365,128
Provisions for returns	833,615	(813,514)
Payment of retirement benefits	(4,401,074)	(3,626,463)
Contributions to retirement pension assets	(11,012,753)	(8,000,000)
Deferred income taxes liabilities	-	(14,630,306)
<b>Cash generated from operating activities</b>	<b>₩ (21,228,873)</b>	<b>(34,394,196)</b>

## 39. Explanation of Transition to K-IFRS

As stated in note 2, these are the Company's first separate financial statements prepared in accordance with K-IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening K-IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

### (1) The exemptions the Company adopted in accordance with K-IFRS No. 1101 *First-time Adoption of K-IFRS*

K-IFRS No. 1101 permits those companies adopting K-IFRS for the first time certain exemptions from the full requirements of K-IFRS in the transition period. The Company has taken the following key exemptions.

#### (i) Deemed cost to fair value or the revaluation amount

The Company measures some land at deemed cost which is fair value at the date of transition.

#### (ii) Borrowing costs

The Company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset after the date of transition to K-IFRS.

### (2) Reconciliation of equity

The effects of the adoption of K-IFRSs on the Company's financial position are as follows:

#### (i) January 1, 2010

	Notes	Previous K-GAAP	Effect of transition to K-IFRSs	(In thousands of won) K-IFRSs
<b>Assets</b>				
Cash and cash equivalents	₩	44,781,652	(197,427)	44,584,225
Short-term financial deposits		700,000	-	700,000
Trade receivables	4,5	121,455,593	5,791,399	127,246,992
Other receivables	5	552,196	3,814	556,010
Other financial assets		23,725	-	23,725
Inventories		118,249,372	-	118,249,372
Other current assets	7	3,100,835	156,746	3,257,581
Deferred tax assets	6	5,827,688	(5,827,688)	-
<b>Current assets</b>	₩	<b>294,691,061</b>	<b>(73,156)</b>	<b>294,617,905</b>
Long-term financial deposits		20,500	-	20,500
Other receivables	7	18,042,191	(12,696,631)	5,345,560
Other financial assets		34,443,903	-	34,443,903
Property, plant and equipments	2,8	447,397,911	335,175	447,733,086
Intangible assets	7	2,888,568	10,661,893	13,550,461
Investments in associates	9	76,818,411	(27,114,624)	49,703,787
Investments in subsidiaries	9	123,757,612	(48,527,950)	75,229,662
Investment property	8	1,974,814	22,438,585	24,413,399
Other non-current assets	7	-	52,288	52,288
<b>Non-current assets</b>		<b>705,343,910</b>	<b>(54,851,264)</b>	<b>650,492,646</b>
<b>Total assets</b>	₩	<b>1,000,034,971</b>	<b>(54,924,420)</b>	<b>945,110,551</b>

(In thousands of won)				
	Notes	Previous K-GAAP	Effect of transition to K-IFRSs	K-IFRSs
<b>Liabilities</b>				
Trade payables		30,834,077	-	30,834,077
Other payables	10	72,754,614	4,752,178	77,506,792
Borrowings	4,11	189,186,536	25,345,902	214,532,438
Other financial liabilities	12	381,396	370,500	751,896
Provisions		9,481,572	-	9,481,572
Other current liabilities	7	119,141	146,832	265,973
Current income tax liabilities		13,259,213	-	13,259,213
<b>Current liabilities</b>		<b>316,016,549</b>	<b>30,615,412</b>	<b>346,631,961</b>
Other payables	7	6,307,187	(217,439)	6,089,748
Borrowings		56,308,985	-	56,308,985
Other financial liabilities		1,646,627	-	1,646,627
Employee benefits	13	20,673,715	(2,423,293)	18,250,422
Other non-current liabilities	7	-	62,963	62,963
Deferred income tax liabilities	6	19,012,639	(15,723,811)	3,288,828
<b>Non-current liabilities</b>		<b>103,949,153</b>	<b>(18,301,580)</b>	<b>85,647,573</b>
<b>Total liabilities</b>		<b>419,965,702</b>	<b>12,313,832</b>	<b>432,279,534</b>
<b>Equity</b>				
Share capital		52,280,000	-	52,280,000
Share premium		28,848,336	-	28,848,336
Retained earnings	2,5,6,7,9,10,11,12,13	268,167,878	493,106	268,660,984
Treasury shares		(18,081,306)	-	(18,081,306)
Other capital	9	248,854,361	(67,731,358)	181,123,003
<b>Total equity</b>		<b>580,069,269</b>	<b>(67,238,252)</b>	<b>512,831,017</b>
<b>Total liabilities and equity</b>		<b>₩ 1,000,034,971</b>	<b>(54,924,420)</b>	<b>945,110,551</b>

The effects of the adoption of K-IFRSs on the Company's financial position are as follows:

(ii) December 31, 2010

(In thousands of won)				
	Notes	Previous K-GAAP	Effect of transition to K-IFRSs	K-IFRSs
<b>Assets</b>				
Cash and cash equivalents	₩	132,624,683	(24,906)	132,599,777
Trade receivables	4,5	121,524,769	6,658,650	128,183,419
Other receivables	5	699,492	3,814	703,306
Other financial assets		22,705	-	22,705
Inventories	2	115,749,004	(709,476)	115,039,528
Other current assets	7	3,323,417	96,770	3,420,187
Deferred tax assets	6	6,437,666	(6,437,666)	-
<b>Current assets</b>	₩	<b>380,381,736</b>	<b>(412,814)</b>	<b>379,968,922</b>

