

New Growth Momentum

Annual Report 2012



CONTENTS



04
Milestones

12
Future Plans

20
Letter to Shareholders

24
Corporate Governance

25
Board of Directors

26
2012 at a Glance

28
Key Figures

30
Operation Review

67
Financial Review

157
Dong-A Socio Group

158
Corporate & IR Information

The 80 years of Dong-A's is marked by the philosophy of making a difference through innovative pharmaceutical products. We have made great leaps forward, as well as little changes, too. Regardless of the size of the change, we've always focused on improving people's quality of life. This is because every one of our customers matters to us, and our every moment for you counts.

Every
moment
counts.

Since its foundation in 1932, Dong-A has played a pivotal role in the development of the Korea's pharmaceutical industry, creating many industry's "firsts".

Marking the Moment of **first**

1932
Choong-Hee Kang's Wholesaler, a pharmaceutical and hygiene material wholesaler, began operations in Joonghak-dong, Jongro-gu, Seoul

1947
Pharmaceutical business began full operation

1949
Changed name to Dong-A Pharmaceutical Corporation

1957
Constructed modern facility, headquartered in Yongdu-dong, Dongdaemun-gu, Seoul, Korea
Manufactured antibiotics, such as Penicillin®

1961
Commenced manufacturing Bacchus®, an ampoule type total nutritious tonic

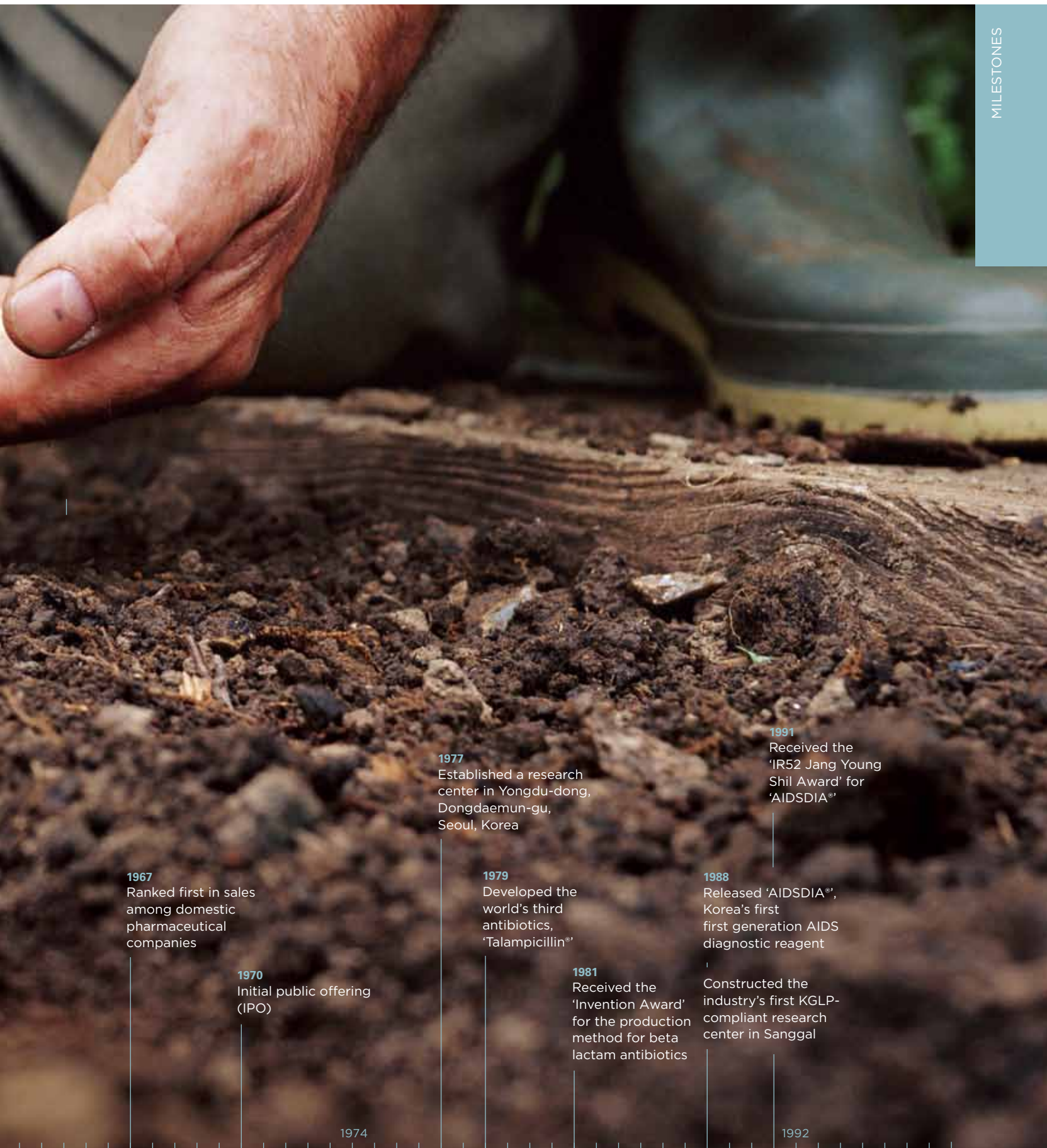
1963
Manufactured Bacchus®-D, a tonic as an OTC drug

1964
Bacchus®-D ranked first in domestic tonic market

1932

1958

THE PRELUDE OF
DONG-A
(1932~1958)



1967
Ranked first in sales among domestic pharmaceutical companies

1970
Initial public offering (IPO)

1974

1977
Established a research center in Yongdu-dong, Dongdaemun-gu, Seoul, Korea

1979
Developed the world's third antibiotics, 'Talampicillin'

1981
Received the 'Invention Award' for the production method for beta lactam antibiotics

1988
Released 'AIDSDIA', Korea's first first generation AIDS diagnostic reagent

Constructed the industry's first KGLP-compliant research center in Sanggal

1992

1991
Received the 'IR52 Jang Young Shil Award' for 'AIDSDIA'

MODERNIZATION OF PHARMACEUTICAL BUSINESS (1959-1974)

ESTABLISHMENT OF GROWTH FOUNDATION (1975-1992)

Dong-A has solidified its leadership position in the domestic pharmaceutical industry for forty five consecutive years, marking many of the industry's "bests".

best

1993

Developed 'Growthropin[®]', a first-generation biomedicine and growth hormone

1994

Released 'Interferon-alfa[™]', a first-generation biomedicine and multiple myeloma medicine

Developed the world's first simultaneous diagnostic reagent for AIDS and hepatitis C

Acquired the 'Korea Good Technology' mark for 'AIDSDIA[®]', an AIDS diagnostic reagent

1995

Bacchus[®] became Korea's first single pharmaceutical product to achieve sales of KRW 100 billion

1997

Became the first in Korea to develop a tuberculosis treatment, 'Closerin[®]'

1999

Released 'Leucostim[®]', a first-generation biomedicine and neutropenia treatment, and 'Eporon[®]', a renal anemia treatment

1993

1999

← OVERCOMING OBSTACLES BY WORKING TOGETHER (1993-1999) →



2001

Received the 'Excellent Shareholder Focused Management Award'

2002

Released 'Stillen[®]', Dong-A's first in-house developed drug and a phytomedicine for gastritis

2005

Released 'Zydena[®]', Dong-A's second in-house developed drug and an erectile dysfunction treatment

2006

Released 'Gonadopin[®]', a first-generation biomedicine and infertility treatment

Licensed out 'Zydena[®]', for the indication of portal hypertension, to Dr. Falk Pharma GmbH of Germany for the European market

2007

Licensed out 'DA-7218 (Tedizolid, second generation oxazolidinone)', an in-house drug at preclinical, to Trius Therapeutics of U.S. for the worldwide territory except Korea

Received the 'IR52 Jang Young Shil Award' for 'Zydena[®]'

2007

BECOMING AN R&D-CENTERED PHARMACEUTICAL COMPANY
(2000~2007)

Dong-A puts our scientific expertise and operational excellence to work to create value for society and help communities, **marking the moment of “truth”.**

truth

2011

Released 'Motilitone[®]', Dong-A's third in-house developed drug and a phytomedicine for functional dyspepsia

Established a comprehensive business alliance on biosimilars with Meiji Seika Pharma of Japan

Licensed out 'Zydena[®]' to Meiji Seika Pharma of Japan for the treatment of urological diseases including BPH for the Japanese market

2012

Licensed out 'DA-1229 (Evogliptin)', an in-house drug at phase II for diabetes, to Luye Pharma Group of China for the Chinese market

Licensed out 'Monotaxel[®]', an IMD for cancer, to Gloria Pharmaceutical of China for the Chinese market

Commenced the construction of a biopharmaceutical plant in Songdo, Korea in conjunction with Meiji Seika Pharma

Received the 'IR52 Jang Young Shil Award' for 'Motilitone[®]'

80th anniversary of the foundation of Dong-A

Licensed out 'DA-1229 (Evogliptin)' to Alkem Laboratories of India for the Indian and Nepali market

2009

Dong-A Pharmtech, an affiliate, licensed out 'Zydena[®]', an erectile dysfunction treatment, to Warner Chilcott for the U.S. and Canadian markets

2010

Entered into a comprehensive business agreement with GSK (GlaxoSmithKline) of U.K.

2008

2012

← CHALLENGING TO BECOME
A GLOBAL PHARMACEUTICAL COMPANY
(2008-2012) →





Celebrating our past by marking the moment.

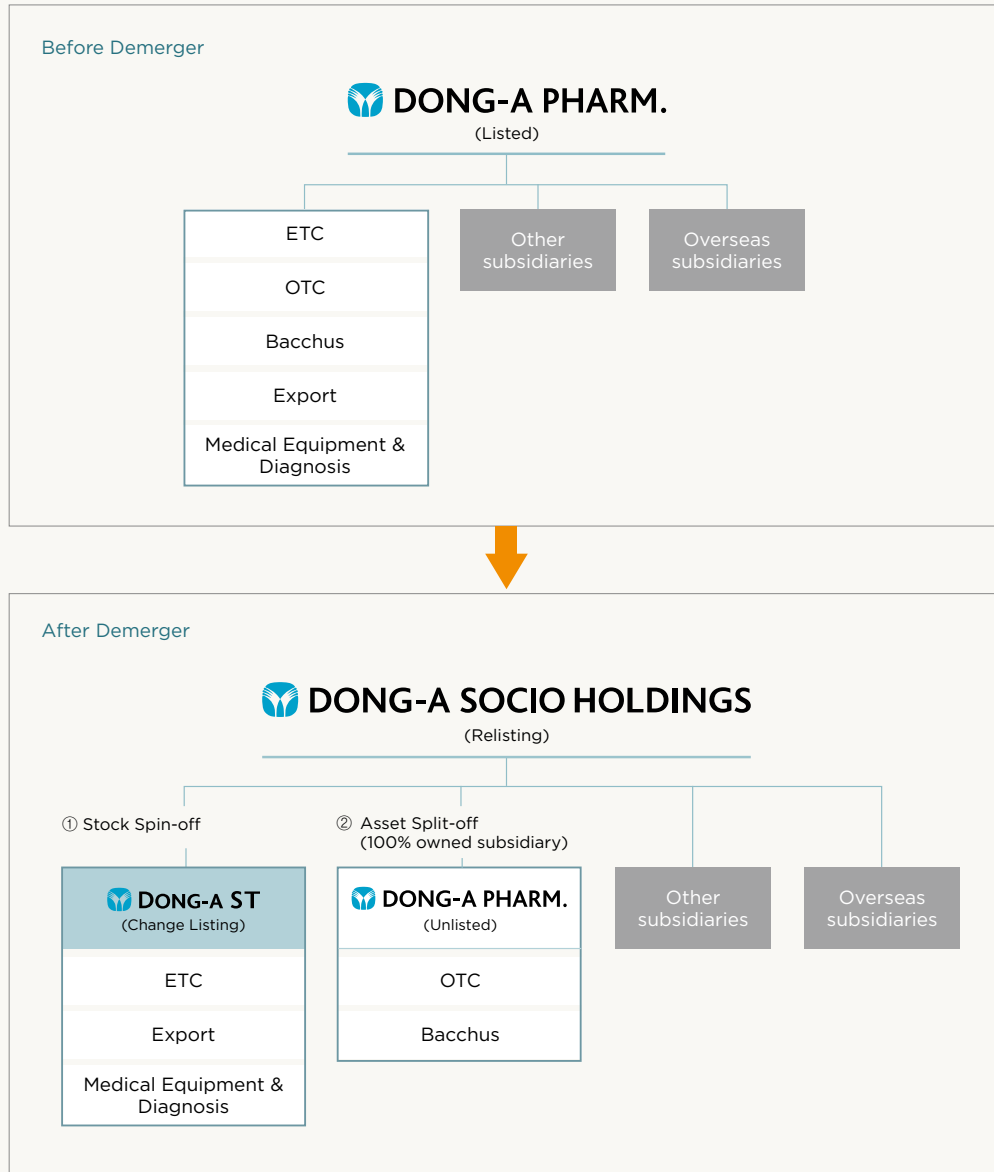
As we celebrate our 80th anniversary, we look to the future by looking back at every moment of Dong-A's history. By doing so, we are preparing a new way forward to improve the quality of people's lives.



Making
every
moment
extraordinary.

Under our vision of becoming a 'Global company renowned for its innovative pharmaceutical products', Dong-A will achieve unsurpassed innovation for our stakeholders through integrity, globality, ingenuity and sustainability.

Organizational Chart



integrity

The Next Stage for the Future

Using its 80th anniversary as a starting point to find new growth in response to the changing market environment, Dong-A set the plan to establish a holding company. Under the holding company structure, we anticipate strengthened professional, and responsible management. Based on improved integrity, we will maximize corporate and shareholder value, and expedite our journey to become 'a global company renowned for its innovative pharmaceutical products'.

On March 2013, Dong-A reorganized itself for further growth. Accordingly, Dong-A ST (Science Technology) was established through stock split while Dong-A Pharmaceutical was launched through an asset split-off from the existing entity, which was renamed Dong-A Socio Holdings.

The demerged new entity created through the stock spin-off was listed in Korean stock market under the name of 'Dong-A ST' according to code 9 and 18 of KRX listing guidelines, and Dong-A Socio Holdings, the holding company of Dong-A Socio Group, was relisted. The asset split-off entity retained the name 'Dong-A Pharmaceutical', and is a 100% owned subsidiary of Dong-A Socio Holdings.

The demerged companies began operation on March 1st, 2013. While shares of Dong-A Socio Holdings and Dong-A ST were suspended for trading from February 27th to April 7th, 2013, they resumed trading on April 8th, 2013.

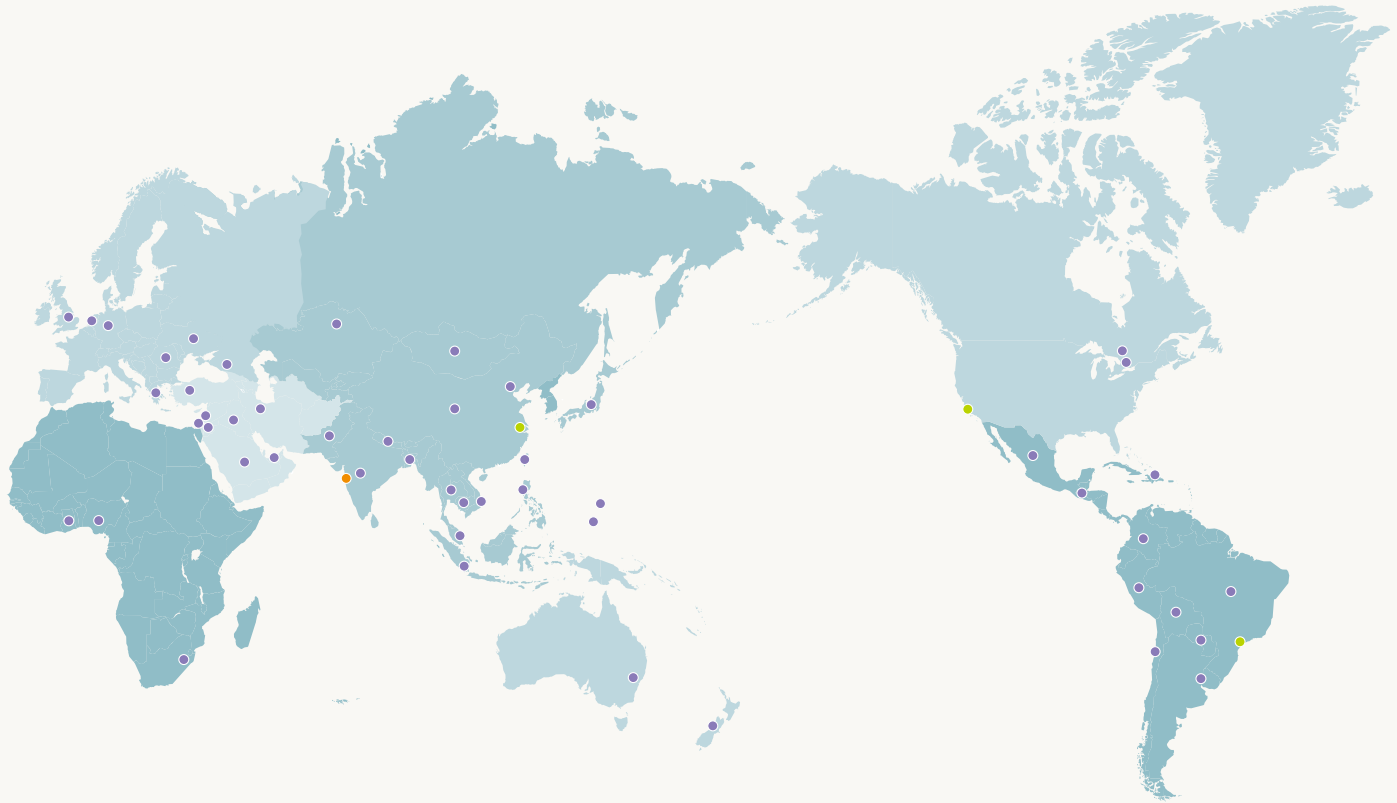
The shift into the holding company structure is especially significant as it establishes a responsible management structure based on independent management and

objective performance evaluations for each company, and builds a foundation for the Group to advance into the global market through enhanced management transparency.

Under the holding company structure, Dong-A Socio Holdings will focus on new investments such as biosimilars and other future growth drivers. The company will expand its business areas into medical equipment and healthcare services, securing the Group's growth into an integrated global healthcare company. While the holding company focuses on developing new businesses, Dong-A ST and Dong-A Pharmaceutical will concentrate on the ETC (ethical drugs) and OTC (over-the-counter) businesses, the respective areas they specialized in. By separating the ETC and OTC businesses into separate corporate bodies, we expect increased flexibility and efficiency in each business area. Of particular note, in the ETC business, we anticipate greater synergy with other business areas within the Group, with improved flexibility in our partnerships with global pharmaceutical companies.

Dong-A has steadfastly maintained its No. 1 position in the domestic pharmaceutical industry since 1967. This success can be attributed to its continued adoption of change and innovation in order to achieve greater growth and generate better value, as well as refusing to become complacent with the status quo. The shift into a holding company structure is a new form of innovation for Dong-A, through which the company will strengthen its advancement into a global pharmaceutical company. Dong-A will ultimately take the lead in improving the quality of life of humankind and in shaping a healthy future.

Global Network



● Overseas Subsidiaries
USA, Brazil, China

● Liaison Office
India

● Export Countries

NORTH AMERICA USA, Canada

SOUTH AMERICA Guatemala, Dominican Republic, Mexico, Bolivia, Brazil, Argentina, Chile, Colombia, Paraguay, Peru

OCEANIA Guam, New Zealand, Saipan, Australia

EUROPE Greece, Germany, UK, Romania, Netherlands, Turkey

ASIA Taiwan, Nepal, Malaysia, Mongolia, Indonesia, Bangladesh, Vietnam, India, Japan, China, Cambodia, Thailand, Pakistan, Philippines

MIDDLE EAST Jordan, Saudi Arabia, UAE, Lebanon, Israel, Iraq, Iran

AFRICA Ghana, Nigeria, South Africa

RUSSIA/CIS Russia, Kazakhstan, Georgia, Ukraine

globality

Expanding Our Global Footprint

Dong-A 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 the pharmaceutical markets as we aim to grow beyond our current boundaries to become a leading global pharmaceutical company. Through innovative global brands, we will achieve true globality.

Dong-A has a respectful commercial presence with several biopharmaceutical products, ranging from APIs (Active Pharmaceutical Ingredients) to finished goods, and Bacchus® currently registered and sold in 51 markets across the global market. In these markets, we predominantly utilize local distribution partners including market-leading firms, such as Abdi Abraham of Turkey, Hikma of Middle East, etc., to successfully commercialize our products.

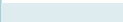









In the past year, we have signed distribution agreements with various pharmaceutical companies across the world and have successfully received authorization to market Zydene® in Brazil. We have established overseas subsidiaries and representative offices in the U.S., China, India and Brazil, with our Brazil subsidiary in Sao Paulo being the newest, launched in February, 2013.

Over the next couple of years, Dong-A plans to move our global expansion efforts into hyperdrive, focusing on select emerging markets such as Brazil, China, and Indonesia in parallel to elevating our activities in the developed markets of the U.S., Europe, and Japan. We will adopt a diverse set

of locally-optimized market entry strategies and innovative business models ranging from our traditional distribution partnerships to strategic joint ventures, mergers and acquisitions, as well as creating additional, growth-driven regional and local subsidiaries in select markets. We will look to broaden our global strategic partnerships beyond traditional commercial areas to fully exploit Dong-A's manufacturing including joint ventures in emerging markets, and R&D know-how such as drug discovery and development collaboration with innovative, developed market biotechs.

In terms of our global product offering, Dong-A is committed to fully leverage its diverse portfolio of existing products, such as Zydene®, Stillen®, Bacchus®, and first generation biosimilars, as well as our development pipeline including DA-7218 (Tedizolid), second generation biosimilars, and biobetters. Furthermore, our aspiration to become a truly global healthcare company will spur us to extend our current international offering beyond Dong-A's core biopharmaceutical drugs and Bacchus® by acquiring global commercial rights for innovative drugs and bolt-on complementary assets such as medical nutrition, medical devices and equipment, and healthcare-related services.

Key Pipeline Items

Code Name	Indication	Pre-clinical	Clinical Trial			Note
			PH I	PH II	PH III	
DA-8159	BPH (Benign Prostatic Hyperplasia)					Phase II in Japan by Meiji Seika
DA-8159	PH (Portal Hypertension)					Phase II in Europe by Dr. Falk Pharma
DA-7218	ABSSI (Acute Bacterial Skin and Skin Structure Infection)					Phase III (Global) completed by Trius Therapeutics
DA-7218	HAP/VAP (Hospital Acquired Pneumonia/ Ventilator Associated Pneumonia)					Phase III (Global) planned by Trius Therapeutics
DA-3031	Neutropenia					Phase III in Korea by Dong-A
DA-6034	Dry Eye					Phase II in Korea by Dong-A
DA-1229	Type 2 Diabetes					Phase II completed in Korea by Dong-A
DA-8031	Premature Ejaculation					Phase II in Korea by Dong-A
DMB-3111	Breast Cancer					Pre-clinical in Korea by Dong-A

ingenuity

Achieving the First and the Best

Dong-A contributes to society by developing new drugs. Based on this belief, we have concentrated our corporate-wide competencies on developing innovative new drugs, and have become the most competitive domestic pharmaceutical company through our continued investments and accumulated technologies. We will continue this path and will develop new drugs that are competitive in the global market based on our unique spirit of ingenuity, thereby delivering more prosperous and healthier lives to a greater number of people.

Since the establishment of its research center in 1977, Dong-A has led the domestic pharmaceutical industry through its continuous investments and accumulated technologies. In 2002, we released Stillen®, our first in-house developed drug. This was followed by the successful release of Zyderna® in 2005, the fourth oral ED (Erectile Dysfunction) treatment in the world, and Motilitone® in 2011, a functional dyspepsia treatment. As such, we are opening a new chapter for the development of new drugs in the domestic pharmaceutical market.

Moreover, we are cementing our global competitiveness in personnel, research infrastructure, and R&D competencies by strengthening our global R&D competencies. We licensed out Zyderna® and DA-7218 (Tedizolid), and clinical trials of Zyderna® for ED and DA-7218 (Tedizolid) for ABSSSI (Acute Bacterial Skin and Skin Structure Infections) were successfully completed by partners in the

U.S. and other overseas markets. As such, we are about to achieve success in the development of global new drugs. We are continually developing new chemical entities, phytomedicines, biopharmaceutical products, and IMDs (Incrementally Modified Drugs).

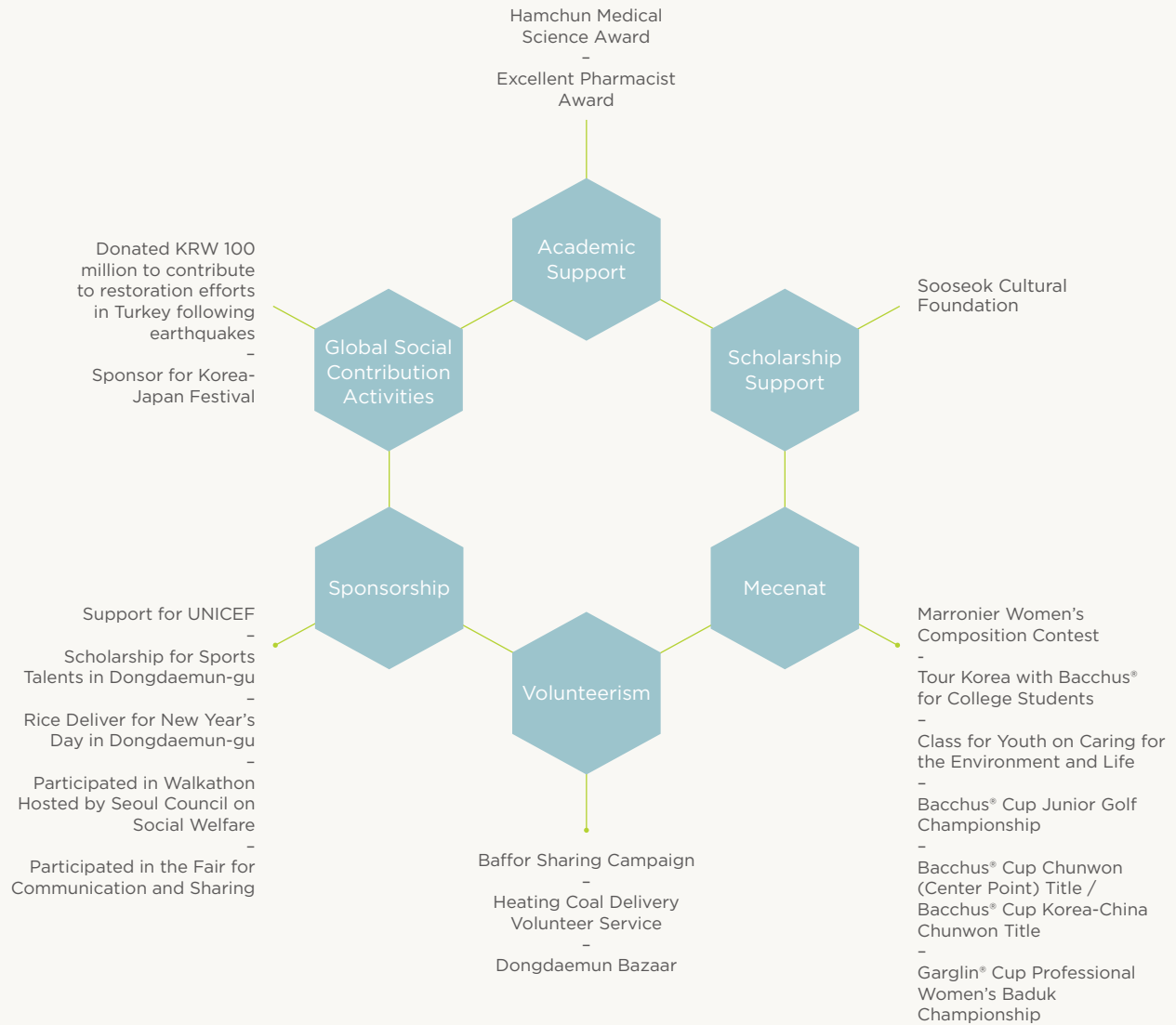
Dong-A has continually worked to become a pharmaceutical company that specializes in innovative new drugs. And now we are moving forward with stronger, more efficient R&D with our shift into a holding company structure in 2013. With this change, the research center will be divided between Dong-A Socio Holdings and Dong-A ST and will be run based on the motto of 'The First' and 'The Best', respectively.

'The First' refers to innovative new drug development. Accordingly, Dong-A Socio Holdings will strive to develop new drugs that are completely different from existing medicines. To become a 'first mover' that develops innovative, first-class drugs, Dong-A Socio Holdings plans to build a dedicated drug research system and establish a global R&D laboratory in the U.S. By engaging in joint research with domestic and overseas universities, research institutes, ventures, and pharmaceutical companies, the company will define new drug targets and focus on researching innovative new drugs in the areas of anticancer, dementia, and pain and biopharmaceuticals.

Based on the motto, 'The Best', Dong-A ST will concentrate its competencies on items that can contribute to short-term increases in sales, including the development of best-in-its-class pharmaceuticals.

Our biggest area of competitiveness and an essential part of sustained growth for a pharmaceutical company is the development of new drugs. This is our raison d'être, and the reason for our continued focus on R&D, irrespective of fluctuations in the market and economy. We will continue to expand our development of global new drugs through our investments and research. We will strengthen all professional areas, with the focus on building a competitive R&D portfolio, thus contributing to the health and happiness of humanity, and achieving continued growth.

Major CSR Activities



sustainability

Solving Unsolvable Problems

There is a growing expectation for companies, as members of society, to act in a socially responsible manner. Against this backdrop, CSR (Corporate Social Responsibility) has become an essential part of our sustainable corporate growth. As a company that produces pharmaceuticals designed to ensure healthy lives, Dong-A is dedicated to sharing the spirit of love based on respect for life. We will continue to engage in social contribution activities to ensure the future of the company, the local community, and of all humanity.

A company's social contributions should be continuous and voluntary rather than temporary or limited. True sharing occurs when value is created through society and is shared and returned to society. Based on this belief, we engage in activities that promote the public interest and enhance our corporate image, including events in relation to social issues and financial support. In addition, our employees actively perform volunteer activities, enabling Dong-A to faithfully perform its role as a responsible company. In particular, active support is provided to the local community in Dongdaemun-gu, Seoul, where the company's headquarters is located. And we assist the underprivileged in the area. For example, we held a Dongdaemun bazaar, delivered scholarships to up-and-coming sports talents in Dongdaemun-gu, and delivered rice to the needy on the occasion of national holidays.

Reflecting our expertise and characteristics as a pharmaceutical company, Dong-A encourages physicians and pharmacists who share the spirit of love based on respect for life and who contribute to the creation of a

healthy society, by offering Hamchun Medical Science Award and Excellent Pharmacist Award. To foster future experts, we established the Sooseok Cultural Foundation, which gives out scholarships and sponsors cultural events, publications, and academic programs. In particular, we provide scholarships to junior high and high school students, as well as undergraduates with excellent academic achievements and who are role models for others. As such, we nurture teenagers into responsible leaders, encouraging them to perform central roles in a healthy society.

We are also engaging in diverse contribution activities related to culture, art, and sports. Leading activities include the Marronier Women's Composition Contest, Tour Korea with Bacchus® for College Students, Class for Youth on Caring for the Environment and Life, Bacchus® Cup Junior Golf Championship, Bacchus® Cup Chunwon (Center Point) Title, and the Garglin® Cup Professional Women's Baduk Championship.

Dong-A is working to actively identify and systematically implement unique contribution activities to ensure that a helping hand is extended to the underprivileged, with the goal of enhancing companionship to live together. These diverse social contribution activities by Dong-A have received external recognition. In 2010, we were awarded the Special Prize at the Social Contribution Awards held by the Korea Economic Daily, and we received an appreciation plaque from Arts Council Korea for two consecutive years in 2011 and 2012.

The 'socio' of Dong-A Socio Group is from Latin and means 'society', reflecting Dong-A's strong determination to fulfill its social responsibilities. To accomplish this mission, the Group will produce first-class pharmaceuticals in order to create healthy lives and a healthy future. We will take the lead in fulfilling corporate social responsibilities and in creating a warm, bright society. Based on respect for life, one of Dong-A's core values, strenuous efforts will be made to build a better world and brighter future where everybody comes together as one.

Letter to shareholders



SHIN-HO KANG
Chairman, Dong-A Socio Holdings

I would like to sincerely thank you for your unwavering support for our continued growth. As we prepare to advance into the future, we will realize our vision of becoming a global pharmaceutical company through relentless innovation.

77%

Dong-A made a significant achievement in exports, accomplishing a year-on-year growth of approximately 77% in sales.

Honorable customers and shareholders,

I would like to express my deepest gratitude to all of our stakeholders for the unwavering encouragement and support you have given to Dong-A as we worked to achieve continued growth and respond to new challenges.

Amid prolonged uncertainties all across the globe last year, the difficulties we faced were amplified by an unprecedented reduction in drug prices, strengthened government regulations, and fierce competition with our competitors. Notwithstanding, Dong-A recorded sales of KRW 931 billion, a slight rise from the previous year.

Of particular note, we made a significant achievement in exports, accomplishing a year-on-year growth of approximately 77% in sales. This was the result of an increase in the sales of existing products in emerging markets, such as Brazil, India, South Africa, Russia, Turkey, and Cambodia, as well as the export of APIs (Active Pharmaceutical Ingredients) to Japan, which started in 2012.

