

# GROWTH in UNISON

Annual Report  
2013



DONG-A SOCIO GROUP

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## Dong-A Socio Group

Dong-A Socio Group had a successful year in 2013, and by embracing change and making the important decision to launch a holding company, we ensured the future growth of the Group. Built upon our 80 years of innovation plus one year of new growth momentum, we will continue to **WORK IN UNISON** to achieve stronger and more sustainable future.

80 years of  
innovation plus 1 year  
of new growth

# Group at a Glance

Under the new holding company structure, the affiliates of Dong-A Socio Group strive to achieve sustainable growth by focusing on each individual company's expertise and creating synergy.

## New Organization Structure



On March 1st, 2013, the former Dong-A Pharmaceutical demerged into Dong-A Socio Holdings, Dong-A ST, and Dong-A Pharmaceutical. As a result, Dong-A Socio Holdings, the holding company, oversees new business investments, Dong-A ST is responsible for the ETC (Ethical) drug business, and Dong-A Pharmaceutical handles the OTC (Over-the-counter) drug business. Dong-A Socio Holdings, the existing entity, completed a change of listing on the KRX (Korea Exchange) market on April 8th, 2013. Dong-A ST, the company created as a result of the equity spin-off, was re-listed.

This separation of the ETC and OTC businesses into different companies has resulted in improved business operations, as well as increased transparency and accountability in management. Moreover, the improved flexibility and efficiency of each business has made it easier to undertake investments in key business areas, which in turn will help Dong-A Socio Group to grow into a truly global pharmaceutical company through new drug development.

The shift into a holding company structure was essential to achieve a new start for the Dong-A Socio Group, and to accomplish our goal of becoming a global pharmaceutical company. After the demerger, Dong-A Socio Group has focused on strengthening its fundamentals for globalization and continued growth in 2013. Based on this growth momentum, we will expedite globalization and pursue sustainable growth, thus enhancing our corporate value and improving the quality of life of all humankind.

## Dong-A Socio Holdings

Dong-A Socio Holdings defines the overall vision for the Dong-A Socio Group, and formulates its strategic goals. Based on those strategic goals, the company then draws up the Group's human resource and investment plans. The company also makes long-term investments into new business areas and biopharmaceuticals, and aims to expand its business areas by going beyond the previous pharmaceuticals-centered business structure to advancing into medical services and other new business areas.

## Dong-A ST

Dong-A ST focuses on ETC, overseas businesses, medical equipment, and diagnostics. Dong-A ST is in charge of doing business in countries that import the company's products, the registration of pharmaceuticals, and its short- and mid-term advances into global markets. The company focuses on developing new drugs based on its outstanding research infrastructure of cutting-edge research centers and highly-skilled researchers.

## Dong-A Pharmaceutical

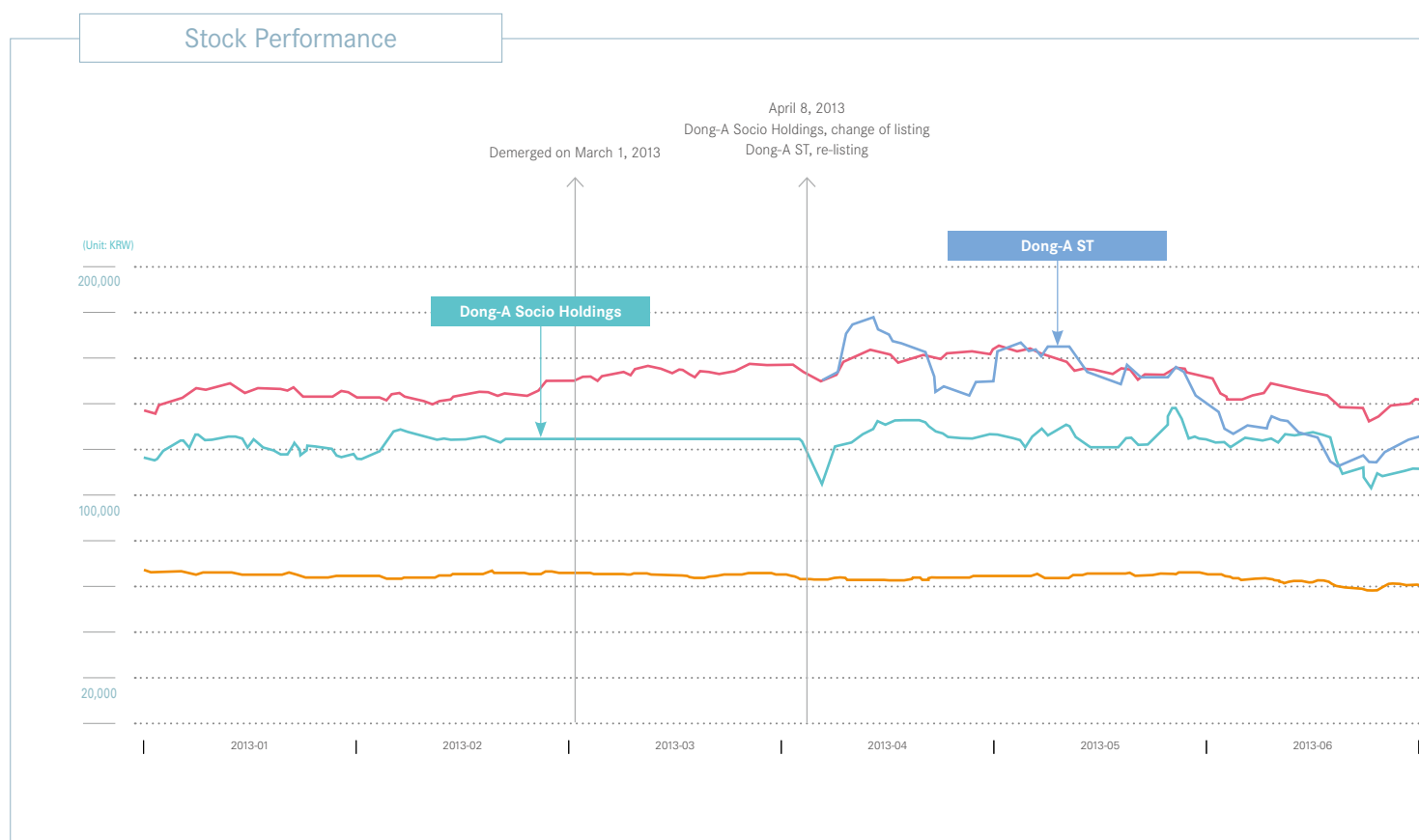
Dong-A Pharmaceutical's main businesses are in OTC drugs, health functional foods, and quasi-drugs such as Bacchus®. The company aims to be Korea's top healthcare company by upholding its founding spirit of 'contributing to the health of the nation by creating good medicine'.

DONG-A SOCIO GROUP

DONG-A SOCIO HOLDINGS

DONG-A ST

# Key Figures

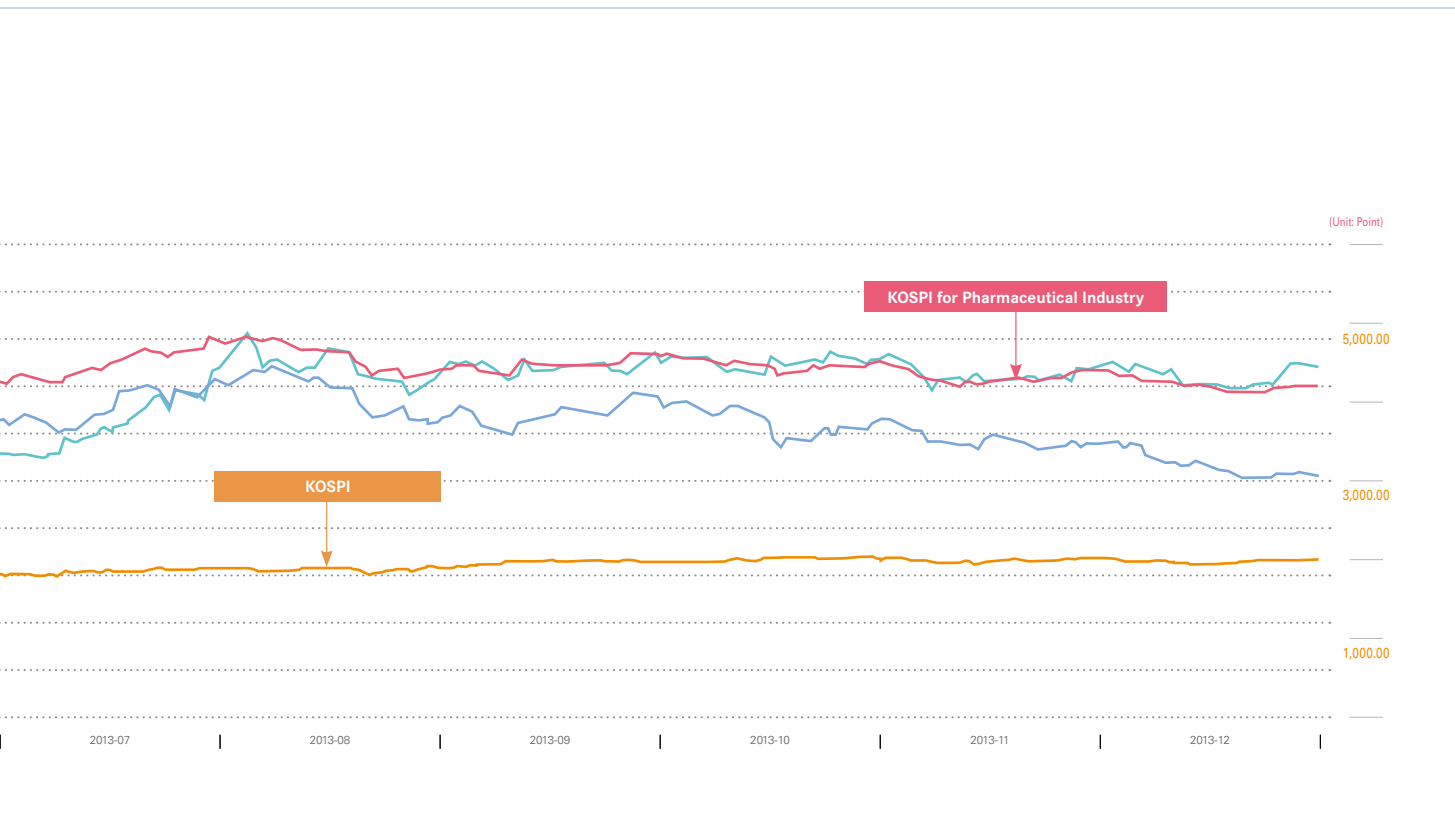


## Summarized Financial Statements

### Dong-A Socio Holdings

(Unit: KRW billion)	SEPARATE FIGURE	CONSOLIDATED FIGURE
<b>Statements of Financial Position</b>		
Total assets	575.3	988.3
Total liabilities	234.6	473.7
Total shareholders' equity	340.7	514.6
<b>Statements of Income</b>		
Sales	73.5	570.9
SG&A expenses	53.1	150.4
Operating profit	(23.7)	33.6
Income before income tax	(22.1)	34.2
Net profit	(11.2)	21.5

(from January, 2013 to December, 2013)



## Dong-A ST

(Unit: KRW billion)	SEPARATE FIGURE	CONSOLIDATED FIGURE
<b>Statements of Financial Position</b>		
Total assets	925.7	931.7
Total liabilities	486.3	492.4
Total shareholders' equity	439.4	439.4
<b>Statements of Income</b>		
Sales	495.8	501.0
SG&A expenses	222.6	225.1
Operating profit	39.4	39.8
Income before income tax	17.3	16.9
Net profit	(65.3)	(65.7)

(from March , 2013 to December, 2013)

# 2013 at a Glance

JANUARY 2013

## Bacchus® emerges as the leading energy drink in Cambodia

Sales of Bacchus® exceeded KRW 17 billion in 2012, reflecting its status as the leading energy drink in Cambodia. This means that around 65 million cans were sold thanks to the efforts made since 2010 to make Cambodia our base for entry into Southeast Asia. Dong-A ST implemented a localized marketing strategy with the message that Bacchus® helps office workers fight fatigue. This strategy has helped Bacchus® to enjoy the largest share of the energy drink market in Cambodia since June 2011, with sales reaching KRW 26.6 billion in 2013. Based on its success in Cambodia, Dong-A ST plans to expand in the global market, beginning with Southeast Asia, including Myanmar.



JANUARY 2013

## Establishing a subsidiary in Brazil

Dong-A ST established Dong-A Participacoes, its subsidiary in Sao Paulo, Brazil. This new corporation is formulating local investment plans, developing new business areas, and handling the registration and approval of products for import into Brazil, as well as marketing and sales in Brazil. In the longer term, Dong-A Participacoes will be in charge of the Latin American market for Dong-A ST. The Brazilian pharmaceutical market is particularly attractive due to its size and growth potential, and by establishing a subsidiary in Brazil, Dong-A ST will be able to exploit new growth opportunities.



JANUARY 2013

## Signing a comprehensive agreement with MEIC in Mongolia

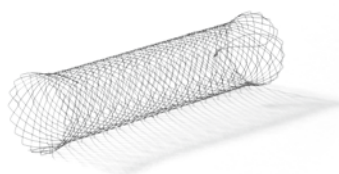
Dong-A Socio Holdings signed an MOU (Memorandum of Understanding) with MEIC of Mongolia to establish a joint venture in that country. The two companies will build a plant in Mongolia and cooperate in local production, registration, marketing, sales and distribution of Dong-A Socio Group's products. A diverse range of products will become available in Mongolia, in addition to the products currently exported, such as Bacchus® and Stillen®. The agreement will result in new sales and an increase in the number of products that we export, and diversify our overseas markets.



APRIL 2013

## Acquisition of M.I.Tech, a medical equipment company

Dong-A ST acquired M.I.Tech, a company which specializes in medical equipments. Established in 1991, M.I.Tech has developed an unrivaled stent technology that has accredited by the US FDA (Food and Drug Administration) and Japan's MHLW (Ministry of Health, Labor, and Welfare), and exports non-vascular stents to around 50 countries worldwide. The global stent market is worth an annual KRW 12 trillion, and is growing rapidly. The acquisition of M.I.Tech, therefore, is expected to generate growth by creating synergy between Dong-A ST's medical equipment business and M.I.Tech's stent business.