(In thousands of won)				
	Notes	Previous K-GAAP	Effect of transition to K-IFRSs	K-IFRSs
Long-term financial instruments		20,500	-	20,500
Trade receivables	7	159,410	-	159,410
Other receivables		21,059,617	(12,976,463)	8,083,154
Other financial assets		17,087,819	-	17,087,819
Property, plant and equipments	2,8	522,509,374	(97,273)	522,412,101
Intangible assets	7	3,538,571	11,766,830	15,305,401
Investments in associates	9	79,636,715	(29,932,928)	49,703,787
Investments in subsidiaries	9	134,049,287	(57,514,061)	76,535,226
Investment property	8	1,974,814	29,092,978	31,067,792
Other non-current assets	7	-	18,800	18,800
<b>Non-current assets</b>		780,036,107	(59,642,117)	720,393,990
<b>Total assets</b>	₩	1,160,417,843	(60,054,931)	1,100,362,912
<b>Liabilities</b>				
Trade payables		65,464,635	5,168,723	70,633,358
Other payables	10	95,024,906	4,636,740	99,661,646
Borrowings	4	-	370,500	370,500
Other financial liabilities	12	8,668,058	-	8,668,058
Provisions		1,445,660	329,532	1,775,192
Other current liabilities	7	10,406,900	-	10,406,900
Current income tax liabilities		209,416,044	(18,657,906)	190,758,138
<b>Current liabilities</b>		41,135,047	-	41,135,047
Other payables	7	142,895,451	-	142,895,451
Borrowings		340,324	-	340,324
Other financial liabilities		23,022,910	(8,338,862)	14,684,048
Employee benefits	13	-	80,152	80,152
Other non-current liabilities	7	36,671,855	(9,980,922)	26,690,933
Deferred income tax liabilities	6	431,561,250	(8,152,411)	423,408,839
<b>Non-current liabilities</b>		6,485,504	(418,274)	6,067,230
<b>Total liabilities</b>		222,145,206	10,505,495	232,650,701
<b>Equity</b>				
Share capital		55,675,000	-	55,675,000
Share premium		73,906,181	-	73,906,181
Retained earnings	2,3,5,6,7,9,10,11,12	327,853,849	1,369,024	329,222,873
Treasury shares		(14,584,987)	-	(14,584,987)
Other capital	9	286,006,550	(53,271,544)	232,735,006
<b>Total equity</b>		728,856,593	(51,902,520)	676,954,073
<b>Total liabilities and equity</b>	₩	1,160,417,843	(60,054,931)	1,100,362,912

**(3) The above changes decreased (increased) operating performances for the year ended December 31, 2010 as follows:**

(In thousands of won)

	Notes	Previous K-GAAP	Transition effect	K-IFRS
Revenue	₩	846,821,957	-	846,821,957
Cost of sales	2,3	(345,565,506)	2,971,620	(342,593,886)
<b>Gross profit</b>		501,256,451	2,971,620	504,228,071
Selling and administrative expenses	2,3,5,7	(402,729,212)	6,814,292	(395,914,920)
Other income	5,7	11,402,063	251,458	11,653,521
Other expenses	4	(5,721,076)	(1,334,353)	(7,055,429)
Operating income		104,208,226	8,703,017	112,911,243
Finance income	3,4,7,9,11,12	23,832,259	(15,956,810)	7,875,449
Finance costs	4,7,9,11	(34,637,647)	4,914,901	(29,722,746)
<b>Profit before income tax</b>		93,402,838	(2,338,892)	91,063,946
Income tax expense	6	(25,117,432)	85,047	(25,032,385)
<b>Profit for the period</b>		68,285,406	(2,253,845)	66,031,561
Other comprehensive income	3,6	(3,251,824)	4,828,502	1,576,678
Total other comprehensive income for the period		65,033,582	2,574,657	67,608,239

**(4) Explanation of Transition to K-IFRS**

- ① The Company revalued some land at deemed cost which is fair value at the date of transition to K-IFRS.
- ② The Company reviewed future financial benefits and useful lives of the property, plant and equipment under K-IFRS. The impact arising from the change of useful lives based on the review is reflected.
- ③ Under previous K-GAAP, the Company estimated the liability under the plan which would be payable if all employees left at the end of the reporting period. However, under K-IFRS the obligation is determined using the projected unit credit method, and actuarial valuations are obtained at each year end.
- ④ Receivables transferred to and discounted with third parties are accounted as borrowings transactions under K-IFRS.
- ⑤ Under previous K-GAAP, allowance for impairment related to receivables was based on taxes and accounting practice. However, under K-IFRS the Company reviews each receivable account individually for impairment analysis and also for other receivables the Company performs impairment analysis over grouped receivables based on the credit ratings.
- ⑥ Under previous K-GAAP, current portion and non-current portion for deferred tax assets and liabilities are presented separately. However, under K-IFRS deferred tax expense which was classified as current was reclassified to non-current account. Also the tax effect of the above mentioned adjustments is reflected.
- ⑦ Facility usage right and deposits which were accounted as other non-current assets under previous K-GAAP. However, under K-IFRS the consideration paid for facility usage right was reclassified to intangible assets based on indefinite useful lives, and expenses paid for facility usage was accounted as prepaid expense and expensed over the contract term.
- ⑧ Under previous K-GAAP, property held for the purpose of earning rentals or benefiting from capital appreciation was classified as property, plant and equipments. However, under K-IFRS such property was reclassified as investment property.
- ⑨ Under K-IFRS, acquisition cost of investment in subsidiary(associates) at the date of transition to K-IFRS is measured using initial cost method.
- ⑩ Under K-IFRS, the Company recognizes related expenses and liabilities for cumulative paid time off when employees render the related service which increases employees' right for future benefits. Also special bonuses paid which the Company has no legal obligation for is regarded as constructive obligation and the Company recognizes related expenses and liabilities when employees render the related services.