In addition to this quantitative growth, we also achieved continued growth in a variety of sectors. First of all, Motilitone®, our third in-house developed drug, was successfully introduced into the domestic market. This was followed by clinical preparations for its introduction into the Chinese market. We also signed license-out agreements for DA-1229 (Eevogliptin), a treatment for diabetes, for the Chinese and Indian market, respectively. In addition, clinical trials of DA-7218 (Tedizolid) for ABSSSI (Acute Bacterial Skin and Skin Structure Infections) and Zydena® for ED (Erectile Dysfunction) were successfully completed by partners, and they will soon be released in the global markets, including the U.S., signaling the birth of truly global new drugs is on the horizon.

80 years

To create a new chapter in our 80-year history, Dong-A is introducing new changes and innovation in 2013, including the establishment of a holding company.

Moreover, we further strengthened our cooperative ties with multinational pharmaceutical companies, including GSK, Bayer, and Otsuka Pharmaceuticals. Last September, we held a ceremony to commence the construction of a biopharmaceutical production complex in Songdo, Incheon together with Japan's Meiji Seika Pharma. When this complex is completed at the end of this year, it will serve as the birthplace for biopharmaceuticals, a new product area that will be a key future growth driver for Dong-A.

Dear customers and shareholders,

Last year marked the 80th anniversary of the company's founding. There were countless obstacles and difficulties in the company's history, but we successfully released quality products thanks to the encouragement and trust of our shareholders and customers, driving Dong-A's growth into the No. 1 pharmaceutical company in Korea.

To create a new chapter in our 80-year history, Dong-A is introducing new changes and innovation in 2013. As part of these, we approved our plan to launch a holding company at the extraordinary shareholders' meeting held on January 28. The shift into a holding company structure will drive Dong-A's growth into a truly global pharmaceutical company, moving beyond the saturated domestic market. We are determined to implement the following key strategic tasks so that the holding company structure may stabilize in the near future, allowing each company to achieve continued growth and develop global competitiveness.

First, the holding company and each subsidiary will accomplish new growth through professional management.

With the shift into the holding company structure, Dong-A has been split into Dong-A Socio Holdings, the holding company in charge of the investment business; Dong-A ST, which will oversee the ETC (ethical drug) business; and Dong-A Pharmaceutical, which will focus on the OTC (over-the-counter) market. Dong-A has become the first in the industry to divide the ETC and OTC business areas into separate companies. This will bring about greater expertise by area, and will allow for more systematic business operation. Our business areas, which are currently focused on the domestic pharmaceutical market, will be expanded to include global pharmaceuticals, medical devices, and medical service areas, securing future growth drivers.

With this shift, Dong-A is committed to become a global pharmaceutical company, and is deeply grateful to all our stakeholders for your unwavering support and encouragement.

Second, Dong-A will strengthen the development of innovative new drugs to fully establish itself as a global pharmaceutical company.

As a pharmaceutical company, developing new drugs is an important mission and the only path for continued growth. Therefore, the holding company and each subsidiary will work harder to develop innovative new drugs by adopting drug development as their new founding spirit. Based on this, overseas exports will be expanded in order to allow us to grow into a global pharmaceutical company.

Third, we will improve our corporate value by enhancing management transparency.

We will increase management transparency and efficiency by guaranteeing independent management to each company, and ensuring objective performance evaluations. Management and employees will work with a greater sense of responsibility toward ethical and clean management, thereby ultimately maximizing shareholder value.

Honorable customers and shareholders,

The change into a holding company structure is a new beginning for a greater leap forward, and it represents a turning point for a better future. With this shift, Dong-A is committed to become a global pharmaceutical company, and is deeply grateful to all our stakeholders for your unwavering support and encouragement.

Thank you.



SHIN-HO KANG
Chairman, Dong-A Socio Group

Corporate governance

Through the holding company structure, we will maximize shareholder value by introducing a more transparent and specialized corporate governance system.



Corporate Governance Overview

The BOD (Board of Directors) of Dong-A is keenly aware that sound corporate governance is a requirement for earning the trust of stakeholders and for making Dong-A a leading global pharmaceutical company. Thus, the Board has been tasked with maximizing shareholder value through greater management transparency and active communications within the company and with shareholders while complying with the relevant laws and regulations.

BOD Structure and Major Activities

The BOD of Dong-A Socio Holdings consists of seven directors, including four inside directors, two outside directors, and one affiliated director. The BOD of Dong-A ST consists of nine directors, including three inside directors, three outside directors, and three affiliated directors, while Dong-A Pharmaceutical has five BOD members, including one inside director, two outside directors and two affiliated directors. All outside directors are non-executive independent directors, with expertise, integrity and leadership. All elected directors serve a three-year term, and all resolutions are adopted based on a majority decision at regular BOD meetings.

In 2012, the Board held a total of 16 meetings to deliberate on 31 agenda items. The rate of participation by all directors was 100.0%, including the independent directors.

Organizational Changes

On October 23rd 2012, the BOD of Dong-A resolved to establish Dong-A ST (Science Technology) through a stock spin-off while establishing Dong-A Pharmaceutical through an asset split-off from the existing Dong-A Socio Holdings.

The demerger will enhance the transparency and stability of Dong-A through the creation of a holding company structure. The holding structure will prevent the transfer of risk from one subsidiary to another; enable independent decision making to allow effective evaluation; conduct efficient resource allocation to improve core competencies; enable lower funding costs for subsidiaries through the utilization of the holding company's financial stability; execute more decisive and prompt investment as well as ensuring a business exit, if necessary, remains on the holdings level; and will strengthen reputation, brand equity, corporate image, and identity of each company through more efficient brand management.

Board of directors

Our global standard board of directors will do its utmost to enhance our corporate value through responsible and transparent management.

Dong-A Socio Holdings

INSIDE DIRECTORS

Jung-Seok Kang

CEO & President

2005 Head, Marketing & Sales, Dong-A Pharmaceutical

2009 M.S. in Pharmacy, Sungkyunkwan University

Dong-Hoon Lee

CEO & Executive Vice President

2012 Executive Director, Investment Advisory, Samjong KPMG

1993 M.A. in Business Administration, Ohio State University

Soo-Hyung Kang

Senior Managing Director

2012 Head, Biosimilar Project Team, DM Bio, Dong-A Pharmaceutical

1979 B.A. in Food Engineering, Korea University

Hong-Ki Chae

Managing Director

2012 Head, Financial Administration Division, Dong-A Pharmaceutical

1989 M.A. in Law, Korea University

AFFILIATED DIRECTOR

Jin-Ho Kim

Senior Vice President

2000 Senior Vice President, AP, GlaxoSmithKline

1976 M.S. in Computer Science, Columbia University

OUTSIDE DIRECTORS

Kyung-Bo Kang, CP

2005 CPA, Daehyun Accounting & Tax Firm

1989 B.A. in Business Administration, Korea University

Bong-Soon Cho

2007 Professor, Sogang Business School

2004 Ph.D. in Business Administration, State University of New York

AUDITORS

In-Sun Park

2003 Auditor, Dong-A Pharmaceutical

1983 B.A. in Business Administration, Kangwon National University

Jong-Sik Yoo

2012 Outside Auditor, Dong-A Pharmaceutical

1987 B.A. in Landscape Architecture, Yeungnam University

Dong-A ST

INSIDE DIRECTORS

Won-Bae Kim

CEO & Vice Chairman

1996 Chief Researcher, Research Center, Dong-A Pharmaceutical

1990 Ph.D. in Microbiology, Seoul National University

Chan-Il Park

CEO & President

2005 Head, Development & Licensing, Dong-A Pharmaceutical

1978 B.A. in Pharmacy, Seoul National University

Joong-Koo Heo

Senior Managing Director

2007 Head, Sales Headquarters One, Dong-A Pharmaceutical

1982 B.A. in Applied Statistics, Chung-Ang University

AFFILIATED DIRECTORS

Jung-Seok Kang

2005 Head, Marketing & Sales, Dong-A Pharmaceutical

2009 M.S. in Pharmacy, Sungkyunkwan University

Chung-Sik Yoo

2006 Vice-Chairman, Dong-A Pharmaceutical

1962 B.A. in Business Administration, Seoul National University

Jin-Ho Kim

2000 Senior Vice President, AP, GlaxoSmithKline

1976 M.S. in Computer Science, Columbia University

OUTSIDE DIRECTORS

Keun-Soo Kim

2005 Professor, Business Administration, Graduate School of Pan-Pacific International Studies, Kyung Hee University

2000 Ph.D. in Economy, State University of New York

Dae-Kyung Kim

2009 Dean, College of Pharmacy, Chung-Ang University

1990 Ph.D. in Life and Pharmacy, University of Tokyo

Young-Je Suh

2009 Dean, School of Law, Chungnam National University

2001 Ph.D. in Law, Sungkyunkwan University

AUDITOR

Seung-Deok Jang

2006 Senior Economist, Accounting System Department, Financial Supervisory Service

1996 B.A. in International Trade, Korea University

Dong-A Pharmaceutical

INSIDE DIRECTOR

Dong-Wook Shin

CEO & President

2011 Vice President, Yongma Logis

1979 B.A. in Pharmacy, Kyung Hee University

AFFILIATED DIRECTORS

Bong-Jin Cha

Senior Managing Director

2010 Production Director, Dong-A Pharmaceutical

1983 B.A. in Pharmacy, Seoul National University

Mi-Won Son

Managing Director

2011 Director, Pharmaceutical Product Research Laboratories, Dong-A Pharmaceutical

1984 B.A. in Pharmacy, Seoul National University

OUTSIDE DIRECTORS

Sang-Gyung Jun

2002 Professor, Business Administration, Hanyang University

2000 Ph.D. in Finance, State University of New York

Bong-Soon Cho

2007 Professor, Business Administration, Sogang University

2004 Ph.D. in Organization and Human Resources, State University of New York

AUDITOR

Sam-Beom Choi

2005 Director, Accounting Firm Doore

1998 B.A. in Physics, Dongguk University

2012 at a glance

Stock Performance & Key Financial News

Q1

The overall industry experienced significant difficulties due to the government's strengthening of regulations. Nevertheless, our overseas business grew by 76.0% compared to the same period in the previous year, and 52.2% from the previous quarter.

Q2

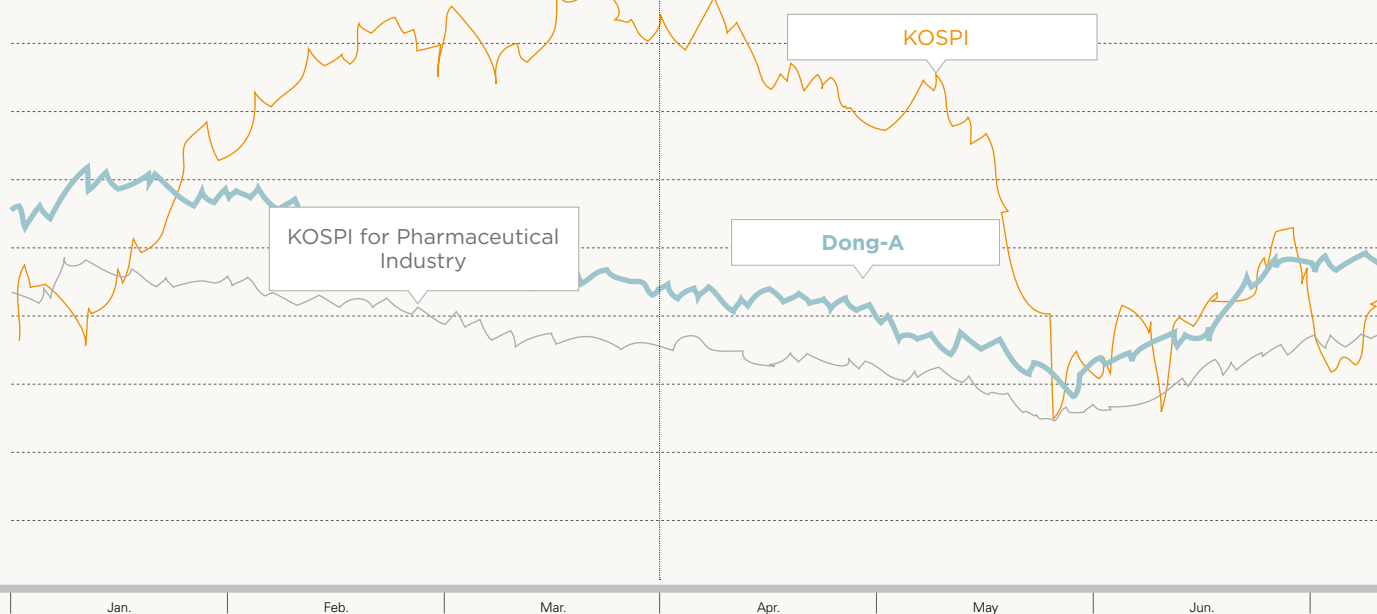
Sales grew by 9.8% compared to the same period in the previous year and 12.8% from the previous quarter. However, our operating profit margin declined with the deterioration in profitability due to the implementation of the April's blanket drug price reduction policy.

(Unit: KRW)

140,000

100,000

60,000



Summarized Separate Statements of Financial Position

(Unit: KRW billion)	2012	2011	YoY (%)
Total assets	1,425.8	1,236.8	15.3
Total liabilities	679.5	504.4	34.7
Total shareholders' equity	746.3	732.4	1.9

Separate Key Performance Indicators

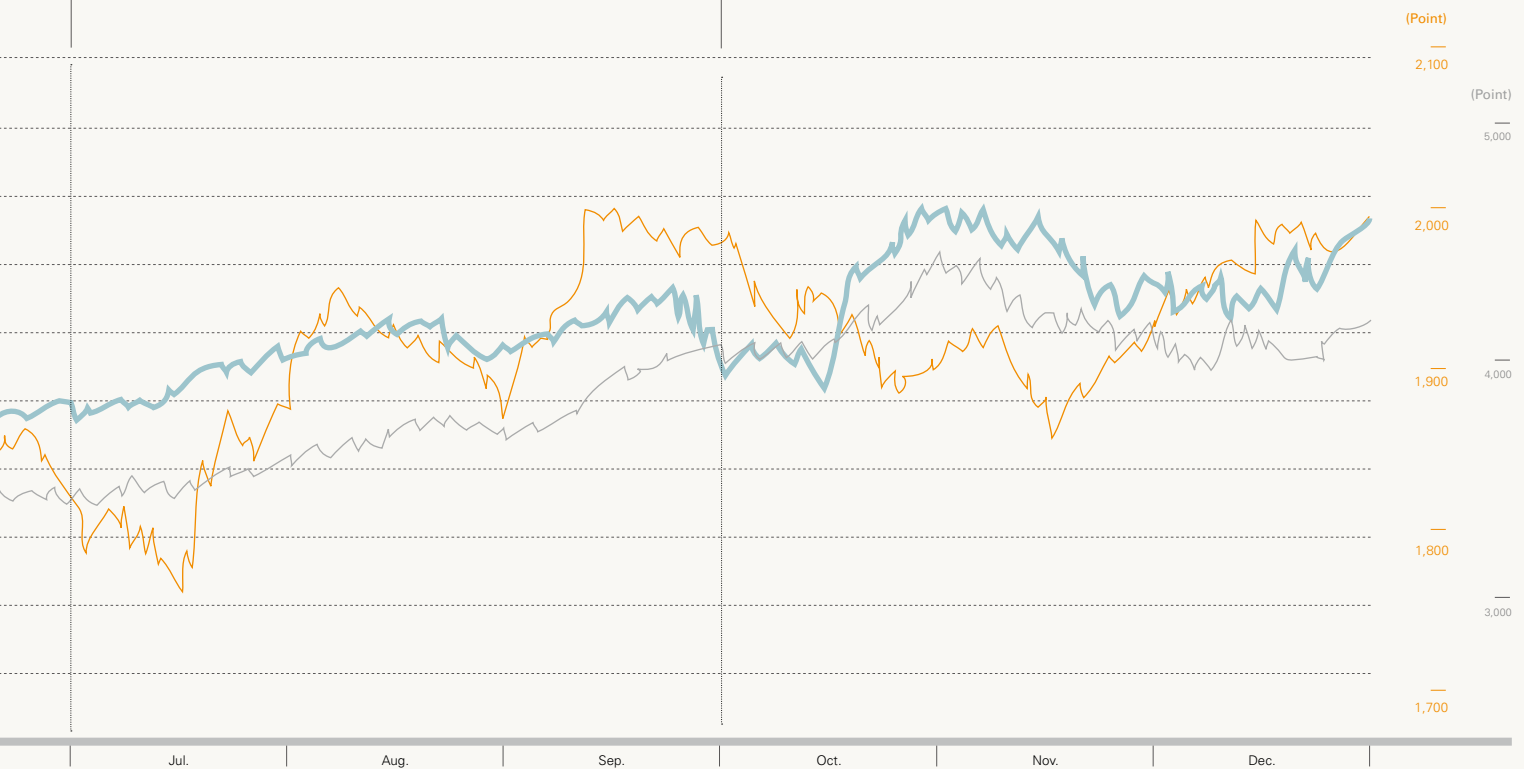
(Unit: %)	2012	2011	YoY (%)
Operating profit margin	9.5	10.7	(1.2)
Net profit margin	7.3	6.7	0.6
ROE	16.3	8.2	8.1

Q3

The operating profit margin rose substantially by 4.0%p from the previous quarter, recovering back to a double-digit. This can be attributed to a reduction in the import unit price of raw materials, an outcome of negotiations with raw material developers.

Q4

Operating income rose by 95.4% compared to the same period in the previous year, recording KRW 27.4 billion. Profitability was recovered thanks to efforts to curtail the rate of cost of goods sold and the efficient allocation of SG&A.



Summarized Separate Statements of Income

(Unit: KRW billion)	2012	2011	YoY (%)
Sales	931.0	907.3	2.6
Cost of goods sold	445.9	403.3	10.6
Gross profit	485.1	504.0	(3.8)
SG&A expenses	396.6	405.2	(2.1)
Operating profit	88.5	97.4	(9.1)
Income before income tax	88.9	86.5	2.7
Income tax	21.1	25.8	(18.3)
Net profit	67.7	60.7	11.7

Key figures

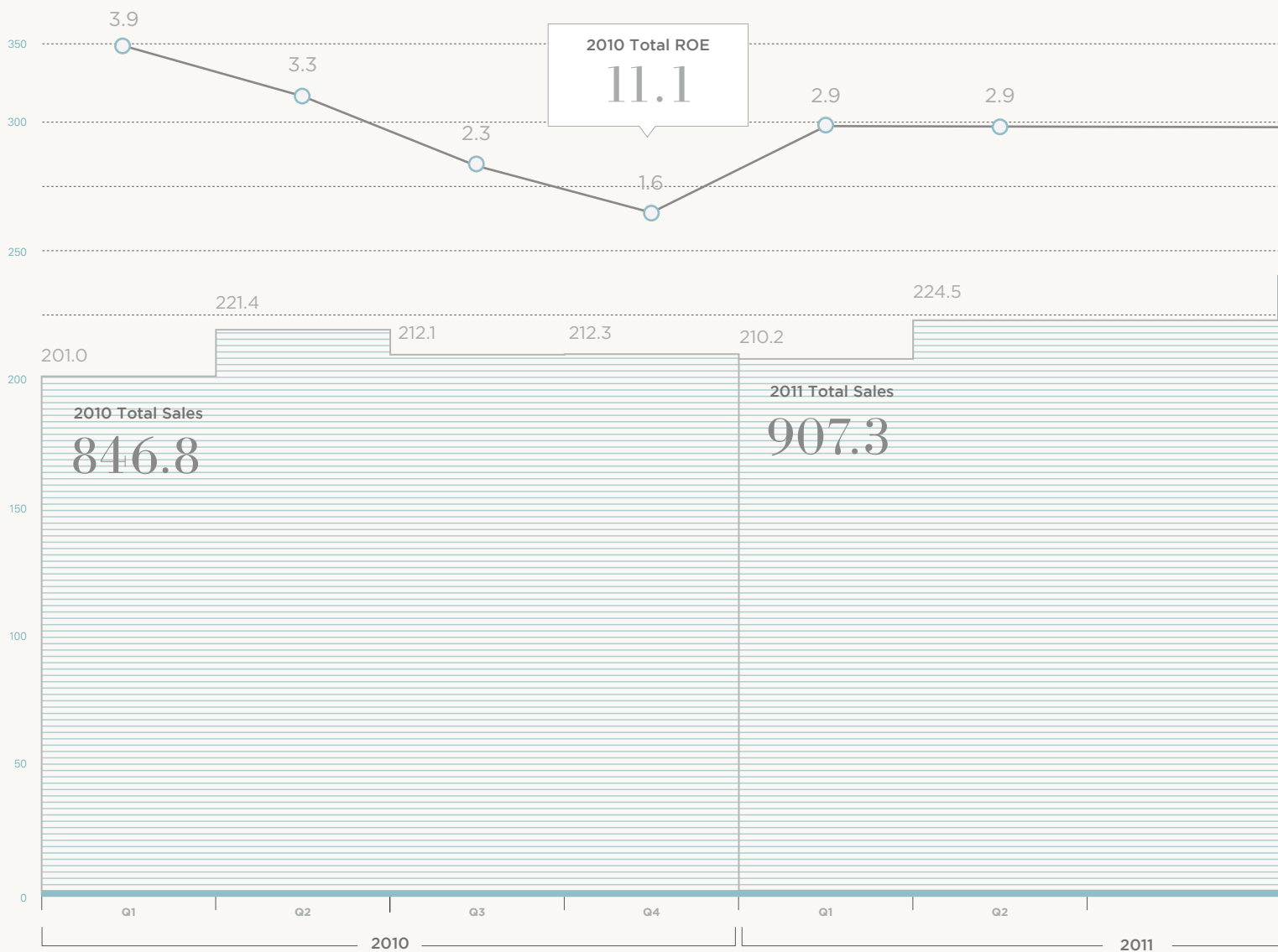
Growth Indicators



Sales (Unit: KRW billion)



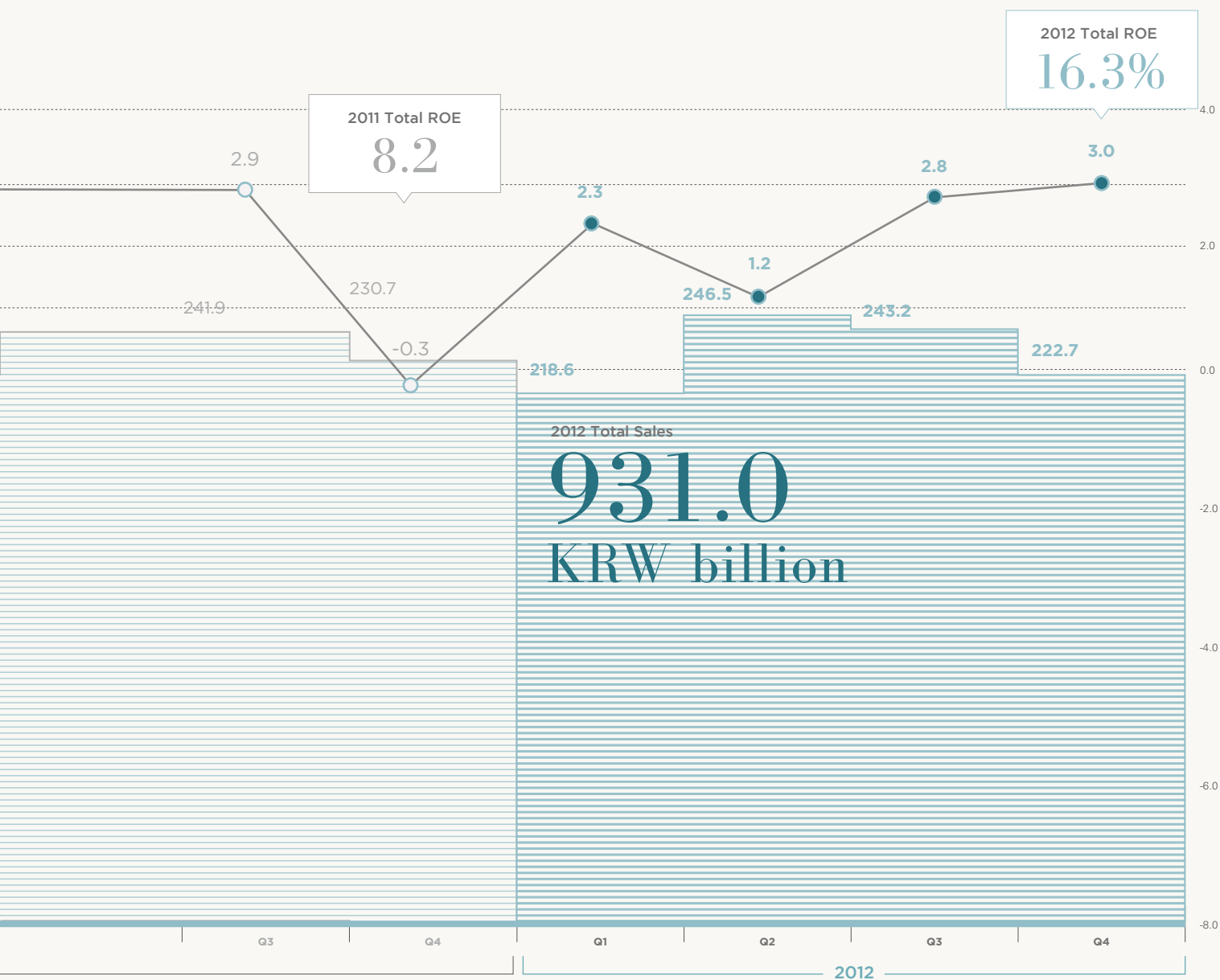
ROE (Unit: %)



Sales Performance of Key Products

(Unit: KRW billion)

	Stillen® Tab.	Zydena® Tab.	Bacchus®	Motilitone® Tab.
2010	87.7	20.0	128.3	
2011	88.1	20.3	150.1	0.5
2012	80.8	15.5	170.9	14.5



	Opalmon® Tab.	Plavitor® Tab.	Growtropin® Inj.	Talion® Tab.
2010	44.3	43.6	17.2	19.6
2011	37.0	44.2	21.1	20.0
2012	22.6	28.4	21.9	22.1



Research & Development	32
R&D Spotlights	35
R&D Pipeline	36
Key Products	38
New Products	47

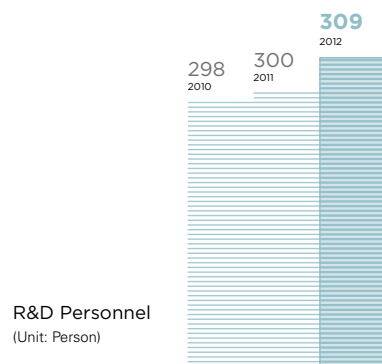


CH₃ALLENGE

Nothing is more constant than challenges, and to win them, continuous innovation is a must, which is why we continually increase the value of our products while investing in R&D. These decisive actions have enabled us to be the first choice of people, paving the way for us to grow into a respected global pharmaceutical company.

Research & development

By making steady, bold investments in R&D, we will lead the company's continued growth and contribute to improvements in quality of life.



R&D as Our Core Strength

Dong-A is developing into a pharmaceutical company specializing in innovative new drugs, with global competitiveness through continued R&D investment and the effective leveraging of its R&D system. In particular, we focus on bolstering our global R&D competencies. To this end, we are actively employing and fostering outstanding experts that are vital for R&D. The number of R&D personnel at Dong-A has steadily risen, with plans drawn up to increase the number of R&D experts to 400 by 2017.

Despite difficult business environment in 2012, steady investments were made in R&D. In total, investments totaling KRW 83.4 billion, equivalent to 9.0% of sales, were made in R&D. We are moving forward with the development of innovative drugs by building a network with world-renowned pharmaceutical companies and research institutes. Through bold investments, we are building an R&D infrastructure that satisfies international standards.



Reorganization of the R&D Center

Dong-A's Research Center is spurring our growth into a global R&D-centered pharmaceutical company. Since its foundation in 1977, the center has focused on developing innovative pharmaceuticals based on continued investments and accumulated technologies. Thanks to these efforts, we released Stillen®, our first in-house developed drug in 2002, Zyderna®, the fourth oral ED (Erectile Dysfunction) treatment in the world, in 2005, and Motilitone®, a functional dyspepsia treatment in 2011, leading drug development in Korea's pharmaceutical industry. Moreover, clinical trials of Zyderna® for ED and DA-7218 (Tedizolid) for ABSSSI (Acute Bacterial Skin and Skin Structure Infections) were successfully completed by partners in the U.S. and other overseas markets, reflecting the development of global new drugs are on the horizon.

With Dong-A's shift into a holding company structure in March 2013, the previous R&D Center structure will be divided between the holding company and the operating company sectors to ensure more efficient, systematic research and development. Accordingly, Dong-A Socio Holdings will concentrate on developing new first-class drugs based on the motto, 'The First', at the holding company level. Dong-A ST will focus on developing the best-in-its-class pharmaceuticals with the goal of becoming 'The Best' at the operating company level. According to this change, the Drug Discovery Research Laboratories will be divided into the Innovative Drug Discovery Research Laboratories under the Research Center of Dong-A Socio Holdings, and the Drug Discovery Research Laboratories under the Research Center of Dong-A ST. The Bio-pharmaceutical Research Laboratories

and Research Planning Management Department will be placed under Dong-A Socio Holdings' Research Center, while the Pharmaceutical Product Research Laboratories will be located under Dong-A ST's Research Center.

2012 PERFORMANCE

Continued Growth of In-house Developed Drugs

In December 2011, we launched Motilitone®, the third new drug developed by Dong-A. In 2012, we fully started our marketing activities, and the drug was successfully launched, recording sales of KRW 14.5 billion. Stillen® and Zydena®, our first and second in-house developed drugs, posted sales of KRW 6.1 billion in 2003 and 10.0 billion in 2006, the respective years following their launch in the market. In comparison, Motilitone® has recorded substantial sales.

Stillen® posted sales of KRW 80.8 billion in 2012. Since its release, its sales have been showing a strong growth trend, proving the product is in its heyday. Zydena® recorded total sales of KRW 15.5 billion, including KRW 3.1 billion in sales of its daily formulation. Our in-house developed drugs are accomplishing a good performance in the market, showing once again that Dong-A has the market-recognized competencies needed to develop new drugs.

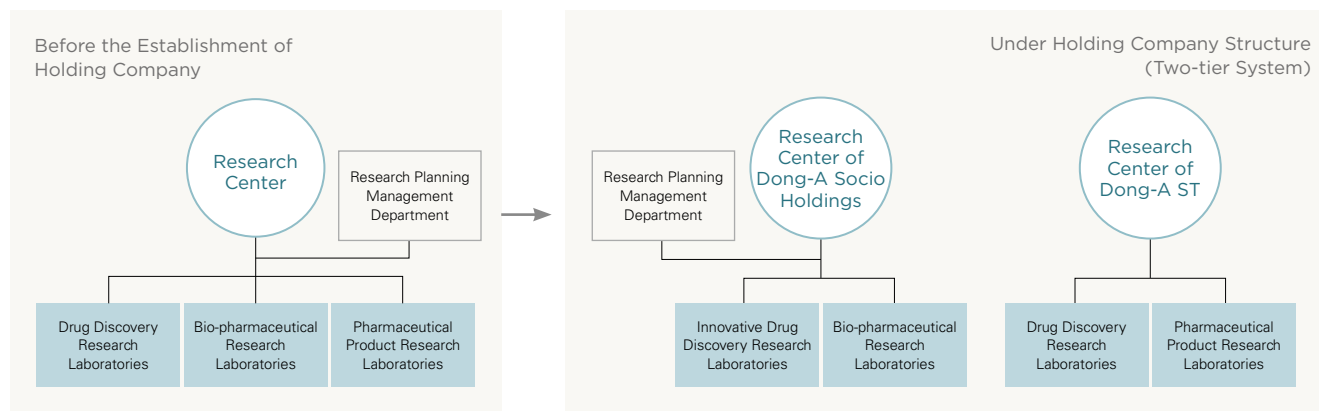
Collaborating for Future Growth

To grow into a global R&D company, Dong-A is building a strong R&D network with pharmaceutical companies, ventures, and universities in Korea and abroad. As for the licensing-out which is an important aspect of this network, in 2007 we licensed out DA-7218 (Tedizolid) to US-based

Trius Therapeutics after completing preclinical studies in Korea. It is expected that Trius will submit an NDA (New Drug Application) to the US FDA in 2013. Also, in 2012, DA-1229 (Evogliptin) was licensed-out to a Chinese and an Indian company, respectively. In addition, technologies for Monotaxel®, an IMD (Incrementally Modified Drug) for cancer, were exported to a pharmaceutical company in China. In addition to strengthening our cooperative R&D relations all across the globe, we are diversifying our cooperative R&D relations in Korea for the development of innovative new drugs. For example, we signed an MOU (Memorandum of Understanding) with Macrogen, an outstanding venture company, to identify anticancer targets in 2012.

To bolster competitiveness in the area of biosimilars, a future growth driver, Dong-A signed a contract on the joint development of two biosimilar products, including the breast cancer treatment Herceptin®, in 2011 with Japan's Meiji Seika Pharma. The development of biosimilars requires a heavy commitment in terms of investment, time for research and development, and a complex manufacturing process. Dong-A and Meiji Seika Pharma, R&D leaders in their respective nations, agreed to collaborate on the entire development process for biosimilars - from R&D and manufacture to commercialization and sale of the products. To this end, Dong-A's Bio-pharmaceutical Research Laboratories will use its accumulated biotechnologies and experience in developing protein drugs including human growth hormones to develop highly marketable antibody biosimilars and new antibodies. The successful development of a new product in this area will lead to exclusive distribution licenses for the two companies in their respective nations, with both companies cooperating in overseas markets.