AUGUST 2013



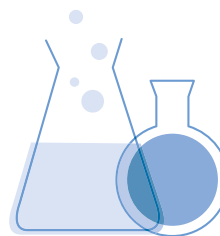
### Ceremony to commemorate the 50th anniversary of Bacchus®

A ceremony was held to celebrate the 50th anniversary of the release of Bacchus®, an iconic brand in the domestic tonic industry. In a congratulatory address, Dong-A Socio Holdings Chairman Shin-Ho Kang asked for united efforts so that Bacchus® can go beyond national boundaries and become a leading energy drink around the world. Since its release in 1963, around 17.9 billion bottles have been sold, enough to circle the Earth 53 times. As at the end of 2013, Bacchus® is exported to 13 countries, with this number expected to increase in the years to come.

OCTOBER 2013

### Unveiling Ceremony for DM Bio Plant Production Equipment

There was an unveiling ceremony for the production equipment of the DM Bio Plant, a facility in which Dong-A Socio Holdings and Japan's Meiji Seika Pharma are joint investors. The ceremony was attended by executives of Dong-A Socio Group, Meiji Seika Pharma, Samsung Engineering, which was responsible for its construction, and Germany's Bosch, which provided the production water systems for the facility. The DM Bio Plant is located in the Songdo International Business District, part of the Incheon Free Economic Zone. It has been designated as a cGMP (current Good Manufacturing Practice) plant, and is advanced enough to be accredited by the U.S., Japan and European countries. The plant has cutting-edge facilities and equipment, and is expected to drive Dong-A's growth in the global biopharmaceutical market.



OCTOBER 2013

### NDA to the US FDA for Tedizolid

In October 2013, an NDA (New Drug Application) was submitted to the US FDA for the approval for the ABSSSI (Acute Bacterial Skin and Skin Structure Infections) indication of Tedizolid (DA-7218) which Dong-A ST licensed out to Trius Therapeutics of the U.S. in 2007. The US FDA has accepted the NDA submission for Tedizolid in December 2013 and EMA (European Medicines Agency) also accepted for the review of the MAA (Marketing Authorization Application) in February 2014, indicating the development of new global drug are on the horizon.

OCTOBER 2013



### Establishment of the Dong-A Dementia Center

Dong-A Socio Holdings became the first pharmaceutical company in Korea to establish a research center specializing in dementia. The Dong-A Dementia Center was created to help families of dementia patients, and to contribute to the health and welfare of society by developing dementia treatments. Chairman Shin-Ho Kang is serving as the first director of the Center, and bold, phased investments will be made to focus on the development of innovative new drugs. The Center will become a hub for developing dementia medicine by using open innovation with other institutions. Dong-A Socio Group now has four research centers and one additional center that specializes in specific areas of treatment, further enhancing its R&D competencies.

OCTOBER 2013

### Additional joint sales contract with GSK Korea

Dong-A Pharmaceutical signed a joint sales contract with GSK (GlaxoSmithKline) Korea for five OTC (Over-the-counter) drugs. Dong-A Pharmaceutical will therefore now be in charge of distributing the following products: Zantac®, a peptic ulcer treatment; Driclor®, an anti-perspirant; Sebiprox®, a dandruff treatment; Brevoxyl®, an acne treatment; and Duofilm®, a skin emollient. In 2010, the two companies agreed to make a strategic alliance and signed a joint sales contract for ETC (Ethical) drugs and four OTC products, such as Polident® Tab, Polident® Adhesive Cream, Sensodyne®, and Breathe Right®. The addition of the five latest products reflects the confidence GSK has in the sales capabilities of Dong-A Pharmaceutical.



## Letter to Shareholders



**SHIN-HO KANG**

Chairman, Dong-A Socio Group

**Honorable customers and shareholders,**

I would like to thank you sincerely for your unwavering trust and support for Dong-A Socio Group during its 80-year history, and during the past year, which has marked a new direction for us.

Dong-A Socio Group has always achieved more by taking on challenges and adapting to change. This innovation has enabled the former Dong-A Pharmaceutical to be the No. 1 pharmaceutical company in Korea. 2013 was the momentous year for us since we celebrated the 80th anniversary of our founding, and we shifted into a holding company structure which will allow us to become a truly global pharmaceutical company, moving beyond the saturated domestic market.

The company has now split into Dong-A Socio Holdings, which is in charge of the investment business; Dong-A ST, which oversees the ETC (Ethical) drug business; and Dong-A Pharmaceutical, which focuses on the OTC (Over-the-counter) drug business. With the three companies performing central roles, Dong-A Socio Group was able to use the strengths of all of its affiliates to achieve balanced growth across all sectors last year.

Increased R&D, based on our founding spirit that ‘Dong-A Socio Group contributes to society by developing new drugs’, enabled us to license out Tedizolid to Trius Therapeutics and the company successfully completed global phase III trials for Tedizolid. In addition, the NDA (New Drug Application) for Tedizolid was submitted to the US FDA (Food and Drug Administration) in October 2013, and accepted by the US FDA in December. This is another step forward towards developing a new global drug.

In October 2013, we became the first pharmaceutical company in Korea to open a research center specializing in dementia, the Dong-A Dementia Center. Dong-A Socio Group now has four research laboratories – the Innovative Drug Discovery Research Laboratory, the Bio-pharmaceutical Research Laboratory, the Drug Discovery Research Laboratory, and the Pharmaceutical Product Research Laboratory, as well as one research center focusing on specialist treatment. This has bolstered our ability to develop new innovative drugs through R&D.



I would like to thank everyone in the Dong-A Socio Group for embracing this change with a united spirit and greater responsibilities. I would also like to thank once again all of our customers and shareholders for their steadfast support and encouragement during these times of great change.

Dong-A Socio Group created the foundations for stronger growth by its move to a holding company structure in 2013, and we will move further towards becoming a global pharmaceutical company in 2014 by implementing the following key strategic tasks:

**First, we will expedite our advance into international markets.**

Domestic market has limited growth potential, mainly due to ever-toughening government regulation of the pharmaceutical industry, the enforcement of drug price reduction policies, and increased competition. We will therefore move beyond the domestic market by strengthening our organization and processes, and improving our global capabilities through strenuous efforts including the development of global talent. We will also make sure our R&D is built on a truly global research network.

**Second, we will build a global R&D portfolio of innovative new drugs and biopharmaceuticals.**

2014 will be a stepping stone towards making Dong-A Socio Group a truly global company. We will therefore establish an R&D organization and business processes that meet international standards, so that we can focus on the development of innovative and highly marketable new drugs. We will also seek to develop biopharmaceuticals at the DM Bio Plant, which will begin operations early in 2014. This will lead to the establishment of a stronger R&D portfolio.

**Third, we will continue to innovate to drive the sustainable growth of the Group.**

We became the first in the Korean pharmaceutical industry to separate our ETC and OTC businesses out into different companies, which has resulted in greater business independence and expertise. This will help us to achieve sustainable growth and enhance corporate value, thus maximizing shareholder value.

# 80 + 1 years

We are moving forward to realize our vision of becoming a 'global pharmaceutical company', based on the success we have had in the last 80 years as the number one pharmaceutical company in Korea, and the successful first year after our move to a holding company structure.

## Dear customers and shareholders,

The shift into a holding company structure was not easy, but the challenge was worth the effort, as it will lead to the development of new drugs that will contribute to the health and happiness of humankind. Everyone at the Dong-A Socio Group will continue to work in unison to bring about a better world and a brighter future. I look forward to your continuing support and encouragement as we face a future of change and challenge.

Thank you.



**SHIN-HO KANG**  
Chairman, Dong-A Socio Group

# Group Vision

Our pursuit of innovation and responsible approach towards improving quality of life by developing new drugs will help us to realize our vision of becoming a respected and leading global company.

## Vision

A respected and leading global company developing innovative new drugs

## Our Pledge

To fulfill the demands of social justice, we endeavor to fulfill our corporate social responsibility. We will utilize new science and technologies to contribute to improvements in human health and welfare.

## Growth Strategy

### Global-oriented R&D

To realize our vision of becoming a global pharmaceutical company, it is essential that we develop innovative new drugs by boosting our R&D capabilities. Dong-A has developed new blockbuster drugs in Korea, including Stillen<sup>®</sup>, Zydene<sup>®</sup>, and Motilitone<sup>®</sup>, and we will soon launch a new global drug Tedizolid, oxazolidinone class antibiotics. We will also establish a US-based R&D office to strengthen our R&D network, and will invest in worldwide clinical trials.

### Strengthening Global Competencies

We will go beyond the stagnant domestic market and enter overseas markets with higher growth potential. In line with this, we are overhauling our communication channels and infrastructure in order to adapt to the new holding company structure, while building a flexible and efficient organizational structure and business processes. Plans have been drawn up to develop global human resources, a worldwide sales and office network and international marketing capabilities.

## People of Dong-A



# Corporate Governance

We practice transparent and responsible corporate governance based on our belief that sound corporate governance is fundamental to trust.



In March 2013, Dong-A Socio Group changed to a holding company structure to move beyond the saturated domestic market, and to become a truly global pharmaceutical company. The former Dong-A Pharmaceutical was spun off into Dong-A Socio Holdings, the holding company, and Dong-A ST, the operating company. A new Dong-A Pharmaceutical was created as a 100% subsidiary of Dong-A Socio Holdings. We became the first company in Korea to split its ETC (Ethical) and OTC (Over-the-counter) businesses; this has now resulted in each company developing increased expertise in its respective area, and being able to make independent business decisions. This in turn has enabled the effective evaluation and rapid execution of investments, which has lifted the levels of transparency and stability within the Group.

Dong-A Socio Holdings, Dong-A ST, and Dong-A Pharmaceutical each have a separate BOD (Board of Directors). To represent shareholder interests, each BOD is in charge of monitoring and control of overall business activities, ranging from corporate strategy to evaluating whether business performance goals have been achieved, and making decisions on remuneration for top management. Systematic and independent BOD operations promote rational decision-making and enhance transparency.

Rules governing the BOD's operations ensure efficient and responsible management by the Board. Outside directors are appointed through the strictly impartial process of the Outside Director Candidate Recommendation Committee, which operates under the Board. Candidates must be able to prove that they can engage in expert and balanced decision-making and business supervision based on their experience and expertise.

As at the end of 2013, the BOD of Dong-A Socio Holdings consisted of four internal directors, two outside directors, and one affiliated director. In 2013, the Board held 17 meetings to deliberate on 26 agenda items. The rate of participation by outside directors was 98%. The BOD of Dong-A ST consists of two internal directors, three outside directors, and three affiliated directors. In 2013, the Board held a total of 18 meetings to deliberate on 24 agenda items. All outside directors participated in all meetings. The BOD of Dong-A Pharmaceutical consists of one internal director, two outside directors, and two affiliated directors. Six BOD meetings were held in 2013 to discuss a total of nine agenda items. The participation rate of outside directors was 100%.

DONG-A SOCIO GROUP

DONG-A SOCIO HOLDINGS

DONG-A ST

# Board of Directors

Dong-A Socio Group's Board of Directors is committed to ensuring business excellence and responsible management in order to maximize stakeholder value.

## Dong-A Socio Holdings

### INSIDE DIRECTORS

#### Jung-Seok Kang

CEO & President, Dong-A Socio Holdings

2005 Head, Marketing & Sales, Dong-A Pharmaceutical  
2009 M.S. in Pharmacy, Sungkyunkwan University

#### Dong-Hoon Lee

CEO & Executive Vice President, Dong-A Socio Holdings

2012 Executive Director, Investment Advisory,  
Samjong KPMG  
1993 M.A. in Business Administration,  
Ohio State University

#### Soo-Hyoung Kang

CEO & President, DM Bio

2012 Head, DMB Business Department,  
Dong-A Pharmaceutical  
1996 Ph.D. in Biochemistry, Korea University

#### Hong-Ki Chae

Managing Director, Dong-A Socio Holdings

2012 Head, Financial Administration Division,  
Dong-A Pharmaceutical  
1989 M.A. in Law, Korea University

### OUTSIDE DIRECTORS

#### Kyung-Bo Kang

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

### AFFILIATED DIRECTOR

#### Jin-Ho Kim

Senior Vice President, North Asia, GSK (GlaxoSmithKline)

2000 Senior Vice President, North Asia,  
GSK (GlaxoSmithKline)  
1976 M.S. in Computer Science, Columbia University

### AUDITORS

#### In-Sun Park

Auditor, Dong-A Socio Holdings

2003 Auditor, Dong-A Pharmaceutical  
1983 B.A. in Business Administration,  
Kangwon National University

#### Jong-Sik Yoo

Auditor, Dong-A Socio Holdings

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, Dong-A ST

1996 Head of Research Center, Dong-A Pharmaceutical  
1990 Ph.D. in Microbiology, Seoul National University

#### Chan-Il Park

CEO & President, Dong-A ST

2005 Head, Development & Licensing,  
Dong-A Pharmaceutical  
1978 B.A. in Pharmacy, Seoul National 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

### AFFILIATED DIRECTORS

#### Jung-Seok Kang

CEO & President, Dong-A Socio Holdings

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

Senior Vice President, North Asia, GSK (GlaxoSmithKline)

2000 Senior Vice President, North Asia,  
GSK (GlaxoSmithKline)  
1976 M.S. in Computer Science, Columbia University

### AUDITOR

#### Seung-Deok Jang

Auditor, Dong-A ST

2006 Senior Economist, Accounting System Department,  
Financial Supervisory Service  
1996 B.A. in Commerce and Trade, Korea University

## Dong-A Pharmaceutical

### INSIDE DIRECTOR

#### Dong-Wook Shin

CEO & President, Dong-A Pharmaceutical

2011 Vice President, Yong-ma Logis  
1979 B.A. in Pharmacy, Kyung Hee 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

### AFFILIATED DIRECTORS

#### Bong-Jin Cha

Executive Vice President, Dong-A ST

2010 Production Director, Dong-A Pharmaceutical  
1983 B.A. in Pharmacy, Seoul National University

#### Mi-Won Sohn

Managing Director, Dong-A ST

2011 Director, Pharmaceutical Product Research  
Laboratories, Dong-A Pharmaceutical  
1984 B.A. in Pharmacy, Seoul National University

### AUDITOR

#### Sam-Beom Choi

Auditor, Dong-A Pharmaceutical

2005 Director, Accounting Firm Doore  
1998 B.A. in Physics, Dongguk University

\* As of December 31, 2013

## CEOs of Affiliates

The CEOs of all Dong-A Socio Group affiliates work in unison to achieve sustainable and profitable growth for each individual company and for the Group as a whole.