- ⑪ Under previous K-GAAP, exchangeable bonds presented in foreign currency were classified as non-monetary foreign currency liabilities, unless the Company is almost certain that exercise of the exchange right is not probable which then the exchangeable bonds were classified as monetary foreign currency liabilities. However, under K-IFRS exchangeable bonds before exchanges to equity instruments were to be translated regardless of possibility of exercise in exchangeable bonds.
- ⑫ Under previous K-GAAP, the Company disclosed the financial guarantees provided to counterparty in the notes to the financial statements. However, under K-IFRS financial guarantee agreements are measured at fair value and accounted as liabilities.

#### **(5) Material reconciliations on the statement of cash flows**

Interests and dividend received and interests paid classified as operation cash flow under previous K-GAAP were classified as investing cash flows and financing cash flows respectively and presented as separate items. The effect of exchange rate fluctuations on cash and cash equivalents in foreign currency, classified as operation cash flow under previous K-GAAP, were not classified as operation, investing or financing cash flows and presented separately under K-IFRS.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management were classified as financing cash flows under previous K-GAAP. These overdrafts were reclassified as cash and cash equivalents in cash flow statements under K-IFRS. There are no other material differences between the statement of cash flows presented under K-IFRS and the statement of cash flows presented under previous K-GAAP.

# Internal Accounting Control System Review Report

English translation of a report originally Issued in Korean

## To the President of Dong-A Pharmaceutical Co., Ltd.

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Dong-A Pharmaceutical Co., Ltd. (the "Company") as of December 31, 2011. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2011, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2011 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2011. We did not review the Company's IACS subsequent to December 31, 2011. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Seoul, Korea  
March 8, 2012

## Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2011 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

## Independent Auditors' Report

Based on a report originally issued in Korean

### The Board of Directors and Shareholders

#### Dong-A Pharmaceutical Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Dong-A Pharmaceutical Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2011, 2010 and January 1, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 8, 2012

This report is effective as of March 8, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

## Dong-A Pharmaceutical Co., Ltd. And Subsidiaries Consolidated Statements of Financial Position

As of December 31, 2011, 2010 and January 1, 2010

	(In thousands of won)		
	December 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>			
Cash and cash equivalents	₩ 177,330,036	150,133,059	52,093,699
Short -term financial instruments	44,387,426	9,212,784	1,945,000
Trade receivables	163,474,943	147,970,350	146,151,191
Other receivables	3,278,787	1,561,289	642,140
Other financial assets	113,077	22,705	23,725
Inventories	154,945,623	143,044,102	120,478,832
Current tax assets	42,855	54,146	379
Other current assets	8,217,864	7,081,271	6,195,091
<b>Current assets</b>	<b>551,790,611</b>	<b>459,079,706</b>	<b>327,530,057</b>
Long -term financial instruments	153,500	1,203,502	45,000
Trade receivables	290,663	159,410	-
Other receivables	8,262,568	6,401,941	6,217,136
Other financial assets	50,704,945	33,393,437	53,901,872
Property, plant and equipment	744,229,753	705,791,244	601,489,610
Intangible assets	20,171,706	18,233,715	15,480,885
Investment property	38,142,750	32,365,117	25,748,286
Investments in associates	79,483,606	79,324,569	75,348,151
Other non-current assets	11,950	18,800	52,287
<b>Non-current assets</b>	<b>941,451,441</b>	<b>876,891,735</b>	<b>778,283,227</b>
<b>Total assets</b>	<b>₩ 1,493,242,052</b>	<b>1,335,971,441</b>	<b>1,105,813,284</b>

See accompanying notes to the consolidated financial statements.