Research Center Organization





Development is progressing smoothly in line with approval regulations in advanced countries, with the goal of accomplishing joint market release in Korea and Japan in 2017. The two companies entered an agreement in 2012 for an additional joint development follow-up project. This joint development is expected to result in easier advancements into the global market, including Japan, of antibody biosimilars. To accomplish this goal, in 2012 we began the construction of an antibody biosimilars cGMP plant. The plant is being built in Songdo, the free economic zone area in Incheon, and is slated for completion in 2013. The two companies will share expenses and infrastructure for the creation of the plant.

In the area of new chemical entities and phytomedicine, we have adopted a strategy to engage in global pharmaceutical development in line with each region's pharmaceutical characteristics. After identifying best-in-class candidate substances, with a focus on digestive, urinary, metabolic, and endocrine disorders, we are engaging in domestic development as well as overseas development in the US, China, India, and Japan. Accordingly, we have applied for a clinical trial for Motilitone®, our new phytomedicine, in China. License-out agreements of new chemical entities, such as DA-1229 (Evogliptin) and Zyderna®, have been made for India and China, and for the U.S. and Japan, respectively, indicating that the global development is underway in the respective regions.

Developing Blockbuster Products

Dong-A actively develops IMDs (Incrementally Modified Drugs) in consideration of a short-term rise in sales and long-term technology development. Monotaxel®, an IMD for cancer, was licensed out to China in 2012, and we also completed an application for approval so that we can register the drug in Europe. We completed a pre-clinical study and formulation research for two fixed combination medicinal products that have improved intake convenience and efficacy for such chronic disease as arthritis and hyperlipidemia, and an IND (Investigational New Drug) application was made.

In the area of OTCs, we conducted clinical research in the further development of existing brands, including Garglin®, Morning Care®, and Benachio®, and strengthened our product portfolio. We commenced new OTC research programs to develop new markets, including drugs for male infertility. R&D efforts were made for individually approved health functional food products based on distinctive new ingredients.

Achieving Global Standard

Closerin®, Dong-A's treatment for tuberculosis, received PQ (Pre-Qualification) as an outstanding pharmaceutical product from the WHO (World Health Organization). This PQ is given after evaluating a pharmaceutical's quality, safety, efficacy, and other factors based on strict standards set forth by WHO. A certified pharmaceutical manufacturer is qualified to take part in the tenders to become a WHO supplier. We became the first in Korea to receive WHO PQ for an oral tuberculosis treatment, allowing us to take part in WHO's tuberculosis eradication campaigns. This has laid the foundation for Closerin's advancement to become a global brand, and considerable improvements in sales and income are expected.

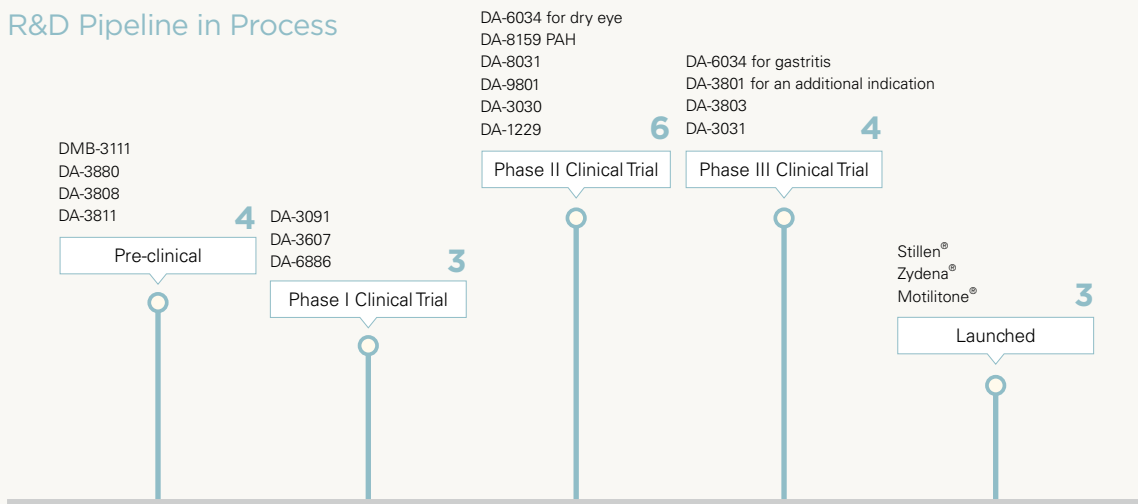
WHO currently purchases KRW 60 billion worth of second-generation tuberculosis drugs per year, of which finished pharmaceutical products using cycloserin for API, amount to more than KRW 20 billion. We plan to take up a share of at least 30% in 2013, to reach sales of more than KRW 6 billion. By developing distinctive product competitiveness, we aim to account for more than 60% of the market and record sales of more than KRW 10 billion in a phased manner.

FUTURE PLAN

The business environment will not be smooth for the pharmaceutical industry in 2013 due to the aftermath of the April's blanket drug price reduction policy that was implemented in 2012, strengthened illegal rebate management, fierce competition, and the prolonged economic downturn. Nevertheless, Dong-A will expedite global new drug development by investing more than KRW 100 billion in R&D. This indicates an increase of more than 19% from 2012. Our plan is to actively move forward with the development of new drugs with great global potential.

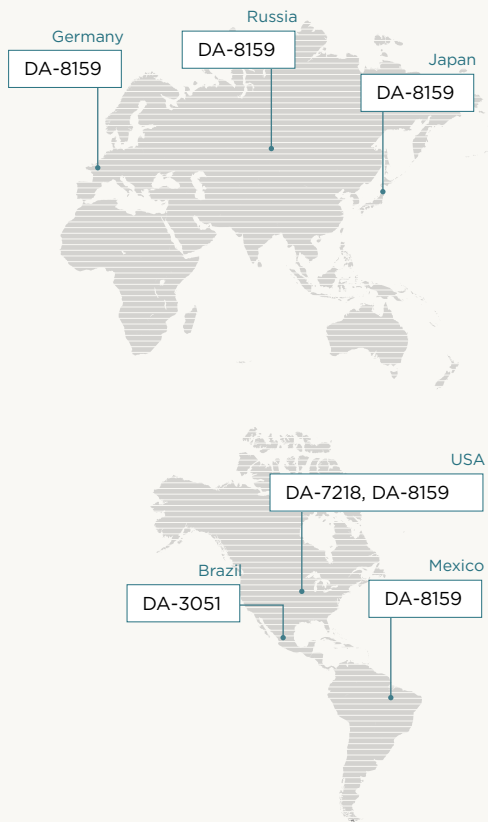
We will develop future competitiveness by expanding our R&D investments in 2013 despite the difficulties and considerable changes expected at home and abroad. By doing so, we will develop globally competitive new drugs, laying the foundation for creation of new future value.

R&D Pipeline in Process



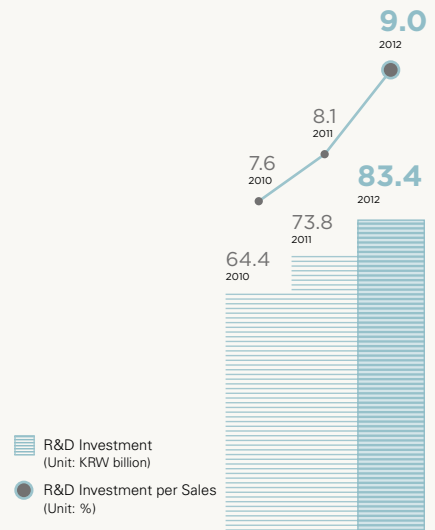
R&D Partnership on Global Scale

By continually reaching further, Dong-A has created world-class R&D program and global infrastructure to realize our vision of becoming a “global company renowned for its innovative pharmaceutical products”.



Investing in the Future

Dong-A Pharmaceutical invests in the future by actively engaging in wide range of R&D projects, and through increasing the number of researchers and R&D expenditure. In 2012, we spent 13% more in R&D than the previous year.





Development is progressing smoothly in line with approval regulations in advanced countries, with the goal of accomplishing joint market release in Korea and Japan in 2017. The two companies entered an agreement in 2012 for an additional joint development follow-up project. This joint development is expected to result in easier advancements into the global market, including Japan, of antibody biosimilars. To accomplish this goal, in 2012 we began the construction of an antibody biosimilars cGMP plant. The plant is being built in Songdo, the free economic zone area in Incheon, and is slated for completion in 2013. The two companies will share expenses and infrastructure for the creation of the plant.

In the area of new chemical entities and phytomedicine, we have adopted a strategy to engage in global pharmaceutical development in line with each region's pharmaceutical characteristics. After identifying best-in-class candidate substances, with a focus on digestive, urinary, metabolic, and endocrine disorders, we are engaging in domestic development as well as overseas development in the US, China, India, and Japan. Accordingly, we have applied for a clinical trial for Motilitone®, our new phytomedicine, in China. License-out agreements of new chemical entities, such as DA-1229 (Evogliptin) and Zyderna®, have been made for India and China, and for the U.S. and Japan, respectively, indicating that the global development is underway in the respective regions.

Developing Blockbuster Products

Dong-A actively develops IMDs (Incrementally Modified Drugs) in consideration of a short-term rise in sales and long-term technology development. Monotaxel®, an IMD for cancer, was licensed out to China in 2012, and we also completed an application for approval so that we can register the drug in Europe. We completed a pre-clinical study and formulation research for two fixed combination medicinal products that have improved intake convenience and efficacy for such chronic disease as arthritis and hyperlipidemia, and an IND (Investigational New Drug) application was made.

In the area of OTCs, we conducted clinical research in the further development of existing brands, including Garglin®, Morning Care®, and Benachio®, and strengthened our product portfolio. We commenced new OTC research programs to develop new markets, including drugs for male infertility. R&D efforts were made for individually approved health functional food products based on distinctive new ingredients.

Achieving Global Standard

Closerin®, Dong-A's treatment for tuberculosis, received PQ (Pre-Qualification) as an outstanding pharmaceutical product from the WHO (World Health Organization). This PQ is given after evaluating a pharmaceutical's quality, safety, efficacy, and other factors based on strict standards set forth by WHO. A certified pharmaceutical manufacturer is qualified to take part in the tenders to become a WHO supplier. We became the first in Korea to receive WHO PQ for an oral tuberculosis treatment, allowing us to take part in WHO's tuberculosis eradication campaigns. This has laid the foundation for Closerin®'s advancement to become a global brand, and considerable improvements in sales and income are expected.

WHO currently purchases KRW 60 billion worth of second-generation tuberculosis drugs per year, of which finished pharmaceutical products using cycloserin for API, amount to more than KRW 20 billion. We plan to take up a share of at least 30% in 2013, to reach sales of more than KRW 6 billion. By developing distinctive product competitiveness, we aim to account for more than 60% of the market and record sales of more than KRW 10 billion in a phased manner.

FUTURE PLAN

The business environment will not be smooth for the pharmaceutical industry in 2013 due to the aftermath of the April's blanket drug price reduction policy that was implemented in 2012, strengthened illegal rebate management, fierce competition, and the prolonged economic downturn. Nevertheless, Dong-A will expedite global new drug development by investing more than KRW 100 billion in R&D. This indicates an increase of more than 19% from 2012. Our plan is to actively move forward with the development of new drugs with great global potential.

We will develop future competitiveness by expanding our R&D investments in 2013 despite the difficulties and considerable changes expected at home and abroad. By doing so, we will develop globally competitive new drugs, laying the foundation for creation of new future value.

To become a global pharmaceutical company, Dong-A has enhanced its spirit of innovation as reflected in its R&D pipeline. With our broad range of potential new drugs, we work to benefit more people throughout the world.

Key Pipeline Items

[DA-8159; Udenafil; Zydena®]

DA-8159 is an oral erectile dysfunction medication. It is the first such drug developed in Korea and the fourth globally. DA-8159 was licensed out to Warner Chilcott of the U.S. in 2009 and the company successfully completed phase III trials in the U.S. An NDA (New Drug Application) submission to the US FDA (Food and Drug Administration) is expected in 2013. Udenafil has also shown potentials for non-ED indications such as BPH (Benign Prostatic Hyperplasia), PH (Portal Hypertension), and PAH (Pulmonary Arterial Hypertension). With regard to BPH, a license agreement was signed with Warner Chilcott for the territory of North America. For its urologic indications, Dong-A made an exclusive license agreement with Meiji Seika for the Japanese market in 2011, and the company started a phase II clinical trial in Japan in September of 2012. For the indication of PH, a license-out agreement was made with Dr Falk Pharma, and a phase II trial is being conducted in European countries, including Germany. With regard to PAH, Dong-A is conducting a phase II trial in Korea.

[DA-7218; Tedizolid]

DA-7218 is a treatment for ABSSSI (Acute Bacterial Skin and Skin Structure Infections) caused by gram-positive bacteria including MRSA (Methicillin-Resistant Staphylococcus Aureus). It is a second-generation oxazolidinone antibiotic that is administered orally or through intravenous injection. Dong-A made a license agreement in 2007 with US-based Trius for the territory of worldwide, except Korea. Trius conducted phase I, II, and III trials for the ABSSSI indication. Results showed that, despite a shorter administration period, DA-7218 had comparable results with a leading comparator drug currently available in the market. It is administered once daily, thus ensuring more convenient administration and higher patient compliance. It also showed a favorable safety profile compared to the leading comparator. Trius plans to submit an NDA to the US FDA in 2013, and to conduct a phase III trial for its additional indication of HAP (Hospital Acquired Pneumonia)/VAP (Ventilator Associated Pneumonia).

[DA-1229; Evogliptin]

DA-1229 is an anti-diabetic compound of the DPP-4 (Dipeptidyl Peptidase-4) inhibitor class. Results of a PK-PD (Pharmacokinetics-Pharmacodynamics) analysis in preclinical animal models indicate that the EC80 (Effective Concentration 80), a clinically effective concentration at which 80% of DPP-4 is inhibited, is 3 to 36 times lower than the leading comparator of the same class. The phase I trial for DA-1229 showed that a single administration of 5mg inhibited DPP-4 inhibitory by more than 80%, and a repeated once-daily dose of 5mg maintained for more than 24 hours. As PK studies in animal models and healthy human volunteers showed low renal elimination, DA-1229 is expected not to require dose titrations in renal-impaired patients. DA-1229 has also shown potential to prevent and improve fatty liver and dyslipidemia in a high-fat animal models. In 2012, DA-1229 was licensed out to China's Luye Pharma Group and India's Alkem Laboratories. We recently completed a phase II trial in Korea, and plan to conduct phase III trials in the first half of 2013.

[DA-6034: Dry Eye]

DA-6034 is a NCE (New Chemical Entity) that Dong-A is developing for treatment of the dry eye syndrome. It is a derivative of eupatilin, the main ingredient of Stillen®. Chronic dry eye syndrome is a condition characterized by patients' inability to produce appropriate amount and quality of tears to keep the eye healthy and comfortable. The absence of efficient prescriptional 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 II is on-going as of the end of 2012.

[DA-3031]

DA-3031 is a sustained-release product of Leucostim®, which stimulates the level of white blood cells for those suffering from anticancer induced neutropenia. Dong-A launched Leucostim® in 1999. To avoid the inconvenience of daily injection during each chemotherapy cycle, Dong-A is developing a long-acting PEG-G-CSF (DA-3031) that can be administered only one time per cycle. In animal studies, DA-3031 showed comparable efficacy and safety to its competitor on the market. Phase I and II trials were successfully completed. The global G-CSF market is worth more than KRW 6 trillion. The leading comparator drug posted sales of more than KRW 4 trillion in 2011. Dong-A is aiming to launch DA-3031 in Korea in 2014.

Code Name (Brand Name)	Indication	Description	Latest Phase	Licensing Availability
New Chemical Entity				
DA-8159 (Zydena®)	ED (Erectile Dysfunction)	PDE(Phosphodiesterase)-5 inhibitor	Launched (Korea) Ph III completed (USA)	Available for some territories
DA-8159	PH (Portal Hypertension)	PDE(Phosphodiesterase)-5 inhibitor	Ph II (Europe)	Available for some territories
	BPH (Benign Prostatic Hyperplasia)	PDE(Phosphodiesterase)-5 inhibitor	Ph II (Japan)	Available for some territories
	PAH (Pulmonary Arterial Hypertension)	PDE(Phosphodiesterase)-5 inhibitor	Ph II (Korea)	Available for some territories
DA-7218	Infection: ABSSSI (Acute Bacterial Skin and Skin Structure Infections)	Oxazolidinone class antibiotic	Ph III completed (Global)	
	Pneumonia: HAP/VAP (Hospital Acquired Pneumonia/Ventilator Associated Pneumonia)	Oxazolidinone class antibiotic	Ph III planned (Global)	
DA-6034	Gastritis	Flavone derivative	Ph III (Korea)	Available
	Dry eye		Ph II (Korea)	Available
DA-1229	Type 2 diabetes	DPP(Dipeptidyl Peptidase)-4 inhibitor	Ph II completed (Korea)	Available for some territories
DA-8031	Premature ejaculation	SERT(Serotonin Transporter) inhibitor	Ph II (Korea)	Available
DA-6886	IBS-C (Irritable Bowel Syndrome-Constipation)	5-HT(Hydroxytryptamine)4 agonist	Ph I (Korea)	Available
Phytomedicine				
DA-9701 (Motilitone®)	Functional dyspepsia	Herbal extract	Launched (Korea)	Available
DA-9801	Diabetic neuropathy	Herbal extract	Ph II (Korea)	Available
Biopharmaceutical Products				
DA-3801 (Gonadopin®)	Infertility	Recombinant FSH (Follicle Stimulating Hormone)	Launched (Korea) (Controlled Ovarian Hyperstimulation in Assisted Reproductive Technology) Ph III completed (Korea) (Ovulation induction)	Available for some territories
DA-3803	Infertility	Recombinant hCG (human Chorionic Gonadotropin)	Ph III (Korea)	Available
DA-3031	Neutropenia	PEGylated-G-CSF (Granulocyte-Colony-Stimulating Factor)	Ph III (Korea)	Available
DA-3051	Multiple sclerosis	Interferon-β	Ph III planned (Brazil)	Available
DA-3030	Diabetic neuropathy	G-CSF (Granulocyte-Colony-Stimulating Factor)	Ph II (Korea)	Available
DA-3091	Type 2 diabetes	Long-acting exenatide	Ph I (Korea)	Available
DA-3607	Brain tumor	TRAIL (TNF Related Apoptosis Inducing Ligand)	Ph I (Korea)	Available
DMB-3111	Breast cancer	Trastuzumab biosimilar	Pre-clinical (Korea)	
DA-3808	Hemophilia A	Recombinant Factor VIII biosimilar	Pre-clinical (Korea)	Available
DA-3811	Gaucher disease	Analogue of β-glucocerebrosidase	Pre-clinical (Korea)	Available
DA-3880	Anemia of chronic renal failure	Glyco-engineered Darbepoetin α biosimilar	Pre-clinical (Korea)	Available

Key products

Stillen® Tab.

GASTRITIS

Stillen® is a gastritis medicine whose main ingredients are eupatilin and jaceosidin, which are extracted from the herb artemisia. Developed in 2002, it was Dong-A's first in-house drug. Its outstanding effects and safety have been proven during the decade since its release. It has steadily maintained a leading position in sales in the Korean defense factor promoter market since 2005. Its annual sales have reached in excess of KRW 80 billion since 2009. Sales of KRW 80.8 billion were posted in 2012, accounting for approximately 40% of the domestic defense factor promoter market. Dong-A will continue to carry out follow-up research and engage in distinctive marketing efforts for Stillen®, thereby strengthening Stillen®'s leadership position in the market while faithfully performing our role and promoting the development of new drugs in Korea.



“ After starting treatment with Stillen®, the quality of my everyday life has really improved. To my great surprise, I do not experience gastric pain any more. ”

Gastritis Sufferer

Opalmon® Tab.

LUMBAR SPINAL STENOSIS

Opalmon® is an oral derivative of prostaglandin E1. It is a treatment that improves walking ability and subjective symptoms resulted from LSS (Lumbar Spinal Stenosis) by improving the blood flow of caudaequina. Its first indication was for Buerger's disease, a blood vessel illness, and an indication for LSS treatment was added in 2001. Since then, it has been prescribed for LSS sufferers and its sales growth has continued, maintaining the highest share of the market since its release. Opalmon® posted sales of KRW 22.6 billion in 2012. The market is expected to continue to expand in tandem with a rise in the elderly population. Against this backdrop, Opalmon® will lead the market as a representative product.



Orodipine® Tab.

HYPERTENSION

Released in 2006, Orodipine® is a generic drug, with the active ingredient amlodipine orotate. It is a calcium antagonist that lowers blood pressure by blocking the entry of calcium ions into the cell membranes of the vascular smooth muscle, thereby inhibiting vasoconstriction. Its dissolution rate is irrespective of pH fluctuations since lithium orotate is used. As such, it is particularly beneficial for elderly HBP (High Blood Pressure) sufferers with decreased gastrointestinal motility, as well as HBP sufferers who received subacidity, in acidity, or gastrointestinal tract excision. In the Korean amlodipine market, worth KRW 180 billion, Orodipine® posted sales of KRW 19.1 billion and an 11.1% market share in 2012. Orodipine® is expected to contribute to increased sales of Dong-A as it achieves continued growth amid an expansion of the HBP market, a result of Korea's aging population.



Lipinon® Tab.

DYSLIPIDEMIA

Lipinon® is a hyperlipidemia treatment with atorvastatin as its active ingredient. It is a generic version of Pfizer's Lipitor®, which records the highest sales in the world as a single product. Lipinon® posted sales of KRW 9.6 billion in 2008 when it was released. It then recorded sales of KRW 30.9 billion in 2009, fully establishing itself as one of our leading products. It offers fast and strong cholesterol-lowering properties, while reducing the side effects found in similar medication. It can be taken at any time, irrespective of food intake, resulting in maximized patient compliance and convenience. The atorvastatin medicine market, worth approximately KRW 330 billion in 2012, is forecast to grow to be worth more than KRW 350 billion in 2013. Our goal for Lipinon® is for it to record sales of KRW 37 billion in 2013.



Plavitor® Tab.

ATHEROSCLEROSIS

Plavitor® is a generic version of Plavix®, a drug developed by Sanofi-Aventis, whose main ingredient is clopidogrel. This antithrombotic selectively inhibits the combination between platelets' ADP-receptor and ADP, thus reducing arteriosclerosis symptoms in those suffering arteriosclerosis as the result of a stroke, myocardial infarction, and or peripheral arterial disease. Plavitor® is of higher quality than previous products: It offers rapid platelet agglutination inhibition and the convenience of only taking one tablet a day, ensures safety for those suffering renal dysfunction and elderly patients, and reduces such side effects as gastrointestinal tract bleeding. It is being prescribed in great numbers at general hospitals, semi-general hospitals, and clinics. It recorded annual sales of KRW 28.4 billion in 2012. Its sales target for 2013 is in excess of KRW 35 billion.



Glimel® Tab.

DIABETES

Glimel® is a generic version of Amaryl®, whose safety and efficacy have been proven through a number of clinical trials. It is an oral hypoglycemic agent of the sulfonylurea family, with glimepiride as its main ingredient. Glimepiride acts on the pancreas' langerhanslets-beta cells to promote insulin secretion, thereby lowering blood sugar levels. It improves insulin sensitivity in the peripheral tissues, increasing glucose use. Glimel® has substantially reduced risks of hypoglycemia, which is a general side-effect of rival products. Also, there is no weight increase. It uses an internal synthetic raw material and employs a patented manufacturing method to turn particles into minute particles, thereby improving the dissolution rate and bioavailability compared to other generic drugs. Outstanding results were gained from a bioequivalence test, proving equivalence with Amaryl®. It posted sales of KRW 9.6 billion in 2012, and took the top spot, based on IMS Health Data, among Korean generic products.



Growtropin® Inj

GROWTH HORMONE

Growtropin® is Korea's first human growth hormone that was developed by cutting-edge biotechnologies of Dong-A. It has used to help those with a short stature resulting from pituitary growth hormone deficiency. It has been released in diverse packaging units for patient convenience, such as 4IU, 12IU, and 16IU. Both patients and doctors have indicated a high level of satisfaction, particularly with the 30IU pen cartridge form that was released in 2008. Growtropin® posted sales of KRW 21.9 billion in 2012, making it a strong player in the Korean biopharmaceutical market.





Zydena® Tab.

ERECTILE DYSFUNCTION

Zydena® is an oral ED (Erectile Dysfunction) treatment, and it is the first such drug developed in Korea and the fourth globally. Released in 2005, it was the first new drug developed in Korea to exceed KRW 10 billion in sales in its first year of launch. It has made significant inroads into overseas markets, including Russia, Turkey, India, the Philippines, and Malaysia. Phase III clinical trials were completed in the U.S., laying the foundation for the medication's advancement into the U.S. market. As of the end of 2012, its accumulated sales reached KRW 100 billion, and accumulated sales volume exceeded 13 million tablets, leading the ED market.

“ Thanks to Zydena®, I regained my confidence and vitality. With support, treatment and care, we can all live our lives with dignity and happiness. ”

Erectile Dysfunction Sufferer





Motilitone®

FUNCTIONAL DYSPEPSIA

Launched in 2011, Motilitone® is the third new drug developed by Dong-A and the first original prokinetics medication in Korea. It improves all symptoms of functional dyspepsia through triple actions - D2 antagonist, 5-HT4 agonist, and 5-HT1 agonist. Results of a clinical trial have proven its safety in terms of the CNS side-effects and lactation that were shown with previous products. Only a year after its release, Motilitone® ranked second in its share of the Korean functional dyspepsia market, achieving sales of KRW 10 billion earlier than expected. It has made noticeable achievements, including its successful passing of a drug committee screening process at more than 90% of general hospitals in Korea. It posted sales of KRW 14.5 billion. Its sales target for 2013 is KRW 30 billion, with the goal of taking a leading share of the market.

“ To me, Motilitone® means a lot. It makes a true difference and enables me to focus on my life not on my dyspepsia. ”

Dyspepsia Sufferer



Gaster® Tab.

PEPTIC ULCER TREATMENT

Gaster® is an ulcer treatment that was released in 1985 after many years of research at Japan's Astellas. It is an outstanding product that received FDA approval. It was developed with the goal of achieving greater remedial effects and providing a safer treatment. It is prescribed in around 140 countries across the globe, including Korea and Japan. Its main ingredient is 20mg of famotidine. The histamine-2 receptor antagonist enables strong, continued gastric secretion inhibition even with a small volume. It is therefore effective for various peptic ulcers, upper digestive tract bleeding, reflux esophagitis, and gastritis. It has fewer side effects than other medications because its margin of safety (LD50/ED50) is so high. It recorded sales of KRW 11.4 billion in 2012, and is expected to post sales of KRW 15 billion in 2013.



Gabapentin® Cap. & Tab.

NEUROPATHIC PAIN

Gabapentin® is the drug of choice for treatment of neuropathic pain. It is effective as an adjuvant therapy for partial seizure of epileptics and for treatment of neuropathic pain. Gabapentin® has structural relevance with GABA (Gamma-aminobutyric Acid) which is a neurotransmitter. Its modus operandi is, however, different from other drugs that act on GABA-related synapse. As such, there is a low possibility of drug interaction. There is almost no binding with plasma proteins. Because it is not metabolized in the liver, it is used as the drug of choice for elderly sufferers who require combined drug administration. It posted sales of KRW 5.1 billion in 2012. It ranks No. 1, based on IMS Health Data, among Korean generic products.



Talion® Tab.

ALLERGIC RHINITIS / URTICARIA

Released in 2004, Talion® is a second-generation antihistamine whose main ingredient is bepotastine besilate. Its indications include allergic rhinitis, pruritus accompanying skin ailments, and chronic hives. Thanks to its fast acting effects, minimization of the side effect of drowsiness, and high H1 selectivity, it ranked No. 1 in prescriptions, according to IMS Health Data, in the Korean antihistamine market only three years after its release. Clinical studies have proven that its level of safety and efficacy, including its inhibition of IL-5 production and its high H1 selectivity, is distinctly different from other antihistamine medications. It can be prescribed concomitantly with other drugs as there are no side effects from drug interaction. Thanks to its rapid growth, Talion® recorded sales of KRW 22.1 billion in 2012, taking first place in the antihistamine market.



Panpyrin Q®

COLD MEDICINE

First launched in 1956, Panpyrin® has been Dong-A's flagship OTC product much loved by Korean consumers for its efficacy and efficiency in providing cold relief. In 2007, 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. Panpyrin Q® has consistently claimed a dominant 80% share of the market in terms of sales since its launch. In 2012, it posted sales of KRW 27 billion.



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. In 2011, its main component was exchanged to Korean-made rice soybean extract, and was increased by two-fold. This 'Goodbye Alcohol Morning Care®' renewal resulted in improved taste and effects. We are planning to release a Morning Care® health and functional drink in early 2013. Morning Care® is strengthening its reputation as Korea's leading hangover remedy. Its sales reached KRW 11 billion in 2012.



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 ginkgo leaf, mellisa leaf and garlic oil. These have all been widely used in Asia to safely treat cardiovascular ailments, especially in the elderly, as they are free of unpleasant side effects. Ever since its launch in 1994, Circulan® has been a popular tonic for improving blood circulation and treating age-related illnesses.



Bacchus®

TONIC

Bacchus® is an iconic brand in the domestic tonic industry. Since its launch in 1963, Bacchus® has propelled our growth to become Korea's leading pharmaceutical company, and has been a strong source of the company's revenue. It has also helped finance our active investments in R&D and the launch of new drugs. Building on its success in the domestic market, Bacchus® is now exported to more than 30 countries, where we are expanding our market share through localization strategies tailored to each market. In 2012, Bacchus® recorded KRW 171 billion in sales, and the growth momentum is expected to continue both in the domestic and global markets. As the company's solid cash cow, Bacchus® will lay a foundation for our growth into a global pharmaceutical company. As a market-leading brand, it will continue to enjoy the highest share of the market. We will further enhance our brand image by engaging in diverse marketing efforts, including advertisements and public campaign events that everybody can identify with.



“ It was precious experience for me to be a part of Tour Korea with Bacchus®. I realized the meaning of friendship, companionship and leadership. ”

Tour Korea with Bacchus® Participant

Garglin®

MOUThWASH

Garglin® is an innovative product that created a new market for antiseptic mouthwash products in Korea. Introduced in 1982, it underwent a renewal in 2012, repositioning itself as a total oral care brand. 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. The product for children is now available in two new flavors – bubble gum and strawberry – in addition to the previous apple flavor. Angry Birds, a popular character, was adopted as a mascot and has been well received. Also on offer are Garglin Fresh® spray and Garglin Coolkis®, which comes in tablet form. Its sales for 2012 stood at KRW 21 billion.



Bigen® Brand

HAIR COLOR PRODUCTS

The Bigen® brand is a product of Hoyu, Japan's largest company to specialize in hair dye products. It was first unveiled in Korea in powder form in 1957 by Dong-A, and underwent a renewal in 1984 to result in Bigen Cream Tone®, which is in a cream type. Released in the Korean market in 1991, Bigen Cream Tone® minimizes damage to hair while ensuring outstanding effects with its double treatment function, making it a highly popular product. In 2011, we additionally released the Bigen Cream Foam®, a foam product, as a measure to achieve distinctiveness from other hair dye products. In particular, theanine and taurine ingredients were added to minimize damage to the hair and to maintain the color for a long time. The Bigen® brand posted sales of KRW 17 billion in 2012, reinforcing its position as a leading brand in the Korean hair dye product market.



Tempo®

TAMPON

Tempo® is an absorbent material used during menstruation. It is the No. 1 brand in the Korean market. The plastic applicator, a tool that assists insertion, is round and slim, making the insertion process smooth and easy. A holder was added to the handle to prevent slipperiness. The flower-shaped absorbent, which is made of 100% pure cotton, remains in close contact with the body to prevent leakage of menstrual blood. It is sold in different sizes according to the absorption rate and packaging. It is recording steady growth, thanks to its outstanding quality and convenience. Tempo® posted sales of KRW 7 billion in 2012, a year-on-year rise of 6.5%.



New products

ETC New Products

Flivas® Tab.

BENIGN PROSTATIC HYPERPLASIA

Flivas® is a product of Japan's Asahi Kasei. Released in March 2012, it is a benign prostatic hyperplasia drug and is the world's very first ̢1D blocker. It has outstanding effects on storage dysfunction, where other medicines lack effects. As such, it is expected to enhance quality of life and relieve the pain of those suffering from micturition disorder and nycturia. In addition, Flivas® indicates a lower level of frequency in the side effect of ejaculatory disturbance, thus minimizing ill effects on patients' sex life. Dong-A's 2013 sales target for Flivas® is KRW 12 billion, and our plan is to make it a blockbuster product with sales reaching KRW 30 billion by 2016. By generating synergy with Zydene®, we will further bolster our competitiveness in the field of urology.