### Dong-A Socio Holdings



**Jung-Seok Kang**  
CEO & President



**Dong-Hoon Lee**  
CEO & Executive Vice President

### Dong-A ST



**Won-Bae Kim**  
CEO & Vice President



**Chan-Il Park**  
CEO & President

### Dong-A Pharmaceutical



**Dong-Wook Shin**  
CEO & President



**Sustainability calls for a responsible approach to progress.** That is why Dong-A Socio Group looks beyond the economic value of our business, to consider social and environmental value for the wider communities in which we live and work.



# Ethical Value

As a responsible corporate citizen that respects life and humankind, Dong-A Socio Group focuses on business ethics and compliance. We are also striving to advance in the pharmaceutical industry through business transparency and structural innovation.

## Culture of Ethics

The word 'socio' in the Dong-A Socio Group's name means 'society' in Latin, and reflects our determination to fulfill corporate social responsibilities. All members of Dong-A are committed to the spirit of 'respect for life, humankind, and the environment', and are fulfilling their roles and responsibilities as the members of a company that contributes to society. Ethical and transparent management forms a central role in our business. All staff are required to strictly observe ethics at work. To this end, we enacted a code of ethics and developed an ethical management system, thereby establishing the criteria for ethical management. By continually implementing training programs and campaigns, we will completely embed ethical management into our corporate culture.

## Model Code of Ethics

Dong-A has enacted a strict code of ethics as part of its efforts to build a healthy organizational culture. The code of ethics reflects the needs of our stakeholders, and serves as a guideline for our internal and external dealings. Everyone at Dong-A must actively abide by this code of ethics and work to implement it across the organization, so that we can earn greater trust from stakeholders and society as a whole.

## Compliance Program

There is ever-strengthening demand from stakeholders, including shareholders, investors, markets, and society, for companies to strictly observe all laws and to fulfill their corporate social responsibilities. Fairness and transparency are particularly important for pharmaceutical companies because of their role in people's health and life, and also as a high value-added industry that can drive economic development. To respond to these expectations and to changes in the market environment, Dong-A has in place a rigorous compliance program. Our Compliance Team, set up in 2009, has developed work standards in line with all relevant laws and global standards. We provide training on appropriate sales methods and continue to engage in self-monitoring and fair competition. Our compliance system was implemented in 2010 to ensure better, more systematic management, and a dedicated compliance homepage allows effective communication with all staffs and promotes ethical management across the Group.



# Human Resources Value

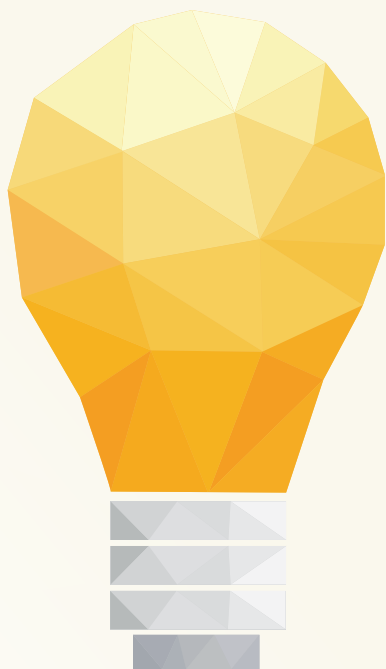
Dong-A Socio Group recruits and nurtures creative and self-motivated professionals who work for positive change. We encourage our employees to be team workers who share information for the company's growth, and we ask that all our employees seek to contribute to society.

## Status of Experts

The number of employees at Dong-A is rising every year. As at the end of 2013, the number at the three major affiliates of Dong-A Socio Group totaled 2,501, including 321 at Dong-A Socio Holdings, 1,591 at Dong-A ST, and 589 at Dong-A Pharmaceutical. There were 193 pharmacists, accounting for 7.7% of total personnel. In addition, there were 337 R&D personnel, 8.4% more than at the end of 2012. R&D staff thus accounted for 17.6% of total personnel.

## Human Resources Development Program

In 2013, we offered a leadership course at the group level, 40 collective training courses for each position or for everyone in common, six remote training courses, and six global courses. We provided cyber language lectures every month, and offered 228 language training lectures for the Overseas Unit. We are preparing to develop programs that focus on language, business, and cross-cultural skills, to develop personnel with outstanding global capabilities. In addition, there are common courses for the Group, and we reflect in training courses what is discussed at the Dong-A Socio Group HDR (Human Resources Development) Seminar held for education personnel at affiliates twice a year.





### Recruitment, Wage Structure, and Benefits

Dong-A recruits outstanding employees both through rolling recruitment and formal semi-annual recruitment processes for college graduates. In 2013, we recruited 89 college graduates in the first half of the year and 51 in the second half through the semi-annual recruitment processes. We plan to increase recruitment in the Americas and in China, amongst other regions, in order that we have in place the best personnel for a global healthcare company.

In 2008, Dong-A changed its salary system from a seniority-based to a performance-based system, to ensure that employees are fairly compensated based on their performance. We also offer participation in the four major public insurances. In addition, we provide comprehensive health support for employees and their families, as well as help in the education of their children and support for post-retirement. These measures help our staff to achieve a balance between their work and personal lives in a stable employment environment.

In 2013, we held the ‘2013 Phoenix Camp’ for 55 children of employees. The camp was for children in fourth grade through sixth grade, enabling participants to gain a better understanding of their parents’ workplace. The camp provided an opportunity for children to reflect on their visions, and for employees to increase their sense of pride and dedication to the company.

### A Great Place to Work

Dong-A focuses on creating a great place to work, so that our talented employees can achieve the best possible results. Since our Labor-Management Council was established in 1975, we have worked tirelessly and effectively to promote mutual understanding and cooperation between labor and management. Negotiations take place every year without dispute, setting an example of cooperation in the often contentious world of Korean labor-management relations.

Since 2010 we have had in place a ‘Mentoring Program’ to help new staff members joining the company. We also have a ‘Compliment Mileage System’ to promote quality communication – mileage is provided to all employees for them to send compliments to colleagues through the company intranet. In addition, the ‘Creating a Healthy Place to Work’ campaign has recently started, to check the health of staff on a monthly basis.

## Green Value

The natural environment is the central axis for Dong-A Socio Group alongside respect for life. We seek to minimize our ecological footprints with the respect for nature, which is the origin of all life.

### Practicing Green Management

Under the Basic Law on Low Carbon and Green Growth, companies that emit GHG (Green House Gases) above a certain level are required to participate in the Government's GHG management scheme. Dong-A does not exceed these criteria, so the company has no obligation to adopt a specific emissions reduction goal, or to report its emissions and other relevant matters. In addition, we are not required to receive green company certification. Nevertheless, staff at Dong-A are encouraged to practice green management in both their work and personal lives. We are striving to fulfill our 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.

In 2013, Dong-A Pharmaceutical was appointed as honorary Ambassador to the 5th Climate Change Week, hosted by the Korean Ministry of Environment and the Greenstart Network, reflecting the recognition our green management. This has come about due to the 'Tour Korea with Bacchus® for College Students', which we launched in 1998. Through this event, we have raised awareness among college students of how precious our lands and the environment are, thus promoting a green and environmentally-friendly lifestyle.





### Energy Reduction Campaign

Dong-A has built a strategic energy monitoring system, and we are actively participating in the Government's energy-saving campaigns to prevent energy wastage and enhance efficiency. As part of these efforts, we maintain indoor temperature levels at 18°C in winter and at 25°C in summer. Computers and indoor lighting are turned off during lunch hours, and power-saving technology is used for drinking water and soft water pump inverters in order to minimize unnecessary energy usage. We have installed highly efficient boilers, and operate chilled water storage systems in the summer. In addition, large-capacity compressors were replaced with small, high-efficiency compressors, thereby boosting our energy efficiency.

### Water Quality Management

Dong-A conducts initial physical and chemical treatment of all organic solvent waste water generated during the drug synthesis stage to improve water quality. This is followed by secondary biological treatment, to ensure that waste water meets with all required standards before it is discharged. For the initial physical and chemical treatment, we use a pressure flotation system that can treat a maximum of six tons of waste water per day. We plan to improve the facility in order to treat up to 40 tons per day. We regularly conduct our own water quality inspections, and also get monthly independent inspections of our water quality from a relevant professional organization.

### Waste Management

As part of our efforts to ensure the eco-friendliness of all our processes, we systematically manage waste reduction, treatment and recycling. The organic solvents generated during our manufacturing processes are discharged separately. For waste treatment, we contract professional companies which specialize in waste management.

### Management of Harmful Chemicals

Dong-A strictly observes all 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 manual and register.

# Social Value

We help those in need through our expertise and sincerity. Based on our founding spirit of ‘making good medicines to contribute to the public health’, and our shared values of respecting life, we do our utmost to fulfill our social responsibilities.

## CSR Directions

Dong-A Socio Group has long recognized the importance of CSR (Corporate Social Responsibility), and has undertaken social contribution activities since its foundation. We are working to improve quality of life through our expertise as a pharmaceutical company that contributes to improvements in health and human welfare by producing outstanding products, based on our vision of becoming a respected pharmaceutical company.

We conduct wide-ranging volunteer work in which our staff can participate rather than holding one-time events or providing temporary help. We also undertake a variety of activities in the fields of education, culture, and academia. In addition, we have established the Sooseok Cultural Foundation, which sponsors scholarships, cultural events, publications, and academic programs.

## 2013 CSR Highlights

### Staff Volunteering Activities

The company and staff work together to ensure that our volunteer activities occur in every corner of local communities where a helping hand is needed. We have been active in the ‘Baffor Sharing Campaign Headquarters’, a soup kitchen run by the welfare group Dail Community Foundation, helping to offer free meals since 2005. As a part of an initial training program, new employees visit ‘Hyanggrimwon’, a facility for physically-challenged children, where they undertake a wide range of activities to help the children at the facility. In 2013, we conducted a blood donation campaign, and encouraged staff to participate. We do our best to fulfill our social responsibilities as a company that respects life through these volunteering activities.

### Sponsorships

Dong-A Socio Group holds an annual bazaar, and uses the proceeds to provide rice and coal briquettes to low-income families, seniors living alone, and the underprivileged. In 2013, proceeds totaling around KRW 60 million were donated to local communities. The annual ‘Program for Multi-cultural Families’ helps multi-cultural families to visit their homelands. Since 2008, we have been involved in a project to build the ‘Bodeumi Nanumi Nursery’, a childcare support project run by the Korean business community. We also provide medicines to domestic welfare groups for use in their medical volunteer activities.





### Overseas Relief Activities

In May 2013, we provided pharmaceuticals and medical equipment to Liberia to help residents in that war-torn country, and these activities were reported by a local newspaper, reinforcing our sense of pride to our employees and delivering hope to the local community. In November 2013, we provided pharmaceuticals worth around KRW 30 million to areas that were hit by a typhoon in the Philippines.

### Scholarships

We provide scholarships to students 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. This Foundation was created in 1992, the year of Dong-A's 60th anniversary, through the revamping of the Sooseok Scholarship Association. Initially established in 1987, the Sooseok Cultural Foundation has provided scholarships to 1,563 students, with the scholarships totalling KRW 2.2 billion in value.

### Academic Support

**Hamchun Medical Science Award** This award is presented to medical professionals who have demonstrated great respect for life, contributed to medical development, and made outstanding achievements in the field of research. Dong-A Socio Group and the Korean Medical Association have been co-presenters of the award since 1969. It began as the 'Dong-A Medical Culture Award', and was later re-named the 'Dong-A Medical Science Award'. Since 2010, the award has been called the 'Hamchun Medical Science Award', jointly sponsored by Dong-A Socio Group and the Sooseok Cultural Foundation.

**Excellent Pharmacist Award** This award was created in 1973 by Dong-A Socio Group and the Korean Pharmaceutical Association in honor of the great dedication shown by pharmacists to a healthy society. The award is presented annually at the Korean Pharmaceutical Association's founding anniversary, and is jointly sponsored by Dong-A Socio Group and the Sooseok Cultural Foundation.



## Mecenat

**Marronnier Women's Composition Contest** This annual cultural event for women is held in October, the 'month of culture'. Marking its 31-year tradition in 2013, 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 over in Korea, excluding students, may participate. Top prize winners are published in a journal of culture and arts, and the winning authors are enabled to make their official debut as a writer.

**Tour Korea with Bacchus® for College Students** The 'Tour Korea with Bacchus® for College Students' has become a leading cultural event that symbolizes the challenges and passion of youth. We have held the tour since 1998, and 2013 marked its 16th anniversary. Every year, around 10,000 students apply for one of the 144 participants at this event. Participants walk a total of over 600 kilometers for 21 days, helping to instill a sense of confidence and accomplishment. This has become a major cultural event for college students.

**Class for Youth on Caring for the Environment and Life** This five-day class includes various activities with an environmental theme for 50 junior high school students. Through the class, we provide programs, such as ecological monitoring and the 'Small Concert in the Forest', in order to enable the young students to enjoy a special experience and become at one with nature.

**Bacchus® Cup Junior Golf Championship** Dong-A has held this tournament since 2005, with the aim of fostering talented young golfers. It now has a reputation as one of the most desirable championships for young golfers, and is a gateway for them to further their careers.