## Dong-A Pharmaceutical Co., Ltd. And Subsidiaries Consolidated Statements of Financial Position, Continued

As of December 31, 2011, 2010 and January 1, 2010

	(In thousands of won)		
	December 31, 2011	December 31, 2010	January 1, 2010
<b>Liability</b>			
Trade payables	₩ 55,605,727	37,178,420	34,738,976
Other payables	99,643,358	81,226,238	85,685,876
Borrowings	225,439,041	128,481,146	243,998,775
Other financial liabilities	893,395	-	509,454
Provisions	9,501,673	14,108,058	9,481,572
Other current liabilities	3,261,389	6,636,155	14,329,445
Current tax liabilities	14,968,113	11,926,918	14,754,335
<b>Current liabilities</b>	<b>409,312,696</b>	<b>279,556,935</b>	<b>403,498,433</b>
Other payables	7,837,830	6,100,406	6,929,854
Long- term borrowings	147,395,138	190,667,928	60,721,535
Other financial liabilities	428,772	968,970	4,509,185
Employee benefits	24,963,993	19,114,833	20,423,249
Other non-current liabilities	368,473	330,089	62,963
Deferred tax liabilities	40,540,920	40,717,864	19,332,770
<b>Non-current liabilities</b>	<b>221,535,126</b>	<b>257,900,090</b>	<b>111,979,556</b>
<b>Total liabilities</b>	<b>₩ 630,847,822</b>	<b>537,457,025</b>	<b>515,477,989</b>
Share capital	55,675,000	55,675,000	52,280,000
Share premium	73,906,181	73,906,181	28,848,335
Treasury shares	(3,518,635)	(14,584,987)	(18,081,306)
Other equity components	306,139,237	307,777,046	258,424,238
Retained Earnings	393,173,158	343,494,699	268,581,741
<b>Equity attributable to owners of the Company</b>	<b>825,374,941</b>	<b>766,267,939</b>	<b>590,053,008</b>
<b>Non-controlling interests</b>	<b>37,019,289</b>	<b>32,246,477</b>	<b>282,287</b>
<b>Total equity</b>	<b>₩ 862,394,230</b>	<b>798,514,416</b>	<b>590,335,295</b>
<b>Total equity and liabilities</b>	<b>₩ 1,493,242,052</b>	<b>1,335,971,441</b>	<b>1,105,813,284</b>

# Dong-A Pharmaceutical Co., Ltd. And Subsidiaries

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2011 and 2010

	(In thousands of won, except per share information)	
	2011	2010
Revenue	₩ 1,055,699,080	953,702,491
Finished Goods	721,673,792	696,266,597
Merchandise	210,984,206	160,720,127
Raw Materials	24,683,192	21,606,675
Others	98,357,890	75,109,092
Cost of sales	533,192,783	441,494,730
Finished Goods	264,935,122	244,829,367
Merchandise	155,126,192	104,072,973
Raw Materials	15,768,793	13,668,477
Others	97,362,676	78,923,913
<b>Gross profit</b>	<b>522,506,297</b>	<b>512,207,761</b>
Selling, general and administrative expenses	407,156,126	391,476,932
Other income	12,681,904	46,445,300
Other expenses	14,520,041	13,719,572
<b>Results from operating activities</b>	<b>113,512,034</b>	<b>153,456,557</b>
Finance income	9,812,216	9,891,693
Finance costs	21,562,476	34,785,858
Net gains on investment in associate	1,434,121	4,910,783
<b>Profit before income tax</b>	<b>103,195,895</b>	<b>133,473,175</b>
Income tax expense	28,313,289	26,678,202
<b>Profit for the year</b>	<b>₩ 74,882,606</b>	<b>106,794,973</b>
<b>Other comprehensive income(losses)</b>		
Net change in fair value of available-for-sale financial assets	₩ 34,867	(3,588,475)
Defined benefit plan actuarial gains (losses)	(8,932,286)	854,384
Net change in fair value of derivatives	-	319,806
Capital adjustment for equity method accounted investment	12,713	(103,011)
Revaluation reserve	(725,922)	-
<b>Total comprehensive income for the year</b>	<b>₩ (9,610,628)</b>	<b>(2,517,296)</b>
<b>Profit attributable to</b>		
Owners of the Company	69,219,623	82,359,783
Non-controlling interests	5,662,983	24,435,190
<b>Profit for the year</b>	<b>74,882,606</b>	<b>106,794,973</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	60,497,919	79,748,931
Non-controlling interests	4,774,059	24,528,746
<b>Total comprehensive income for the year</b>	<b>65,271,978</b>	<b>104,277,677</b>
<b>Earnings per share</b>		
Basic earnings per share (won)	6,365	7,898
Diluted earnings per share (won)	6,363	7,880

See accompanying notes to the consolidated financial statements.