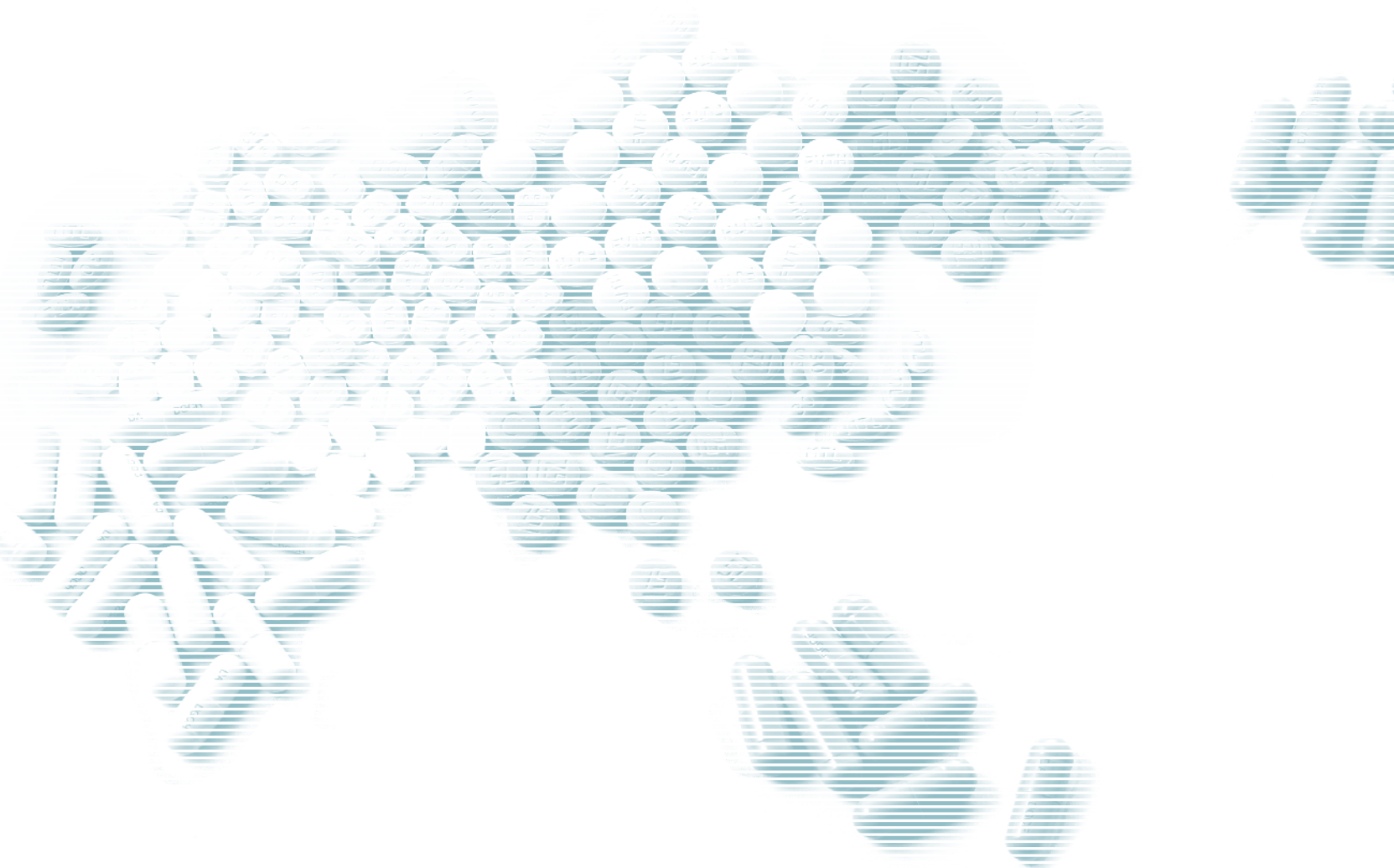
OTC New Products

Benachio®

FUNCTIONAL DYSPEPSIA

Benachio® is a functional indigestion medicine that has outstanding effects on early satiation, post meal satiety, and epigastric discomfort and burning. It also has excellent effects on stress-related chest pain, chest tightness, eructation of acid fluid, and vomiting. This phytomedicine for stomachache does not use provocative carbonic acid, thus reducing burden on the stomach after its intake. If it is taken for a week, substantial improvements in indigestion can be expected. After first being released in 2009, it has garnered a good response and continuing growth thanks to its outstanding efficacy and convenient administration. Its sales reached KRW 1.1 billion in 2012.

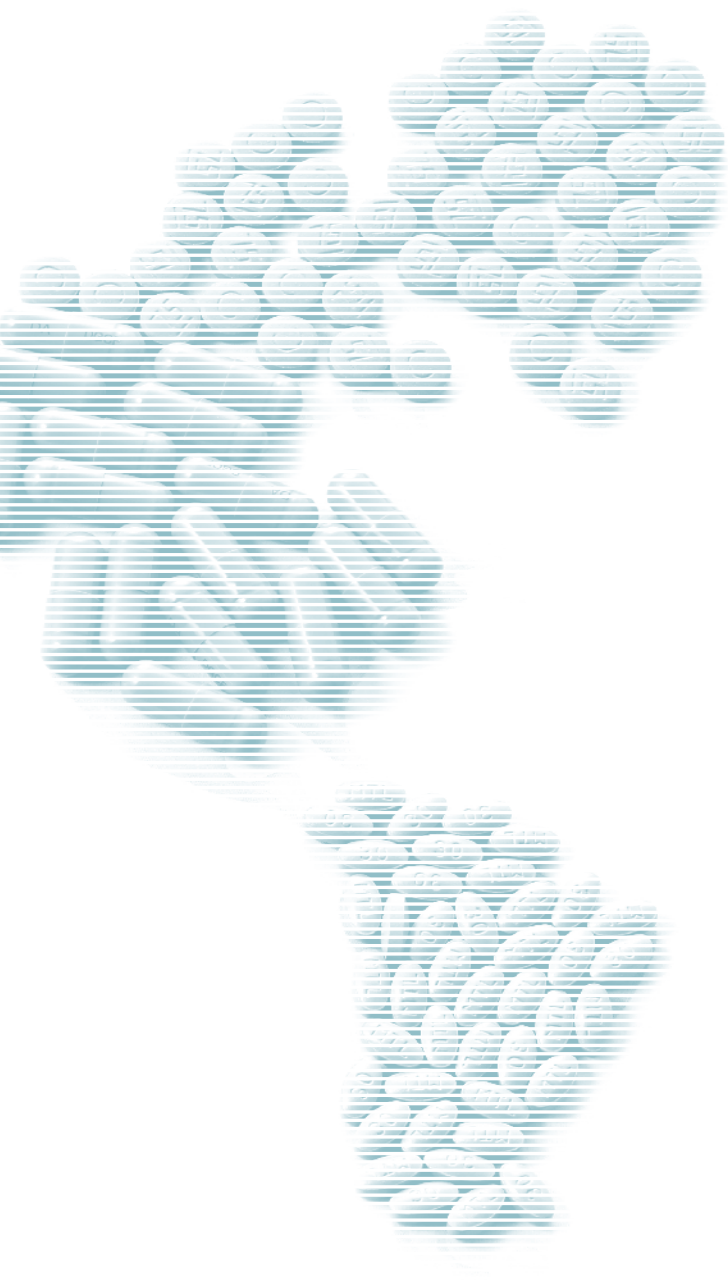




50
Distribution Network

52
Global Business

55
Strategic Alliances Spotlights



GROWTH₂

2012 was a year of challenges and changes. During this time of uncertainty, we laid strong foundations, enhanced our competitiveness, and recovered momentum for future growth. In particular, we made good strategic progress by focusing on markets where we will earn higher returns, and partnerships through which we will grow further.

Distribution network

By establishing advanced distribution channels, Dong-A will achieve sustained growth and contribute to improvements in people's quality of life.

Market Share of Key Products

Stillen®

38.0%

(No. 1 in defense factor promoter market)

Zydena®

14.5%

(No. 3 in erectile dysfunction treatment market)

Motilitone®

6.1%

(No. 2 in functional dyspepsia treatment market)

Opalmon®

23.4%

(No. 2 in lumbar spinal stenosis treatment market)

Talion®

17.1%

(No. 1 in antihistamines market)

Bacchus®

84.8%

(No. 1 in tonic market)

ETC Drugs

OTC Products

* On the basis of IMS Health Data

OVERVIEW

Dong-A's success was enabled by its top-notch distribution network, together with its innovative drugs. Throughout the entire process, ranging from sales planning to distribution, top experts use their accurate understanding of the domestic medical market to smoothly provide a wide array of drugs and medical devices through 12 branches and five offices. We are thus contributing to the promotion of public health and the enhancement of life quality.

2012 PERFORMANCE

Hospitals and Clinics Channels Solidified

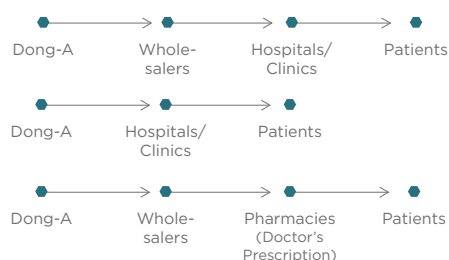
Dong-A is providing optimal medical information to approximately 1,000 hospitals and 10,000 clinics all across the nation. By doing so, we strive to have our products prescribed at the right moment and at the right place. Around 500 pharmaceutical sales representatives specializing in ETCs boast the highest level of productivity in the domestic pharmaceuticals sector, and are efficiently engaging in sales activities for approximately 90 ETC products.

We have quickly responded to market changes over the past several years to break away from relationship-centered marketing practices. We have instead adopted marketing practices based on clinical data. By doing so, we are developing distinctive marketing capabilities that are on par with those of global multinational pharmaceutical companies, going beyond competition with domestic companies. Based on strong distribution channels, Dong-A is steadily expanding its market share in the licensed-



Distribution Channels

ETC



OTC



Others



in original drug and generic drug markets, in addition to our in-house developed original drugs, developed original drugs such as Stillen®, Zydena®, and Motilitone®.

Dong-A provides hospitals with all the products and information that they need, ranging from drugs to medical devices, diagnostic equipment, and reagents. We provide artificial joints and implants for cosmetic maxillofacial surgery of Biomet in the US to orthopedic and plastic surgery hospitals and clinics. We import and supply a wide variety of medical devices for thoracic and cardiovascular surgery, cardiology, gastroenterology, and urology. For laboratory medicine, we supply various outstanding diagnosis products developed by Becton Dickinson, Thermo Fisher, and Dirui, thereby improving the quick and exact treatment for diagnosis.

Optimized Pharmacies and General Distribution Channels

Dong-A supplies OTC drugs, health functional foods, and quasi-drugs to pharmacies as well as through general distribution channels. Consisting of around 100 sales representatives, the OTC Division is supplying around 60 OTC drugs to approximately 20,000 pharmacies based on its outstanding organizational power and field management capabilities. Smooth relations were built with leading discount stores, convenience stores, and supermarkets in Korea to supply quasi-drugs and health functional foods to them. For OTC drugs that can only be

sold to pharmacies, we built specialized OTC branches in Seoul, Busan, Daegu, Gwangju, and Jeonju, with marketers dedicated to OTC, and are directly supplying OTC drugs to pharmacies all across the nation. In other regions, including Daejeon, Cheonan, and Wonju, we are directly supplying OTC drugs through our branches. Products are also supplied through 90 wholesalers, and we focus on inventory management and receivables turnover management for wholesalers.

Systematic Bacchus® Channels

The Bacchus Division directly supplies Bacchus® to around 20,000 pharmacies around the nation through the dedicated Bacchus® channel with around 140 salespersons and about 70 vehicles. We developed a route sales system, thereby establishing an infrastructure that allows timely supply of the product and thorough inventory control and cash flow management. Bacchus® is supplied to not only pharmacies but to convenience stores. Accordingly, we made a strict division into Bacchus®-D for the pharmacy channel and Bacchus®-F for general distribution channels. By operating such systematic channels, we will ensure Bacchus®, which is the company's cash cow, to continue to perform a pivotal role in Dong-A's development into a global pharmaceutical company.

FUTURE PLAN

To effectively supply a wide array of outstanding drugs and medical devices, Dong-A is expanding its distribution and sales channels for core products. Our sales representatives have developed greater expertise, and the efficiency of sales network has been increasing, so that a greater number of people are provided with higher quality medical services in a timely fashion. This is also expected to lead to cost reduction effects. Moving forward, we will build appropriate distribution channels overseas based on localization strategies, thereby strengthening Dong-A's stature as a global pharmaceutical company.



Global business

— Dong-A will increase its global footprint based on in-depth understanding of the local markets and world-leading expertise.



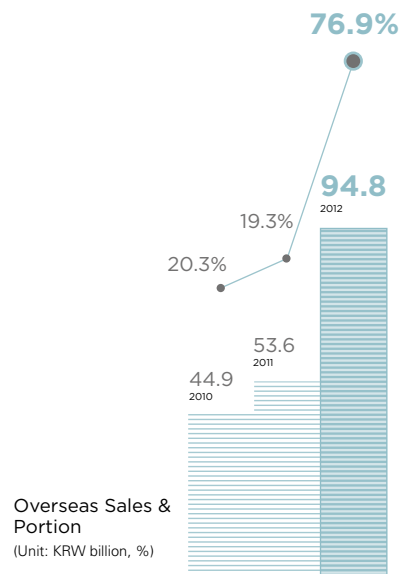
OVERVIEW

Determined to become a respected pharmaceutical company for its innovative products, Dong-A aggressively pursues sales in overseas markets. We export ETCs and APIs (Active Pharmaceutical Ingredients) to more than 40 countries in Europe, Latin America and Asia. Aiming to make our global business sales account for 40% of the company's total sales by 2020, we are strengthening our organizational competencies and efficiency as well as local marketing. We are also expanding our overseas offices and focusing on increasing the sales of key products. Among the products we export, our core strategic ETC products are Zydene® and Monotaxel®. Our API segment exports are cycloserine, terizidone, and atorvastatin. Products exported from the biologics segment are Growtropin®, Leucostim®, and Eporon®. In addition, we are also working on the overseas development of monoclonal antibody pharmaceuticals jointly with Meiji Seika Pharma.

2012 PERFORMANCE

Strengthening of Local Marketing

To more efficiently carry out our global business, we are implementing specialized localization strategies for different markets. As part of these efforts, we took part in 'Cphl World Wide 2012', a pharmaceutical exhibition where visitors can easily learn about development trends in the global pharmaceutical market in September 2012. We set up the largest independent booth among Korean pharmaceutical companies, and received good responses from both buyers and exhibition participants.



We are also striving to strengthen our global network. In line with this, we completed the establishment of Dong-A Participacoes an overseas subsidiary in Sao Paulo, Brazil in early 2013, followed by the full launch of our efforts to further advance into the Brazilian market. The subsidiary in Brazil is our third overseas subsidiary, following Dong-A America Corporation and Suzhou Dong-A Beverage in China. The Brazilian subsidiary is in charge of formulating local investment plans, developing new business areas, and handling the registration and approval of products for exports as well as marketing and sales. In the long term, it will serve as headquarters for the Latin American market.

The establishment of this subsidiary is expected to lead to an expansion in the company's export items and an increase in sales. We will be able to gather more useful information on the Latin American market, which is rapidly changing, to efficiently respond to market needs, thereby discovering new growth opportunities. With a population of around 190 million, Brazil is the world's seventh largest economy. The country's pharmaceutical market grows sharply every year, and exceeded KRW 26 trillion in 2012. It is expected to grow into the fourth or fifth largest pharmaceutical market by 2016, outrun only by the markets in the US, China, and Japan.



Global Success Story



Zydena®

In December 2012, Dong-A took part in the 15th ESSM (European Society for Sexual Medicine) conference held in Amsterdam, the Netherlands, where we publicized Zydena®. ESSM is a world-renowned organization dedicated to male and female sexual health and dysfunction. We set up a PR booth and used the occasion as an opportunity to give an explanation of our product in preparation for advancement into the European market. Local Zydena® marketing personnel in Turkey and Russia carried out brand PR activities, targeting urologists from different countries. We also held 'A Night of Zydena®' seminar for urologists. Through these activities, we publicized the value of our product, thereby enhancing its brand reputation and building a foundation to make inroads into the European market, as well as increasing our share of the markets in Turkey and Russia.

Zydena® is being sold in Russia under the same name, and it also began to be sold in Turkey in January 2012. Abdi Ibrahim Pharmaceuticals, a top ranking pharmaceutical company in Turkey, is in charge of marketing the product, and is aiming to achieve record sales of more than USD 20 million by 2015. Zydena® is emerging as a global new drug, continually transforming with the development of new indications in addition to erectile dysfunction. These include BPH (Benign Prostatic Hyperplasia), PAH (Pulmonary Arterial Hypertension), and PH (Portal Hypertension). At the end of 2011, we signed a license-out agreement on the urology indication, including BPH, with Meiji Seika Pharma.



Bacchus®

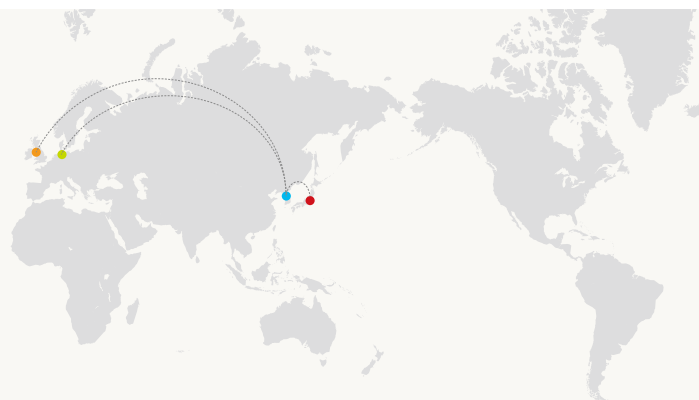
Bacchus® has sharply grown in the Cambodian market, becoming a leading energy drink in Cambodia. In 2010, we formulated a plan to have the Cambodian market serve as an advance base for the Southeast Asian market. We adopted a localization strategy that involves increasing product awareness by supporting various events and holding sampling events. After gaining a good understanding of local conditions, we created an outdoor advertisement campaign that delivered the message that the drink helps people who have just began their first job to fight fatigue. This advertisement created a sensation. Thanks to such bold marketing strategies, Bacchus® ranked No. 1 in terms of sales in June 2011. Substantial growth continued in 2012, recording KRW 17 billion in sales.

Based on the success in Cambodia, Dong-A plans to further advance into the global market, with the Southeast Asian market, including Myanmar and the Philippines, taking the lead. To this end, we are engaging in business negotiations with a local company in Myanmar, while using a local website to carry out PR activities for Bacchus® in the Philippines. Targeting the Americas, we released a Bacchus® product that contains carbonic acid, which is garnering a good response from consumers, especially the youth market.

FUTURE PLAN

In 2013, Dong-A will expedite its advancement into the global markets through active marketing and business expansion. To this end, we are working on signing export contracts and expanding export regions. We plan to build a global business network by expanding our branch network in key overseas markets and establishing strategic alliances with overseas companies. We will also actively foster global experts and develop competitive new drugs, thereby raising global sales. In the mid- to long-term future, Dong-A will increase the percentage of sales taken up by overseas exports from the current 10-20% to more than 40%, thus becoming a truly global company.





Driving growth through enhanced market competitiveness



In May 2010, Dong-A entered into a strategic partnership with GSK for the co-sales of various GSK ETC drugs, resulting in increased sales for Dong-A. In August 2011, Dong-A signed a contract with GSK Korea on joint sales in Korea of four OTC products – Polident® tab, Polident® Adhesive Cream, Sensodyne®, and Breathe Right®. GSK’s product capabilities and Dong-A’s sales competencies have come together to result in powerful synergy in the ETC and OTC markets, thereby contributing to increased sales.



The right way to carry out global collaboration

In August, 2011, Dong-A signed an agreement with Bayer Korea for the sale and distribution of OTC products, including Aspirin Protect® for primary prevention of cardiovascular diseases; Myvlar®, Minivlar®, Melian®, and Triquilar®, oral derivatives of contraceptive treatments; vitamins Berocca® and Redoxon®; and Bepanthol® lip cream. As the proprietor of the nation’s largest sales network, Dong-A expects the sales of Bayer’s advanced pharmaceutical products will create new synergy, enhancing our competitiveness in the OTC markets.



Working together for a new chapter of growth

In September, 2011, Dong-A signed a comprehensive strategic partnership agreement with Meiji Seika Pharma of Japan for the development of biosimilars. In addition, an additional joint development contract on a follow-up project was signed in 2012. Construction of a cutting-edge biosimilar plant was commenced in September 2012 in Incheon, Korea, and the plant is slated for completion in 2013. The cooperative agreement will enable both companies to reduce the risks inherent in undertaking the heavy commitment required for the project, while increasing synergy from the sharing of a global distribution network.





Green Management	58
Ethical Management	59
Shareholder Management	60
Human Resources Management	62
Social Responsibilities	64

H₂OPE

We define sustainability as responsible corporate behavior that leads to long-term business success. That is why we have focused on balancing business success with social and environmental concerns. Our people are leading the quest for sustainable answers to create positive change today for a better, greener, and happier future.

Green management

———— We pursue eco-friendly management to help shape a healthy future for the planet where humankind and nature coexist in harmony.

Under the Basic Law on Low Carbon and Green Growth, companies that emit greenhouse gases (GHG) above a certain level are required to participate in the Government's GHG management scheme. As Dong-A does not meet this criteria, the company has no obligation to adopt a specific emissions reduction goal, or report its emissions and related matters. Nevertheless, we carry out eco-friendly activities in both our work and personal lives. Dong-A is striving to fulfill its social responsibilities as an eco-friendly company based on a resolute environmental management philosophy backed by a systematic environmental management system. We have implemented eco-friendly management throughout the company's value chain, ranging from product development to production, sales, disposal, and recycling.

Energy Reduction Campaign

To prevent energy wastage and to enhance efficiency, Dong-A built a strategic monitoring system and actively partook in the Government's energy-saving campaigns. To this end, we maintained indoor temperature levels at 18°C in the winter and at 25°C in the summer. Indoor lighting was turned off during the lunch hour and a timer was installed for outdoor lamps. We began utilizing power-saving technology with drinking water and soft water pump inverters, minimizing unnecessary energy usage. We installed highly efficient boilers and operated chilled water storage systems in the summer. In addition, large-capacity compressors were replaced with small, energy efficient compressors, thereby boosting efficiency in energy use.



Water Quality Management

To improve water quality, Dong-A conducts initial physical and chemical treatment of the organic solvent wastewater generated during synthesis. This is followed by secondary biological treatment to ensure that wastewater is treated in accordance with legal standards before it is discharged. On a monthly basis, a request is made to a professional organization to measure and manage data on water quality. As such, we regularly conduct water quality inspections.

Waste Management

As part of our efforts to ensure eco-friendliness throughout all our processes, we systematically manage waste reduction, treatment, and recycling. Organic solvents generated during the manufacturing process are separately discharged. For waste treatment, we contract professional companies specializing in waste treatment.

Management of Harmful Chemicals

Dong-A strictly observes the legal and regulatory standards and registers all items containing harmful chemicals, which are handled in accordance with Article 24 of the Toxic Substance Management Act. After registering the items, we store them separately in toxic substance storage areas or outdoor tanks. We also systematically manage harmful chemicals by maintaining a harmful chemicals management book.

Ethical management

————— We are building a strong relationship of trust with all stakeholders through honest and transparent management.

Based on a corporate philosophy that emphasizes our social responsibilities, Dong-A encourages all employees to strictly observe corporate ethics while performing their duties as well as in their daily lives. We established a code of ethics and developed an ethical management system, setting in place the criteria for ethical management. Ongoing training programs and campaigns are held to reinforce the ethical management at the corporate level. Through such transparent management, Dong-A is upholding sound corporate values and growing into a company that meets the global standard.

Model Code of Ethics

Dong-A enacted a strict code of ethics as part of its strenuous efforts to build a healthy organizational culture. Our code of ethics was implemented to address the needs of our stakeholders, and was designed to serve as a guideline in our internal and external dealings. All employees at Dong-A actively abide by the code of ethics and implement corporate ethics, enabling us to gain trust from stakeholders and society.

Compliance Program

Demand is growing among stakeholders, including shareholders, investors, the market, and society, for companies to observe the law and fulfill their ethical responsibilities. Against this backdrop, Dong-A is focusing on the establishment of a compliance program, an essential aspect of sustainable management. After launching our in-house compliance program in 2008, we established the Compliance Team in 2009 and developed work standards

that are in line with relevant laws and global standards. We also provide training on proper sales methods, and engage in self-monitoring and fair competition. Our compliance system was implemented in 2010 for more systematic management. A dedicated homepage for compliance programs is managed for continued communication with employees to ensure the full establishment of ethical management.

Transparency in Novel Drug Development

Transparency is at the core of Dong-A's future growth. We have opened our novel drug development processes to public scrutiny. This is not only a demonstration of our commitment to fair management practices, but also reflects the lengths we will go to earn the trust of our investors. Taking pride in the largest drug development pipeline in the domestic pharmaceutical industry, we have allowed for greater public access for interested parties to follow our R&D processes. This also speaks to our confidence in our technologies and capabilities. With this approach, Dong-A's devotion and commitment to the protection of life and service to humankind has helped to improve our public image.



Shareholder management

_____ We will create more value for our shareholders by carefully listening to their voice and properly responding.

There was considerable uncertainty in 2012 due to the enforcement of the drug price reduction policy and the continued global financial crisis. Against this backdrop, Dong-A actively engaged in IR activities, with focus on increasing certainty. In particular, we engaged in active communication with investors to address concerns about short-term deteriorations in performance as a result of reduced drug prices. Our relationship of trust with investors was strengthened as we provided clear short-term performance guidelines, with efforts made to enhance the credibility of our long-term goals.

Internal IR Council Meeting

Dong-A holds an internal IR council meeting at the end of each quarter in order to establish a more transparent and efficient internal communication channel in relation to IR. Working-level staff from key departments come together to share information on major IR issues, helping drive improvements to our IR activities.

Report to Top Management

Dong-A's top management regularly receives reports after performance announcements are made each quarter. The report focuses on the stock market and major issues that need to be improved. Systematic IR activities are conducted thanks to the sharing and use of information collected through domestic and overseas NDRs (Non-Deal Roadshows) and individual meetings.



Dividend for the Past Three Years

	2012	2011	2010
Standard Stock Price (KRW)	109,000	88,800	123,000
Net Income (KRW billion)	67.7	60.7	66.0
Dividend per Share (KRW)	1,000	1,000	1,000
Payout Ratio (%)*	15.8	18.4	16.7

*Amount of dividend paid out / net profit

Major IR Activities

One-on-One Meetings We pay special attention to one-on-one meetings with investors who visit us. Our basic principle is that investors who come visit us are a more receptive audience for our IR activities than investors we have to visit.

Line Tours Our investors are highly interested in our R&D Center and manufacturing plants. Accordingly, we provide tours for investors so that they can see our state-of-the-art facilities and equipment.

Roadshows, NDRs We conduct NDRs for investors at home and abroad. We held four NDRs in Korea and two overseas in 2012. We took part in 'Corporate Days', which were held for around 20 institutional investors, on three occasions, and participated in three domestic and four overseas conferences. In addition, more than 130 corporate visits were held.

Conference Calls We actively hold conference calls with overseas investors. If needed, we follow up on these conference calls via email, thus continually focusing on the needs of overseas investors.

IR Materials We post various IR materials on our website to quickly and transparently disclose information. Dedicated staff manages the company's website with continuous updates, notices and major announcements in both Korean and English. In addition, since 2008, we have been the only Korean pharmaceutical company to publish an annual report in English as part of an effort to communicate more effectively with our international shareholders.

Plan for Shareholder Value

The domestic pharmaceutical industry faces both potential growth and risks due to Korea's aging society and strengthened government regulations. Dong-A is working to become a company that investors can trust and invest in by engaging in reliable communication with investors on both of these aspects, and by providing information on how we will make use of opportunities and manage risks. Through our diverse IR activities, we will actively attract long-term investors and direct our efforts to turn investors into long-term shareholders. The opinions of investors will be delivered to management without filtering, so that they may be reflected as we formulate future strategies. By doing so, we will promote corporate growth and do our best to enhance shareholder value.



Human resources management

_____ We foster experts based on the belief that human resources are more than mere assets, and instead are the company itself.



Dong-A actively practices human resources development management so that employees can further demonstrate their competencies and achieve greater performance while working at a great workplace. As part of efforts, we have a mentoring program and compliment mileage system in place to create an open corporate culture. By designing and offering diverse training programs in accordance with employees' positions, we are developing leaders who will perform pivotal roles in creating future value for the company, and promoting Dong-A's growth into a global pharmaceutical company.

Model Employees

A model employee at Dong-A is a creative individual who brings about drastic change based on flexible thinking and continuous self-development, a team-member who shares information and collaborates with others to promote the company's interests, and a model citizen who contributes to and serves the public as a committed member of society.

Based on this definition of a model employee, Dong-A has established the following employment value proposition. First, a performance-oriented culture is built and a healthy sense of tension is maintained at work. Second, appropriate remuneration and compensations are provided to individuals and groups that generate high performance. Third, due consideration is made for employees who make continued efforts, so that they can contribute to the company. Fourth, talented employees are appointed to positions of greater responsibility in a fair and transparent



manner. Fifth, employees are encouraged to work based on new approaches, and managers do not ask such employees to assume responsibility for failure.

Status of Employees

As of December 31 2012, the number of employees at Dong-A totaled 2,365 individuals. The number of employees has steadily risen in tandem with the company's growth, from 2,271 in 2010 to 2,303 persons in 2011. There are currently 526 female employees, making up 22.3% of all employees, a 6.1% increase from the 493 female employees in 2010.

Wage Structure and Benefits

Wage Structure In 2008, Dong-A changed from a seniority-based pay system to an annual salary system. We broke away from the previous system to introduce a reasonable wage system where employees are properly remunerated according to their performance.

Benefits Dong-A has a basic support system to ensure all employees maintain their health, including participation in the four major public insurances. In addition, Dong-A provides comprehensive, diverse health support for employees and their families, as well as support for the education of their children and post-retirement measures. As such, we are actively assisting our employees achieve a balance between their personal and work lives in more stable environment.

A Great Place to Work

Cooperation between Labor and Management for Common Benefits Dong-A pursues employees' welfare with the company's development based on a spirit of common benefit and trust between labor and management. A labor-management council was established in 1975 that has worked to effectively promote mutual understanding and cooperation between labor and management. The labor union makes reasonable, proper demands, and the company cooperates with a sense of responsibility and sincerity. Negotiations take place without disputes every year, setting an example for labor-management cooperation.

Mentoring Program Dong-A has been executing its mentoring program since 2010 to help new employees adjust to working at the company, and develop them into leaders with a strong sense of ownership and devotion to the company. Mentees are new employees, and mentors are chosen from among employees who have been working for the company for five to ten years, with excellent work performance and strong ethics. The chosen mentors complete a training program and then are assigned a mentee whom they work with for six months.

Compliment Mileage System Dong-A implemented the compliment mileage system to encourage employees to compliment one another and to promote communication among employees. Basic mileage is provided to all employees, and then employees write a complimentary message to a colleague on the Intranet and send the colleague mileage. This system has contributed to the spread of a flexible corporate culture where employees actively engage in communication.

Human Resources Development Programs

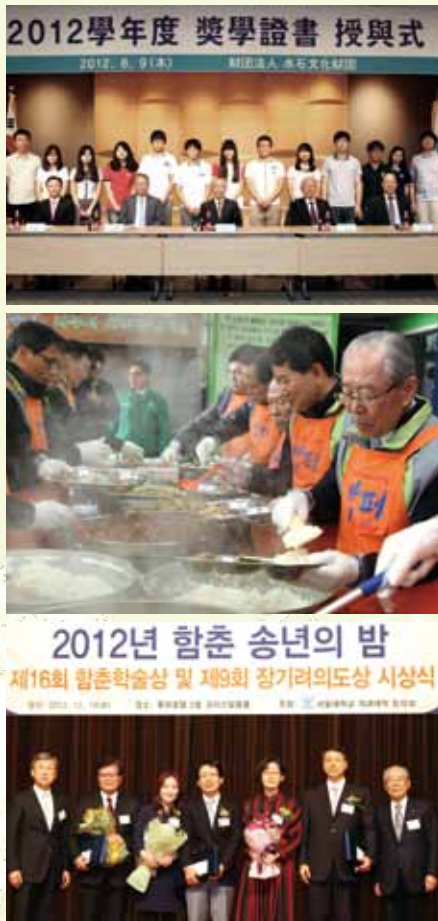
A wide array of training programs has been offered to develop the competencies of all our employees. Leadership training is provided for each job position so that employees can effectively perform their respective roles. We also developing and implementing in-depth programs designed to foster job experts in different sectors. Training programs aimed at fostering global experts are being expanded in line with recent trends. We are taking the lead in bringing about changes in how experts are fostered by establishing a culture where employees independently identify what they should learn and actively take part in learning activities.

Learning Organization Operations

	2012	2011	2010	2009
No. of courses	37	32	3	2
No. of personnel	465	515	45	20

Social responsibilities

The act of sharing serves as hope that enables us to dream of a tomorrow where everyone is healthy and happy.



As a pharmaceutical company that contributes to improvements in the health and welfare of humanity through outstanding drugs, Dong-A believes that society needs to be healthy for the company's prosperity. We believe that a company should grow with its community, and that corporate profits are more meaningful when they are returned to society. Based on this belief, we perform various activities that contribute to society so we may build a brighter future for all. With our expertise in pharmaceuticals and our corporate vision for better tomorrow, Dong-A engages in diverse social contribution activities to make the world a healthier and happier place to live and work.

Vision of Corporate Social Responsibilities

Dong-A is conducting public-interest activities to enhance its corporate image, such as holding events in relation to social issues and providing economic support. Moreover, we are actively carrying out volunteer activities, enabling us to faithfully fulfill our roles as a responsible company. A wide array of contribution activities are conducted in such fields as education, culture, and sports. To foster future experts, we established the Sooseok Cultural Foundation, which sponsors scholarship, culture, publication, and academic programs.

These various social contribution activities have received wide recognition. As a result, Dong-A was awarded the Special Prize at the 2010 Social Contribution Awards held by the Korea Economic Daily, and received an appreciation plaque from Arts Council Korea for two consecutive years in 2011 and 2012.