**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 as the 'Bacchus® Cup Professional Baduk Competition'. The competition aims to contribute to the development of baduk (a traditional Korean version of chess) and promote good game etiquette. It was the first professional baduk competition to be sponsored by a company, and has attracted great attention from 10 million baduk fans. The competition was renamed the Bacchus® Cup Chunwon Title in 1996, and marked its 18th anniversary under that name last year. In 2013, the Bacchus® Cup Korea-China Chunwon Title was held, and top baduk players from Korea and China competed for the No. 1 spot. This event has enhanced the image of Bacchus® in China, where baduk has become a popular game.

**Garglin® Cup Professional Women's Baduk Championship** This championship is sponsored by Dong-A Pharmaceutical and hosted by the Korea Economic Daily, with the aim of increasing the number of women taking an interest in and playing baduk. It also helps to promote the Garglin® brand. 2014 will mark the 20th year of this championship.



# Shareholder Value

Dong-A Socio Group changed to a holding company structure in a pursuit of new growth. Despite this period of change, we have continued to work toward enhancing shareholder value and delivering more transparent and accurate information, strengthening the relationship built on the trust we share with our investors.

## Strengthening of Investor Relations

In 2013, Dong-A Socio Group was very proactive in its IR (Investor Relations) activities during the move to a holding company structure, to provide investors with timely and accurate information. To protect investors from information asymmetry, we deliver information to all relevant parties and the media at the same time, and provide accurate information in a timely manner. This has built a relationship of trust that allows us to attract long-term investors, and we are also trying to encourage our current to become long-term shareholders.

## IR Communication Channels

Dong-A has established transparent and systematic internal and external IR communication channels. We have an internal IR Council that ensures we deliver consistent and accurate information. This Council meets before every quarterly announcement on corporate performance, when staff from key departments meet to share information on major IR issues and to identify solutions where needed. To ensure smooth communication between investors and the company, Dong-A's top management regularly receives feedback after performance announcements are made, focusing on the views of the stock and bond markets, and any areas that need to be improved. We also hold regular Analyst Days with key executives, thus enabling effective two-way communication. In particular, IR and PR (Public Relations) staff discuss and coordinate our messages so that we can rapidly and efficiently deliver consistent information to our stakeholders.





### Major IR Activities

**Analyst Day** Dong-A holds Analyst Days twice a year during which key members of the company's management team, including the CFO, present the company's mid-to long-term vision and strategies, and the company also receives market and investor opinions directly. In 2013, analysts and management visited Camgold, the Cambodian importer of Bacchus®. The visitors confirmed growth potential of Dong-A's overseas business, and helped to strengthen the relationship between Dong-A and stock market.

**Roadshows, NDRs** Dong-A organizes NDR (Non-Deal Roadshows) for investors both in Korea and overseas. In 2013, we hosted NDRs every quarter, in Korea and abroad. There were also about 150 corporate visits of analysts and investors, and we participated in seven domestic and overseas investor conferences.

**Disclosure of IR Materials** Dong-A posts its IR materials on its websites so that it can rapidly and transparently disclose all relevant information. After the 2013 demerger, the websites of Dong-A Socio Holdings, Dong-A ST, and Dong-A Pharmaceutical were newly organized to suit to each company's business, resulting in increased efficiency in delivering information.

Dong-A is the only pharmaceutical company in Korea to have published an annual report in English each year since 2008. The 2012 Annual Report received the Gold Award in the pharmaceutical category at the 2012 LACP Vision Awards held by the LACP (League of American Communications Professionals). This recognition from a renowned marketing survey institution reflects Dong-A's communications excellence.

### Greater Shareholder Value through Continued Growth

Dong-A moved ahead with its transition for new growth. Thanks to support from our shareholders, the move to a holding company structure was a great success. Corporate growth and stability will be our way of showing our appreciation to shareholders for that support. We will therefore go beyond our position as the No. 1 pharmaceutical company in Korea to become a truly global pharmaceutical company. We will strive to ensure maximize value for shareholders through increased transparency and expertise that have come about as a result of our reorganization.

**003** **DONG-A SOCIO GROUP**

**030** **DONG-A SOCIO HOLDINGS**

- 032** Dong-A Socio Holdings Subsidiaries
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## Dong-A Socio Holdings

Dong-A Socio Holdings is committed to **GROWTH IN UNISON** – a highly collaborative way of working that has helped the company to continue to grow. In 2013, Dong-A Socio Holdings worked together to change its organizational structure in order to not only allow the company to weather changes, but to also lead them.

# Dong-A Socio Holdings Subsidiaries

Dong-A Socio Holdings has ten subsidiaries. Dong-A Socio Holdings and its subsidiaries are run based on four strategic business areas, providing different products and services. The skills and marketing strategies needed are different for each business unit, and so the pharmaceutical, shipping, glass, and other areas (IT solutions, production and sale of agricultural products, real estate development, etc.) are separately operated. Dong-A Socio Holdings draws the overall organizational structure and group's vision, to ensure growth and synergy among the affiliates in various business areas.

## Key Subsidiaries



\* As of December 31, 2013

# Pharmaceuticals



TOTAL ASSETS  
**988.3** KRW billion

SALES  
**570.9** KRW billion

OPERATING PROFIT  
**33.6** KRW billion

OPERATING PROFIT MARGIN  
**5.9** Percent

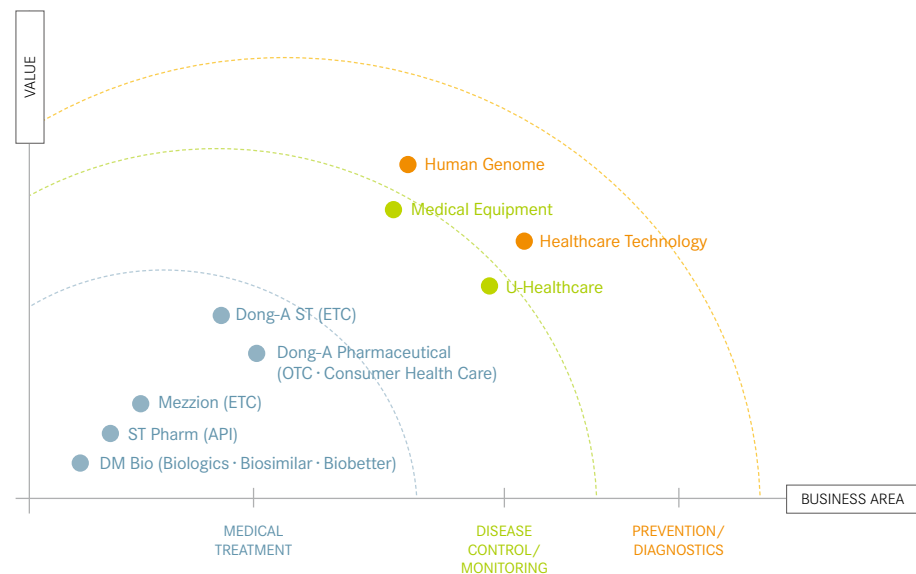
\* As of December 31, 2013; Consolidated figures

## DONG-A SOCIO HOLDINGS

In 2013, Dong-A Socio Group changed to a holding company structure in order to become a global pharmaceutical company. As a result, the former Dong-A Pharmaceutical was split into Dong-A Socio Holdings, Dong-A ST, and Dong-A Pharmaceutical. Dong-A Socio Holdings is a holding company with a focus on R&D of new innovative drug and new business investments, while Dong-A ST focuses on ETC (Ethical) drugs, overseas business, and medical equipment and diagnostics. Dong-A Pharmaceutical focuses on OTC (Over-the-counter) drugs and Bacchus®.

Dong-A Socio Group has improved its responsible and professional management by separating its ETC and OTC businesses. The Group plans to diversify its business portfolio, which was previously limited to medical treatment area, to advance into medical equipment and healthcare services, which focus more on disease prevention and control. This will help Dong-A Socio Group to become an integrated global healthcare company. Dong-A Socio Holdings is performing a central role in accomplishing this goal, and is in charge of designing the Group's organizational structure.

### Roadmap for Business Diversification





## Research Center of Dong-A Socio Holdings

The core of Dong-A Socio Holdings' new businesses is the research and development of biopharmaceuticals and new innovative drugs. The company's advanced Research Center, which was newly restructured, is performing a pivotal role in this. The previous R&D Center has now been divided between the holding company and the operating company. The Research Planning Management Department, Bio-pharmaceutical Research Laboratories and Innovative Drug Discovery Research Laboratories are now part of Dong-A Socio Holdings' Research Center; and the Drug Discovery Research Laboratories and Pharmaceutical Product Research Laboratories are now within the Research Center of Dong-A ST. Dong-A Socio Holdings' Research Center is in charge of discovering and verifying new innovative drugs and bio-pharmaceuticals, while Dong-A ST's Research Center is responsible for clinical trials and product releases.

The motto of Dong-A Socio Holdings' Research Center is 'The First', representing its focus on the development of new, first-in-class drugs. The company has established a research system for new innovative drugs to become a 'First Mover' who will develop drugs which are completely different from existing ones. To support this vision, the company plans to establish an R&D lab in the U.S. for joint research with universities, research institutes, start-up ventures and pharmaceutical companies to develop a one-stop research system that includes the discovery, verification, and development of new drug targets.

The company is also strengthening the competitiveness of its biosimilars business, which will be a future growth driver. The company has signed contracts for the joint development of various biosimilar products with Japan's Meiji Seika Pharma, including Herceptin®, a breast cancer treatment, in 2011 followed by Humira® in 2012, and Enbrel® in 2013. Accordingly, the two companies have agreed to collaborate throughout the complete development process for biosimilars – from R&D to manufacture and sale of the products. Dong-A Socio Holdings is planning to expand its production and development of biosimilars based on its specialized technique and experience of developing human growth hormone, neutropenia drugs and infertility drugs. The successful development of these products will lead to the establishment of a comprehensive sales network in Korea and Japan, as well as entry into other overseas markets. Development is progressing smoothly in line with regulations in advanced countries, with the goal of simultaneous market releases in Korea and Japan by 2017.

1

## THE FIRST

The motto of the Research Center of Dong-A Socio Holdings, with its focus on developing new, first-in-class drugs

120 Persons

R&D Personnel

\* As of December 31, 2013

32.1 KRW billion

R&D Investment

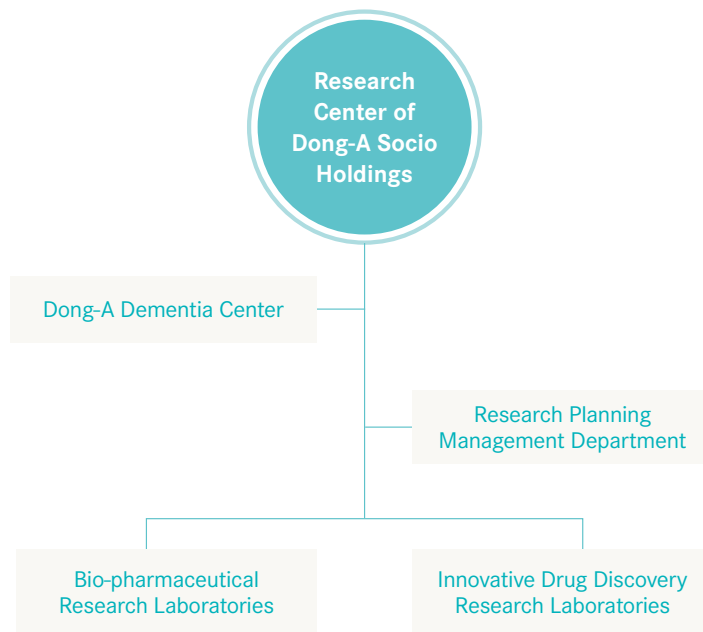
5.9 %

R&D Investment per Sales

\* Based on the consolidated figures for subsidiaries of Dong-A Socio Holdings' pharmaceutical sector, from January to December 2013

Dong-A Socio Holdings believes that pharmaceutical companies can contribute to society by developing new drugs. The company is therefore developing new innovative drugs in the fields of cancer, dementia, and pain. In 2013, the company established the Dong-A Dementia Center, the first of its kind in Korea, to become a hub for the development of dementia treatment. The Center was launched with 20 researchers, and the number will grow to 50, with overseas researchers accounting for more than 30%. The company will utilize open innovation to work with other institutions, and will cooperate with leading dementia researchers around the world. Dong-A Socio Holdings is also planning to run a state-designated dementia center starting in 2017 that will offer total healthcare services for dementia sufferers, including early diagnosis, prevention, and treatment.

As part of this innovation, in April 2013 Dong-A Socio Holdings signed a joint R&D contract for a BMP (Bone Morphogenetic Protein) with the JCB (Joint Center for Biosciences), a laboratory into which the US-based Salk Institute has invested. The company was also chosen to conduct a government-run project for the Ministry of Health & Welfare, and is striving to develop new bio-pharmaceuticals for the global market.





## DM BIO

DM Bio was established for the operation of a cGMP (current Good Manufacturing Practice) bio plant in September 2011. This plant is being built as part of a business alliance with Japan's Meiji Seika Pharma, and will allow Dong-A Socio Holdings to substantially grow its biosimilars business, which is expected to be a driver of its future growth.

### DM Bio Plant

Dong-A Socio Holdings and Meiji Seika Pharma are collaborating on the entire development process for biosimilars – from R&D to the manufacture and sale of products. The DMB Business Department was created in January 2012 to oversee the construction and operation of facilities for the products that will be developed jointly, and the registration of DM Bio was completed at the end of 2013.

In September 2012, the two companies began the construction of a global level cGMP bio plant in Songdo, the free economic zone area in Incheon, Korea. The site area covers 144,430m<sup>2</sup> with a total floor area of 21,750m<sup>2</sup>. Construction was completed in December 2013, and operations will begin in 2014. Joint investments for the construction of the new plant and the installation of facilities totaled around KRW 100 billion. The new plant has been built using a unique production method which has minimized costs while ensuring flexible production for its various products, resulting in maximum efficiency. The plant is advanced enough to be accredited by the U.S., Japan and European countries, allowing the export of our biosimilar products to the global market.