## Dong-A Pharmaceutical Co., Ltd. And Subsidiaries Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

	(In thousands of won)							
	Share capital	Share premium	Treasury Shares	Other equity	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at January 1, 2010 Total comprehensive income for the year</b>	₩ 52,280,000	28,848,335	(18,081,306)	258,424,238	268,581,741	590,053,008	282,287	590,335,295
Profit for the year	-	-	-	-	82,359,783	82,359,783	24,435,190	106,794,973
<b>Other comprehensive income (loss):</b>								
Change in fair value of available-for-sale financial assets	-	-	-	(3,558,452)	-	(3,558,452)	(30,023)	(3,588,475)
Defined benefit plan actuarial gains (losses)	-	-	-	-	730,959	730,959	123,425	854,384
Change in fair value of derivatives	-	-	-	319,652	-	319,652	154	319,806
Capital adjustment for equity method accounted investment	-	-	-	(103,011)	-	(103,011)	-	(103,011)
Revaluation reserve	-	-	-	(14,384)	14,384	-	-	-
Total other comprehensive income (loss)	-	-	-	(3,356,195)	745,343	(2,610,852)	93,556	(2,517,296)
Total comprehensive income for the year	-	-	-	(3,356,195)	83,105,126	79,748,931	24,528,746	104,277,677
<b>Transactions with owners of the Company, recognized directly in equity</b>								
Stock dividends	1,045,000	-	-	-	(1,045,000)	-	-	-
Cash dividends	-	-	-	-	(7,807,932)	(7,807,932)	(832)	(7,808,764)
Increase in paid-in capital	2,350,000	45,057,846	-	-	-	47,407,846	-	47,407,846
Exercise in exchangeable bonds	-	-	-	(5,275,678)	-	(5,275,678)	-	(5,275,678)
Issuance of bonds with warrants	-	-	-	3,273,229	-	3,273,229	-	3,273,229
Dividends on exchangeable bonds	-	-	-	-	660,765	660,765	-	660,765
Disposal of treasury stock	-	-	22,395,985	54,711,450	-	77,107,435	-	77,107,435
Acquisition of treasury stock	-	-	(18,899,666)	-	-	(18,899,666)	-	(18,899,666)
Change of consolidation range	-	-	-	-	-	-	7,436,276	7,436,276
<b>Total transactions with owners</b>	3,395,000	45,057,846	3,496,319	52,709,001	(8,192,167)	96,465,999	7,435,444	103,901,443
<b>Balance at December 31, 2010</b>	₩ 55,675,000	73,906,181	(14,584,987)	307,777,044	343,494,700	766,267,938	32,246,477	798,514,415

## Dong-A Pharmaceutical Co., Ltd. And Subsidiaries Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2011 and 2010

	(In thousands of won)								
	Share capital	Share premium	Treasury Shares	Other equity	Retained earnings	Total	Non-controlling interests	Total equity	
<b>Balance at January 1, 2011</b>									
<b>Total comprehensive income for the year</b>	₩ 55,675,000	73,906,181	(14,584,987)	307,777,044	343,494,700	766,267,938	32,246,477	798,514,415	
Profit for the year	-	-	-	-	69,219,623	69,219,623	5,662,983	74,882,606	
<b>Other comprehensive income (loss):</b>									
Change in fair value of available-for-sale financial assets	-	-	-	502,429	-	502,429	(467,562)	34,867	
Defined benefit plan actuarial gains (losses)	-	-	-	-	(8,510,924)	(8,510,924)	(421,362)	(8,932,286)	
Capital adjustment for equity method accounted investment	-	-	-	12,713	-	12,713	-	12,713	
Revaluation reserve	-	-	-	(725,922)	-	(725,922)	-	(725,922)	
Total other comprehensive income (loss)	-	-	-	(210,780)	(8,510,924)	(8,721,704)	(888,924)	(9,610,628)	
<b>Total comprehensive income for the year</b>	-	-	-	(210,780)	60,708,699	60,497,919	4,774,059	65,271,978	
<b>Transactions with owners of the Company, recognized directly in equity</b>									
Cash dividends	-	-	-	-	(11,030,240)	(11,030,240)	(1,247)	(11,031,487)	
Disposal of treasury stock	-	-	11,066,351	(1,427,027)	-	9,639,324	-	9,639,324	
<b>Total transactions with owners</b>	-	-	11,066,351	(1,427,027)	(11,030,240)	(1,390,916)	(1,247)	(1,392,163)	
<b>Balance at December 31, 2011</b>	₩ 55,675,000	73,906,181	(3,518,636)	306,139,237	393,173,159	825,374,941	37,019,289	862,394,230	

See accompanying notes to the consolidated financial statements.

## Dong-A Pharmaceutical Co., Ltd. And Subsidiaries Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	(In thousands of won)	
	2011	2010
<b>Cash flows from operation activities</b>	₩	₩
Profit for the period	74,882,606	106,794,973
Adjustments	108,325,504	85,302,416
Changes in assets and liabilities	(39,287,326)	(50,002,122)
Income taxes paid	(22,472,376)	(17,567,323)
Income taxes refund	54,109	-
<b>Net cash provided by (used in) operating activities</b>	<b>121,502,517</b>	<b>124,527,944</b>
<b>Cash flows from investing activities</b>		
Interest received	4,771,878	2,923,556
Dividends received	472,822	839,661
Decrease in short-term financial instruments	8,240,000	2,280,000
Decrease in short-term receivables from employees	546,891	297,227
Decrease in available-for-sale financial assets	141,812	23,121,234
Decrease in held-to-maturity financial assets	22,705	23,725
Proceeds from sale of property, plant and equipment	13,164,860	1,537,304
Decrease in short-term loans	93,595	23,198
Decrease in deposits	1,313,252	1,615,746
Increase of merge	-	12,306,037
Increase in short-term financial instruments	(41,648,732)	(9,417,784)
Increase in short-term loans	(5,692)	(5,818)
Increase in short-term receivables from employees	(673,523)	(285,379)
Increase in long-term financial instruments	(715,907)	(1,288,502)
Increase in available-for-sale financial assets	(17,591,248)	(8,987,606)
Increase in held-to-maturity financial assets	(6,800)	(7,915)
Increase in investment in associates	(51,298)	-
Increase in investment in subsidiaries	-	(1,219,492)
Acquisition of property, plant and equipment	(92,864,267)	(97,541,581)
Acquisition of intangible assets	(3,935,490)	(4,265,731)
Increase in deposits	(1,183,672)	(2,367,066)
<b>Net cash provided by (used) in investing activities</b>	<b>₩ (129,908,814)</b>	<b>₩ (80,419,186)</b>