Dong-A identifies and systematically implements unique contribution activities so as to extend a helping hand to the underprivileged, thereby enhancing and spreading the community spirit. Backed by our respect for life, we will continue to do our best to create a better world and a brighter future.

2012 CSR HIGHLIGHTS

Employee Volunteer Activities

At Dong-A, the company and employees cooperate to actively conduct volunteer activities at every corner of the local community where a helping hand is needed. Annually, since 2005, we have visited and served free meals at the 'Baffor Sharing Campaign Headquarters', a soup kitchen run by the Dail Community Foundation, a social welfare foundation. New employees visit Hyanggrimwon, a facility for physically-challenged children, where they perform volunteer activities. New employees are required to do this as a part of their initial training program at the company.

Sponsorships

Dong-A holds the 'Love-Sharing Bazaar' and uses the proceeds to provide rice and deliver briquettes to low-income families and the underprivileged in the local community. The annual 'Program for Multi-cultural Families to Visit their Hometown' helps four multi-cultural families visit their homelands. Since 2008, we have partaken in a project to build the 'Bodeumi Nanumi Nursery', a childcare support project carried out jointly by the Korean business community. We are also providing drugs to domestic welfare groups for use in their community service activities.

Overseas Relief Activities

Dong-A goes beyond national boundaries to assist the disadvantaged in other countries. For example, the company sponsored children in Somalia, who were suffering from famines due to drought and a rise in food prices, through UNICEF. We also sponsor Tones, a town in Sudan that was home to the late Father John Lee Tae-seok, and contribute to a variety of overseas medical volunteer activities.

Scholarships

We have instituted a wide array of scholarship programs to help teenagers shape a healthy society and become responsible leaders. We provide scholarships to students who are recommended by school principals. Junior high school, high school, and undergraduate students who demonstrate excellence in academic achievement and serve as role models are eligible to receive our scholarships, which are delivered through the Sooseok Cultural Foundation. The Foundation was created by revamping the previous Sooseok Scholarship Association in 1992, the year which marked the 60th anniversary of the company's founding. Since its establishment in 1987, the Sooseok Cultural Foundation has provided scholarships to 1,531 students.

Academic Support

Hamchun Medical Science Award This award is presented to a medical professional who has demonstrated great respect for life, cares for others, contributes to medical development, and has made outstanding achievements in the field of research and authorship in that respective year. Since 1969, Dong-A and the Korean Medical Association have been co-presenters of the award. It began as the 'Dong-A Medical Culture Award', and was changed to the 'Dong-A Medical Science Award'. Since 2010, the award has been called the Hamchun Medical Science Award. With a 40-year tradition, this prestigious award is jointly sponsored by Dong-A and Sooseok Cultural Foundation.

Excellent Pharmacist Award This award was created in 1973 by Dong-A and the Korean Pharmaceutical Association in honor of the great dedication demonstrated by pharmacists to create a healthy society. The award is presented every year as part of the Awards to Commemorate the Foundation of the Korean Pharmaceutical Association, and is sponsored by Dong-A and the Sooseok Cultural Foundation. The award consists of five categories - practicing pharmacists, pharmaceutical community development, public office/hospital/pharmaceutical sector, pharmacy research, and community service.

Mecenat

Marronnier Women's Composition Contest This is a cultural event for women held annually in October, the 'month of culture'. The contest is intended to increase the number of women authors and to promote the literary

and creative activities of women. Any woman aged 23 or older in Korea, excluding students, may participate in the contest. There are three categories - poetry, prose, and children's literature. Works that receive the top prizes for each category are published in a culture and arts journal. The creators of the works are supported so that they can officially make their debut as a writer. Last year marked the 30th anniversary of the contest which is a much beloved cultural event with a long tradition, and remains as one of a few contests that are held offline.

Tour Korea with Bacchus® for College Students Launched in 1998, the 'Tour Korea with Bacchus® for College Students' has become a leading cultural meme that symbolizes challenges and the great passion of youth. The intent of the event is to instill a sense of confidence and accomplishment in the participants who complete the walkathon. For 21 days, the participants walk a distance of over 600 kilometers, attend lectures on Korea's traditional culture, and take part in such events as 'Walking Together with Parents'. Annually, around 20,000 students apply to take part in this event, of which only 144 may participate. It has become a cultural event that all college students are interested in.

Class for Youth on Caring for the Environment and Life This is an event where participants learn about the vital role our environment as the foundation of life, and about the spirit of restoring life. Participants also take part in environmental protection activities. This five-day class is offered to 50 junior high school students, and various activities, with the environment as their theme, are presented. Through such programs as ecology monitoring and the 'Small Concert in the Forest', students enjoy special experiences to become a part of nature.

Bacchus® Cup Junior Golf Championship Dong-A has been holding the Bacchus® Cup Junior Golf Championship - a tournament that aims to discover and foster talented young golfers who will further brighten the future of golf in Korea. Since we began the tournament in 2005, it has been gaining reputation as one of the most desirable championship for young golfers to participate in, and has become a gateway for them.

Bacchus® Cup Chunwon (Center Point) Title / Bacchus® Cup Korea-China Chunwon Title To celebrate the 50th anniversary of Dong-A's founding in 1983, the Bacchus® Cup Chunwon Title was launched under the name of

'Bacchus® Cup Professional Baduk Competition,' in order to contribute to the development of baduk and to promote good etiquette. As the first professional baduk competition to be sponsored by a company, it has received great interest and attention from around 10 million baduk fans. After the holding of the 12th Bacchus® Cup Professional Baduk Competition, the competition was renamed the Bacchus® Cup Chunwon Title in 1996. The Bacchus® Cup Korea-China Chunwon Title is where top baduk players from Korea and China compete for the No. 1 spot. The competition is held alternately between the two countries every year. This is an event that has enhanced the image of Bacchus® in China, where baduk has become a popular sport.

Garglin® Cup Professional Women's Baduk Championship This championship is sponsored by Dong-A and hosted by the Korea Economic Daily to increase the number of women taking an interest in and playing baduk, and to promote the Garglin® brand. The championship is the restoration of the 'Professional Women's Kusu Title', which was discontinued in 2000. The year 2012 marks the 18th year of this traditional championship.



	68
Management's Discussion & Analysis	
	79
Independent Auditors' Report	
	80
Separate Financial Statements	
	86
Notes to the Separate Financial Statements	
	146
Internal Accounting Control System Review Report	
	147
Report on the Operations of Internal Accounting Control System	
	148
Independent Auditors' Report	
	149
Consolidated Financial Statements	

2012

financial

review

Management's Discussion & Analysis

I. Changes to Accounting Principles

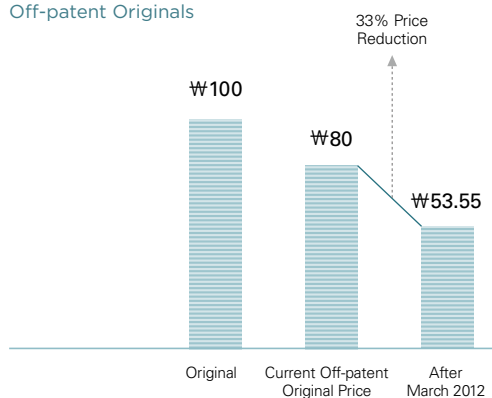
Since 2011, Dong-A (before demerger) has prepared its financial reports in accordance with the Korean International Financial Reporting Standards (K-IFRS). As such, the company's use of the depreciation method and other cost calculations may differ materially from the methods previously used by the company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

II. Sales

2012 ranked as one of the most difficult years for pharmaceutical companies due to the mandated reduction in drug price implemented in April. This caused a decrease in sales and profitability for Dong-A. The measure introduced a 53.55 percent reduction in the original price of all drugs whose patent expired, both generics and original products. This amounts to an additional 30 or more percent price reduction compared to the previous standard of reducing price for drugs with expired patents to 80 percent of their original cost. As such, the prices of originals sold at 80 percent of the original price and generics that were sold at a price higher than 53.55 percent of the original price were all dropped to 53.55 percent. The measure has impacted all pharmaceutical companies. In particular, those with a high percentage of generics and off-patent originals in their product portfolio were substantially impacted.

Sales in February and March were particularly low due to inventory adjustments made by wholesalers and pharmacies due to this reduction in drug prices. Wholesalers and pharmacies adjusted their inventories in order to use up their existing stock so as to build new inventories based on products at the new prices.

Price Change of Off-patent Originals



Price Change of Generics



ETC (Ethical or Rx) Drug Segment

Most ETC products recorded negative growth in sales for 2012 due to the drug price reduction measure and a contraction in sales activities. The overall drug price reduction measure executed on April 1 applied to off-patent originals and generics, causing a drop in sales growth for all major products. As indicated in the table below, the price reduction and decline in sales for major products with sales over KRW 10 billion show remarkable similarity.

(Unit: KRW billion, %)	Product	2012 Sales	Sales Growth Rate	Price Reduction Rate
Cardiovascular	Lipinon®	30.0	(34.8)	(21)
	Plavitor®	28.4	(35.7)	(33)
	Opalmon®	22.6	(39.1)	(33)
	Orodipine®	19.1	(27.3)	0
	Cozartan®	10.4	(44.5)	(22)
Digestive	Stillen®	80.8	(8.3)	0
	Gaster®	11.4	(38.2)	(28)
	Motilitone®	14.5	New	0
Biologic	Growtropin®	21.9	4.1	(13)
Respiratory	Talion®	22.1	10.2	0
Antibiotic	Hepsera®	23.4	18.7	(33)
	Zeffix®	19.9	31.4	0
Endocrine	Glimel®	9.6	(37.9)	(28)
Urology	Zydena®	15.5	(23.6)	0

The following section describes sales competition by therapeutic area:

Most of the cardiovascular products decreased more than the drug price reduction. For instance, sales of combination products in the hypertension medicine market have seen an upward trend, resulting in a downswing in the single agent market. This led to a substantial drop in growth for Cozartan® as well as Orodipine® which are single agent drugs. Lipinon®, another major cardio product, was sluggish in sales due to demand shift from atorvastatin to rosuvastatin market. Opalmon®, another important cardio products were also daunted by the new release of competing products.

In the digestive sector, despite not being affected by the price reduction measure, Stillen® posted an 8.3 percent decrease in sales yoy due to increased competition. For Gaster®, an H2 blocker, sales showed a downward trend because of a general market shift towards PPI (Proton Pump Inhibitor). However, thanks to the excellent performance of Motilitone®, a new product, the overall decline in sales in the digestive segment was only between 3 and 4 percent.

Biological products showed a small decline of approximately 2 percent yoy. This was due to small drug price reductions in the biological segment, as well as the 4.1 percent sales growth of Growtropin® yoy despite its reduction in price.

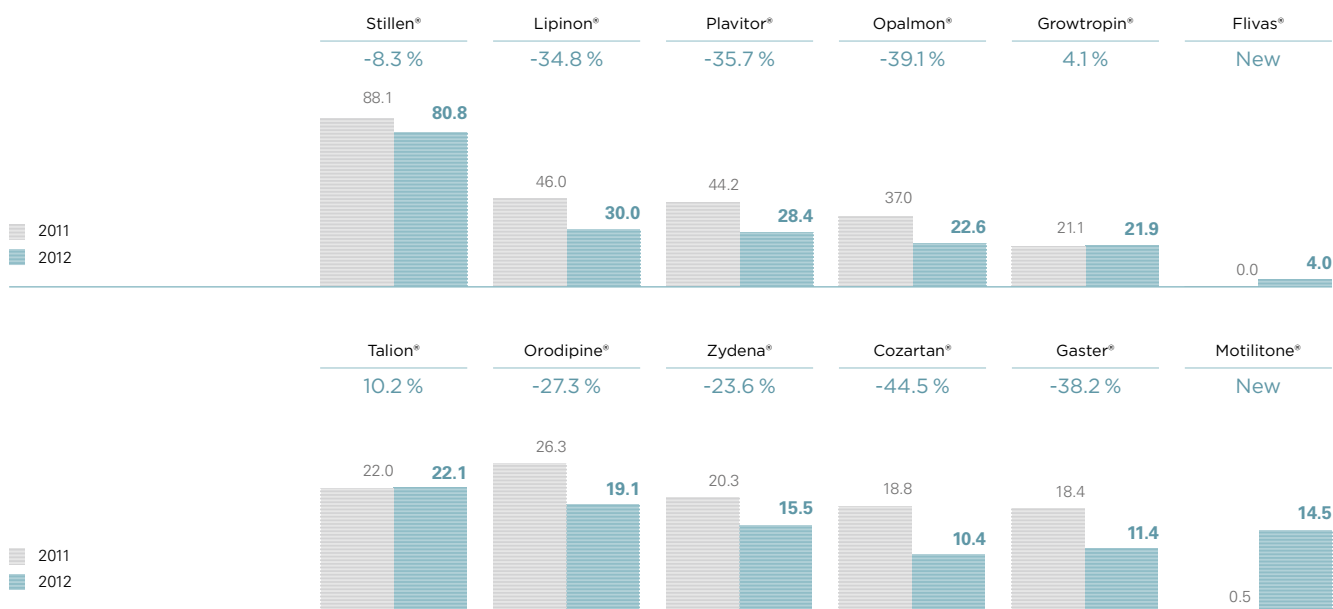
In the diabetes medicine market, Glimel®, glimepiride, also saw a decline in sales because of the growth of DPP-4 inhibitors. However, Dong-A is currently conducting clinical trials for DPP-4 inhibitor, and plans to release the product in the near future. Antibiotics grew by approximately 2 percent yoy despite the drug price reductions. This is primarily thanks to sales of co-marketing products Hepsera® and Zeffix® from GSK.

In the urology sector, there was no substantial impact from drug price reductions. However, the expiration of Viagra®'s patent led to the release of generics, which had a negative impact on Zydena® resulting in its sales declining by 23.6 percent yoy.

The ETC business environment in 2012 was extremely difficult. However, unfavorable changes in regulations such as the unprecedented drug price reduction measure of 2012 are not expected to occur in 2013. This is why a better environment than the last year is anticipated. The market, which shrank due to the crackdown on illegal rebates, is unlikely get better at once, but steady improvements in demand are expected.

Sales Growth of Key ETC Products

(Unit: KRW billion)



OTC (Over-the-counter) Drug Segment

The OTC segment recorded considerable growth in sales. It grew 22.2 percent from KRW 252.9 billion in 2011 to KRW 309.1 billion in 2012. This is owing to a substantial rise in merchandise sales of Bayer and GSK products, as well as a 13.9 percent growth in Bacchus® sales.

In 2011, sales of Bayer and GSK products amounted to approximately KRW 9 billion. This figure rose to around KRW 32.5 billion due to corporate alliances. In the case of Bayer products, Dong-A is now selling such contraceptives as Myvalr®, Minivalr®, Meliane®, and Triquilar®, in addition to Aspirin® protect. The company is also selling such vitamins as Berocca® and Redoxon®. Also included in the list of products sold through the supply relationship is Bepathol®, a lip cream product. Bayer product sales grew 305.6 percent from KRW 5.3 billion in 2011 to KRW 21.8 billion in 2012. GSK product sales also went up 194.4 percent, from KRW 3.6 billion to KRW 10.6 billion.

Garglin® posted year-on-year growth of 61.1 percent in sales for 2012. Advertising investments have led to tangible results. Panpyrin® and Bigen® recorded growth of 19.8 percent and 10.7 percent, respectively.

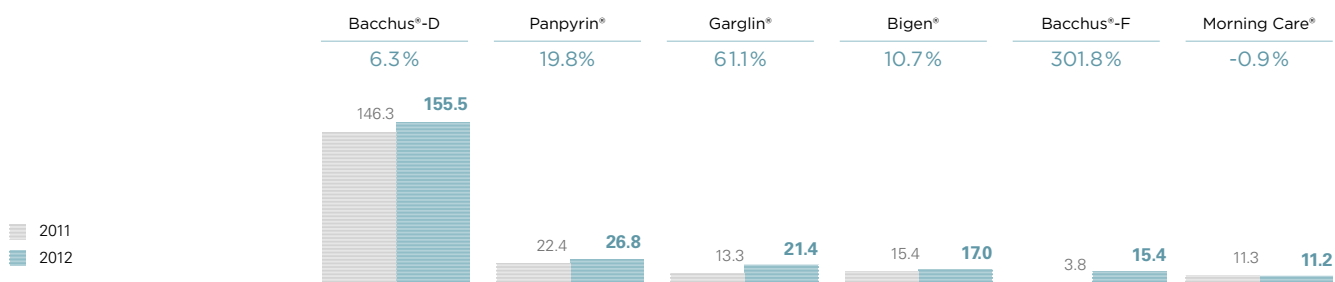
Bacchus®, which has the highest sales among OTC products, has been posting steady growth since August 2011, when sales of the product through non-drug store channels was allowed. Sales of Bacchus®-F, which is sold through non-drug store channels,

surged by 301.8 percent yoy, leading the sales growth in the OTC segment. Steady sales can still be achieved since the product has a market share of 84.8 percent in drug stores. However, there is increased competition in non-drug store channels with such energy drinks as Vita500®, Redbull®, and Hot6®. As such, it may not be so feasible to sustain the current level of growth.

The OTC industry continues to be sluggish. Against this backdrop, it will be difficult to achieve growth. However, inorganic growth can be expected as strategic alliances are established with Korean companies as a defense against fierce competition from overseas entities.

Sales Growth of Key OTC Products

(Unit: KRW billion)



Medical Equipment & Diagnostics Segment

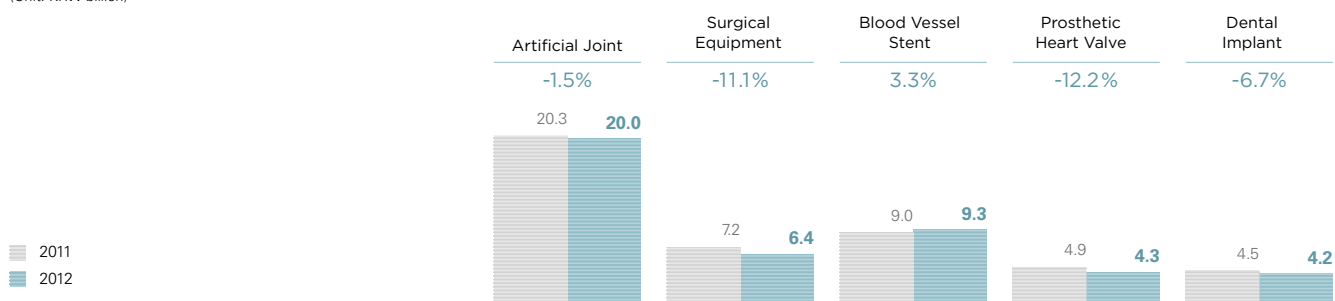
In the medical equipment segment, where Dong-A imports and sells medical and diagnostic equipment, the company is experiencing difficulties due to the sluggishness in the overall ETC industry. In the diagnostics segment, the ending of relations with Beckman Coulter, a global manufacturer which Dong-A represented in Korea, resulted in a 23.8 percent drop in relevant sales. This in turn led to a 12.8 percent decline in sales of the overall medical business.

In the medical equipment segment, blood vessel stents, which takes up the highest percentage of sales in the medical equipment segment, recorded 3.3 percent growth. Nevertheless, overall medical equipment sales dropped 4 percent. This was due to a sales decrease of 1.5 percent in artificial joints, 12.2 percent in prosthetic heart valves, 6.7 percent in dental implants, and 11.1 percent in sphygmotonographs and surgical equipment. The general decline in the medical equipment sales is mainly attributable to strengthened regulations in relation to the ETC business, especially illegal rebates.

Sales of medical division shrank slightly due to market condition, however, inorganic growth may be possible through M&A or partnership led by a holding company to achieve the long-term goal of becoming a total healthcare solution provider.

Sales Growth of Key Medical Equipment & Diagnostics Products

(Unit: KRW billion)



Overseas Business Segment

In 2012, exports recorded year-on-year growth of 76.9 percent. Exports accounted for 5 percent of overall sales in 2011, and surged to around 10 percent in 2012. This growth is attributable to the diverse efforts made to release products in new markets. This is also the result of efforts made by our management to recover demand lost in the sluggish domestic market through overseas markets. What is most encouraging is that balanced achievements were made throughout several markets.

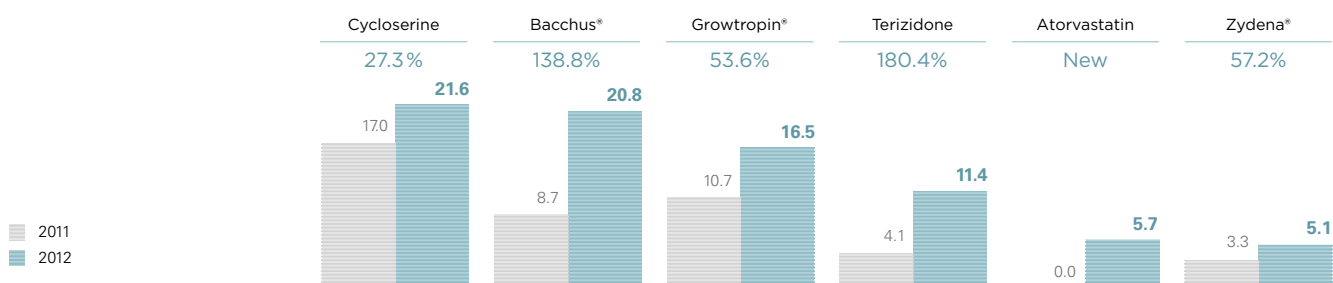
Most noticeable is the sales growth of Bacchus® in Cambodia, with sales in the Cambodian market rising a whopping 227.4 percent from KRW 5.3 billion in 2011 to KRW 17.2 billion in 2012. This is assumed to be a result of the increased influence of Camgold, a partner company, and the ongoing border dispute between Cambodia and Thailand which has lasted several years. It should be noted, however, that 64.3 million bottles were sold in a country with a population of 15 million and that Bacchus® is positioned as an expensive drink. These factors make Dong-A confident in the future growth potential of the Cambodian market, and its expansion into nearby markets, including Laos and Myanmar.

Noteworthy sales growth was also achieved in other areas, including the Republic of South Africa, Turkey, Russia, and India. Exports of terizidone, an API (Active Pharmaceutical Ingredient) for secondary anti-tuberculosis, to the Republic of South Africa pushed overall sales up by 242.6 percent yoy. In Turkey, sales of Zydena® resulted in yoy growth of 128.2 percent. In Russia, favorable conditions in sales of cycloserine led to yoy growth of 104.4 percent. In Brazil, Growtropin®, one of our best performer recorded growth of approximately 65.1 percent, leading to 56.7 percent growth in overall sales in Brazil. In India, a 15.7 percent growth of cycloserine sales resulted in overall growth of 13.1 percent.

In 2012, Dong-A exported atorvastatin, an API for Lipinon®, a generic version of Lipitor®, to Japan for the first time, recording sales of KRW 5.7 billion. Dong-A had made inroads into emerging markets before, but had experienced difficulties entering such advanced markets as Japan. It is extremely encouraging that the company has successfully entered the Japanese market despite the obstacles. Plans have been drawn up to continually increase API sales. The company has great expectations for the Japanese market since Japan's generic product market has extremely high growth potential.

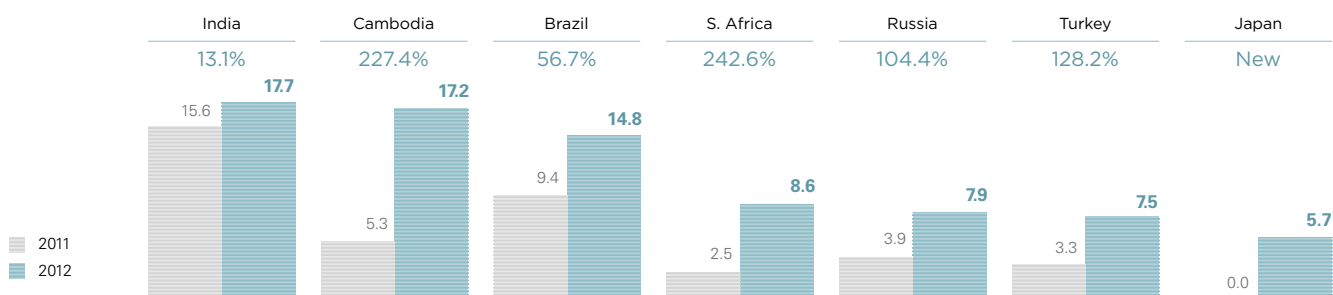
Export by Product

(Unit: KRW billion)



Export by Region

(Unit: KRW billion)



III. Profit and Cost Analysis

Operating profits dropped slightly from KRW 98.8 billion in 2011 to KRW 88.5 billion in 2012. This, we strongly believe, is a good record considering the impact of the drug price reduction measure. An over 4 to 5 percent increase in the cost of goods sold (COGS) ratio was unavoidable due to the drug price reduction measure. However, we prevented a further decline in profitability by renegotiating the production costs of newly adopted drugs and by clearly reducing selling, general & administrative (SG&A) expenses.

In detail, the COGS ratio of Dong-A was 44.4 percent in 2011. It was unavoidable that the COGS ratio would deteriorated to around 50 percent due to the drug price reduction measure. Our operating profit margin also dropped by 1.2%p yoy to 9.5 percent. Against this backdrop, Dong-A renegotiated prices with companies who hold the patents for original drugs, such as Japan's Ono and AstraZeneca. An agreement was reached to jointly bear most of the expenses that rose due to the drug price reduction. This enabled an improvement in the COGS ratio of more than 2 percent annually. The SG&A expenses ratio was reduced from 44.7 percent to 42.6 percent by curtailing marketing, personnel, and other overhead costs. This enabled the recovery of the operating profit margin to between 9 and 10 percent.

(Unit: KRW billion)	2012	2011	YoY (%)
Sales	931.0	907.3	2.6
Cost of goods sold	445.9	403.3	10.6
Gross profit	485.1	504.0	(3.8)
SG&A expenses	396.6	405.2	(2.1)
Operating profit	88.5	97.4	(9.1)
Other income	8.9	10.2	(12.7)
Other loss	7.6	12.6	(39.5)
Finance income	20.0	6.6	204.2
Finance costs	20.9	15.1	38.7
EBIT	88.9	86.5	2.7
Net profit	67.7	60.7	11.7

(Unit: %)	2012	2011	YoY (%p)
Cost of goods sold ratio	47.9	44.4	3.5
SG&A expenses ratio	42.6	44.7	(2.1)
HR related cost per sales (Salary + Severance + Fringe benefit)	12.9	12.8	0.1
R&D cost per sales (Reflected in SG&A)	8.8	8.0	0.8
Advertisement cost per sales	5.0	5.3	(0.3)
Other marketing related cost per sales (Support for research + Sales promotion)	6.4	8.7	(2.3)
Operating profit margin	9.5	10.7	(1.2)
Other income per sales	1.0	1.1	(0.1)
Other losses per sales	0.8	1.4	(0.6)
EBIT ratio	9.5	9.5	0.0
R&D cost (Reflected in SG&A, Unit: KRW billion)	81.8	72.4	13.0%

Sustainable COGS Ratio and Operating Profit Margin

The COGS ratio was approximately 50 percent due to the drug price reduction measure in the first half of 2012. However, the ratio improved by around 2%p in the second half of the year as a result of the renegotiation of drug prices of adopted products.

The figure for the second half of the year includes around KRW 5.7 billion worth of commission revenue, a temporary profit.

Dong-A is currently paying for around KRW 50 billion to 55 billion worth of imports in yen. A 100-yen drop would translate into cost reduction of around KRW 4.5 billion. Cost reduction is expected to continue if the yen continues to remain weak.

When excluding these temporary cases, the sustainable COGS ratio is estimated at 47.1 percent, and the SG&A ratio is 42.3 percent. As such, Dong-A will likely maintain an operating profit margin of an annual 10 to 11 percent.

Sustainable Margin

(Unit: KRW billion, %)	4Q 2012	3Q 20102	2H 2012
Sales	222.7	243.2	465.9
Cost of goods sold	102.8	112.9	215.7
Gross profit	120.0	130.3	250.3
SG&A expenses	92.5	102.0	194.5
Operating profit	27.4	28.3	55.7
One-offs			
Commission revenue	3.2	2.5	5.7
Currency effect	1.0	-	1.0
Modified sales	219.5	240.7	460.2
Modified cost of goods sold	103.8	112.9	216.8
Modified operating profit	25.8	25.8	51.0
Modified COGS ratio	47.3	46.9	47.1
Modified SG&A ratio	42.1	42.4	42.3
Sustainable operating profit margin	10.6	10.7	10.6

IV. Financial Condition

Dong-A's total assets grew by around 15 percent from KRW 1.2 trillion at the end of 2011 to KRW 1.4 trillion at the end of 2012, of which current assets rose by 36 percent from KRW 466.2 billion to KRW 633.8 billion. This is attributable to an 83.9 percent rise in cash and equivalents due to additional borrowings of around KRW 230 billion. The purpose of the increased borrowings was to roll over debt due to expire in 2012, including bond with warrants. As a result, the debt-to-equity ratio rose from 68.9 percent to 91.1 percent, and the borrowings ratio also increased from 38.0 percent to 64.4 percent. The net gearing ratio, excluding cash, rose from the previous year's 11.4 percent to 16.4 percent. The current ratio also went up from 1.3x to 1.6x.

(Unit: KRW billion)	Dec. 2012	Dec. 2011	YoY (%)
Total assets	1,425.8	1,236.8	15.3
Current assets	633.8	466.2	36.0
Cash and equivalents	357.8	194.6	83.9
Receivables	135.5	143.6	(5.7)
Inventories	131.2	120.4	9.0
Non-current assets	791.9	770.6	2.8
Total liabilities	679.5	504.4	34.7
Current liabilities	389.0	365.2	6.5
Non-current liabilities	242.8	139.1	74.5
Total shareholders' equity	746.3	732.4	1.9
Interest bearing debt	480.4	278.0	72.8
Net debt	122.6	83.5	46.9

Key Ratios

(Unit: %)	Dec. 2012	Dec. 2011	YoY (%p)
Debt-to-equity ratio (Total liabilities/Total shareholders' equity)	91.1	68.9	22.2
Borrowings ratio (Total borrowings/Total shareholders' equity)	64.4	38.0	26.4
Net gearing ratio (Total borrowings - cash/Total shareholders' equity)	16.4	11.4	5.0
Current ratio (Current assets/Current liabilities)	1.6X	1.3X	0.4X

V. 2013 Outlook

In 2013, we do not anticipate any significant external adverse factors such as the overall drug price reduction measure that occurred in 2012. However, the continued strengthening of rebate regulations is expected to keep the growth in demand low. Under these conditions, with a low growth rate in the mid-teens and uncertain margins, it is unlikely the ETC industry will be able to fully recover in 2013. To overcome this challenging environment, Dong-A made an audacious attempt to reposition its business and initiated a holding company establishment through spin-off and the strengthening of the company's overseas business to lay an effective platform for the future growth.

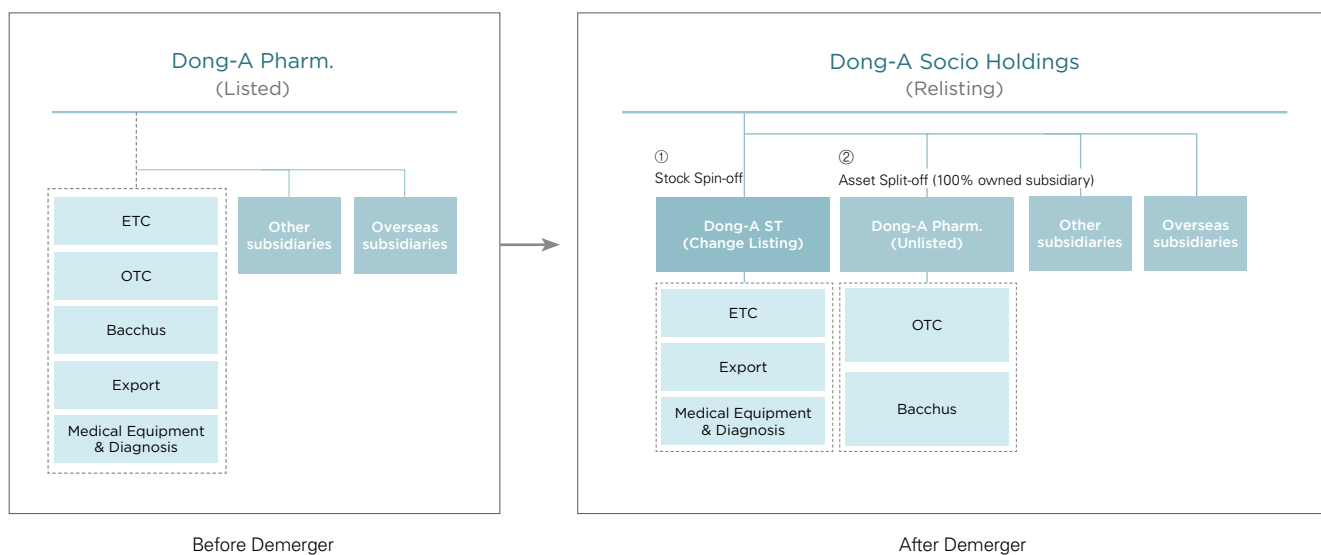
Establishment of a Holding Company

The biggest change that Dong-A faces in 2013 is the establishment of a holding company through demerger. Accordingly, Dong-A Pharmaceutical is reorganized as the holding company, Dong-A Socio Holdings, and two operating companies Dong-A ST (Science & Technology), a company specializing in ETC, and Dong-A Pharmaceutical, a company specializing in OTC.