The DM Bio plant can produce 7,500 liters of antibody biopharmaceuticals. There are three independent production lines, each having a capacity of 2,500 liters, so that many products can be produced simultaneously. At present, the facilities have been established to produce APIs (Active Pharmaceutical Ingredients) through animal cell culture and purification processes, but there are plans to add aseptic filling and packaging facilities so that the plant can produce finished pharmaceutical products.

DM Bio will serve as a production base for entry by Dong-A Socio Holdings and Meiji Seika Pharma into the global biosimilar market. The primary goal is to build a cGMP biopharmaceutical production system to manufacture products developed jointly by both companies, and increased investments are planned. Through these strategic advances, Dong-A Socio Holdings will establish itself in the biopharmaceutical and biosimilar markets, which are expected to see strong worldwide growth in the future, and will advance into a global biopharmaceutical company.





## DONG-A PHARMACEUTICAL

With the change to a holding company structure, the OTC (Over-the-counter) drug business of the former Dong-A Pharmaceutical was separated and is now run by new Dong-A Pharmaceutical, a 100% subsidiary of Dong-A Socio Holdings. Its main businesses are OTC drugs and Bacchus® in Korea.

### Distribution Network

Dong-A Pharmaceutical supplies OTC drugs, health functional foods, and quasi-drugs such as Bacchus® to pharmacies and general distribution channels. Based on its outstanding teamwork and field management capabilities, around 130 sales representatives supply approximately 70 OTC products to around 20,000 pharmacies across Korea. They also supply quasi-drugs and health functional foods to discount stores, convenience stores, and supermarkets. The company has dedicated OTC marketers for OTC drugs that can only be sold through pharmacies, and has also built specialist OTC branches. Dong-A Pharmaceutical supplies OTC drugs directly to pharmacies across the nation, and through 90 wholesalers.

The company undertakes strict checks on the distribution, inventory management and cash flow management of Bacchus®, the quasi-drug that is vital for Dong-A Socio Group's growth into a global pharmaceutical company. The Bacchus Unit has developed a 'Route Sales System', with around 140 salespeople and 70 vehicles. The company strictly maintains dual distribution channels for Bacchus®-F, which is supplied to convenience and discount stores, and Bacchus®-D, which is for pharmacies only.

### Marketing Campaigns

Bacchus® has been a consumer favorite for more than half a century thanks to several factors, including distinctive marketing. Rather than simply delivering product information, advertisements for Bacchus® reflect the trends of the era, and tell stories of daily life that relate to an individual's health. These stories have been very successful, and have truly reached out to our customers. A Bacchus® advertisement won the Grand Prize in the airwave category at the Awards for Good Advertising as 'Chosen by Consumers', hosted by the Korea Advertisers Association in April 2013. It also received a Gold Prize in the TV category of the '2013 Korea Advertising Awards' held by the Korea Federation of Advertising Associations in November 2013, proving the high popularity of Bacchus® once again.

TOTAL ASSETS

**138.5** KRW billion

SALES

**289.7** KRW billion

OPERATING PROFIT

**37.3** KRW billion

OPERATING PROFIT MARGIN

**12.9** Percent

\* From March to December, 2013 due to the demerger



## Key Products

In 2013, the company sponsored the ‘Living a Life as a Pharmacist’ contest hosted by Dailypharm, a medicine journal, to celebrate the 50th anniversary of the release of Bacchus®. This campaign was applauded for its recounting of the daily life stories of the public and pharmacists throughout the 50-year history of Bacchus®. It received the Grand Prize in the PR (Public Relations) category at the 1st ‘Korea Pharmaceutical Industry PR and Advertisement Awards’.

### Drivers of New Growth

Dong-A Pharmaceutical is developing health functional foods as a driver of new growth with its re-launch as a specialist in OTC and healthcare products. In June 2013, the company launched a research association for health functional foods, to include research into discovering natural ingredients for health functional foods, evaluating the foods’ effectiveness, and undertaking their commercial development. The research association will develop both health functional and medicinal foods which can actively prevent and treat disease, and help Dong-A Pharmaceutical’s advance into the global market.



### Bacchus®

TONIC

Bacchus® is an iconic brand in the domestic tonic industry. Since its launch in 1963, Bacchus® has grown in popularity with a wide range of consumers, and has propelled Dong-A’s growth. In 2011, Bacchus® has been reclassified from an OTC drug to a quasi-drug, resulting in the release of Bacchus®-F, which is sold in convenience and discount stores, while pharmacies sell only Bacchus®-D. In 2013, Bacchus® had KRW 179.2 billion in sales in the domestic market, thus strengthening its market position backed by specialized strategy.



### Panpyrin Q®

COLD MEDICINE

First launched in 1956, Panpyrin Q® is a cold medicine, and Dong-A Pharmaceutical’s flagship OTC product. It is effective for colds, aches and headaches, as well as for coughs and phlegm. It enjoys a market share of at least 80% in the domestic liquid cold medicine market, and recorded sales of KRW 25.3 billion in 2013.



### Garglin®

MOUTHWASH

With 99.9% germicidal power, Garglin® removes even the small bacteria that cannot be killed by brushing alone, and is thus effective in preventing cavities. Different varieties of Garglin® are available, including products for adults and children, a diluted solution, a pouch, and a disposable stick-type product. Garglin® posted sales of KRW 23.4 billion in 2013.



### Morning Care®

HANGOVER DRINK

Morning Care® is a drink that eases the symptoms of hangovers, and helps to protect the liver from the damage caused by alcohol. In 2013, Dong-A Pharmaceutical released Morning Care® Plus, which was recognized as a health functional food by the Ministry of Food and Drug Safety. It posted sales of KRW 10.2 billion in 2013.



### Tempo®

TAMPON

Tempo® was Korea's first domestic tampon, developed by Dong-A Pharmaceutical. It is completely safe and comfortable to use for it is manufactured from an absorbent material made of pure cotton. In addition, unlike menstrual pads, it does not cause discomfort or skin irritation, enabling a more comfortable menstruation.



### Circulan®

BLOOD CIRCULATION AGENT

Derived from the word "circulate", Circulan® boosts blood circulation in the human circulatory system. It is a mixture of four traditional ingredients, including extracts of hawthorn berries, extracts of ginkgo leaf, melissa leaf, and garlic oil. It is effective in reducing various symptoms caused by blood circulation disorders. Because there are no side effects, it can be taken for long periods, and also by the elderly.



### Benachio®

FUNCTIONAL DYSPEPSIA TREATMENT

Benachio® is a functional dyspepsia treatment, launched in 2009. It is an effective treatment for general indigestion as well as stress-related chest pain, chest tightness, eructation of acid fluid, and vomiting. Benachio® reduces the burden on the stomach because it is a phytomedicine, and it can substantially relieve indigestion, if taken for a week.



### Bigen Cream Tone®

HAIR COLOR PRODUCTS

Bigen Cream Tone® is a leading hair dye, with a tradition of more than 100 years. In 2013, it was re-launched with additional ingredients to protect hair and to add extra moisture to prevent the damage caused by dyeing. In addition, the smell of ammonia was minimized.



## ST PHARM

Established in 2008, ST Pharm specializes in APIs (Active Pharmaceutical Ingredients), and became a member of Dong-A Socio Group in 2010. ST Pharm's hepatitis B drug was designated as a world-leading product in 2011, and the company was selected as an innovative pharmaceutical company in 2012, proving its competitiveness.

TOTAL ASSETS

**115.8** KRW billion

SALES

**84.3** KRW billion

OPERATING PROFIT

**10.9** KRW billion

OPERATING PROFIT MARGIN

**12.9** Percent

\* As of December 31, 2013



### Key Achievements

Since developing a synthesis technique of Zidovudine, an HIV treatment, ST Pharm has focused on developing APIs and intermediates for nucleoside antiviral drugs. The company has signed long-term supply contracts with major global pharmaceutical companies to supply APIs. ST Pharm is also taking part in the initial stages of the new drug development processes of world-renowned pharmaceutical companies such as Gilead, thus earning exclusive rights to supply APIs. Moreover, ST Pharm operates an international production system that has received cGMP (current Good Manufacturing Practice) certification from the US FDA (Food and Drug Administration) as well as from the relevant organizations in Japan, Europe, and the WHO (World Health Organization).

ST Pharm participates in product development from the initial clinical phase as part of its sales strategy to build long-term partnerships with customers. ST Pharm provides various services in the clinical phase, such as process optimization and scale-up. Once a new drug is released after clinical development, ST Pharm can supply the material for commercialization as the primary supplier. This strategy enables the company to build a long-term mass supply system based on a relationship of trust with customers.

ST Pharm also went into RNAi (RNA interference) drugs as drivers of new growth. RNAi is a new area of new drug development that received the Nobel Prize in Physiology or Medicine in 2006, and it is sharply growing. ST Pharm built a business foundation in RNAi drugs ahead of the others and will further strengthen its position in the future.

Manufacturing APIs and intermediates has helped ST Pharm to maintain strong growth. Sales in 2012 were KRW 83.0 billion, a year-on-year rise of 13.4%, and KRW 84.3 billion in 2013. The company will expand its CMO (Contract Manufacturing Organization) business in 2014, based on US FDA approval.

### Research & Development

ST Pharm R&D is focusing on scale-up and process research, to support the production of its customers. R&D investments totaled KRW 6.7 billion in 2013, a year-on-year increase of 31.1%, representing 7.9% of total sales.

# Logistics



TOTAL ASSETS

**91.5** KRW billion

SALES

**124.6** KRW billion

OPERATING PROFIT

**5.5** KRW billion

OPERATING PROFIT MARGIN

**4.4** Percent

\* As of December 31, 2013



## YONG-MA LOGIS

Established in 1979, Yong-Ma Logis specializes in TPL (Third Party Logistics). The company provides top-quality logistics services to customers by leveraging its long-term experience and extensive know-how. Yong-Ma Logis aims to be a leader in corporate logistics, offering best value.

### Key Achievements

Yong-Ma Logis is a leading provider of specialist logistics for difficult-to-handle products that require top-quality logistical management. Its main businesses are nationwide freight, parcel delivery services, car transport arrangements, multi-modal transport arrangements, and warehousing.

Despite slow growth in the domestic economy in 2013, Yong-Ma Logis managed to develop new business areas and attract new customers. Thanks to these efforts, the company posted sales of KRW 124.6 billion, a year-on-year increase of 6.4%. Its main business area, in transport, saw steady growth, and the TPL and international sectors grew by 14.1% and 24.6% respectively, leading the company's overall growth. The company also invested in its operations processes, resulting in cost savings worth KRW 500 million. Yong-Ma Logis has thus achieved both qualitative and quantitative growth, based on sound profitability.

### Future Plans

Yong-Ma Logis aims to strengthen its fundamentals and improve its sales and profit structure in 2014. In line with this, each business sector will have a distinctive strategy. Although its main business areas – transport and parcel delivery service sectors – have reached maturity and have limited growth potential, the company will introduce new services and move into new businesses in order to make progress to step up. In addition, the company will execute active development strategies for the storage sector, which is emerging as a new growth driver, improve operational processes, and expand its infrastructure, in order to lay foundations for further sustainable growth.

# Bottle Glass



## SOO SEOK

Established in 1969, Soo Seok is a comprehensive packaging materials company that produces packaging containers, such as glass bottles, caps, and PET bottles. The company's key products are the glass bottles and caps for Dong-A Pharmaceutical's Bacchus®. Soo Seok leverages its 40-year experience and advanced technologies to produce and supply top-quality, eco-friendly packaging materials, and to pursue growth in partnership with its customers.

TOTAL ASSETS

**103.1** KRW billion

SALES

**68.5** KRW billion

OPERATING PROFIT

**5.6** KRW billion

OPERATING PROFIT MARGIN

**8.5** Percent

\* As of December 31, 2013

## Key Achievements

Soo Seok became a subsidiary of Dong-A Socio Group in 1978. The company does business with other related companies of Dong-A Socio Group, including Dong-A Pharmaceutical and Dong-A Otsuka, and also with Pulmuone, a leading Korean food company, and J-One, a drink manufacturer.

Soo Seok consists of the Glass Unit, the Cap Unit, and the P.P Unit, which produces PET bottles and plastic caps. A categorization is also made for sales into glass bottles, caps, and PET, which are directly sold to manufacturers in Korea and abroad. The company has a production capacity of 150 tons per day for glass bottles and 850 million units per year for caps. The PET bottle business has a production capacity of 350,000 units per day; Soo Seok first entered the PET bottle market in 2011 and is now recording yearly growth of 10-13%, mainly attributable to increased demand in the domestic mineral water market.

Soo Seok analyzes orders placed by customers to properly forecast demand and manage inventory, which ensures stable product supply. Maintenance services are provided after initial sales, which results in enhanced customer satisfaction and increased trading volume, and the company is also trying to attract new customers in order to increase sales.



## Future Plans

In 2014, Soo Seok will ensure the stable operation of its bottle glass and cap business, and will expand the PET business. The company will leverage the know-how that it has accumulated in mineral water PET in order to include new areas of PET bottles other than mineral water. This will enable Soo Seok to establish itself as a comprehensive packaging company.

**Dong-A Socio Holdings**

# FINANCIAL REVIEW

# 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, 2013 and 2012 and the related separate 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 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, 2013 and 2012 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:

As described in note 1, 41 to the separate financial statements, on March 1, 2013, the Company spun off its ETC(Ethical drug), Medical Devices, Diagnostics, International business segment, and split off its OTC(Over-the counter drug) business segment and changed its name to Dong-A Socio Holdings Co., Ltd.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 7, 2014

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This report is effective as of March 7, 2014, 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.

# Separate Statements of Financial Position

As of December 31, 2013 and 2012

DONG-A SOCIO HOLDINGS CO., LTD.