## Dong-A Pharmaceutical Co., Ltd. And Subsidiaries Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2011 and 2010

	(In thousands of won)	
	2011	2010
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	89,211,195	78,090,383
Proceeds from long-term borrowings	67,755,902	1,199,320
Proceeds from bonds	-	10,000,000
Proceeds from bonds with warrants	-	97,499,200
Proceeds from rental deposits received	3,299,188	319,102
Proceeds from issuance of common stocks	-	74,877,846
Proceeds from disposal of treasury stocks	9,183,729	-
Interest paid	(10,652,557)	(11,066,460)
Dividends paid	(10,997,990)	(7,811,765)
Repayment of short-term borrowings	(59,582,171)	(112,074,128)
Repayment of current portion of long-term borrowings	(1,319,500)	(21,054,150)
Repayment of current portion of bonds	(38,000,000)	(20,000,057)
Repayment of exchangeable bonds	-	(18,759,760)
Repayment of long-term borrowings	(12,016,782)	(15,933)
Proceeds from rental deposits increase	(1,653,437)	(12,704)
Proceeds from acquisition of treasury stocks	-	(18,899,666)
<b>Cash flows from operation activities</b>	₩ 35,227,577	₩ 52,291,228
<b>Net increase(decrease) in cash and cash equivalents</b>	26,821,280	96,399,986
Cash and cash equivalents at 1 January	150,133,059	52,093,699
Increase in cash and cash equivalents by change of consolidation range	-	1,149,714
Effect of exchange rate fluctuations on cash held	375,697	489,660
<b>Cash and cash equivalents at 31 December</b>	₩ 177,330,036	₩ 150,133,059

See accompanying notes to the consolidated financial statements.

# Our Milestones

## 1930's~1970's

Since its foundation in 1932, Dong-A has played a pivotal role in the development of the Korean pharmaceutical industry. In particular, we have been the undisputed leader of the domestic pharmaceutical industry for 41 consecutive years.

- 1932 Founded as a pharmaceutical and hygiene material wholesaler named Choong-Hee Kang's Wholesaler in Joonghak-Dong, Jongro-Ku, Seoul
- 1949 Changed name to Dong-A Pharmaceutical Corporation
- 1957 Constructed modern facility, headquartered in Yongdu-Dong, Dongdaemun-Ku, Seoul
- 1963 Manufactured Bacchus-D®, an energy drink
- 1967 Ranked 1<sup>st</sup> in sales among domestic pharmaceutical companies
- 1970 Initial public offering (IPO)
- 1977 Established research center

## 1980's~1990's

- 1980 Constructed a GMP-compliant facility in An-Yang
- 1981 First export of Bacchus-D® to the United States
- 1982 Constructed new enzyme facility in Ansan (Banwol Plant)
- 1985 Certified as a KGMP-compliant facility
- 1987 Exports exceeded USD 10 million
- 1988 Constructed a KGLP-compliant research center in Yongin (Sanggal Plant)
- 1991 Developed a diagnostic drug for hepatitis C
- 1993 Developed growth hormones
  - Developed a second generation dual diagnostic drug for AIDS
- 1994 Sales of Bacchus-F® exceeded KRW 100 billion
  - Exported patented non-narcotic analgesics to Japan
  - Developed dual diagnostic drug for AIDS and hepatitis C
- 1995 Established Suzhou Dong-A Beverage Co., Ltd. in China
- 1996 Constructed plant in Ogang City, Gangso, China for manufacturing Bacchus-F®



Laboratory in the early 1950s.



Dong-A Pharmaceutical R&D center completed on Sept. 3, 1988.