The most important reason for this change is the development of new growth engines. By establishing a holding company, we aim to expand our business areas, which are restricted to ETC (Ethical or Rx) and OTC (Over-the counter or Px), to include healthcare in general and to identify future business areas for more active and flexible investments. By having an ETC company which focuses only on the ETC sector, and an OTC company which concentrates only on the OTC business, we are attempting to select and concentrate on specific areas while achieving expansion. In other words, the holding company will concentrate on developing new growth engines, while Dong-A ST and Dong-A Pharmaceutical will focus on business areas that match their areas of expertise in order to bolster competitiveness.

The corporate structure that will be launched on March 1, 2013 is as follows:

Organizational Chart



The following summarizes the need for the demerger:

First, using the 80th anniversary of the company's founding as a starting point, the holding company will be established to expand into a medical equipment and healthcare service, and secure the Group's current growth engines. Second, the holding company will focus on developing new business areas such as U-healthcare, healthcare technology and human genome, while the new operating company will focus on product development, production, marketing and distribution. Third, the new operating company will generate profits from new drugs developed in its own research center while enjoying additional profits from the holding company's new business. Lastly, we will continue to improve the profitability of the operating companies by carving out low margin business, and maximizing shareholder value through enhancement in value of each member of Dong-A Socio Group.

Estimated Pro Forma Statement of Financial Position*

(Unit: KRW million)	Before demerger	Dong-A ST (New company from stock spin-off)	Dong-A Pharm. (New company from asset spin-off)	Dong-A Socio Holdings (Relisting of existing company)
Assets				
Current assets	524,481	299,610	59,137	165,734
Non-current assets	773,458	564,402	30,086	231,392
Tangible assets	549,973	485,999	27,101	36,873
Total assets	1,297,940	864,013	89,223	397,126
Liabilities				
Current liabilities	497,012	334,750	48,075	114,187
Non-current liabilities	72,957	58,897	3,768	12,710
Other liabilities	6,659	6,659	-	-
Total liabilities	569,969	393,647	51,843	126,897
Equity				
Share capital	55,675	35,008	30,000	20,667
Share premium	73,906	297,462	7,380	27,435
Treasury shares	(20,077)	-	-	(7,453)
Other equity components	234,486	137,895	-	(154,400)
Retained earnings	383,980	-	-	383,980
Total equity	727,971	470,365	37,380	270,229
Total equity and liabilities	1,297,940	864,013	89,223	397,126

* This estimation is based on the first half of 2012.

The net asset value that was determined based on the standard above was used to set the division ratio, based on which shareholders will receive each company's shares as follows:

Book value of net assets (Unit: KRW million)		Demerger ratio (Unit: %)	
Holding company	Operating company	Holding company	Operating company
270,229	470,365	0.371209	0.628791

Share distribution		
Before	After	
	Holding company	Operating company
11,135,000 shares	4,133,412 shares	7,001,588 shares

This demerger is expected to strengthen the profitability of Dong-A ST, a subsidiary company.

Estimated Pro Forma Statement of Income

(Unit: KRW million, %)	2012		1H 2012		2011	
	Before	Dong-A ST	Before	Dong-A ST	Before	Dong-A ST
Sales	930,980	628,022	465,031	313,701	907,294	655,043
COGS	445,855	294,076	230,194	156,757	403,257	288,816
COGS to sales ratio	47.9	46.8	49.5	50.0	44.4	44.1
SG&A	396,633	251,553	202,039	128,753	405,248	268,811
SG&A to sales ratio	42.6	40.1	43.4	41.0	44.7	41.0
Operating profit	88,491	82,393	32,798	28,763	98,788	97,461
OP margin	9.5	13.1	7.1	9.2	10.9	14.9
Finance income/loss	(949)	(5,997)	(746)	(2,462)	(8,520)	(8,526)
EBIT	88,853	75,479	31,613	26,298	86,495	88,558
EBIT margin	9.5	12.0	6.8	8.4	9.5	13.5

According to the pro forma statement of income for the year 2012, the spin-off of Dong-A ST will lead to an improvement in both COGS ratio and SG&A ratio. This is particularly because initial investment expenses of R&D investments will be transferred to the holding company. The R&D investments that will be transferred to the holding company are the very first R&D steps, which involve material research and biosimilar research. The material research is where returns are extremely low compared to investment expenses. By having the holding company take risks, Dong-A ST has a higher possibility of enjoying a higher return on invested capital in R&D. As a result, there will be improvement of 2 to 4 percent in the profitability and operating profit margin compared to the entity before the spin-off. This, and the various cost improvement efforts are expected to lead to further improvements in the profitability of Dong-A ST, a subsidiary company specializing in ETC going forward.

We believe that launching our holding company will enable the development of new growth engines and rediscovery of the value in several subsidiaries that did not gain attention before. It will also ensure the ETC and OTC businesses identify new ways to increase value, resulting in increased value for shareholders in the long term. The year 2013 marks the 81st year of Dong-A Pharmaceutical's founding. Our plan is to have the year mark a new beginning of our new journey forward.

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders Dong-A Socio Holdings Co., Ltd.:

We have audited the accompanying separate statements of financial position of Dong-A Socio Holdings Co., Ltd. (the "Company") as of December 31, 2012, 2011 and the related separate statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate 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 separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate 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 separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011, 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 separate financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

(1) Demerger

As discussed in note 39, the Company divided the existing company into two separate entities by spin-off ETC(Ethical drug) business and by split-off its OTC(Over-the counter drug) business and converted the investment, biomedicine business into a holding company, according to the resolution of its board of directors on October 23, 2012 and the extra-ordinary shareholders' meeting on January 28, 2013 to improve its transparency in corporate governance and its management stability.

(2) Change of presentation of operating profit

As discussed in note 2 to the separate financial statements, the Company adopted the amendment to K-IFRS No. 1001, 'Presentation of Financial Statements' for the year ended December 31, 2012. The amendment requires operating profit, which is calculated by revenue less: 1) cost of goods sold, and 2) selling, general and administrative expenses, to be separately presented on the statements of comprehensive income. The Company applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the statement of comprehensive income for the year ended December 31, 2011.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 5, 2013

This report is effective as of March 5, 2013, 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 separate 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.

Separate Statements of Financial Position

As of December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS Co., Ltd.

(In thousands of won)	Note	2012	2011
Assets			
Cash and cash equivalents	4,37 ₩	357,823,454	154,559,323
Short-term financial instruments	37	-	40,000,000
Trade receivables	5,15,24,37	135,485,218	143,619,866
Other receivables	6,15,35,37	4,883,295	2,855,310
Other financial assets	7,35,37	154,875	113,077
Inventories	8	131,245,964	120,392,517
Other current assets	9	4,251,735	4,620,673
Total current assets		633,844,541	466,160,766
Long-term financial instruments	4,37	15,000	20,500
Trade receivables	5,35,37	-	290,663
Other receivables	6,35,37	6,017,093	7,752,839
Other financial assets	7,35,37	35,667,375	37,971,981
Property, plant and equipment	10	572,948,193	544,749,077
Intangible assets	11	15,230,001	17,017,488
Investment property	10,12	36,206,917	37,045,262
Investments in associates	13,15	49,204,287	49,204,287
Investments in subsidiaries	14,15	76,535,226	76,535,226
Other non-current assets	9	85,645	11,951
Total non-current assets		791,909,737	770,599,274
Total assets	₩	1,425,754,278	1,236,760,040

See accompanying notes to the separate financial statements.

DONG-A SOCIO HOLDINGS Co., Ltd.

(In thousands of won)	Note	2012	2011
Liabilities			
Trade payables	15,35,37	₩ 43,396,902	59,031,242
Other payables	15,16,17,20,35,37	73,149,039	88,740,939
Short-term borrowings	10,15,18,24,25,35,37	249,027,193	191,803,841
Other financial liabilities	15,19,35,37	489,500	834,864
Provisions	22	10,845,918	9,501,673
Other current liabilities	23	2,535,550	1,052,941
Income tax payable	30	9,539,829	14,257,121
Total current liabilities		388,983,931	365,222,621
Other payables	5,17,35,37	7,085,208	6,645,737
Long-term borrowings	10,18,35,37	231,389,176	86,234,396
Other financial liabilities	5,19,35,37	110,000	60,000
Employee benefits	21	20,254,337	18,858,466
Other non-current liabilities	23	6,150,588	123,099
Deferred tax liabilities	30	25,518,624	27,206,716
Total non-current liabilities		290,507,933	139,128,414
Total liabilities		679,491,864	504,351,035
Equity			
Share capital	1,25	55,675,000	55,675,000
Share premium	26	73,906,182	73,906,182
Treasury shares	25,27	(42,623,676)	(3,518,635)
Other equity components	7,18,25,28	233,940,960	233,974,942
Retained earnings	29	425,363,948	372,371,516
Total equity		746,262,414	732,409,005
Total liabilities and equity	₩	1,425,754,278	1,236,760,040

See accompanying notes to the separate financial statements.

Separate Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS Co., Ltd.

(In thousands of won, except per share information)	Note	2012	2011 Restated
Revenue	15	₩ 930,979,508	907,293,509
Finished Goods		685,282,516	679,574,840
Merchandise		200,419,732	192,243,630
Raw Materials		36,000,533	24,683,192
Commissions	24	9,276,727	10,791,847
Cost of sales	8,15,32	445,854,667	404,695,224
Finished Goods		261,482,123	248,926,864
Merchandise		163,161,602	139,999,567
Raw Materials		21,210,942	15,768,793
Gross profit		485,124,841	502,598,285
Selling, general and administrative expenses	15,32,33	396,633,499	405,247,802
Results from operating activities	2	88,491,342	97,350,483
Other income	12,15,34	8,908,075	10,225,635
Other expenses	32,34	7,597,266	12,560,942
Finance income	7,15,19,36	19,975,181	6,566,674
Finance costs	15,36	20,923,978	15,086,849
Profit before income tax		88,853,354	86,495,001
Income tax expense	30	21,107,138	25,841,128
Profit for the year		₩ 67,746,216	60,653,873
Other comprehensive income (loss)			
Net change in fair value of available-for-sale financial assets	7,28	₩ (2,810,776)	2,666,964
Defined benefit plan actuarial gains (loss)	21	(3,625,426)	(6,426,170)
Other comprehensive income (loss) for the year, net of income tax		(6,436,202)	(3,759,206)
Total comprehensive income for the year		₩ 61,310,014	56,894,667
Earnings per share			
Basic earnings per share (won)	31	₩ 6,326	5,578
Diluted earnings per share (won)	31	₩ 5,381	5,575

See accompanying notes to the separate financial statements.

Separate Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS Co., Ltd.

(In thousands of won)

		Share capital	Share premium	Treasury shares	Other equity	Retained earnings	Total equity
Balance at January 1, 2011	₩	55,675,000	73,906,182	(14,584,986)	232,735,006	329,174,053	676,905,255
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	60,653,873	60,653,873
Other comprehensive income (loss):							
Change in fair value of available-for-sale financial assets		-	-	-	2,666,964	-	2,666,964
Defined benefit plan actuarial losses		-	-	-	-	(6,426,170)	(6,426,170)
Total other comprehensive income		-	-	-	2,666,964	(6,426,170)	(3,759,206)
Total comprehensive income for the year		-	-	-	2,666,964	54,227,703	56,894,667
Transactions with owners, recorded directly in equity:							
Dividends		-	-	-	-	(11,030,240)	(11,030,240)
Disposal of treasury stock		-	-	11,066,351	(1,427,028)	-	9,639,323
Total transactions with owners		-	-	11,066,351	(1,427,028)	(11,030,240)	(1,390,917)
Balance at December 31, 2011	₩	55,675,000	73,906,182	(3,518,635)	233,974,942	372,371,516	732,409,005
Balance at January 1, 2012	₩	55,675,000	73,906,182	(3,518,635)	233,974,942	372,371,516	732,409,005
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	67,746,216	67,746,216
Other comprehensive income (loss):							
Change in fair value of available-for-sale financial assets		-	-	-	(2,810,776)	-	(2,810,776)
Defined benefit plan actuarial losses		-	-	-	-	(3,625,425)	(3,625,425)
Total other comprehensive income		-	-	-	(2,810,776)	(3,625,425)	(6,436,201)
Total comprehensive income for the year		-	-	-	(2,810,776)	64,120,791	61,310,015
Transactions with owners, recorded directly in equity:							
Dividends		-	-	-	-	(11,128,359)	(11,128,359)
Issue of convertible redeemable preferred stock		-	-	-	2,709,613	-	2,709,613
Acquisition of treasury stock		-	-	(39,138,883)	-	-	(39,138,883)
Disposal of treasury stock		-	-	33,842	67,181	-	101,023
Total transactions with owners		-	-	(39,105,041)	2,776,794	(11,128,359)	(47,456,606)
Balance at December 31, 2012	₩	55,675,000	73,906,182	(42,623,676)	233,940,960	425,363,948	746,262,414

See accompanying notes to the separate financial statements.

Separate Statements of Cash Flows

For the years ended December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS Co., Ltd.

(In thousands of won)	Note	2012	2011
Cash flows from operation activities			
Profit for the year	₩	67,746,216	60,653,873
Adjustments	38	64,936,114	74,291,056
Changes in assets and liabilities	38	(49,235,779)	(1,980,359)
Income taxes paid		(25,689,780)	(19,945,472)
Net cash from operating activities		57,756,771	113,019,098
Cash flows from investing activities			
Interest received		7,139,862	4,061,097
Dividends received		676,436	432,239
Decrease in short term financial instruments		40,000,000	-
Collection of short term receivables from employees		486,831	546,891
Sale of in available-for-sale financial assets		9,678,163	-
Sale of in held-to-maturity financial assets		60,785	22,705
Proceeds from sale of property, plant and equipment		237,115	11,160,830
Decrease in deposits		1,364,732	977,168
Decrease in long-term financial instruments		5,500	-
Proceeds from intangible assets		2,548,600	-
Decrease in long-term loans		998,120	-
Decrease in derivative instruments		194,000	-
Increase in short term financial instruments		-	(40,000,000)
Increase in short term receivables from employees		(1,192,909)	(673,523)
Acquisition of available-for-sale financial assets		(10,007,604)	(17,453,358)
Acquisition of held-to-maturity financial assets		(34,475)	(6,800)
Acquisition of property, plant and equipment		(55,530,595)	(67,505,993)
Acquisition of intangible assets		(2,276,861)	(3,626,880)
Increase in deposits		(1,736,460)	(436,546)
Decrease in derivative instruments		(156,623)	-
Net cash used in investing activities		(7,545,383)	(112,502,170)

See accompanying notes to the separate financial statements.

DONG-A SOCIO HOLDINGS Co., Ltd.

(In thousands of won)	Note	2012	2011
Cash flows from financing activities			
Proceeds from short term borrowings		119,424,598	77,710,842
Proceeds from long term borrowings		15,000,000	51,894,404
Proceeds from debentures		179,269,300	-
Proceeds from rental deposits received		438,598	2,313,348
Proceeds from disposal of treasury stock		122,006	9,183,729
Proceeds from current portion of convertible preferred stocks		47,267,681	-
Proceeds from convertible preferred stocks		2,709,613	-
Interest paid		(8,220,785)	(7,661,931)
Dividends paid		(11,128,359)	(11,030,240)
Repayment of short-term borrowings		(72,849,670)	(49,661,646)
Repayment of current portion of long-term borrowings		(12,000,000)	-
Repayment of current portion of debentures		-	(38,000,000)
Repayment of long-term borrowings		(276,271)	(12,016,782)
Repayment of bonds with warrants		(66,979,500)	-
Repayment of rental deposits received		(10,000)	(1,649,937)
Acquisition of treasury stock		(39,138,883)	-
Net cash provided by financing activities		153,628,328	21,081,787
Net increase in cash and cash equivalents		203,839,716	21,598,715
Cash and cash equivalents at 1 January		154,559,323	132,599,777
Effect of exchange rate fluctuations on cash held		(575,585)	360,831
Cash and cash equivalents at end of year	₩	357,823,454	154,559,323

See accompanying notes to the separate financial statements.

Notes to the Separate Financial Statements

For the years ended December 31, 2012 and 2011

1. Reporting Entity

Dong-A Socio Holdings 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. As of December 31, 2012, the Company's share capital is ₩ 55,675 million.

The Company changed its name to Dong-A Socio Holdings Co., Ltd. effective March 1, 2013 due to the demerger.

2. Basis of Preparation

(1) Statement of compliance

The 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 financial statements are separate financial statements prepared in accordance with K-IFRS No.1027 *Consolidated 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 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 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 year in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- * Note 12 – classification of investment property
- * 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) Changes in accounting policies

(i) Financial Instruments: Disclosures

The Company has applied the amendments to K-IFRS No.1107, 'Financial Instruments: Disclosures' since January 1, 2012. The amendments require disclosing the nature of 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 retains their specific risks and rewards, the amendments require additional disclosures of their risks.

(ii) Presentation of financial statements

The Company adopted the amendments pursuant to the amended K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Company's operating profit is calculated as revenue less: (1) cost of goods sold, and (2) selling, general and administrative expenses, and is presented separately in the statement of comprehensive income.

Additionally, in the notes to the financial statements, the Company provides voluntary disclosure of entity-specific measure of operating performance presented as "adjusted operating profit" which is calculated base on the Company's own criteria. In doing so, the Company is required to disclose: (1) a reconciliation between the entity-specific measure of operating performance and operating profit or loss presented on the face of the statement of comprehensive income, and (2) the fact that the measure of operating performance disclosed in the notes is calculated based on the Company's own criteria.

The Company retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

(In thousands of won)		2012	2011
Operating profit before adoption of the amendments	₩	89,802,151	95,015,176
Changes		(1,310,809)	2,335,307
Other operating income		(8,908,075)	(10,225,635)
Other operating expense		7,597,266	12,560,942
Operating profit (or loss) after adoption of the amendment	₩	88,491,342	97,350,483

(6) Date of authorization for the separate financial statements

The financial statements were authorized for issue by the Board of Directors on February 22, 2013. Which will be submitted for approval to the shareholder's meeting to be held on March 15, 2013.

3. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in Note 2 (5).

(1) Operating segment

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

(2) Associates and jointly controlled entities in the Separate Financial Statements

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027 *Consolidated and Separate Financial Statements*. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. The carrying amount under previous K-GAAP on the date of transition to K-IFRS is considered to be the deemed cost of investments in subsidiaries and associates on the date of transition. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(4) Inventories

The cost of inventories is determined by the specific identification method for materials in transit and by the moving-average method for all other inventories, 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.

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 year 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 year 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 year 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 remeasuring 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 years 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.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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 year, 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 year, 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 exemptions in *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 property, plant and equipment 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) 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 year of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short year 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 year 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 year, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a year shall not exceed the amount of borrowing costs incurred during that year.

(10) 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 years 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 years and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting year. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting year 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.

(11) 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 years in which the Company recognizes the related costs as expenses.

(12) 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.

Subsequent costs are recognized in the carrying amount of investment property 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.

Investment property except for land, are depreciated on a straight-line basis over 20–60 years as estimated useful lives.

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.

Due to the commencement of owner-occupation or of development with a view to sale, the deemed cost of investment property carried at fair value transferred to owner-occupied property or inventories is the investment property's fair value at the date of change in use.

If an owner-occupied property becomes an investment property that will be carried at fair value due to the cease of owner-occupation, the Company shall reevaluate it at the fair value at the date of change in use, and reclassify it to investment property.

(13) 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 year 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.

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.

(14) 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).

(15) Non-current assets held for distribution

Non-current assets (or disposal group) are classified as held for distribution to owners when the Group is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification.

The Group measures non-current assets (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.

The Group recognizes the liability to distribute non-current assets (or disposal group) as a dividend or the return investments to its owners at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the Group reviews and adjusts the carrying amount of the liability, with any changes in the carrying amount of the liability recognized in equity as adjustments to the amount of the distribution.

When the Group settles the liability, it recognizes the difference, if any, between the carrying amounts of the assets distributed and liabilities in profit or loss.

(16) 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).

(17) 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 year in which the employees render the related service. When an employee has rendered service to the Company during an accounting year, 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 year 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 years, 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 year 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 years; 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 years, resulting in the current year from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average year 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 year, then they are discounted to their present value.

(18) 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 recognized 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 year 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.

(19) Convertible bonds and bonds with warrants

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

The liability component of a convertible bond and 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.

(20) 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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.

(21) 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 recognized in equity. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(22) 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 goods, 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.

(23) 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.

(24) 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 year and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the year since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future years, 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 year 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 year 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 year. 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 year 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.

(25) 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 year, 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.

(26) 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, 2012, and the Company has not early adopted them. Management believes the impact of the amendments on the Company's financial statements is not significant.

(i) K-IFRS No.1110, 'Consolidated Financial Statements'

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Company may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(ii) K-IFRS No.1111, 'Joint Arrangements'

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iii) K-IFRS No.1112, 'Disclosure of Interests in Other Entities'

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iv) 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.

(v) 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.

(vi) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

4. Restricted deposits

Deposits which are restricted in use for guarantee for checking account as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011	Restrictions
Cash and Cash equivalents	₩	-	2,897,895	Stock swap cash dividends
Financial instruments		15,000	20,500	Deposits on checking accounts
	₩	15,000	2,918,395	

5. Trade receivables and other receivables

(1) Trade receivables as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012		December 31, 2011	
		Current	Non-current	Current	Non-current
Trade receivables	₩	136,976,775	-	144,725,929	290,663
Less: provision for impairment		(1,491,557)	-	(1,106,063)	-
	₩	135,485,218	-	143,619,866	290,663

(2) Changes in provision for impairment for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Opening balance	₩	1,106,063	8,781,196
Bad debt expense (reversal of bad debt expense)		748,250	(495,156)
Write-offs		(448,076)	(7,182,203)
Reversal of write-offs		85,320	2,226
Ending balance	₩	1,491,557	1,106,063

6. Other receivables

Other receivables as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Loans to employees	₩ 1,011,203	-	305,126	-
Other loans	-	1,726,094	-	2,508,748
Other receivables	2,831,078	544,111	2,021,552	1,732,432
Accrued revenue	1,041,014	-	528,632	-
Deposits	-	3,746,888	-	3,511,659
	₩ 4,883,295	6,017,093	2,855,310	7,752,839

7. Other financial assets

(1) Other financial assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Available-for-sale financial assets	₩ -	35,571,380	-	37,754,656
Held-to-maturity financial assets	154,875	95,995	59,855	217,325
Derivatives	-	-	53,222	-
	₩ 154,875	35,667,375	113,077	37,971,981

The Company recognized ₩ 140,778 thousand of gain in transaction of derivatives for the year ended December 31, 2012.

(2) Available-for-sale financial assets

① Available-for-sale financial assets as of December 31, 2012 are as follows:

(In thousands of won)	Acquisition cost	Unrealized gain (loss)			Ending balance	Accumulated impairment	Book value (Fair value)
		Opening balance	Valuation	Realized gain(loss)			
Equity securities							
Marketable securities (*1,2)	₩ 24,474,601	7,049,853	(2,279,812)	(1,242,338)	3,527,703	(470,848)	27,531,456
Non-marketable securities (*2)	12,758,935	-	-	-	-	(6,219,011)	6,539,924
Debt securities	1,500,000	-	-	-	-	-	1,500,000
	₩ 38,733,536	7,049,853	(2,279,812)	(1,242,338)	3,527,703	(6,689,859)	35,571,380

(*1) Impairment losses on marketable securities and non-marketable securities securities in the amount of ₩ 470,848 thousand and ₩ 197,881 thousand during the year ended December 31, 2012.

(*2) Gains on sale of marketable securities in the amount of ₩ 1,678,163 thousand during the year ended December 31, 2012.

Available-for-sale financial assets as of December 31, 2011 were as follows:

(In thousands of won)	Acquisition cost	Unrealized gain (loss)			Ending balance	Accumulated impairment	Book value (Fair value)
		Opening balance	Valuation	Realized gain(loss)			
Equity securities							
Marketable securities (*1)	₩ 22,466,998	3,630,668	3,419,185	-	7,049,853	-	29,516,851
Non-marketable securities (*2)	12,758,935	-	-	-	-	(6,021,130)	6,737,805
Debt securities	1,500,000	-	-	-	-	-	1,500,000
	₩ 36,725,933	3,630,668	3,419,185	-	7,049,853	(6,021,130)	37,754,656

(*1) The Company has agreed with E1 Inc. to mutually exchange the proceeds from future sale of equity investment of 713 thousand shares in LS Networks by the Company 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.

② Changes in available- for-sale financial assets for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	37,754,656	16,817,439
Acquisition of available-for-sale financial assets		10,007,603	17,453,359
Transfers(*)		-	499,500
Impairment		(668,729)	(434,827)
Valuation gain/loss(before income taxes)		(3,522,150)	3,419,185
Disposals		(8,000,000)	-
Ending balance at end of year	₩	35,571,380	37,754,656

(*) Although the ownership in Soo Seok Trading Co., Ltd. is less than 20%, it was classified as the investment in associates prior to 2011 due to the Company's significant influence on the investee's board of directors as of December 31, 2010. However, as the Company lost its significant influence, the investment was reclassified to available-for-sale financial assets during 2011.

(3) Held-to-maturity financial assets

① Held-to-maturity financial assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011
Housing bonds	₩	175,800	152,271
Subway bonds		56,045	97,310
Regional development bonds		18,095	25,740
Subordinated bonds		930	1,859
	₩	250,870	277,180

② Changes in held-to-maturity financial assets for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning Balance	₩	277,180	293,085
Acquisition		34,475	6,800
Disposals		(60,785)	(22,705)
Ending Balance	₩	250,870	277,180

(4) Derivative assets

In 2011, the Company entered into currency forward contracts up to USD 2,500,000 to mitigate the risk associated with foreign exchange rate fluctuation with Korean Development Bank with a maturity of one year. The Company recognized ₩ 140,778 thousand of gain in transaction of derivatives for the year ended December 31, 2012 and ₩ 53,222 thousand of gain in valuation of derivatives for the year ended December 31, 2011.

8. Inventories

(1) Inventories as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011
Finished goods	₩	33,479,325	25,351,209
Merchandise		49,829,849	47,568,974
Work in progress		24,130,325	24,045,530
Raw materials		22,288,370	21,991,683
Base materials		2,634,447	2,020,279
Other inventories		2,045,264	1,995,368
Allowance for inventory valuation		(3,161,616)	(2,580,526)
	₩	131,245,964	120,392,517

(2) During 2012 and 2011, 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)		2012	2011
Cost of sales Including:			
- Loss on valuation of inventories	₩	676,699	1,087,047
- Reversal of loss on valuation of inventories		(95,609)	(1,879,494)

9. Other assets

Other financial assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Advanced payments	₩ 3,454,250	-	4,278,567	-
Prepaid expense	797,485	85,645	342,106	11,951
	₩ 4,251,735	85,645	4,620,673	11,951

10. Property, plant and equipment

(1) Changes in property, plant and equipment during the year ended December 31, 2012 are as follows:

(In thousands of won)	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Machinery in transit	Total
Acquisition Cost:									
Beginning 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
Acquisition(*1)	138,280	203,711	-	3,504,315	256,890	2,618,366	40,655,858	8,153,175	55,530,595
Disposals	-	(51,149)	(145,635)	(1,992,809)	(115,073)	(275,008)	-	-	(2,579,674)
Transfers	23,444,688	2,768,933	955,500	16,688,349	24,325	1,582,840	(39,488,766)	(7,194,457)	(1,218,588)
Others(*2)	533,672	56,457	-	-	-	-	-	-	590,129
Ending Balance	₩ 242,442,920	219,941,076	11,042,057	146,369,694	3,652,555	38,085,357	67,964,726	4,870,756	734,369,141
Accumulated Depreciation/Impairment losses:									
Beginning Balance	₩ -	(32,240,206)	(3,951,127)	(77,248,648)	(1,988,464)	(21,869,157)	-	-	(137,297,602)
Depreciation	-	(5,447,293)	(427,922)	(15,332,826)	(492,621)	(4,705,883)	-	-	(26,406,545)
Disposals	-	21,413	67,444	1,906,524	112,912	181,375	-	-	2,289,668
Others(*2)	-	(6,469)	-	-	-	-	-	-	(6,469)
Ending Balance	₩ -	(37,672,555)	(4,311,605)	(90,674,950)	(2,368,173)	(26,393,665)	-	-	(161,420,948)
Net Book Value:									
Beginning 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
Ending Balance	₩ 242,442,920	182,268,521	6,730,452	55,694,744	1,284,382	11,691,692	67,964,726	4,870,756	572,948,193

(*1) Include the amount of ₩ 663,353 thousand of borrowing costs during 2012.

(*2) Reclassified to investment property

(2) Changes in property, plant and equipment during the year ended December 31, 2011 were as follows:

(In thousands of won)	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Machinery in transit	Total
Acquisition Cost:									
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

(In thousands of won)	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Machinery in transit	Total	
Accumulated Depreciation/Impairment losses:										
Beginning Balance	₩	-	(26,990,721)	(3,569,615)	(65,565,148)	(1,995,973)	(29,597,970)	-	-	(127,719,427)
Depreciation		-	(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)
Net Book Value:										
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

(3) The following assets were pledged as collateral for borrowings as of December 31, 2012 are as follows:

(In thousands of won)

Lender	Assets	Type of Borrowings	Borrowing amount	Book value	Collateralized amount
SC First Bank	Land, buildings and machinery	General loan	30,000,000	121,039,308	22,900,000
Kookmin Bank	Land and buildings	Indirect loan	35,000,000	53,069,289	54,250,000
		General loan	10,000,000		
Korea Development Bank	Land, buildings and machinery	Bonds and loan for facility funding	34,000,000	230,072,051	36,400,000 USD 4,500,000 JPY 1,200,000

(4) The following assets were insured as of December 31, 2012 are as follows:

(In thousands of won)

Type of Insurance	Type of Assets	Insured amount(*)	Insurance Company
Fire insurance	Buildings(Headquarter, Factory) and Others	322,154,029	Samsung Fire & Marine Insurance Co., Ltd.

(*) Of the above amount, ₩ 12,063 million is pledged with Sangdong Branch of Korea Development Bank.

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

11. Intangible assets

(1) Changes in intangible assets for the years ended December 31, 2012 are as follows:

(In thousands of won)		Industrial property rights	Facility usage right	Other intangible assets	Total
Acquisition costs:	₩				
Beginning balance		4,084,447	15,473,721	8,178,643	27,736,811
Acquisitions		1,029,397	490,560	756,904	2,276,861
Disposals		(213)	(198,268)	(1,847,500)	(2,045,981)
Ending balance	₩	5,113,631	15,766,013	7,088,047	27,967,691
Accumulated amortization and impairment losses:					
Beginning balance		(2,206,918)	(4,299,623)	(4,212,782)	(10,719,323)
Amortization		(482,626)	-	(910,681)	(1,393,307)
Impairment loss		-	(625,060)	-	(625,060)
Ending balance	₩	(2,689,544)	(4,924,683)	(5,123,463)	(12,737,690)
Net book value:					
Beginning balance		1,877,529	11,174,098	3,965,861	17,017,488
Ending balance	₩	2,424,087	10,841,330	1,964,584	15,230,001

(2) Changes in intangible assets for the years ended December 31, 2011 were as follows:

(In thousands of won)		Industrial property rights	Facility usage right	Other intangible assets	Total
Acquisition costs:	₩				
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
Accumulated amortization and impairment losses:					
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)
Net book value:					
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

(3) Research and development costs incurred for the years ended December 31, 2012 and 2011 are ₩ 68,562,049 thousand and ₩ 61,671,664 thousand, respectively, which were classified as selling, development and administrative expenses.

12. Investment property

(1) Changes in investment property for the years ended December 31, 2012 are as follows:

(In thousands of won)		Land	Building	Total
Acquisition costs:				
Beginning balance	₩	27,691,728	10,833,631	38,525,359
Transfers		(533,672)	(56,457)	(590,129)
Ending balance	₩	27,158,056	10,777,174	37,935,230
Accumulated depreciation and impairment losses:				
Beginning balance	₩	-	(1,480,097)	(1,480,097)
Depreciation		-	(254,686)	(254,686)
Transfers		-	6,470	6,470
Ending balance	₩	-	(1,728,313)	(1,728,313)
Net book value:				
Beginning balance		27,691,728	9,353,534	37,045,262
Ending balance		27,158,056	9,048,861	36,206,917

(2) Changes in investment property for the years ended December 31, 2011 were as follows:

(In thousands of won)		Land	Building	Total
Acquisition costs:				
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
Accumulated depreciation and impairment losses:				
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)
Net book value:				
Beginning balance		23,579,615	7,488,177	31,067,792
Ending balance		27,691,728	9,353,534	37,045,262

(3) Recognized profit or loss related to investment property for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Rental income	₩	926,326	951,223
Operation expense		(111,159)	(114,147)
Total	₩	815,167	837,076

(4) Fair value and the book value of the investment property as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
	Fair Value	Book Value	Fair Value	Book Value
Land	₩ 21,175,796	27,158,056	21,681,580	27,691,728
Buildings	6,398,836	9,048,860	5,118,254	9,353,534
Total	₩ 27,574,632	36,206,916	26,799,834	37,045,262

13. Investments in associates

Investments in associates as of December 31, 2012 and 2011 are as follows:

Company	December 31, 2012		December 31, 2011	
	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Dong-A Otsuka Co., Ltd.	49.99	36,841,988	49.99	36,841,988
Korea Sinto Co., Ltd.	50.00	6,085,000	50.00	6,085,000
MBC Ad Co., Ltd.	25.00	810,000	25.00	810,000
Dong-A Pharmtech Co., Ltd.	33.72	4,301,595	33.72	4,301,595
Dong-A America Corp.(*1)	100.00	588,470	100.00	588,470
Suzhou Dong-A Beverage Corp.(*2)	45.00	577,234	45.00	577,234
Total		49,204,287		49,204,287

(*1) Impairment loss of ₩ 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.