(In thousands won)

		2013	2012
<b>ASSETS</b>			
Cash and cash equivalents	₩	151,344,290	357,823,454
Trade receivables		9,391,566	135,485,218
Other receivables		2,390,040	4,883,295
Other financial assets		2,798,651	154,875
Inventories		-	131,245,964
Other current assets		689,592	4,251,735
<b>Total current assets</b>		<b>166,614,139</b>	<b>633,844,541</b>
Long-term financial instruments		15,000	15,000
Other receivables		4,524,450	6,017,093
Other financial assets		95,418,137	35,667,375
Investments in equity-accounted investees		49,453,037	49,204,287
Investments in subsidiaries		116,759,345	76,535,226
Property, plant and equipment		123,787,078	572,948,193
Intangible assets		4,334,819	15,230,001
Investment property		8,977,623	36,206,917
Other non-current assets		566,471	85,645
Deferred tax assets		4,854,306	-
<b>Total non-current assets</b>		<b>408,690,266</b>	<b>791,909,737</b>
<b>Total assets</b>	₩	<b>575,304,405</b>	<b>1,425,754,278</b>

(In thousands won)

	2013	2012
<b>LIABILITIES</b>		
Trade payables	₩ -	43,396,902
Other payables	27,274,478	73,149,039
Short-term borrowings	163,050,822	249,027,193
Other financial liabilities	498,893	489,500
Provisions	-	10,845,918
Other current liabilities	-	2,535,550
Income tax payable	1,245,389	9,539,829
<b>Total current liabilities</b>	<b>192,069,582</b>	<b>388,983,931</b>
Other payables	-	7,085,208
Long-term borrowings	40,000,000	231,389,176
Other financial liabilities	558,398	110,000
Employee benefits	1,985,510	20,254,337
Other non-current liabilities	-	6,150,588
Deferred tax liabilities	-	25,518,624
<b>Total non-current liabilities</b>	<b>42,543,908</b>	<b>290,507,933</b>
<b>Total liabilities</b>	<b>234,613,490</b>	<b>679,491,864</b>
<b>EQUITY</b>		
Share capital	21,698,195	55,675,000
Share premium	45,743,138	73,906,182
Capital adjustments	(193,337,293)	(42,623,676)
Other equity components	61,072,265	233,940,960
Retained earnings	405,514,610	425,363,948
<b>Total equity</b>	<b>340,690,915</b>	<b>746,262,414</b>
<b>Total liabilities and equity</b>	<b>₩ 575,304,405</b>	<b>1,425,754,278</b>

# Separate Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

DONG-A SOCIO HOLDINGS CO., LTD.

(In thousands won)	2013	2012
<b>Revenue</b>	₩ 73,515,209	311,400,858
Finished goods and merchandise	41,667,522	310,648,493
Service and royalty	30,511,501	-
Dividends	1,023,995	665,926
Others	312,191	86,439
Cost of sales	44,106,471	150,361,223
Finished goods and merchandise	21,458,254	150,354,410
Service and royalty	22,542,492	-
Others	105,725	6,813
<b>Gross profit</b>	<b>29,408,738</b>	<b>161,039,635</b>
Selling, general and administrative expenses	(53,098,790)	(144,581,203)
<b>Results from operating activities</b>	<b>(23,690,052)</b>	<b>16,458,432</b>
Other income	2,991,751	854,990
Other expenses	(636,740)	(3,545,182)
Finance income	9,476,476	7,806,355
Finance costs	(10,238,012)	(4,660,105)
<b>Profit (Loss) before income tax</b>	<b>(22,096,577)</b>	<b>16,914,490</b>
Income tax expense	541,926	(4,018,042)
<b>Profit (Loss) from continuing operations</b>	<b>(21,554,651)</b>	<b>12,896,448</b>
Discontinued operations		
<b>Profit from discontinued operations, net of tax</b>	<b>10,367,251</b>	<b>54,849,768</b>
<b>Profit (Loss) for the year</b>	<b>₩ (11,187,400)</b>	<b>67,746,216</b>

(In thousands won, except per share information)

2013

2012

		2013	2012
Other comprehensive income (loss)			
Items that will never reclassified to profit (loss):			
Defined benefit plan actuarial gains (loss)	₩	2,016,421	(3,625,425)
Items that are or may be reclassified to profit (loss):			
Change in fair value of available-for-sale financial assets		(27,031,807)	(2,810,776)
Other comprehensive loss for the year, net of tax		(25,015,386)	(6,436,201)
Total comprehensive income (loss) for the year	₩	(36,202,786)	61,310,015
Earnings per share			
Basic earnings per share - continuing operations (won)	₩	(4,221)	1,204
Basic earnings per share - discontinued operation (won)	₩	2,030	5,122
Diluted earnings per share - continuing operations (won)	₩	(4,587)	953
Diluted earnings per share - discontinued operation (won)	₩	2,030	4,428

# Separate Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

## DONG-A SOCIO HOLDINGS CO., LTD.

(In thousands won)		SHARE CAPITAL	SHARE PREMIUM	CAPITAL ADJUSTMENTS	OTHER EQUITY COMPONENTS	RETAINED EARNINGS	TOTAL EQUITY
<b>Balance at January 1, 2012</b>	₩	55,675,000	73,906,182	(3,518,635)	233,974,942	372,371,516	732,409,005
<b>Total comprehensive income for the year:</b>							
Profit for the year		-	-	-	-	67,746,216	67,746,216
<b>Other comprehensive income (loss):</b>							
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
<b>Transactions with owners, recorded directly in equity:</b>							
Dividends		-	-	-	-	(11,128,359)	(11,128,359)
Issue of convertible redeemable preferred stock		-	-	-	2,709,613	-	2,709,613
Acquisition of treasury shares		-	-	(39,138,883)	-	-	(39,138,883)
Disposal of treasury shares		-	-	33,842	67,181	-	101,023
Total transactions with owners		-	-	(39,105,041)	2,776,794	(11,128,359)	(47,456,606)
<b>Balance at December 31, 2012</b>	₩	55,675,000	73,906,182	(42,623,676)	233,940,960	425,363,948	746,262,414
<b>Balance at January 1, 2013</b>	₩	55,675,000	73,906,182	(42,623,676)	233,940,960	425,363,948	746,262,414
<b>Total comprehensive income for the year:</b>							
Loss for the year		-	-	-	-	(11,187,400)	(11,187,400)
<b>Other comprehensive income (loss):</b>							
Change in fair value of available-for-sale financial assets		-	-	-	(27,031,807)	-	(27,031,807)
Defined benefit plan actuarial gains		-	-	-	-	2,016,421	2,016,421
Total other comprehensive income		-	-	-	(27,031,807)	2,016,421	(25,015,386)
Total comprehensive income for the year		-	-	-	(27,031,807)	(9,170,979)	(36,202,786)
<b>Transactions with owners, recorded directly in equity:</b>							
Dividends		-	-	-	-	(10,678,359)	(10,678,359)
Excise of convertible right of convertible redeemable preferred stock		1,031,135	18,308,498	-	-	-	18,333,800
Changes in equity due to split-off		-	-	4,577,074	(4,577,074)	-	-
Changes in equity due to spin-off		(35,007,940)	(46,471,542)	(197,914,366)	(187,604,568)	-	(466,998,416)
Acquisition of treasury shares		-	-	(44,357,185)	-	-	(44,357,185)
Disposal of treasury shares		-	-	86,980,861	47,350,586	-	134,331,447
Total transactions with owners		(33,976,805)	(28,163,044)	(150,713,616)	(145,836,889)	(10,678,359)	(369,368,713)
<b>Balance at December 31, 2013</b>	₩	21,698,195	45,743,138	(193,337,292)	61,072,264	405,514,610	340,690,915

# Separate Statements of Cash Flows

For the years ended December 31, 2013 and 2012

DONG-A SOCIO HOLDINGS CO., LTD.

(In thousands won)

	2013	2012
<b>Cash flows from operation activities</b>		
Profit for the year	₩ (11,187,400)	67,746,216
Adjustments	15,033,945	64,936,114
Changes in assets and liabilities	3,265,883	(49,235,779)
Dividends received	1,023,995	676,436
Income taxes paid	(16,686,792)	(25,689,780)
<b>Net cash provided by (used in) operating activities</b>	<b>(8,550,369)</b>	<b>58,433,207</b>
<b>Cash flows from investing activities</b>		
Interest received	4,094,775	7,139,862
Decrease in short-term financial instruments	-	40,000,000
Collection of short term receivables from employees	422,847	486,831
Decrease in derivative instruments	-	194,000
Decrease in long-term financial instruments	-	5,500
Decrease in long-term loans	-	998,120
Sale of in available-for-sale financial assets	13,029,918	9,678,163
Sale of in held-to-maturity financial assets	159,750	60,785
Proceeds from sale of property, plant and equipment	30,399	237,115
Proceeds from intangible assets	-	2,548,600
Decrease in deposits	134,112	1,364,732
Increase in short-term receivables from employees	(246,405)	(1,192,908)
Decrease in derivative instruments	-	(156,623)
Acquisition of available-for-sale financial assets	(53,962,462)	(10,007,604)
Acquisition of held-to-maturity financial assets	(158,650)	(34,475)
Acquisition of Investments in joint ventures	(704,000)	-
Acquisition of Investments in subsidiaries	(380,000)	-
Acquisition of property, plant and equipment	(93,668,096)	(55,530,595)
Acquisition of intangible assets	(120,089)	(2,276,861)
Increase in deposits	(70,000)	(1,736,460)
<b>Net cash used in investing activities</b>	<b>(131,437,901)</b>	<b>(8,221,818)</b>

DONG-A SOCIO HOLDINGS CO., LTD.

(In thousands won)

	2013	2012
<b>Cash flows from financing activities</b>		
Proceeds from short term borrowings	115,791,618	119,424,598
Proceeds from debentures	-	179,269,300
Proceeds from current portion of convertible preferred stocks	-	47,267,681
Proceeds from convertible preferred stocks	-	2,709,613
Proceeds from long term borrowings	40,000,000	15,000,000
Proceeds from rental deposits received	-	438,598
Proceeds from disposal of treasury shares	49,900,755	122,006
Interest paid	(6,804,283)	(8,220,785)
Dividends paid	(10,678,359)	(11,128,359)
Repayment of short-term borrowings	(9,424,598)	(72,849,670)
Repayment of current portion of long-term borrowings	-	(12,000,000)
Repayment of long-term borrowings	(500,000)	(276,271)
Repayment of bonds with warrants	-	(66,979,500)
Repayment of rental deposits received	(5,232)	(10,000)
Acquisition of treasury shares	(44,357,185)	(39,138,883)
Cash outflow due to spin-off	(200,347,034)	-
<b>Net cash from (use in) financing activities</b>	<b>(66,424,318)</b>	<b>153,628,328</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(206,412,588)</b>	<b>203,839,717</b>
Cash and cash equivalents at 1 January	357,823,454	154,559,323
Effect of exchange rate fluctuations on cash held	(66,576)	(575,586)
<b>Cash and cash equivalents at end of year</b>	<b>₩ 151,344,290</b>	<b>357,823,454</b>

# 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, 2013 and 2012, 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., Induspark Co.,Ltd. whose financial statements reflect 23.45% and 13.79% of total assets (prior to inter-company eliminations) as of December 31, 2013, and December 31, 2012, and 29.77% and 31.04% of total sales (prior to inter-company elimination) for the year ended December 31, 2013, and 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, 2013 and 2012 and its financial performance and its cash flows for the years then ended December 31, 2013 and 2012, in accordance with Korean International Financial Reporting Standards.

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

As described in note 1, 43 to the separate financial statements, on March 1, 2013, the Group spun off its ETC(Ethical drug), Medical Devices, Diagnostics, International business segment, and split off its OTC(Over-the counter drug) business segment and changed its name to Dong-A Socio Holdings Co., Ltd.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 7, 2014

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This report is effective as of March 7, 2014, 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, 2013 and 2012

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

(In thousands won)

		2013	2012
<b>ASSETS</b>			
Cash and cash equivalents	₩	198,183,119	381,211,138
Short-term financial instruments		7,033,506	2,349,983
Trade receivables		76,918,748	167,768,426
Other receivables		3,539,016	8,172,052
Other financial assets		31,835	154,875
Inventories		107,518,145	183,160,263
Current tax assets		115,463	48,160
Other current assets		3,895,510	6,017,088
<b>Total current assets</b>		<b>397,235,342</b>	<b>748,881,985</b>
Long-term financial instruments		105,500	1,143,000
Other receivables		10,300,129	7,382,562
Other financial assets		105,362,149	43,334,843
Investments in subsidiaries		90,312,331	88,813,655
Property, plant and equipment		366,401,626	778,176,312
Intangible assets		12,318,624	18,007,616
Investment property		5,671,202	37,283,142
Other non-current assets		572,820	85,646
<b>Total non-current assets</b>		<b>591,044,381</b>	<b>974,226,776</b>
<b>Total assets</b>	₩	<b>988,279,723</b>	<b>1,723,108,761</b>

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

(In thousands won)

	2013	2012
<b>LIABILITIES</b>		
Trade payables	₩ 30,536,692	47,846,641
Other payables	63,020,121	85,868,309
Short-term borrowings	279,304,289	337,984,138
Provisions	2,939,975	10,845,918
Other current liabilities	858,237	2,768,110
Income tax payable	8,705,517	11,498,396
<b>Total current liabilities</b>	<b>385,364,831</b>	<b>496,811,512</b>
Other payables	4,223,367	8,202,321
Long-term borrowings	62,904,021	267,933,330
Other financial liabilities	558,398	-
Employee benefits	5,285,201	25,141,987
Other non-current liabilities	-	6,682,937
Deferred tax liabilities	15,339,573	37,095,029
<b>Total non-current liabilities</b>	<b>88,310,560</b>	<b>345,055,604</b>
<b>Total liabilities</b>	<b>473,675,390</b>	<b>841,867,116</b>
<b>EQUITY</b>		
Share capital	21,698,195	55,675,000
Share premium	45,743,138	73,906,181
Capital adjustments	(198,321,760)	(44,169,009)
Other equity components	131,773,083	302,377,734
Retained earnings	470,698,892	461,062,393
<b>Equity attributable to owners of the Company</b>	<b>471,591,548</b>	<b>848,852,299</b>
<b>Non-controlling interests</b>	<b>43,012,784</b>	<b>32,389,346</b>
<b>Total equity</b>	<b>514,604,332</b>	<b>881,241,645</b>
<b>Total liabilities and equity</b>	<b>₩ 988,279,723</b>	<b>1,723,108,761</b>