## 2000's~

- 2000** Cheon-An plant certified as KGMP-compliant  
Banwol plant certified as BGMP-compliant  
Concluded manufacturing technology transfer agreement with Janssen Korea for the antifungal molecule Itraconazole
- 2001** Published brand history book on Bacchus® marking its 40<sup>th</sup> anniversary  
Corporate bonds and commercial paper credit rating revised upward to BBB and A3, respectively  
Received "Excellent Shareholder Focused Management Award"
- 2002** Obtained marketing authorization of Stillen®, a new phyto-medicine for gastritis  
Sales exceeded KRW 500 billion for the first time in domestic pharmaceutical history
- 2003** Established joint venture with a Chinese company named Mu Han Dong Hwa Pharm Yu Han Gong Sa
- 2004** Dong-A Pharmaceutical Chairman Shin-Ho Kang appointed as chairman of the Federation of Korean Industries
- 2005** Dr. Won-Bae Kim appointed as 6<sup>th</sup> CEO  
Launched Zydene®, an erectile dysfunction treatment
- 2006** Launched Gonadopin®, an infertility treatment for women
- 2007** Shin-Ho Kang received highest mark of honor from Japanese Emperor for its contribution to the friendship between Korea and Japan  
Sales exceeded KRW 600 billion for the first time in domestic pharmaceutical history  
Awarded Jang Young Shil Award, given to engineers who have achieved commercially successful technological innovation, for Zydene®
- 2008** Successfully completed the first year of 'Global Dong-A'  
Sales exceeded KRW 700 billion for the first time in the domestic pharmaceutical industry  
Signed export contracts for Zydene® with 30 countries
- 2009** Entered phase III trials of Zydene® in the USA  
Successfully completed Phase II trials of oxazolidinone antibiotic in the USA  
Launched Biosimilar Leucostim® in Turkey  
Sales exceeded KRW 800 billion for the first time in domestic pharmaceutical history  
Total assets exceeded KRW 1 trillion
- 2010** Entered into strategic alliance with GSK  
Acquired Samchully Pharmaceutical and merged with existing subsidiary, U-Chem and renamed ST Pharm  
Launched Zynena® 50mg, a single daily low dose formulation  
Entered phase III trials of oxazolidinone antibiotic in the USA
- 2011** Signed strategic alliance with Meiji Seika Pharma Co., Ltd. of Japan for the development of biosimilar  
Launched Motilitone™, a natural plant extract-based functional dyspepsia treatment  
Sales exceeded KRW 90.0 billion



Panorama of Cheonan Plant



Dong-A invested KRW 71 billion in expanding and renewing its Research Center in 2010.

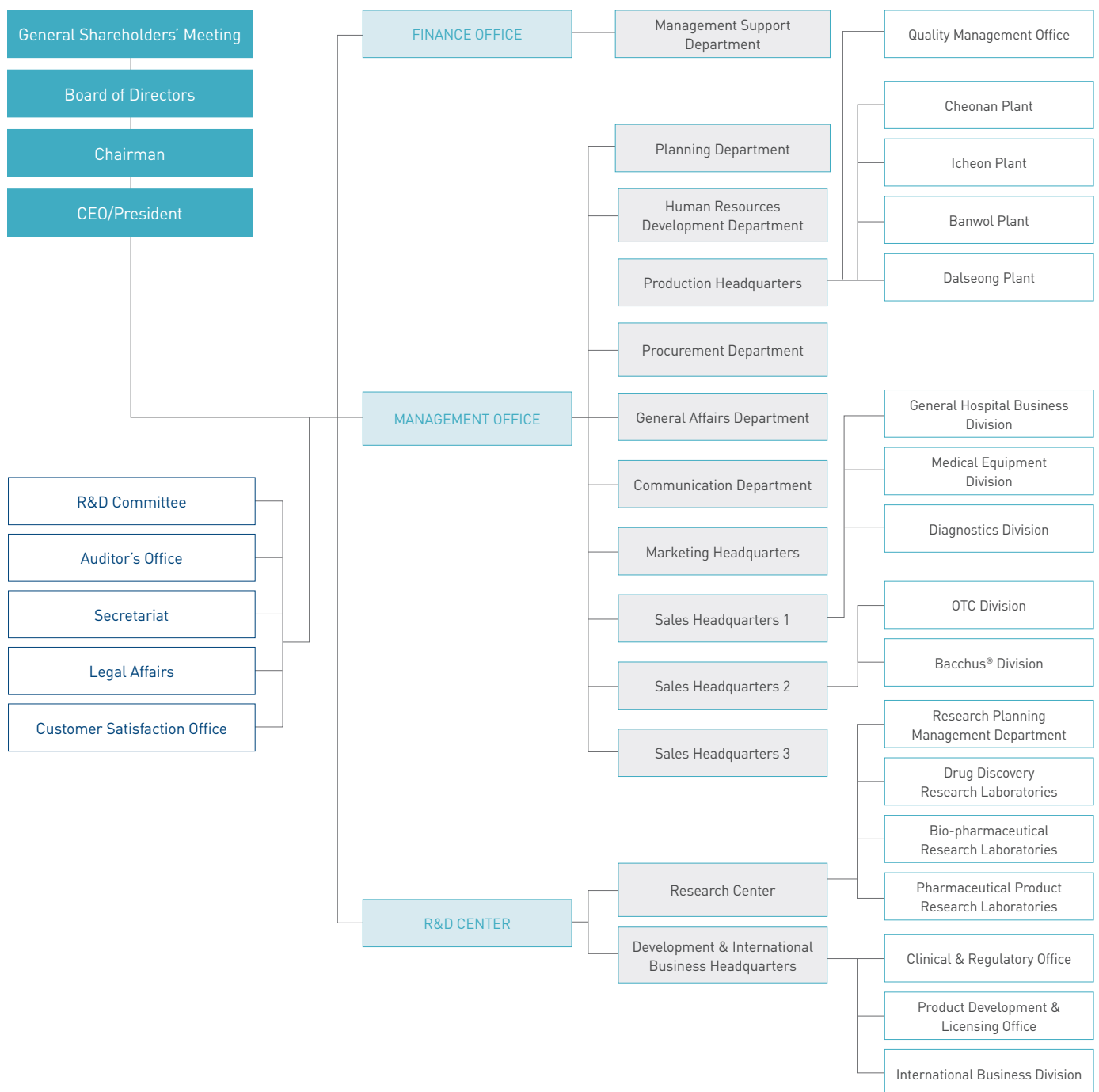
# Dong-A Socio Group

## Dong-A Pharmaceutical Co., Ltd.

(unit: In KRW)