(*2) Impairment loss of ₩ 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, 2012 and 2011 are as follows:

Company	December 31, 2012		December 31, 2011	
	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Soo Seok Co., Ltd.	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
Yong-Ma Logis Co.,Ltd	99.50	22,207,257	99.50	22,207,257
DA Information Co., Ltd	100.00	1,562,193	100.00	1,562,193
ST Pharm Co., Ltd. (*)	13.18	1,305,564	13.18	1,305,564
Total		76,535,226		76,535,226

(*) This was classified as investments in subsidiaries although 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, 2012 and 2011 are as follows:

Company	Controlling company	December 31, 2012		December 31, 2011	
		Ownership	Subsidiaries	Ownership	Subsidiaries
Soo Seok Co., Ltd.	Dong-A Socio Holdings Co., Ltd.	100.00%	-	100.00%	-
Soo Seok Nong San Co.,Ltd.	Dong-A Socio Holdings Co., Ltd.	100.00%	-	100.00%	-
Yong-Ma Logis Co.,Ltd.	Dong-A Socio Holdings Co., Ltd.	97.69%	1.81%	97.69%	1.81%
DA Information Co., Ltd	Dong-A Socio Holdings Co., Ltd.	100.00%	-	100.00%	-
ST Pharm Co., Ltd. (*)	Dong-A Socio Holdings Co., Ltd.	13.18%	-	13.18%	-
Induspark Co., Ltd.	Soo Seok Co., Ltd.		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, 2012 and 2011 are as follows:

(In thousands of won)

Relationship	Name	Transaction	2012	2011
		Rent	₩ -	924
		Other income	16,938	16,992
	Soo Seok Co., Ltd.	Purchase - materials	42,175,637	37,983,515
		Dividens income	180,000	-
		Purchase - land	1,700,000	-
	Soo Seok Nong San Co., Ltd.	Purchase - materials	643,306	499,488
		Sales – goods	18,486	-
		Rent	77,793	69,840
		Other income	31,196	240,314
	Yong-Ma Logis Co., Ltd.	Outside service fees	11,897,901	11,524,607
Subsidiaries		Commissions	7,490,182	5,322,788
		Dividens income	243,251	243,251
		Rent	49,484	48,280
		Other income	-	275
	DA Information Co., Ltd.	Purchase - goods	3,145,589	3,779,788
		Outside service fees	2,065,458	807,202
		Sales- goods	801,000	21,000
		Rent	1,131	1,951
	ST Pharm Co., Ltd.	Interest income	226,212	157,534
		Other income	2,850	-
		Purchase - materials	24,342,825	22,506,676
	Dong-A Pharmtech Co., Ltd.	Commission revenue	2,207,961	94,876
		Commissions	214,986	874,132
		Sales - merchandise	2,693,485	1,676,877
		Rent	169,214	172,127
Associates	Dong-A Otsuka Co., Ltd.	Other income	36,466	33,750
		Purchase – goods	12,430,851	6,069,136
		Sales promotion	53,136	6,691
		Other income	24,382	23,177
	Korea Sinto Co., Ltd.	Dividens income	95,000	38,000
Other	DM Bio Ltd.	Interest expense	561,055	1

(3) Account balances with related companies as of December 31, 2012 and 2011 are as follows:

① December 31, 2012

(In thousands of won)

Relationship	Name	Receivables			
		₩	Accounts receivable - trade	Accounts receivable - other	Advanced payment
Subsidiaries	Yong-Ma Logis Co., Ltd.	₩	-	2,631	-
	Soo Seok Co., Ltd.		-	792	-
	ST Pharm Co., Ltd.		68,530	-	1,726,094
Associates	Dong-A Pharmtech Co., Ltd.		687,797	-	-
	Dong-A Otsuka Co., Ltd.		1,133,538	9,819	-
	Korea Sinto Co., Ltd.		-	1,989	-
	Total	₩	1,889,865	15,231	1,726,094

(In thousands of won)

Relationship	Name	Payables				
		₩	Accounts payable - trade	Accounts payable - other	Rental deposits received	Borrowings
Subsidiaries	Yong-Ma Logis Co., Ltd.	₩	499,249	459,989	1,161,974	-
	Soo Seok Co., Ltd.		6,372,231	-	-	-
	Soo Seok Nong San Co., Ltd.		126,760	-	-	-
	DA Information Co., Ltd.		36,300	754,900	31,762	-
	ST Pharm Co., Ltd.		1,496,636	3,200	-	-
Associates	Dong-A Otsuka Co., Ltd.		-	1,574,974	2,588,061	-
	Korea Sinto Co., Ltd.		-	-	687,031	-
Other	DM Bio Ltd.		-	-	-	43,642,835
	Total	₩	8,531,176	2,793,063	4,468,828	43,642,835

② December 31, 2011

(In thousands of won)

Relationship	Name	Receivables				
		Construction in progress	Accounts receivable - trade	Accounts receivable - other	Advanced payment	
Subsidiaries	Yong-Ma Logis Co., Ltd.	₩	-	-	3,072	-
	Soo Seok Co., Ltd.		17,000,000	-	1,584	-
	ST Pharm Co., Ltd.		-	-	-	2,508,748
Associates	Dong-A Pharmtech Co., Ltd.		-	104,364	-	-
	Dong-A Otsuka Co., Ltd.		-	781,894	10,023	-
	Korea Sinto Co., Ltd.		-	-	1,863	-
	Total	₩	17,000,000	886,258	16,542	2,508,748

(In thousands of won)

Relationship	Name	Payables				
		Accounts payable - trade	Accounts payable - other	Rental deposits received	Borrowings	
Subsidiaries	Yong-Ma Logis Co., Ltd.	₩	-	939,909	856,986	-
	Soo Seok Co., Ltd.		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		-	154,153	-	-
	Dong-A Otsuka Co., Ltd		-	1,068,525	2,549,161	-
	Korea Sinto Co., Ltd.		-	-	674,883	-
Other	DM Bio Ltd.		-	-	-	51,958,126
	Total	₩	12,057,020	2,883,957	4,112,230	51,958,126

(4) Key management personnel compensation in total and for each of the following categories for the year ended December 31, 2012 and 2011 are as follows:

(In thousands of won)

Compensation details		2012	2011
Short-term employee benefits	₩	3,195,210	2,678,101
Post-employment benefits		1,204,023	891,055

(5) Details of guarantees which the Company had provided for related companies as of December 31, 2012 are as follows:

(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	5,200,000
			Citibank Korea	7,150,000
				₩ 13,650,000

(6) Details of assets which are pledged as collateral for borrowings of related companies as of December 31, 2012 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 with conditional government grants for development project from the Korean government and there is possibility of repayment of government grants received depending on results of development projects. The Company entered into development agreement with Ministry of Health and Welfare for asthma and lung decease cure medicine which is a national research project. As of December 31, 2012, remaining balance of the government grants received is ₩ 8,053,243 thousand and classified as withholdings in other payables the statement of financial position.

17. Other liabilities

Other liabilities as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012	December 31, 2011
Current:		
Other payables	₩ 40,405,567	51,159,577
Accrued expenses	15,887,657	19,561,830
Withholdings	9,823,439	9,644,805
Withholding income taxes	1,154,883	1,311,474
Withholding value added taxes	5,877,493	7,063,253
Total	73,149,039	88,740,939

	December 31, 2012	December 31, 2011
Non-current:		
Rental deposits received	7,577,513	7,148,915
Discount present value	(492,305)	(503,178)
	₩ 7,085,208	6,645,737

18. Loans and borrowings

(1) Borrowings as of December 31, 2012 and 2011 are as follows:

(In thousands of won)

Lender	Type	Interest Rate	Year of maturity	December 31, 2012	December 31, 2011
Current:					
Nonghyup Bank and others	Short-term borrowing	4.75 ~ 5.50	2013	124,424,598	77,849,670
SC First Bank and others	Current portion of long-term borrowing	4.48 ~ 4.97	2013	22,000,000	12,000,000
E trade securities	Bonds with warrants(*1)	4.50	2017	-	101,954,171
DM Bio Limited	Convertible redeemable preferred stocks(*2)	1.00	2019	43,642,835	-
Sanitas Co.,Ltd and others	Convertible redeemable preferred stocks(*2)	3.00	2017	48,959,760	-
Korea Development Bank	Current portion of bonds	6.14	2013	10,000,000	-
Sub-total				249,027,193	191,803,841
Non-current:					
SC First Bank and others	Long-term borrowings	4.48 ~ 4.97	2014 ~ 2015	17,000,000	24,276,270
DM Bio Limited	Convertible redeemable preferred stocks	1.00	2019	-	51,958,126
E trade securities	Bonds with warrants(*1)	4.50	2017	43,040,973	-
Woori investment & securities	Bonds	3.33	2015	67,075,737	10,000,000
Woori investment & securities	Bonds	3.69	2017	104,272,466	-
Sub-total				231,389,176	86,234,396
Total				480,416,369	278,038,237

(*1) Bonds with warrants was classified as current liabilities as the early redemption right is exercisable within a year from the prior reporting period. However, bonds with warrants in the amount of ₩ 600 billion were redeemed early as the early redemption right were exercised. As of December 31, 2012, as the early redemption rights have expired, bonds with warrants of ₩ 400 billion will be redeemed at the maturity date. Accordingly, the Company classified bonds with warrants as non-current liabilities.

(*2) Although the year of maturity of the Convertible redeemable preferred stocks is 2019, it was classified as current liabilities as the bond holders could exercise the early repayment option which is available within 1 year from December 31, 2012.

(2) Issues and repayments of borrowings during the year ended December 31, 2012 are as follows:

(In thousands of won)	Interestrate(%)	Face value	Carrying amount	Year of maturity
Issues				
Short-term borrowings(*1)	-	9,297,086	9,297,086	2013
Short-term borrowings	4.75 ~ 5.50	110,127,512	110,127,512	2013
Convertible redeemable preferred stocks	3.00	53,519,206	48,959,760	2017
Long-term borrowings	3.70	15,000,000	15,000,000	2015
Bonds	3.33	69,722,300	67,075,737	2015
Bonds	3.69	109,547,000	104,272,466	2017
Repayments				
Short-term borrowings(*1)	-	6,849,670	6,849,670	2012
Short-term borrowings	5.34	66,000,000	66,000,000	2012
Current long-term borrowings	4.41 ~ 5.23	12,000,000	12,000,000	2012
Bonds with warrants(*2)	4.50	60,000,000	64,097,700	2017
Long-term borrowings	5.20	276,271	276,271	2012

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

(*2) As the early redemption rights were exercised, bonds with warrants were redeemed.

(3) Bonds with warrants

① Details of bonds with warrants as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	Issued date	Maturity		December 31, 2012	December 31, 2011
Bonds with warrants	May 12, 2010	May 12, 2017	₩	40,000,000	100,000,000
Premium payable				14,434,480	36,086,200
Discount on bonds with warrants				(665,975)	(1,995,097)
Stock warrants adjustment				(10,727,532)	(32,136,932)
			₩	43,040,973	101,954,171

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

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

Exercise year: 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 may change upon 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.

Economic characteristics and the risks of call option embedded in bonds with stock warrants does not closely relate to the host contract. However, the call option was not accounted for separately since the amortized cost of the debt instrument resulting from the exercises of the call option approximates the redemption amount.

There were no exercises of warrants in 2012.

② Changes in bonds with warrants during the year ended December 31, 2012 are as follows:

(In thousands of won)	December 31, 2011	Amortization	Repayments(*)	December 31, 2012
Bonds with warrants	100,000,000	-	(60,000,000)	40,000,000
Premium	36,086,200	-	(21,651,720)	14,434,480
Discount on bonds with warrants	(1,995,097)	303,051	1,026,071	(665,975)
Stock warrants adjustments	(32,136,932)	4,881,451	16,527,949	(10,727,532)
Book Value	101,954,171	5,184,502	(64,097,700)	43,040,973

(*)The Company redeemed bonds with warrants as the early redemption rights were exercised

(4) Convertible redeemable preferred stocks

① DM Bio Limited

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:

- Duration: 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 of the preferred shareholders
Redemption year: 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.

The Company has an obligation to redeem convertible preferred stocks upon the request from the holders. As the redeem rights are determined by the holders, not the Group, the Group classified convertible preferred stocks as liabilities.

The early redemption features embedded in convertible preferred stocks were not separately classified as embedded derivatives since the redemption value and the carrying value of the underlying debt instruments are almost equivalent.

The Company classified it as current liabilities as it does not have a right to postpone the maturities of debts after a year from the reporting period.

② Sanitas Co.,Ltd and other

The Company issued convertible redeemable preferred stocks of W 47,268 million to raise funds for purchase of facility on March 1, 2012.

The main conditions are as follows:

- Duration: 5 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: 40% of the face value, cumulative and participating preferred stocks
- Redemption right of the preferred shareholders
Redemption year: 3~5 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+compound annual interest which is 3% of the face value- dividends paid
Call feature exists
- Conversion right : 1~5 years from the date of issuance

(*) Par value and the total contributed capitals are ₩ 90,000 and ₩ 49,977,294 thousand, respectively. W 2,709,613 thousand of contributed capitals are classified as other equity.

The conversion rights embedded in convertible redeemable preferred stocks were not separately classified to embedded derivatives as they meet the criteria to be classified as equity instruments.

(5) 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	₩	124,424,598	124,424,598	-	-	-
Long-term borrowings		39,000,000	22,000,000	2,000,000	15,000,000	-
Bonds		10,000,000	10,000,000	-	-	-
Bonds		67,075,737	-	-	67,075,737	-
Bonds		104,272,466	-	-	-	104,272,466
Bonds with warrants		43,040,973	-	-	-	43,040,973
Convertible redeemable preferred stock		92,602,595	92,602,595	-	-	-
Total	₩	480,416,369	249,027,193	2,000,000	82,075,737	147,313,439

19. Other financial liabilities

Other financial liabilities as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012		December 31, 2011	
		Current	Non-current	Current	Non-current
Financial guarantee liabilities(*1)	₩	489,500	110,000	370,500	60,000
Derivative financial liabilities(Equity swap)(*2)		-	-	464,364	-
Total	₩	489,500	110,000	834,864	60,000

(*1) The Company pledged assets 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 year ended December 31, 2012, the gain on transaction of derivative instruments recognized by the Company amounted to ₩ 307,741 thousand. All Equity swap contracts expired in 2012.

20. Share-based payment

The Company granted share-based payment during the years ended December 31, 2012 and 2011 described as follows:

The Company offers employees the opportunity to participate in an employee share purchase plan. During the years ended December 31, 2012 and 2011, the Company made matching contributions which is 50% and 75% of employees' contributions. Contribution amount during 2012 is ₩ 111,779 per share and immediately after the five-year the employees will become entitled to purchasing the shares with the accumulated contribution.

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, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Current service costs	₩	12,621,138	10,414,794
Interest on obligation		3,136,261	3,042,868
Expected return on plan assets		(2,685,663)	(2,108,096)
Total	₩	13,071,736	11,349,566

(2) Defined benefit obligations and other debts as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011
Present value of defined benefit obligations	₩	97,305,467	82,094,006
Fair value of plan assets		(77,051,130)	(63,235,540)
Liability for compensated absence		7,984,548	8,332,292

(3) Changes in defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	18,858,466	14,684,048
Current service costs		13,071,736	11,349,566
Actuarial gains or losses (before income taxes)		4,757,776	8,238,680
Payments to plan assets		(14,500,000)	(11,012,754)
Benefit paid by the plan		(1,933,641)	(4,401,074)
Ending balance		20,254,337	18,858,466
Present value of the defined benefit obligations		97,305,467	82,094,006
Fair value of the plan assets		(77,051,130)	(63,235,540)
Total	₩	20,254,337	18,858,466

(4) Changes in present value of defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	82,094,006	66,814,150
Current service costs		12,621,138	10,414,794
Interests		3,136,261	3,042,868
Actuarial gains or losses		4,775,118	8,327,974
Benefit paid by the plan		(5,321,056)	(6,505,780)
Ending balance	₩	97,305,467	82,094,006

(5) Changes in fair value of the plan assets for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	63,235,540	52,130,102
Expected return on plan assets		2,685,663	2,108,096
Actuarial gains or losses		17,342	89,294
Payments to plan assets		14,500,000	11,012,754
Benefit paid by the plan		(3,387,415)	(2,104,706)
Ending balance	₩	77,051,130	63,235,540

Actual interest income from the plan assets for 2012 and 2011 are ₩ 2,703,005 thousand and ₩ 2,197,390 thousand. Expected rate of return is based on the retirement pension plan(guaranteed rate of return) in Mirae asset in which 24.66% of the plan asset is invested.

(6) Actuarial gain or loss recognized as other comprehensive income in 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Actuarial gain or loss before income taxes	₩	(4,757,776)	(8,238,680)
Income taxes		1,132,350	1,812,510
Actuarial gain or loss after income taxes	₩	(3,625,426)	(6,426,170)

(7) Fair value of plan assets as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011
Cash and cash equivalents	₩	1,399,634	2,001,356
National pension funds		292,742	315,843
Deposits in financial institutions		671,871	9,617,920
Available-for-sale financial assets (guaranteed rate of return)		74,686,883	51,300,421
Total	₩	77,051,130	63,235,540

(8) Actuarial assumptions used as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011
Future salary increases		3.80%	3.83%
Discount rate		3.48%	4.23%
Expected rate of return on plan assets		3.48%	3.95%

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

(9) Historical information for the amounts related to defined benefit plans recognized for the current year and previous years are as follows:

(In thousands of won)	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Defined benefit obligation	₩ 97,305,467	82,094,006	66,814,150	62,034,015
Plan assets	(77,051,130)	(63,235,540)	(52,130,102)	(43,783,593)
Experience adjustments on plan liabilities	4,775,118	8,327,974	(3,096,183)	-
Experience adjustments on plan assets	(17,342)	(89,294)	(331,607)	-

(10) 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	₩	8,867,513	(7,768,241)
Increase (Decrease) of retirement benefits		1,525,691	(739,487)
Changes in discount rate:			
Increase (Decrease) of defined benefit obligations		(7,716,824)	8,983,332
Increase (Decrease) of retirement benefits		(477,427,107)	797,328
Changes in expected rate of return on plan assets:			
Increase (Decrease) of retirement benefits		(679,915)	679,915

Increase (decrease) of defined benefit obligations is calculated based on the present value of the defined benefit obligations as of December 31, 2012, and Increase (decrease) of defined benefit is calculated based on the defined benefit expense for the year ended December 31, 2012.

22. Provision for sales returns

Changes in provision for sale returns for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	9,501,673	8,668,058
Increase (Decrease)		1,344,245	833,615
Ending balance		10,845,918	9,501,673

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

23. Other liabilities

Other liabilities as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Advances	226,150	-	692,314	-
Unearned revenue	₩ 2,309,400	6,150,588	360,627	123,099
Total	2,535,550	6,150,588	1,052,941	123,099

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 two lost checks issued by the Company.

(2) As of December 31, 2012, 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 provided allowance in 2012 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. An agreement for the guarantee of ₩99,800 million, which is calculated based on the price of the medicine in 2010 and the conditional allowance year (3 years), was made in respect of the obligation related to the conditional allowance. The Company maintains a guarantee agreement with National Agricultural Cooperative Federation up to ₩39,000 million related to the obligation for the first year and ₩30,000 million related to the obligation for the second year.

(4) Royalty agreement

The company entered into license agreements with GENE Techno Science, Inc. (G-CSF), Luye Pharma Group (DA-1229), Alkem Laboratories (DA-1229), Trius Therapeutics, Inc, (DA-7218), Meiji Seika Pharma (DA-8159), etc., and collaboration agreement with Meiji Seika Pharma (Biosimilar). According to each agreement, the company will receive a series of money (milestone and/or royalty payment).

(5) Outstanding trade accounts and notes receivables transferred to and discounted with third parties as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012	December 31, 2011
Trade accounts receivable	₩ 9,297,086	6,849,670

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, 2012 are as follows: one claim for the infringement of patent rights, two claims amounting to ₩ 433,146 thousand related to the retirement benefit payments and three claims amounting to ₩ 1,157,985 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, 2012 and 2011 are summarized as follows:

(In thousands of won, share)	December 31, 2012	December 31, 2011
Number of shares in issue	30,000,000	30,000,000
Value per share	₩ 5	5
Number of shares issued	11,135,000	11,135,000
Common stock	₩ 55,675,000	55,675,000

- (2) Changes of number of shares issued for the years ended December 31, 2012 and 2011 are as follows:

(In number of shares)	2012			2011		
	Number of shares issued	Treasury shares	Outstanding stock	Number of shares issued	Treasury shares	Outstanding stock
Beginning number of shares	11,135,000	(165,588)	10,969,412	11,135,000	(263,707)	10,871,293
Acquisition of treasury shares	-	(450,000)	(450,000)	-	-	-
Disposals of treasury shares	-	1,408	1,408	-	98,119	98,119
Ending number of shares	11,135,000	(614,180)	10,520,820	11,135,000	(165,588)	10,969,412

- (3) Issuance of convertible redeemable preferred shares

During the year ended December 31, 2012 and 2011, 555,555 and 558,246 convertible redeemable preferred stocks were issued with a par value of ₩ 90,000 and ₩ 93,000 per share. All issued shares are fully paid and the convertible preferred stocks are accounted as financial liabilities.

26. Capital surplus

Changes in capital surplus for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Beginning balance	₩	73,906,182	73,906,182
Ending balance		73,906,182	73,906,182

27. Treasury shares

Changes in treasury shares for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won, number of shares)	2012		2011	
	Number of shares acquired	Book value	Number of shares acquired	Book value
Beginning balance	165,588	3,518,635	263,707	14,584,987
Acquisition of treasury shares	450,000	39,138,883	-	-
Disposals of treasury shares	(1,408)	(33,842)	(98,119)	(11,066,352)
Ending balance	614,180	42,623,676	165,588	3,518,635

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

Other equity components as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012	December 31, 2011
Gain from valuation of available-for-sale	3,549,011	5,945,143
Loss from valuation of available-for-sale	(860,902)	(446,258)
Change in retained earnings – change in equity method accounted investments	88,277,993	88,277,993
Stock warrants	3,273,229	3,273,229

(In thousands of won)	December 31, 2012	December 31, 2011
Exchangeable rights	-	2,124,975
Consideration for conversion rights	2,709,613	-
Gain on disposals of treasury stock	67,181	-
Assets revaluation surplus	59,140,271	59,140,271
Others	77,784,564	75,659,589
Total	233,940,960	233,974,942

29. Retained earnings

(1) Composition of retained earnings as of December 31, 2012 and 2011 are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011
Legal reserve	₩	14,058,000	12,889,000
Voluntary reserve		346,597,766	305,477,293
Unappropriated retained earnings		64,708,182	54,005,223
Total	₩	425,363,948	372,371,516

(2) Changes of retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Balance at beginning of year	₩	372,371,516	329,174,054
Cash dividends		(11,128,359)	(11,030,240)
Net income		67,746,216	60,653,873
Actuarial gain/loss (after income taxes)		(3,625,425)	(6,426,171)
Balance at the end of year	₩	425,363,948	372,371,516

(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 year 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, 2012 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, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
I. Unappropriated retained earnings	₩	64,708,182	54,005,223
Unappropriated retained earnings (undisposed accumulated deficit)		587,392	(222,480)
Actuarial gain or loss		(3,625,426)	(6,426,170)
Net income		67,746,216	60,653,873
II. Transfer from voluntary reserves		-	1,333,333
Reserve for research and human development reserves		-	1,333,333
III. Total (I + II)		64,708,181	55,338,556
IV. Appropriation of retained earnings		64,117,165	54,751,164
Appropriation of retained earnings		1,235,000	1,169,000
Dividends		10,678,359	11,128,359
Discretionary reserves		52,203,806	42,453,805
V. Unappropriated retained earnings (undisposed accumulated deficit) to be carried over to subsequent year	₩	591,017	587,392

30. Income taxes

(1) The component of income tax expense(benefit) for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Current tax expense	₩	20,755,828	23,792,652
Adjustment for prior years		216,660	3,040
Origination and reversal of temporary differences		(1,688,092)	529,553
Income tax recognized in other comprehensive income		1,822,742	1,515,883
Total income tax expense	₩	21,107,138	25,841,128

(2) Income tax related to equity accounts recognized directly in other comprehensive income for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Gains/losses on valuation of available-for-sale financial assets	₩	711,375	(752,221)
Loss from disposal of treasury stocks		(20,983)	455,594
Actuarial gains/losses		1,132,350	1,812,510
Total	₩	1,822,742	1,515,883

(3) Details of the difference in accounting profit and taxable income for the year ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Profit before income tax	₩	88,853,354	86,495,001
Income tax using the Company's statutory tax rate		21,040,512	20,931,790
Adjustments			
Effects of non deductible expenses		7,411,300	16,816,951
Effects of non taxable income		(661,243)	(6,585,374)
Effects of tax credits		(6,530,456)	(5,550,609)
Current adjustments for prior years		216,660	3,040
Others		(369,635)	225,330
Income tax expenses		21,107,138	25,841,128
Effective tax rate	₩	23.76%	29.90%

(4) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Deferred liabilities as at the end of the year	₩	25,518,624	27,206,716
Deferred liabilities as at the beginning of the year		27,206,716	26,677,163
Deferred tax expenses by origination and reversal of temporary differences	₩	(1,688,092)	529,553

(5) As of December 31, 2011, the tax effects of temporary difference were calculated by expected tax rate of the fiscal year when the temporary differences were reversed, and the tax rate of 23.8% was used.

(6) Changes in deferred tax assets (liabilities) for the years ended December 31, 2012 and 2011 are as follows:

① December 31, 2012

(In thousands of won)		Beginning balance	Income tax expense	Other comprehensive income	Ending balance
Retirement benefit obligations	₩	4,175,605	2,447,774	-	6,623,379
Allowance for impairment of receivables		587,134	(564,934)	-	22,200
Government contribution received		2,334,063	13,352	-	2,347,415
Impairment loss of property, plant and equipments		1,033,223	-	-	1,033,223
Fictitious dividends		117,760	-	-	117,760
Exchangeable bonds		(412,319)	8,055	-	(404,264)
Premium on bonds		8,588,516	(5,153,110)	-	3,435,406
Provisions for product returns		2,261,399	319,929	-	2,581,328
Adjustment of stock warrants		(7,648,590)	5,095,437	-	(2,553,153)
Profit/loss on valuation of available-for-sale financial assets		(1,550,968)	-	711,375	(839,593)
Revaluation of land		(26,936,105)	-	-	(26,936,105)
Others		(9,756,434)	(1,189,786)	-	(10,946,220)
Total	₩	(27,206,716)	976,717	711,375	(25,518,624)

② 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 financial assets		(798,747)	-	(752,221)	(1,550,968)
Revaluation 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)

(7) Temporary differences for which no deferred tax assets were recognized are as follows:

(In thousands of won)		December 31, 2012	December 31, 2011
Borrowings(Convertible preferred stocks)	₩	99,162,084	51,980,600

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

(In thousands of won)		December 31, 2012	December 31, 2011
Current tax liabilities	₩	20,755,828	23,792,652
Current tax assets		(11,215,999)	(9,535,531)
Net amount		9,539,829	14,257,121

31. Earnings per share

(1) Basic earnings per share

Basic earnings per share

(In won)		2012	2011
Profit for the year	₩	67,746,216,378	60,653,872,856
Weighted average number of ordinary shares		10,708,410	10,874,369
Earnings per share	₩	6,326	5,578

② Weighted average number of ordinary shares

(In number of shares)		December 31, 2012	December 31, 2011
Issued ordinary shares at January 1		11,135,000	11,135,000
Treasury shares held at January 1		(165,588)	(263,707)
Acquisition of treasury stock		(261,594)	-
Disposal of treasury shares		592	3,076
Weighted average number of ordinary shares on December 31		10,708,410	10,874,369

(2) Diluted earnings per share

① Diluted earnings per share

(In won)		2012	2011
Profit attributable to ordinary shareholders (diluted)	₩	63,124,712,770	60,653,872,856
Weighted average number of ordinary shares (diluted)		11,731,136	10,878,958
Diluted earnings per share	₩	5,381	5,575

② Profit attributable to ordinary shareholders (diluted)

(In won)		2012	2011
Profit attributable to ordinary shareholders (basic)	₩	67,746,216,378	60,653,872,856
Expense on convertible redeemable preferred stocks		(4,621,503,607)	-
Profit attributable to ordinary shareholders (diluted)	₩	63,124,712,771	60,653,872,856

③ Weighted average number of ordinary shares (diluted)

(In number of shares)		December 31, 2012	December 31, 2011
Weighted average number of ordinary shares	₩	10,708,410	10,874,369
Convertible redeemable preferred stocks		1,022,726	4,589
Weighted average number of ordinary shares (diluted)		11,731,136	10,878,958

32. Nature of expenses

Details of nature of expenses for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Changes in inventories	₩	(10,853,447)	(5,352,989)
Purchase of materials and merchandise		376,194,196	337,953,938
Salaries		148,503,988	158,764,666
Employee benefits		12,216,942	13,064,238
Travel		13,682,374	15,573,092
Depreciation and amortization		28,054,538	25,723,757
Advertisement		46,668,436	47,817,666
Sales promotion		22,169,019	37,378,944
Commissions		41,100,570	32,489,424
Research and development costs		83,433,153	12,087,548
Training		37,837,391	42,344,447
Outside service fees		22,984,449	20,667,742
Others		28,093,823	83,991,496
Total(*)	₩	850,085,432	822,503,969

(*) 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, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Salaries	₩	100,914,523	99,583,816
Retirement benefits		11,213,403	7,667,603
Employee benefits		8,040,168	8,729,181
Travel		11,891,784	14,017,572
Communication		1,108,165	849,713
Utilities		804,996	759,666
Taxes and dues		5,842,512	5,668,278
Rent		1,026,411	898,130
Depreciation		4,048,931	4,157,338
Amortization of intangible assets		888,981	762,061
Repairs and maintenance		567,534	1,312,028
Insurance		310,790	297,260
Public relation expense		1,719,725	1,871,805
Advertisement		46,667,829	47,817,666
Research and development costs		13,273,153	10,746,204
Package		2,023,272	2,013,393
Support for research		68,562,049	61,671,664
Transportation		6,277,814	5,665,892
Bad debt expenses		748,250	-
Vehicle maintenance		1,180,902	1,130,880
Public relation expense		1,626,530	2,344,975
Training		4,877,996	5,547,417
Support for research		37,477,526	42,162,696
Books and printing		1,306,175	1,178,018
Supplies		1,310,260	949,292
Sale promotions		22,169,019	37,378,944
Commissions		15,075,427	16,990,086
Outside service fees		19,404,056	18,036,181
Export expense		4,898,651	3,284,725
Others		1,376,667	1,755,318
	₩	396,633,499	405,247,802

34. Other income and other expenses

(1) Other income for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Compensation for research	₩	3,884,433	3,487,899
Reversal of allowance for bad debts		-	495,156
Commissions		50,938	140,840
Rental income		926,326	951,223
Gain on disposal of property, plant and equipment, net		158,624	319,824
Gain on disposal intangible assets, net		600,119	-
Other income		3,287,635	4,830,693
Total	₩	8,908,075	10,225,635

(2) Other expenses for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Other bad debt expenses	₩	51,559	-
Loss on disposal of property, plant and equipment, net		211,516	3,540,829
Loss on disposal of intangible assets, net		97,500	-
Impairment losses on intangible assets		625,060	906,618
Loss on disposal of non-current assets		192,783	-
Donations		4,945,026	4,365,216
Others		1,473,822	3,748,279
Total	₩	7,597,266	12,560,942

35. Categories of Financial Instruments

Categories of Financial Instruments for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Available-for-sale financial assets	₩	35,571,380	37,754,656
Held-to-maturity investments		250,870	277,180
Loans and receivables		146,385,606	154,518,678
Derivative instruments assets		-	53,222
Financial guarantee liabilities		599,500	430,500
Derivative instruments liabilities		-	464,364
Financial liabilities measured at amortized cost		604,047,518	432,456,155

36. Financial instruments income and costs by categories

(1) Financial instruments income and costs for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)		2012	2011
Finance income:			
Gain from foreign exchange transaction	₩	586,557	583,260
Gain from foreign exchange translation		8,570,600	557,174
Interest income		7,644,407	4,570,279
Dividends income		676,436	432,239
Finance guarantee income		370,500	370,500
Gain on disposal of available-for-sale financial assets		1,678,163	-
Gain on transaction of derivative instruments		448,519	-
Gain from valuation of derivatives		-	53,222
Total	₩	19,975,182	6,566,674
Finance costs:			
Loss from foreign exchange transaction		552,328	300,581
Loss from foreign exchange translation		815,495	250,575
Interest expense		15,466,126	13,546,326
Finance guarantee costs		539,500	430,500
Impairment loss of available-for-sale financial assets		668,729	434,827
Loss from redemption of bonds		2,881,800	-
Loss on valuation of derivatives		-	124,040
Total	₩	20,923,978	15,086,849

(2) Financial instruments income and costs by categories for the years ended December 31, 2012 and 2011 are detailed as follows:

(In thousands of won)	Net income		Other comprehensive income	
	2012	2011	2012	2011
Available-for-sale financial assets	₩ 1,685,870	(2,588)	(2,810,776)	2,666,964
Held-to-maturity financial assets	28,845	28,055	-	-
Derivative assets	140,778	53,222	-	-
Finance guarantee liabilities	(169,000)	(60,000)	-	-
Derivative liabilities	307,741	(124,040)	-	-
Financial liabilities measured at amortized cost	(18,347,926)	(13,546,326)	-	-

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, 2012	December 31, 2011
Cash and cash equivalents(*)	₩	357,565,296	154,382,814
Short-term financial instruments		-	40,000,000
Current trade receivables	5	135,485,218	143,619,866
Current other receivables	6	4,883,295	2,855,310
Current other financial assets	7	154,875	113,077
Non-current financial instruments	4	15,000	20,500
Non-current trade receivables	5	-	290,663
Non-current other receivables	6	6,017,093	7,752,839
Non-current other financial assets	7	35,667,375	37,971,981
Finance guarantee liabilities	19	51,650,000	24,350,000
Total	₩	591,438,152	411,357,050

(*) 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, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
	Gross receivables	Impairment	Gross receivables	Impairment
Not past due	₩ 143,179,201	-	150,785,251	-
Past due 0- 12 months	2,969,535	405,978	2,864,052	367
12 months~18 months	806,213	267,031	379,830	1,355
18 months~24 months	220,117	116,451	390,393	56
More than two years	702,097	702,097	1,205,215	1,104,285
Total	₩ 147,877,163	1,491,557	155,624,741	1,106,063

Financial assets that are past due but not impaired as of December 31, 2012 and 2011 are summarized as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
Less than 12 months	₩	2,563,557		2,863,685
12 months~18 months		539,182		378,475
18 months~24 months		103,666		390,337
More than two years		-		100,930
Total	₩	3,206,405		3,733,427

(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 sufficient 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, 2012.