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

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

(In thousands won)	2013	2012
<b>Revenue</b>		
Finished goods	₩ 344,230,459	309,657,030
Merchandise	94,578,871	79,878,386
Commissions	4,686,843	-
Others	127,373,933	95,290,054
	<b>570,870,106</b>	<b>484,825,470</b>
<b>Cost of sales</b>		
Finished goods	204,201,381	133,390,799
Merchandise	37,555,451	67,187,365
Raw materials	-	-
Others	145,068,893	111,674,113
	<b>386,825,725</b>	<b>312,252,277</b>
<b>Gross profit</b>	<b>184,044,381</b>	<b>172,573,193</b>
Selling, general and administrative expenses	150,404,145	140,356,783
<b>Results from operating activities</b>	<b>33,640,236</b>	<b>32,216,410</b>
Other income	5,084,614	2,858,020
Other expenses	(3,508,265)	(4,202,458)
Finance income	13,983,331	9,806,713
Finance costs	(16,702,448)	(12,906,255)
Equity income on investments	2,068,059	14,279,222
Equity loss on investments	(378,821)	-
<b>Profit from continuing operations before income tax</b>	<b>34,186,706</b>	<b>42,051,652</b>
Income tax expense	23,088,699	6,596,578
<b>Profit from continuing operations</b>	<b>11,098,007</b>	<b>35,455,074</b>
Profit from discontinued operations, net of tax	10,367,251	54,849,768
<b>Profit for the year</b>	<b>₩ 21,465,258</b>	<b>90,304,842</b>

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

(In thousands won, except earnings per share information)

	2013	2012
<b>Other comprehensive income (loss)</b>		
Other comprehensive income on revaluations	₩ (62,028)	-
Defined benefit plan actuarial gains (losses)	4,795,143	(3,403,953)
Change in retained earnings – change in equity method accounted investments	(168,483)	(1,341,450)
Net change in fair value of available-for-sale financial assets	(30,244,951)	(3,122,869)
Capital adjustment for equity method accounted investment	4,067	(3,506,423)
<b>Other comprehensive loss for the year, net of income tax</b>	<b>(25,676,252)</b>	<b>(11,374,695)</b>
<b>Total comprehensive income (loss) for the year</b>	<b>(4,210,994)</b>	<b>78,930,147</b>
<b>Profit attributable to:</b>		
Owners of the Company	15,568,206	85,877,513
- Continuing operations	5,200,955	31,027,745
- Discontinued operations	10,367,251	54,849,768
Non-controlling interests	5,897,052	4,427,329
- Continuing operations	5,897,052	-
- Discontinued operations	-	4,427,329
<b>Profit for the year</b>	<b>21,465,258</b>	<b>90,304,842</b>
<b>Total comprehensive profit (loss) attributable to:</b>		
Owners of the Company	(7,339,473)	73,815,767
Non-controlling interests	3,128,479	5,114,380
<b>Total comprehensive profit (loss) for the year</b>	<b>₩ (4,210,994)</b>	<b>78,930,147</b>
<b>Earnings per share</b>		
Basic earnings per share (won)		
- Continuing operations	₩ 1,029	2,905
- Discontinued operations	2,052	5,135
Diluted earnings per share (won)		
- Continuing operations	287	2,505
- Discontinued operations	2,006	4,438

# Consolidated Statements of Changes in Equity

For the year ended December 31, 2012

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

(In thousands won)	SHARE CAPITAL	SHARE PREMIUM	CAPITAL ADJUSTMENTS	OTHER EQUITY COMPONENTS	RETAINED EARNINGS	TOTAL	NON- CONTROLLING INTERESTS	TOTAL EQUITY
<b>Balance at January 1, 2012</b>	₩ 55,675,000	73,906,181	(3,518,635)	306,139,237	393,173,158	825,374,941	37,019,289	862,394,230
<b>Total comprehensive income for the year:</b>								
Profit for the year	-	-	-	-	85,877,513	85,877,513	4,427,329	90,304,842
<b>Other comprehensive income (loss):</b>								
Change in fair value of available-for-sale financial assets	-	-	-	(3,122,573)	-	(3,122,573)	(296)	(3,122,869)
Capital adjustment for equity method accounted investment	-	-	-	(3,489,763)	-	(3,489,763)	(16,660)	(3,506,423)
Defined benefit plan actuarial gains (losses)	-	-	-	-	(4,107,960)	(4,107,960)	704,007	(3,403,953)
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)
<b>Total comprehensive income for the year</b>	-	-	-	(6,612,336)	80,428,103	73,815,767	5,114,380	78,930,147
<b>Transactions with owners of the Company, recognized directly in equity:</b>								
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 shares	-	-	(40,355,225)	-	-	(40,355,225)	(8,012,688)	(48,367,913)
Disposal of treasury shares	-	-	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)
<b>Others</b>	-	-	(328,992)	74,039	(1,410,509)	(1,665,462)	(1,730,390)	(3,395,852)
<b>Balance at December 31, 2012</b>	₩ 55,675,000	73,906,181	(44,169,009)	302,377,734	461,062,393	848,852,299	32,389,346	881,241,645

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

(In thousands won)	SHARE CAPITAL	SHARE PREMIUM	CAPITAL ADJUSTMENTS	OTHER EQUITY COMPONENTS	RETAINED EARNINGS	TOTAL	NON- CONTROLLING INTERESTS	TOTAL EQUITY
<b>Balance at January 1, 2013</b>	₩ 55,675,000	73,906,181	(44,169,009)	302,377,734	461,062,393	848,852,299	32,389,346	881,241,645
<b>Total comprehensive income for the year:</b>								
Profit for the year	-	-	-	-	15,568,206	15,568,206	5,897,052	21,465,258
<b>Other comprehensive income (loss):</b>								
Other comprehensive income on revaluations	-	-	-	(62,028)	-	(62,028)	-	(62,028)
Change in fair value of available-for-sale financial assets	-	-	-	(27,596,371)	-	(27,596,371)	(2,648,580)	(30,244,951)
Capital adjustment for equity method accounted investment	-	-	-	4,067	-	4,067	-	4,067
Defined benefit plan actuarial gains (losses)	-	-	-	-	4,915,135	4,915,135	(119,992)	4,795,143
Change in retained earnings- change in equity method accounted investments	-	-	-	-	(168,483)	(168,483)	-	(168,483)
Total other comprehensive income (loss)	-	-	-	(27,654,332)	4,746,652	(22,907,680)	(2,768,572)	(25,676,252)
<b>Total comprehensive income (loss) for the year</b>	-	-	-	(27,654,332)	20,314,858	(7,339,474)	3,128,480	(4,210,994)
<b>Transactions with owners of the Company, recognized directly in equity:</b>								
Dividends					(10,678,359)	(10,678,359)	(1,245)	(10,679,604)
Excise of convertible right of convertible redeemable preferred stock	1,031,135	18,308,498	-	(1,005,833)	-	18,333,800	-	18,333,800
Changes in equity due to spin-off	(35,007,940)	(46,471,541)	(196,776,427)	(188,033,675)	-	(466,289,583)	7,496,203	(458,793,380)
Acquisition of treasury shares	-	-	(44,357,185)	-	-	(44,357,185)	-	(44,357,185)
Disposal of treasury shares	-	-	86,980,861	46,089,189	-	133,070,050	-	133,070,050
<b>Total transactions with owners</b>	<b>(33,976,805)</b>	<b>(28,163,043)</b>	<b>(154,152,751)</b>	<b>(142,950,319)</b>	<b>(10,678,359)</b>	<b>(369,921,277)</b>	<b>7,494,958</b>	<b>(362,426,319)</b>
<b>Balance at December 31, 2013</b>	₩ 21,698,195	45,743,138	(198,321,760)	131,773,083	470,698,892	471,591,548	43,012,784	514,604,332

# Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

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

(In thousands won)

	2013	2012
<b>Cash flows from operation activities</b>		
Profit for the year	₩ 21,465,258	90,304,842
Adjustments	64,805,926	73,067,843
Changes in assets and liabilities	(25,431,416)	(78,529,726)
Dividends received	913,192	1,016,724
Income taxes paid	(25,969,981)	(29,118,753)
<b>Net cash provided by operating activities</b>	<b>35,782,979</b>	<b>56,740,930</b>
<b>Cash flows from investing activities</b>		
Interest received	5,308,965	8,549,333
Decrease in short-term financial instruments	2,130,000	42,591,634
Decrease in short-term loans	221,713	215,773
Decrease in short-term receivables from employees	422,847	486,831
Proceeds from available-for-sale financial assets	23,990,661	12,473,463
Proceeds from held-to-maturity investments	159,750	59,855
Proceeds from sale of property, plant and equipment	505,183	743,340
Proceeds from sale of intangible asset	-	2,548,600
Decrease in long-term financial instruments	-	325,500
Decrease in long-term loans	-	998,120
Decrease in derivative financial assets	-	194,000
Decrease in deposits	447,364	3,766,944
Changes in ownership interests in subsidiaries that do not result in loss of control	3,508,498	-
Increase in short-term financial instruments	(5,308,524)	(554,192)
Increase in short-term loans	(261,365)	(218,005)
Increase in short-term receivables from employees	(247,433)	(1,192,908)

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

(In thousands won)	2013	2012
Increase in long-term financial instruments	(467,500)	(1,315,000)
Increase in long-term loans	(14,736)	(12,164)
Acquisition of available-for-sale financial assets	(55,806,419)	(10,266,900)
Acquisition of held-to-maturity financial assets	(158,650)	(34,475)
Acquisition of property, plant and equipment	(109,712,701)	(71,392,253)
Acquisition of intangible assets	(899,015)	(2,318,954)
Acquisition of jointly controlled entity	(704,000)	-
Acquisition of associate	(113,465)	-
Increase in deposits	(1,533,476)	(4,959,188)
Decrease in derivative financial liabilities	-	(301,129)
<b>Net cash used in investing activities</b>	<b>₩ (138,532,303)</b>	<b>(19,611,775)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	₩ 133,658,277	136,474,721
Proceeds from long-term borrowings	42,000,000	46,195,000
Proceeds from bonds	-	179,269,300
Proceeds from current portion of bonds	-	3,500,000
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	573,000	434,426
Proceeds from disposal of treasury shares	51,267,576	122,006
Interest paid	(12,601,534)	(11,786,281)
Dividends paid	(10,679,604)	(11,557,359)
Repayment of short-term borrowings	(23,424,598)	(90,649,670)
Repayment of current portion of long-term borrowings	(14,449,320)	(18,985,200)

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

(In thousands won)

	2013	2012
Repayment of long-term borrowings	(1,250,000)	(276,271)
Repayment of bonds with warrants	-	(66,979,500)
Proceeds from rental deposits increase	(575,004)	(35,000)
Acquisition of treasury shares	(44,357,185)	(48,367,913)
Cash outflow due to spin-off	(200,347,034)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(80,185,426)</b>	<b>167,335,553</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(182,934,750)</b>	<b>204,464,708</b>
Cash and cash equivalents at January 1	381,211,138	177,326,056
Effect of exchange rate fluctuations on cash held	(93,269)	(579,626)
<b>Cash and cash equivalents at end of year</b>	<b>₩ 198,183,119</b>	<b>381,211,138</b>

## 1932-1958

80 YEARS OF  
INNOVATION  
+ 1 YEAR OF GROWTH  
IN UNISON =

**1932**

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



**1947**

Pharmaceutical business began full operation

**1949**

Name changed to Dong-A Pharmaceutical Corporation

**1957**

Constructed modern facility, headquartered in Yongdu-dong, Dongdaemun-gu, Seoul, Korea

Manufactured antibiotics, such as Penicillin®

MODERNIZATION OF  
PHARMACEUTICAL BUSINESS

1959-1974

1961

Began manufacturing Bacchus®,  
an ampoule type total nutritious tonic

1963

Manufactured Bacchus®-D, a tonic as  
an OTC (Over-the-counter) drug

1964

Bacchus®-D ranked first in domestic  
tonic market

ESTABLISHMENT OF  
GROWTH FOUNDATION

1975-1992

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



1967

Ranked first in sales among domestic  
pharmaceutical companies

1970

IPO (Initial Public Offering)

1988

Released AIDSIA®, a first-generation  
AIDS diagnostic reagent, first of its  
kind in Korea

Constructed the industry's first KGLP  
(Korea Good Laboratory Practice)-  
compliant research center in Sanggal

1991

Received the IR52 Jang Young Shil  
Award for AIDSIA®

OVERCOMING OBSTACLES BY  
WORKING TOGETHER

## 1993-1999

**1993**

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

**1994**

Released Interferon-alfa™,  
a first-generation biomedicine and  
multiple myeloma treatment

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

Acquired the Korea Good Technology  
mark for AIDS-DIA®, an AIDS diagnostic  
reagent

BECOMING AN R&D-CENTERED  
PHARMACEUTICAL COMPANY

## 2000-2007

**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 Zyderna®, Dong-A's second  
in-house developed drug and an  
erectile dysfunction treatment

**2006**

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

CHALLENGING TO BECOME A  
GLOBAL PHARMACEUTICAL COMPANY

## 2008-2012

**2009**

Dong-A Pharmtech, an affiliate,  
licensed out Zyderna®, 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 the U.K.