	Sales	Net Income (Loss)
<b>Dong-A Otsuka Co., Ltd.</b> One of the major beverage companies in Korea, producing multi-million sellers such as Pocari Sweat®, Black Bean Tea®, Oran-C®, and Demi Soda® <ul style="list-style-type: none"> <li>• Date of Establishment: 1979</li> <li>• Address: 249-1, Yongdu-dong, Dongdaemun-gu, Seoul, Korea</li> <li>• Phone: +82-2-2170-7762</li> </ul>	191,505,071,136	(301,556,905)
<b>Yongma Logis Co., Ltd.</b> Nationwide business in transportation and distribution with a warehousing network and an advanced logistics information system <ul style="list-style-type: none"> <li>• Date of Establishment: 1983</li> <li>• Address: 249-9, Yongdu-dong, Dongdaemun-gu, Seoul, Korea</li> <li>• Phone: +82-2-3290-6400</li> </ul>	102,323,321,591	3,892,650,442
<b>ST Pharm Co., Ltd.</b> Manufacturer of Active Pharmaceutical Ingredients (APIs) <ul style="list-style-type: none"> <li>• Date of Establishment: 2008</li> <li>• Address: 891-43 Daechi-dong, Gangnam-gu, Seoul, Korea</li> <li>• Phone: +82-2-527-6300</li> </ul>	73,174,955,363	4,445,693,834
<b>Sooseok Co., Ltd.</b> Manufacturer of Bacchus® bottles, PEM CAP and Mineral Water PET <ul style="list-style-type: none"> <li>• Date of Establishment: 1968 (Founded as Jungang Glass Industry Inc.)</li> <li>• Address: 620-5 Bakdal-dong, Manan-gu, Anyang, Gyeonggi-do, Korea</li> <li>• Phone: +82-31-449-6151-4</li> </ul>	50,009,907,939	3,999,624,246
<b>Korea Shinto Co., Ltd.</b> Manufacturer of machines for casting, surface treatment, and pollution prevention <ul style="list-style-type: none"> <li>• Date of Establishment: 1970</li> <li>• Address: 434-5 Moknae-dong, Danwon-gu, Ansan, Gyeonggi-do, Korea</li> <li>• Phone: +82-31-491-8121-4</li> </ul>	38,088,474,663	1,423,406,262
<b>DA Information Co., Ltd.</b> Provider of total IT solutions for Dong-A Pharmaceutical <ul style="list-style-type: none"> <li>• Date of Establishment: 2006</li> <li>• Address: 1313-3 Baekseok-dong, Ilsandong-gu, Goyang-si, Gyeonggi-do, Korea</li> <li>• Phone: +82-70-8636-3852</li> </ul>	6,577,368,599	338,068,341
<b>Dong-A America Corp.</b> Distributor of Bacchus® and OTC products in North America <ul style="list-style-type: none"> <li>• Date of Establishment: 1991</li> <li>• Address: 17215 Studebaker Road, Suite#335, Cerritos, CA 90703, USA</li> <li>• Phone: +1-562-860-3153</li> </ul>	1,073,459,426	(223,602,891)
<b>Dong-A Pharmtech Co., Ltd.</b> Manager of clinical trials and licensing procedures for Zydena® in the USA and worldwide <ul style="list-style-type: none"> <li>• Date of Establishment: 2002</li> <li>• Address: 154-8 Samsung-dong, Gangnam-gu, Seoul, Korea</li> <li>• Phone: +82-2-560-8000</li> </ul>	5,066,517,715	3,204,274,588

# About Departments



# Corporate Information & IR Information

## Corporate Information

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### Headquarters

252 Yongdu-dong, Dongdaemun-gu, Seoul, Korea  
Phone: +82-2-920-8114  
Fax: +82-2-926-9400

### Research Center

47-5 Sanggal-dong, Giheung-gu, Yongin-si, Gyeonggi-do, Korea  
Phone: +82-31-280-1400

### Plant

#### Cheonan Plant

404 Chaam-dong, Cheonan-si, Chungcheongnam-do, Korea  
Phone: +82-41-621-1500

#### Banwol Plant

434-3 Mongnae-dong, Danwon-gu, Ansan-si, Gyeonggi-do, Korea  
Phone: +82-31-494-2980-3

#### Dalseong Plant

29-40 Bonli-ri, Nongong-eup, Dalseong-gun, Daegu, Korea  
Phone: +82-53-610-0500

#### Icheon Plant

240-1 Saeum-dong, Icheon-si, Gyeonggi-do, Korea  
Phone: +82-31-644-2800

## IR Information

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### Head Office

Dong-A Pharmaceutical Co., Ltd. 252 Yongdu-dong, Dongdaemun-gu, Seoul, Korea  
Phone: +82-2-920-8187  
Fax: +82-2-953-0336  
ir@donga-pharm.com

### Date of Establishment

June 1932

### Securities Listing

Korea Stock Exchange: 000640

### Annual General Meeting

March 18, 2011

### Information Availability

<http://www.donga-pharm.com>



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