(In thousands of won)		Carrying amount	Contractual cash flows	Less than 12 months	1-2 years	2-3 years	More than 3 years
Non-derivative financial liabilities							
Trade payables	₩	43,396,902	43,396,902	43,396,902	-	-	-
Other payables		40,405,567	40,405,567	40,405,567	-	-	-
Accrued expenses		15,887,657	15,887,657	15,887,657	-	-	-
Short-term borrowings		124,424,598	129,630,265	129,630,265	-	-	-
Current long-term borrowings		22,000,000	22,981,200	22,981,200	-	-	-
Convertible redeemable preferred stock		92,602,595	103,859,130	103,859,130	-	-	-
Long-term borrowings		17,000,000	18,501,666	750,833	2,088,333	15,662,500	-
Bonds with warrants		43,040,973	54,434,480	-	-	-	54,434,480
Bonds		181,348,203	217,940,000	17,042,000	6,390,000	76,390,000	118,118,000
Rental deposits		7,085,208	7,577,513	-	7,577,513	-	-
Finance guarantee liabilities		599,500	599,500	489,500	110,000	-	-
Total	₩	587,791,203	655,213,880	374,443,054	16,165,846	92,052,500	172,552,480

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, 2011.

(In thousands of won)		Carrying amount	Contractual cash flows	Less than 12 months	1-2 years	2-3 years	More than 3 years
Non-derivative financial liabilities							
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	-	-	-
Long-term borrowings		36,276,270	50,269,241	25,462,753	20,052,083	2,054,377	2,700,028
Bonds		10,000,000	11,304,000	652,000	10,652,000	-	-
Bonds with warrants		101,954,171	111,632,500	111,632,500	-	-	-
Convertible redeemable preferred stock		51,958,126	57,004,814	558,246	55,330,076	558,246	558,246
Rental deposits		6,645,737	7,148,915	-	7,148,915	-	-
Financial guarantee obligations		430,500	430,500	370,500	60,000	-	-
Derivative financial liabilities							
Equity swap		464,364	464,364	464,364	-	-	-
Total	₩	415,331,487	448,504,130	349,390,159	93,243,074	2,612,623	3,258,274

(4) Market risk

① Currency risk

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

(In thousands of won)		December 31, 2012		December 31, 2011	
		Denominate in foreign currency	Converted in won	Denominated in foreign currency	Converted in won
Assets:					
Cash and cash equivalents	USD	4,792,060.55	5,132,776	9,160,710.47	10,565,047
	EUR	4,843.49	6,860	194,547.23	290,673
	JPY	804,492.00	10,036	528,718.00	7,852
	CHF	9.07	11	9.06	11
	GBP	1.12	2	1.00	2
	AUD	4.69	5	98.87	116
Trade receivables	USD	9,267,534.90	9,926,457	3,065,265.20	3,535,170
	EUR	329,518.00	466,683	-	-
Total			15,542,830		14,398,871
Liabilities:					
Trade payables	USD	963,596.02	1,032,108	877,293.55	1,011,783
	EUR	662,443.58	938,192	140,520.14	209,951
	JPY	40,502,200.00	505,265	64,132,000.00	952,463
	CHF	19,119.56	22,429	30,636.08	37,556
Short-term borrowings	JPY	3,500,000,000.00	43,662,500	3,500,000,000.00	51,958,126
Total			46,160,494		54,169,879

The following significant exchange rates applied during the year:

(In won)	Average rate		Reporting date spot rate	
	2012	2011	December 31, 2012	December 31, 2011
USD	1,126.88	1,108.11	1,071.10	1,153.30
EUR	1,448.20	1,541.88	1,416.26	1,494.10
JPY (100 yen)	1,413.14	1,390.87	1,247.50	1,485.16
CHF	1,201.56	1,252.92	1,173.10	1,225.87
GBP	1,785.37	1,775.87	1,730.95	1,777.24
AUD	1,166.69	1,775.87	1,111.43	1,169.27

A change of 10% in exchange rate fluctuation as of December 31, 2012 and 2011 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 thousands of won)	December 31, 2012		December 31, 2011	
	10% strengthening	10% weakening	10% strengthening	10% weakening
USD	1,402,712	(1,402,712)	1,308,843	(1,308,843)
EUR	(46,465)	46,465	8,072	(8,072)
JPY	(4,415,773)	4,415,773	(5,292,521)	5,292,521
CHF	(2,242)	2,242	(3,755)	3,755
AUD	1	(1)	12	(12)
Total	(3,061,767)	3,061,767	(3,979,349)	3,979,349

② Interest rate risk

As of December 31, 2012 and 2011, interest rate profile of the Company's interest-bearing financial instruments was:

(In thousands of won)	Carrying amount	
	December 31, 2012	December 31, 2011
Variable rate instruments		
Short term borrowings	₩ 70,000,000	61,000,000
Current portion of long-term borrowings	22,000,000	12,000,000
Long-term borrowings	17,000,000	24,000,000
Total	₩ 109,000,000	97,000,000

A change of 1% in interest rates would have increased (decreased) profit or loss for the years ended December 31, 2012 and 2011 by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(In thousands of won)	2012		2011	
	1% increase	1% decrease	1% increase	1% decrease
Increase(Decrease) of profit/loss	₩ (1,090,000)	1,090,000	(970,000)	970,000

③ Market price risk

The Company is exposed to market price risk associated with marketable financial instruments. Marketable financial instruments as of December 31, 2012 and 2011 are as follows:

(In thousands of won)	Carrying amount	
	December 31, 2012	December 31, 2011
Available-for-sale financial instruments	₩ 27,531,456	29,516,851

(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, 2012 and 2011 are as follows:

(In thousands of won, except equity ratio)	December 31, 2012		December 31, 2011	
Total liabilities				
Current portion of borrowings		249,027,193		191,803,841
Borrowings		231,389,176		86,234,396
Sub total	₩	480,416,369		278,038,237
Deductions:				
Cash and cash equivalents		357,823,454		154,559,323
Financial deposits		15,000		40,020,500
Trade receivables		135,485,218		143,619,866
Other receivables		10,900,388		10,608,148
Other financial assets		35,822,250		38,085,057
Sub total	₩	540,046,310		386,892,894
Net debt(asset)		(59,629,941)		(108,854,657)
Equity	₩	746,262,414		732,409,005

(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, 2012 and 2011 are as follows:

(In thousands of won)	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Available-for-sale financial assets	27,531,456	27,531,456	29,516,851	29,516,851
Derivative assets	-	-	53,222	53,222
Total	₩ 27,531,456	27,531,456	29,570,073	29,570,073
Liabilities carried at fair value				
Current derivative financial liabilities	-	-	464,364	464,364
Total	₩ -	-	464,364	464,364

(In thousands of won)	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortized cost				
Trade receivables	135,485,218	135,485,218	143,619,866	143,619,866
Loans to employees	1,011,203	1,011,203	305,126	305,126
Available-for-sale financial assets	8,039,924	8,039,924	8,237,805	8,237,805
Current portion of held-to-maturity financial assets	154,875	154,875	59,855	59,855
Non-current held-to-maturity financial assets	95,995	95,995	217,325	217,325
Other receivables	2,831,078	2,831,078	2,021,552	2,021,552
Accrued revenue	1,041,014	1,041,014	528,632	528,632
Long-term trade receivables	-	-	290,663	290,663
Long-term other receivables	544,111	544,111	1,732,432	1,732,432
Long-term borrowings	1,726,094	1,726,094	2,508,748	2,508,748
Deposits	3,746,888	3,746,888	3,511,659	3,511,659
Total	₩ 154,676,400	154,676,400	163,033,663	163,033,663
Liabilities carried at amortized cost				
Trade payables	₩ 43,396,902	43,396,902	59,031,242	59,031,242
Accounts payables	40,405,567	40,405,567	51,159,577	51,159,577
Accrued expenses	15,887,657	15,887,657	19,561,830	19,561,830
Withholdings	9,823,439	9,823,439	9,644,805	9,644,805
Taxes withheld	1,154,883	1,154,883	1,311,474	1,311,474
VAT withheld	5,877,493	5,877,493	7,063,253	7,063,253
Short term borrowings	124,424,598	124,424,598	77,849,670	77,849,670
Bonds with warrants	43,040,973	43,040,973	101,954,171	101,954,171
Current bond	10,000,000	10,000,000	-	-
Current portion of long-term borrowings	22,000,000	22,000,000	12,000,000	12,000,000
Current convertible redeemable preferred stock	92,602,595	92,602,595	-	-
Current financial guarantee liabilities	489,500	489,500	370,500	370,500
Rental deposits	7,085,208	7,085,208	6,645,737	6,645,737
Long-term borrowings	17,000,000	17,000,000	24,276,270	24,276,270
Convertible redeemable preferred stock	-	-	51,958,126	51,958,126
Bonds	171,348,203	171,348,203	10,000,000	10,000,000
Non-current financial guarantee liabilities	110,000	110,000	60,000	60,000
Total	₩ 604,647,018	604,647,018	432,886,655	432,886,655

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
December 31, 2012					
Other financial assets	₩	27,531,456	-	-	27,531,456
December 31, 2011					
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

(7) Transfer of financial assets and others

Transferred financial assets that are not derecognized in their entirety

(In thousands of won)		Trade receivable
Carrying amount of assets	₩	9,297,086
Carrying amount of associated liabilities		9,297,086
For those liabilities that have recourse only to the transferred assets		9,297,086
Fair value of assets		9,297,086
Fair value of associated liabilities		9,297,086
Net position	₩	-

38. Cash flows

(1) Details of adjustments and changes in assets and liabilities which are cash flows from operations for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of won)	2012	2011
Adjustment for:		
Income tax expense	21,107,138	25,841,128
Interest rate expense	15,466,126	13,546,326
Interest rate income	(7,644,407)	(4,570,279)
Dividends income	(676,436)	(432,239)
Retirement benefit expense	13,071,736	11,349,566
Foreign currency translation loss	815,495	250,575
Foreign currency translation gain	(8,570,600)	(557,174)
Financial guarantee expense	539,500	430,500
Financial guarantee income	(370,500)	(370,500)
Bad debt expense	748,250	-
Other bad debt expenses	51,559	-
Reversal of bad debt expense	-	(495,156)
Loss from valuation of derivative instruments	-	124,040
Gain from valuation of derivative instruments	-	(53,222)
Gain on transaction of derivative instruments	(448,519)	-
Gain on disposal of available-for-sale financial assets	(1,678,163)	-
Impairment loss of available-for-sale financial assets	668,729	434,827
Depreciation	26,661,231	24,521,519
Amortization	1,393,307	1,202,238
Loss from disposal of property, plant and equipments	211,516	3,540,829
Gain from disposal of property, plant and equipments	(158,624)	(319,824)
Loss on disposal of intangible assets	97,500	-
Gain on disposal of intangible assets	(600,119)	-
Impairment loss of intangible assets	625,060	906,618
Loss on disposal of other non-current assets	192,783	-
Rent expense	100,553	54,923
Rental income	(129,891)	(321,192)
Loss on valuation of inventories	676,699	1,087,046
Reversal of loss on valuation of inventories	(95,609)	(1,879,494)
Loss from redemption of bonds	2,881,800	-
Subtotal	64,936,114	74,291,056

(In thousands of won)

2012

2011

Changes in assets and liabilities			
Trade receivable	₩	7,643,963	(15,121,669)
Other receivable		327,236	(1,775,696)
Accrued income		(531,155)	-
Advance payments		824,317	(1,230,738)
Prepaid expense		(936,304)	31,376
Inventory		(10,222,083)	(4,528,998)
Trade payable		(15,588,651)	17,888,147
Other payables		(10,754,010)	13,568,728
Advances		(460,035)	(753,346)
Accrued expenses		(3,285,945)	6,691,222
Withholdings		178,635	1,279,698
Taxes withheld		(156,590)	(170,724)
VAT withheld		(1,185,761)	(3,278,147)
Provisions for returns		1,344,245	833,615
Payment of retirement benefits		(1,933,641)	(4,401,074)
Contributions to retirement pension assets		(14,500,000)	(11,012,753)
Cash used in operating activities	₩	(49,235,779)	(1,980,359)

39. Demerger

Dong-A Socio Holdings Co., Ltd. divided the existing company into two separate entities by spin-off its ETC(Ethical drug) business and by split-off its OTC(Over-the counter drug) business and converted the investment, biomedicine business into a holding company, according to the resolution of its board of directors on October 23, 2012 and the extra-ordinary shareholders' meeting on January 28, 2013 to improve its transparency in corporate governance and its management stability.

(1) Details of Spin-offs

	Descriptions
Types	The Company divided the existing company into two separate entities, Dong-A Socio Holding Co., Ltd. (the surviving entity) and Dong-A ST Co., Ltd. (the new entity) by spin-off. In addition, Dong-A Phamaceutical Co., LTD. was newly established by split-off the surviving entity.
Ratio	- Surviving entity (Dong-A Socio Holding Co., Ltd.): 0.371209 - Newly established entity by spin-off (Dong-A ST Co., Ltd.): 0.628791
Listing after spin-offs	- Surviving entity (Dong-A Socio Holding Co., Ltd.): change listing - Newly established entity by spin-off (Dong-A ST Co., Ltd.): re-listing - Newly established entity by split-off (Dong-A Phamaceutical Co., LTD.): unlisted
Date of spin-offs	2013-03-01
Expected registration date or Registration due date	2013-03-05

(2) Financial statements of surviving and newly established entities by spin-offs

In accordance with the spin-offs schedules, the financial information for the surviving and newly established entities by spin-offs as of June 30, 2012 is as follows:

(In millions of won)		Surviving entity (Dong-A Socio Holding Co., Ltd.)	Newly established entity by spin-off (Dong-A ST Co., Ltd.)	Newly established entity by split-off (Dong-A Phamaceutical Co., LTD.)
Business		Investment, biomedicine	ETC	OTC
Total assets	₩	397,126	864,013	89,223
Total liabilities		126,897	393,647	51,843
Total equity		270,229	470,366	37,380
Share capital		20,667	35,008	30,000

Internal Accounting Control System Review Report

English translation of a report originally Issued in Korean

To the President of Dong-A Socio Holdings Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Dong-A Socio Holdings Co., Ltd. (the "Company") as of December 31, 2012. 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, 2012, 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, 2012 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, 2012. We did not review the Company's IACS subsequent to December 31, 2012. 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 15, 2013

Notice to Readers This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2012 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.

Report on the Operations of Internal Accounting Control System

English translation of a report originally Issued in Korean

The Board of Directors and Shareholders Dong-A Socio Holdings Co., Ltd.:

I, as, the Internal Accounting Control Officer ("IACO") of Dong-A Socio Holdings Co., Ltd. ("the Company"), assessed the effectiveness of the design and operation of Internal Accounting Control System ("IACS") of the Company as of December 31, 2012.

The Company's management, including myself, is responsible for designing and maintaining effective IACS. I have assessed whether the IACS has been designed and operating in such a way to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of the financial statement preparation, disclosure and presentation.

I have assessed the design and operation of our IACS in accordance with the IACS Guidelines.

Based on our assessment, the Company's IACS as of December 31, 2012 is effectively designed and operating, in all material respects, in conformity with the IACS Standards issued by the IACS Operations Committee.

February 1, 2013
Internal Accounting Control Officer
Hong Ki Chae
Dong-A Socio Holdings Co., Ltd.

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders Dong-A Socio Holdings Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Dong-A Socio Holdings Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. 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 did not audit the financial statements of Soo Seok Co., Ltd., Soo Seok Nong San Co., Ltd., Yong-Ma Logis Co., Ltd., Indus Park Co., Ltd. whose financial statements reflect 13.79% of total assets (prior to inter-company eliminations) as of December 31, 2012, and 14.99% of total sales (prior to inter-company elimination) for the year ended December 31, 2012. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in such consolidated subsidiaries, is based solely on the audit reports of those other auditors.

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, 2012 and 2011 and its financial performance and its cash flows for the years then ended 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.

(1) Demerger

As discussed in note 39, the Group divided the existing company into two separate entities by spin-off ETC(Ethical drug) business and by split-off its OTC(Over-the counter drug) business and converted the investment, biomedicine business into a holding company, according to the resolution of its board of directors on October 23, 2012 and the extra-ordinary shareholders' meeting on January 28, 2013 to improve its transparency in corporate governance and its management stability.

(2) Change of presentation of operating profit

As discussed in note 2 to the consolidated financial statements, the Group adopted the amendment to K-IFRS No. 1001, 'Presentation of Financial Statements' for the year ended December 31, 2012. The amendment requires operating profit, which is calculated by revenue less: 1) cost of goods sold, and 2) selling, general and administrative expenses, to be separately presented on the statements of comprehensive income. The Group applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the statement of comprehensive income for the year ended December 31, 2011.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 5, 2013

This report is effective as of March 5, 2013, 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.

Consolidated Statements of Financial Position

As of December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands won)		2012	2011
Assets			
Cash and cash equivalents	₩	381,211,139	177,330,036
Short-term financial instruments		2,349,983	44,387,426
Trade receivables		167,768,426	163,474,943
Other receivables		8,172,052	3,278,787
Other financial assets		154,875	113,077
Inventories		183,160,263	154,945,623
Current tax assets		48,159	42,855
Other current assets		6,017,088	8,217,864
Total current assets		748,881,985	551,790,611
Long-term financial instruments		1,143,000	153,500
Trade receivables		-	290,663
Other receivables		7,382,562	8,262,568
Other financial assets		43,334,843	50,704,945
Property, plant and equipment		778,176,312	744,229,753
Intangible assets		18,007,616	20,171,706
Investment property		37,283,142	38,142,750
Investments in associates		88,813,655	79,483,606
Other non-current assets		85,646	11,950
Total non-current assets		974,226,776	941,451,441
Total assets	₩	1,723,108,761	1,493,242,052

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands won)

2012

2011

		2012	2011
Liabilities			
Trade payables	₩	47,846,641	55,605,727
Other payables		85,868,309	99,643,358
Short-term borrowings		337,984,138	225,439,041
Other financial liabilities		-	893,395
Provisions		10,845,918	9,501,673
Other current liabilities		2,768,110	3,261,389
Income tax payable		11,498,396	14,968,113
Total current liabilities		496,811,512	409,312,696
Other payables		8,202,321	7,837,830
Long-term borrowings		267,933,330	147,395,138
Other financial liabilities		-	428,772
Employee benefits		25,141,987	24,963,993
Other non-current liabilities		6,682,937	368,473
Deferred tax liabilities		37,095,029	40,540,920
Total non-current liabilities		345,055,604	221,535,126
Total liabilities		841,867,116	630,847,822
Equity			
Share capital		55,675,000	55,675,000
Share premium		73,906,181	73,906,181
Treasury shares		(44,169,009)	(3,518,635)
Other equity components		302,377,734	306,139,237
Retained earnings		461,062,393	393,173,158
Equity attributable to owners of the Company		848,852,299	825,374,941
Non-controlling interests		32,389,346	37,019,289
Total equity		881,241,645	862,394,230
Total liabilities and equity	₩	1,723,108,761	1,493,242,052

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands of won)

	2012	2011 Restated
Revenue:		
Finished goods	737,184,008	721,673,792
Merchandise	227,405,163	210,984,206
Raw materials	36,000,533	24,683,192
Others	105,406,668	98,357,890
	1,105,996,372	1,055,699,080
Cost of sales:		
Finished goods	283,273,919	266,373,206
Merchandise	191,593,560	155,126,192
Raw materials	21,210,942	15,768,793
Others	111,730,884	97,362,674
	607,809,305	534,630,865
Gross profit	498,187,067	521,068,215
Selling, general and administrative expenses	392,345,496	407,156,126
Results from operating activities	105,841,571	113,912,089
Other income	10,058,367	12,681,904
Other expenses	8,328,130	13,081,959
Finance income	21,309,613	9,812,216
Finance costs	29,170,128	21,562,476
Share of profit in investment in associates	14,279,222	1,820,972
Share of loss in investment in associates	-	386,851
Profit before income tax	113,990,515	103,195,895
Income tax expense	23,685,673	28,313,289
Profit for the year	90,304,842	74,882,606

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands of won, except earnings per share information)

2012

2011

		2012	2011
Other comprehensive income (loss)			
Net change in fair value of available-for-sale financial assets	₩	(3,122,869)	34,867
Defined benefit plan actuarial gains (loss)		(3,403,953)	(8,932,286)
Capital adjustment for equity method accounted investment		(3,506,423)	12,712
Change in retained earnings – change in equity method accounted investments		(1,341,450)	(725,921)
Other comprehensive income (loss) for the year, net of income tax		(11,374,695)	(9,610,628)
Total comprehensive income for the year		78,930,147	65,271,978
Profit attributable to:			
Owners of the Company		85,877,513	69,219,623
Non-controlling interests		4,427,329	5,662,983
Profit for the year		90,304,842	74,882,606
Total comprehensive income attributable to:			
Owners of the Company		73,815,767	60,497,919
Non-controlling interests		5,114,380	4,774,059
Total comprehensive income for the year	₩	78,930,147	65,271,978
Earnings per share			
Basic earnings per share (won)		8,040	6,365
Diluted earnings per share (won)	₩	6,943	6,363

Consolidated Statements of Changes in Equity

For the year ended December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands of won)		Share capital	Share premium	Treasury shares	Other equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2011	₩	55,675,000	73,906,181	(14,584,987)	307,777,044	343,494,700	766,267,938	32,246,477	798,514,415
Total comprehensive income for the year:									
Profit for the year		-	-	-	-	69,219,623	69,219,623	5,662,983	74,882,606
Other comprehensive income (loss):									
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		-	-	-	(725,921)	-	(725,921)	-	(725,921)
Total other comprehensive income (loss)		-	-	-	(210,779)	(8,510,924)	(8,721,703)	(888,924)	(9,610,627)
Total comprehensive income for the year		-	-	-	(210,779)	60,708,699	60,497,920	4,774,058	65,271,979
Transactions with owners of the Company, recognized directly in equity:									
Cash dividends		-	-	-	-	(11,030,241)	(11,030,241)	(1,247)	(11,031,488)
Disposal of treasury stock		-	-	11,066,352	(1,427,028)	-	9,639,324	-	9,639,324
Total transactions with owners		-	-	11,066,352	(1,427,028)	(11,030,241)	(1,390,917)	(1,247)	(1,392,164)
Balance at December 31, 2011	₩	55,675,000	73,906,181	(3,518,635)	306,139,237	393,173,158	825,374,941	37,019,289	862,394,230

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands of won)		Share capital	Share premium	Treasury shares	Other equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2011	₩	55,675,000	73,906,181	(3,518,635)	306,139,237	393,173,158	825,374,941	37,019,289	862,394,230
Total comprehensive income for the year:									
Profit for the year		-	-	-	-	85,877,513	85,877,513	4,427,329	90,304,842
Other comprehensive income (loss):									
Change in fair value of available-for-sale financial assets		-	-	-	(3,122,573)	-	(3,122,573)	(296)	(3,122,869)
Defined benefit plan actuarial gains (losses)		-	-	-	-	(4,107,960)	(4,107,960)	704,007	(3,403,953)
Capital adjustment for equity method accounted investment		-	-	-	(3,489,763)	-	(3,489,763)	(16,660)	(3,506,423)
Change in retained earnings – change in equity method accounted investments		-	-	-	-	(1,341,450)	(1,341,450)	-	(1,341,450)
Total other comprehensive income (loss)		-	-	-	(6,612,336)	(5,449,410)	(12,061,746)	687,051	(11,374,695)
Total comprehensive income for the year		-	-	-	(6,612,336)	80,428,103	73,815,767	5,114,380	78,930,147
Transactions with owners of the Company, recognized directly in equity:									
Cash dividends		-	-	-	-	(11,128,359)	(11,128,359)	(1,245)	(11,129,604)
Issue of convertible redeemable preferred stock		-	-	-	2,709,613	-	2,709,613	-	2,709,613
Acquisition of treasury stock		-	-	(40,355,225)	-	-	(40,355,225)	(8,012,688)	(48,367,913)
Disposal of treasury stock		-	-	33,843	67,181	-	101,024	-	101,024
Total transactions with owners		-	-	(40,321,382)	2,776,794	(11,128,359)	(48,672,947)	(8,013,933)	(56,686,880)
Others		-	-	(328,992)	74,039	(1,410,509)	(1,665,462)	(1,730,390)	(3,395,852)
Balance at December 31, 2012	₩	55,675,000	73,906,181	(44,169,009)	302,377,734	461,062,393	848,852,299	32,389,346	881,241,645

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands of won)	2012	2011
Cash flows from operation activities		
Profit for the year	₩ 90,304,842	74,882,606
Adjustments	73,067,843	89,076,990
Changes in assets and liabilities	(78,529,726)	(20,038,812)
Income taxes paid	(29,156,419)	(22,472,376)
Income taxes refund	37,666	54,109
Net cash provided by operating activities	55,724,206	121,502,517
Cash flows from investing activities		
Interest received	8,549,333	4,771,879
Dividends received	1,016,724	472,822
Decrease in short-term financial instruments	42,591,634	8,240,000
Decrease in short-term receivables from employees	486,831	546,891
Proceeds from available-for-sale financial assets	12,473,463	141,812
Proceeds from held-to-maturity financial assets	59,855	22,705
Decrease in long-term financial instruments	325,500	-
Proceeds from sale of property, plant and equipment	743,340	13,164,860
Proceeds from intangible assets	2,548,600	-
Decrease in short-term loans	215,773	93,595
Decrease in long-term loans	998,120	-
Decrease in derivative instruments	194,000	-
Decrease in deposits	3,766,944	1,313,252
Increase in short-term financial instruments	554,192	41,648,732
Increase in short-term loans	218,005	5,692
Increase in short-term receivables from employees	1,192,908	673,523
Increase in long-term loans	12,164	-
Increase in long-term financial instruments	1,315,000	715,907
Acquisition of available-for-sale financial assets	10,266,900	17,591,248
Acquisition of held-to-maturity financial assets	34,475	6,800
Acquisition of investment in associates	-	51,298
Acquisition of property, plant and equipment	72,058,606	92,864,267

DONG-A SOCIO HOLDINGS CO., LTD. AND SUBSIDIARIES

(In thousands of won)		2012	2011
Acquisition of intangible assets		2,318,954	3,935,490
Decrease in derivative instruments		301,129	-
Increase in deposits		4,959,188	1,183,673
Net cash used in investing activities	₩	(19,261,404)	(129,908,814)
Cash flows from financing activities			
Proceeds from short-term borrowings	₩	136,474,721	89,211,195
Proceeds from long-term borrowings		46,195,000	67,755,902
Proceeds from current portion of bonds		3,500,000	-
Proceeds from bonds		179,269,300	-
Proceeds from current portion of convertible redeemable preferred stocks		47,267,681	-
Proceeds from convertible redeemable preferred stocks		2,709,613	-
Proceeds from rental deposits received		434,426	3,299,188
Proceeds from disposal of treasury stocks		122,006	9,183,729
Interest paid		11,119,928	10,652,557
Dividends paid		11,557,359	10,997,990
Repayment of short-term borrowings		90,649,670	59,582,171
Repayment of current portion of long-term borrowings		18,985,200	1,319,500
Repayment of current portion of bonds		-	38,000,000
Repayment of bonds with warrants		66,979,500	-
Repayment of long-term borrowings		276,271	12,016,782
Proceeds from rental deposits increase		35,000	1,653,437
Acquisition of treasury stocks		48,367,913	-
Net cash from provided by financing activities		168,001,906	35,227,577
Net increase in cash and cash equivalents		204,464,708	26,821,280
Cash and cash equivalents at beginning of year		177,326,056	150,133,059
Effect of exchange rate fluctuations on cash held		(579,626)	375,697
Cash and cash equivalents at end of year	₩	381,211,138	177,330,036

Dong-A Socio Group

Pharmaceuticals

MEZZION PHARMA CO., LTD.

Manager of clinical trials and licensing procedures for Zyderna® in the USA and worldwide

Date of Establishment: 2002
Address: 35, Teheran-ro 87-gil, Gangnam-gu, Seoul, Korea
Phone: +82-2-560-8000

ST PHARM CO., LTD.

Manufacturer of Active Pharmaceutical Ingredients (APIs)

Date of Establishment: 2008
Address: 12, Teheran-ro 78-gil, Gangnam-gu, Seoul, Korea
Phone: +82-2-527-6300

Beverage

DONG-A OTSUKA CO., LTD.

One of the major beverage companies in Korea, producing multi-million sellers such as Pocari Sweat®, Black Bean Tea®, Oran-C®, and Demi Soda®

Date of Establishment: 1979
Address: 64, Cheonho-daero, Dongdaemun-gu, Seoul, Korea
Phone: +82-2-2170-7762

Logistics

YONGMA LOGIS CO., LTD.

Nationwide business in transportation and distribution with a warehousing network and an advanced logistics information system

Date of Establishment: 1983
Address: 13, Cheonho-daero 14-gil, Dongdaemun-gu, Seoul, Korea
Phone: +82-2-3290-6400

Bottles

SOOSEOK CO., LTD.

Manufacturer of Bacchus® bottles, PEM CAP and Mineral Water PET

Date of Establishment: 1968 (Founded as Jungang Glass Industry Inc.)
Address: 313, Bakdal-ro, Manan-gu, Anyang-si, Gyeonggi-do, Korea
Phone: +82-31-449-6151-4

Machines

KOREA SHINTO CO., LTD.

Manufacturer of machines for casting, surface treatment, and pollution prevention

Date of Establishment: 1970
Address: 83, Sandan-ro 19beon-gil, Danwon-gu, Ansan-si, Gyeonggi-do, Korea
Phone: +82-31-491-8121-4

IT

DA INFORMATION CO., LTD.

Provider of total IT solutions for Dong-A Pharmaceutical

Date of Establishment: 2006
Address: 25-40, Gyeongui-ro, Ilsandong-gu, Goyang-si, Gyeonggi-do, Korea
Phone: +82-70-8636-3852

Overseas

DONG-A AMERICA CORP.

Distributor of Bacchus® and OTC products in North America

Date of Establishment: 1991
Address: 17215 Studebaker Road, Suite#335, Cerritos, CA 90703, USA
Phone: +1-562-860-3153

SUZHOU DONG-A BEVERAGE CO., LTD.

Manufacturer and distributor of Bacchus® in China

Date of Establishment: 1996
Address: 391 Pugangnan Road, Luxu, Wujiang City, Jiangsu Province, 215211, China
Phone: +86-512-6327-4002

Corporate & IR Information

Corporate Information

HEADQUARTERS

64, Cheonho-daero,
Dongdaemun-gu, Seoul, Korea
Phone: +82-2-920-8114
Fax: +82-2-926-9400

RESEARCH CENTER

21, Geumhwa-ro, 105beon-gil,
Giheung-gu, Yongin-si,
Gyeonggi-do, Korea
Phone: +82-31-280-1400

PLANT

Cheonan Plant

200-23, Baekseokgongdan
1-ro, Seobuk-gu, Cheonan-si,
Chungcheongnam-do, Korea
Phone: +82-41-621-1500

Banwol Plant

171, Haean-ro, Danwon-gu,
Ansan-si, Gyeonggi-do, Korea
Phone: +82-31-494-2980-3

Dalseong Plant

493, Nongong-ro, Nongong-eup,
Dalseong-gun, Daegu, Korea
Phone: +82-53-610-0500

Icheon Plant

61, Gyeongchung-daero,
2946beon-gil, Icheon-si,
Gyeonggi-do, Korea
Phone: +82-31-644-2800

IR Information

HEAD OFFICE

Dong-A Pharmaceutical
64, Cheonho-daero,
Dongdaemun-gu, Seoul, Korea
Phone: +82-2-920-8187
Fax: +82-2-925-8244

ir@donga.co.kr

Date of Establishment

December 1932

Securities Listing

Dong-A Socio Holdings:
Korea Stock Exchange
A000640

Dong-A ST:
Korea Stock Exchange
A170900

Annual General Meeting

March 15, 2013

Information Availability

<http://www.donga-pharm.com>

© **Dong-A**

The information in this document is the property of Dong-A and may not be copied, communicated to a third party or used for any purpose other than for which it is supplied, without the express written consent of Dong-A. While this information is given in good faith based upon the latest available to Dong-A no warranty or representation is given concerning such information, which must not be taken as establishing any contractual or other commitment binding upon Dong-A or any of its subsidiaries or associated companies.



To conserve resources and limit environmental impact, this printed report has been printed on the paper which is FSC-certified and made using renewable energy.

 DONG-A PHARM.