**1995**

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

**1997**

Became the first company in Korea  
to develop a tuberculosis treatment,  
Closerin®

**1999**

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

**2006**

Licensed out Zyderna®, for the  
indication of portal hypertension,  
to Dr. Falk Pharma GmbH of Germany  
for the European market

**2007**

Licensed out DA-7218, oxazolidinone  
class antibiotics, to Trius Therapeutics  
of the U.S. for the worldwide territory  
except Korea

Received the IR52 Jang Young Shil  
Award for Zyderna®

**2011**

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

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

Licensed out Zyderna® to Meiji Seika  
Pharma of Japan for the treatment of  
urological diseases including BPH (Benign  
Prostatic Hyperplasia) for the Japanese  
market

2013-

### Dong-A Socio Holdings

03

The move to a holding company structure split Dong-A Pharmaceutical into three new companies – Dong-A Socio Holdings (the renamed existing entity), Dong-A ST (a stock spin-off entity), and Dong-A Pharmaceutical (an asset split-off entity)

04

Signed a joint R&D contract with the JCB (Joint Center for Biosciences) Research Institute of the U.S. on the AB-204, BMP (Bone Morphogenetic Protein)

10

Held a ceremony for the unveiling of production equipment at the DM Bio Plant in Songdo

Established a Korea's first dementia research center

2012

Licensed out DA-1229 (Evogliptin), a diabetes treatment, to Luye Pharma Group of China for the Chinese market

Licensed out Monotaxel®, an IMD (Incrementally Modified Drug) for cancer, to Gloria Pharmaceutical of China for the Chinese market

Began the construction of the DM Bio Plant in Songdo, Korea in conjunction with Meiji Seika Pharma



# FOCUSED GROWTH

### Dong-A ST

04

Received an IND (Investigational New Drug) approval for a phase II clinical trial of DA-9801, a diabetic neuropathy

10

Submitted an NDA (New Drug Application) to the US FDA for DA-7218 (Tedizolid), oxazolidinone class antibiotics

12

Released Zyderna® 75mg, a daily dosage form of erectile dysfunction treatment

2012

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 markets

003 DONG-A SOCIO GROUP

030 DONG-A SOCIO HOLDINGS

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## Dong-A ST

2013 was a significant year for Dong-A ST, not only because it went through a corporate reorganization in order to stay competitive, but also because it established the company's vision of becoming a respected world-class pharmaceutical company through innovative drugs. Dong-A ST's new structure and vision for the future will propel its **FOCUSED GROWTH.**

# focusing on globality

For Dong-A ST, the world is its stage. With the shift into a holding company structure in 2013, Dong-A ST began its journey towards becoming a global player on that stage. Backed by the company's expertise in ETC (Ethical) drugs, Dong-A ST is expanding its global footprint to help people around the world enjoy a healthier life.



Dong-A ST

# BUSINESS REVIEW



# Domestic Business

Dong-A ST will build new growth momentum based on a more specialized business structure and Korea's best production infrastructure.



The Korean ETC (Ethical) drug market was worth around KRW 11.8 trillion in 2013, about the same as the previous year. Rising from KRW 10.8 trillion in 2009, year-on-year growth in 2010 and 2011 was 6.3% and 5.7%, respectively. The market had grown to KRW 12.1 trillion in 2011, leading the growth of the pharmaceutical market as a whole in Korea. With the strengthened government policies, such as the April's Blanket Price Cut and a change in marketing environment, resulted in negative growth in 2012. However, the market has been recovering gradually since 2013.

## 2013 Performance

### Pursuit of Focused Growth

Dong-A ST recorded sales of KRW 383.7 billion in the domestic ETC market in 2013, a year-on-year fall of 12.7%. This weak performance is mainly attributable to the difficult business environment, including the strengthening of regulation by the government and fierce competition. To take preemptive measures against such difficulties in the business environment and sharp changes in the market, Dong-A Socio Group shifted into a holding company structure in March 2013. As a result, Dong-A ST can focus on the ETC business, which will help to recover its sales.

Dong-A ST has a market-leading ETC sales system. The company sells around 90 ETC products as well as various medical equipment and diagnostics products, targeting

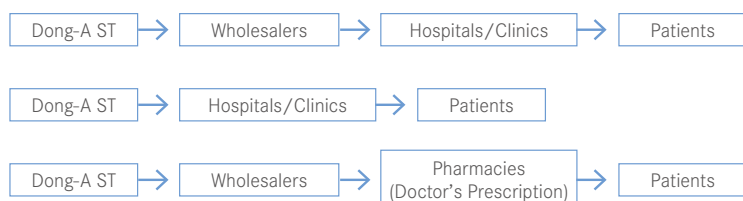
approximately 1,000 hospitals and 10,000 clinics across the nation. Around 500 ETC MRs (Medical Representatives) and 70 sales personnel for medical equipment and diagnostics offer top-quality medical information through 11 branches and four offices, striving to have its products prescribed at the right place and at the right time.

### Production Facilities and Capacity

Dong-A ST's production system consists of the Cheonan Plant, which is the main plant, the Banweol Plant and the Dalsung Plant. The Cheonan Plant produces its in-house developed new drugs, such as Zydene<sup>®</sup>, Stillen<sup>®</sup>, and Motilitone<sup>®</sup>, as well as other capsules, tablets, injections, ointments, and liquid medicines. The Banweol Plant is an API (Active Pharmaceutical Ingredient) synthesis plant, and produces anti-cancer drugs. Together with Dong-A ST's affiliate, ST Pharm, the Banweol Plant produces APIs such as cycloserin, terizidone, and taurine. The Dalsung Plant produces biopharmaceuticals and its main products are Eporon<sup>®</sup>, Growtropin<sup>®</sup>, Leucostim<sup>®</sup>, and Gonadopin<sup>®</sup>.

Based on the capacity of Dong-A ST's major production facilities, its plants can manufacture products worth around KRW 454.4 billion a year, assuming that the facilities are run an average of eight hours a day, 21 days a month, and 12 months a year. The average operation rate of whole production department is 109.3% based on hours of operation.

### Distribution Channels for ETC Products



### Future Plan

In 2014, Dong-A ST will strengthen responsible management system to improve the company's business expertise. The Korean pharmaceutical industry is expected to steadily grow as a result of increased expectations toward medical services, as a result of the aging population and improved economic status of the general public, which will give a stimulus to pharmaceutical R&D, in order to satisfy such expectations. Dong-A ST will undertake distinctive sales and marketing. The company will strongly engage in evidence-based academic activities which fits in Korean pharmaceutical market and differentiate itself from other domestic pharmaceutical companies. The company will increase the market share of its in-house developed new drugs, including Stillen®, Zydena®, and Motilitone®, and stabilize the market position of recently-released licensed-in original drugs and new generic products. In addition, the company will make diverse efforts to recover its sales in medical equipment and diagnostics by licensing in new products and expanding its portfolio.

### Domestic Network

#### LOCAL SALES ORGANIZATION

Seoul Branch  
 Ansan Branch  
 Ilsan Branch  
 Busan Branch  
 Daegu Branch  
 Changwon Branch  
 Gyeongju Branch  
 Daejeon Branch  
 Cheonan Branch  
 Gwangju Branch  
 Jeonju Branch  
 Wonju Branch

#### SALES OFFICE

Jeju Sales Office  
 Andong Sales Office  
 Suncheon Sales Office  
 Gangneung Sales Office

#### PLANT

Cheonan Plant  
 Banwol Plant  
 Dalseong Plant

29.4%

Market Share



## Stillen® Tab.

### GASTRICS TREATMENT

Stillen® Tab. was developed in 2002, the first drug to be developed in-house by Dong-A. It is a treatment for gastritis, and its main ingredients are eupatilin and jaceosidin, extracted from the herb Artemisia. Ever since its release, Stillen® has proven its outstanding efficacy and safety, and this has made it the No. 1 product in the Korean market for defense factor promoters. Sales in 2013 were KRW 63.3 billion, a market share of 29.4%.

12.8%

Market Share



## Zydene® Tab.

### ERECTILE DYSFUNCTION TREATMENT

Zydene® Tab. was the first oral erectile dysfunction drug developed in Korea, and the fourth in the world. Since its domestic release in 2005, it has expanded its global outreach to include Russia, Turkey, India, the Philippines, and Malaysia. Phase III clinical trials for the U.S. were completed in 2012, and it is expected to be launched for the US market in the near future. Zydene® was the Korea's first new chemical drug to exceed first year sales of KRW 10 billion, and accumulated sales to end-2013 reached KRW 112.3 billion.

9.3%

Market Share



## Motilitone® Tab.

### FUNCTIONAL DYSPEPSIA TREATMENT

Motilitone® Tab. was the third drug to be developed in-house by Dong-A. Launched in 2011 as a new phytomedicine, the main ingredients are extracts of corydalin and pharbitis. It offers a triple action – 5-HT4 agonist, D2 antagonist, and 5-HT1 agonist – and is the only functional dyspepsia treatment in Korea to do so. Sales in 2013 were KRW 14.5 billion, making it the number one product in the functional dyspepsia market.

\* As of December 31, 2013

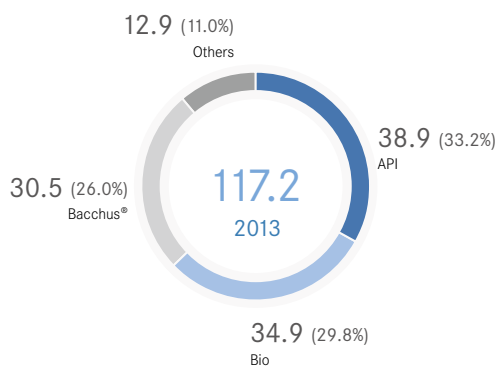
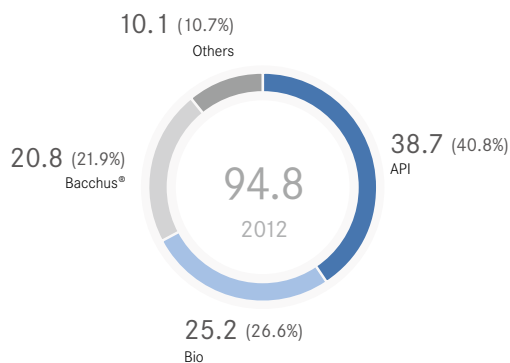
# Overseas Business

Based upon Dong-A ST's focus on science and global strategy, the company will expand its horizons towards the global pharmaceutical market.



## Sales by Products

(Unit: KRW billion)



The direction of Dong-A ST is towards becoming a global pharmaceutical company. The company is therefore focusing on developing new drugs that can be globally competitive, while actively undertaking global marketing and sales of existing products, and taking steps to get its products registered in new markets. Dong-A ST is also building a global business network by hiring and training global experts, expanding the branch network in key markets, and by establishing strategic alliances with companies overseas.

As of the end of 2013, Dong-A ST is exporting its in-house developed original drugs, such as Stillen® and Zydena® and biomedicines, such as Growthropin®, Eporon®, and Leucostim®. The company is also exporting APIs (Active Pharmaceutical Ingredients), such as cycloserine, terizidone, and atorvastatin, and finished goods, such as Bacchus® and Closerin®, to around 50 countries, including those in Europe, Latin America, Asia, and Africa.

## 2013 Performance

### Establishing a Global Vision

Dong-A ST announced its global vision and strategy in October 2013, and presented a blueprint describing how the company would aim to more than double its overseas sales in five years or less. A key element of this will be to emphasize new drug development and biosimilars as the two axes of its globalization. The company will boost its R&D capabilities by building a global research network and strengthening clinical trials. There will also be great emphasis on reforming the organization and process, while fostering its human resources to strengthen its corporate business capabilities.

## Continuing Growth

The global pharmaceutical market was beset by difficulties in 2013, with tough economic conditions across the globe, mainly due to sluggish growth in the U.S. and an economic slowdown in China and other emerging nations, higher entry barriers to trade, and price reductions on various products including drug around the world. Despite this, Dong-A ST achieved overseas sales of KRW 117.2 billion, an increase of 23.6% over the figure for 2012. This was the result of increased sales in Brazil and Cambodia, as well as new sales in Southeast Asia, including Myanmar, Vietnam, and Sri Lanka, and in Africa, including Tanzania.

To achieve continued growth overseas and to satisfy drug registration requirements in countries around the world, Dong-A ST is conducting overseas clinical trials, including in India. Dong-A ST is developing drivers of its next generation of growth, such as anti-cancer drugs, hypertension treatment, and hyperthyroidism medication, to target the Japanese and European markets, and is aiming to get Zydena® and a diabetes treatment into the Chinese market.

## Expanding the Global Network

The domestic pharmaceutical market has limited growth potential due to excessive competition and the April's blanket price cut executed in 2012. Dong-A ST is therefore looking to overseas markets as a way of achieving greater growth. The company is making inroads in markets in the U.S. and

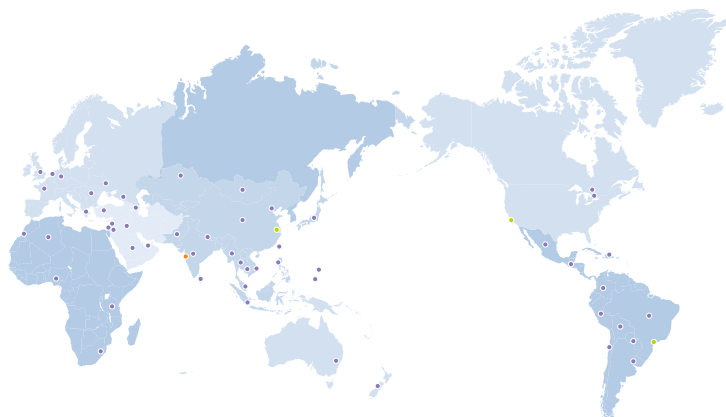
Europe, as well as in Asia and Latin America. Dong-A ST's liaison office in India is helping to increase the company's profile in the market, and Dong-A Participacoes, its subsidiary in Brazil, was established in January 2013 as the centerpiece of the company's drive to expand into the Latin American market. The company is also trying to invest in and build a biopharmaceutical plant in Indonesia to produce and sell Dong-A's biological products in that market.

## Future Plan

Dong-A ST is actively signing export contracts and expanding its export destinations. To this end, the company is actively signing export contracts and expanding destinations, and will build a global business network by expanding into major markets and by establishing strategic alliances with overseas companies. Dong-A ST will make sure it has the best global human resources, and will continue to develop competitive new drugs.

Dong-A ST is seeking to move beyond the stagnant Korean market, to the wider global pharmaceutical market, where annual average growth is around 4-5%. The strategies implemented are already leading to significant accomplishments, with exports up from just KRW 19.4 billion in 2007 to KRW 117.2 billion in 2013. In the mid-to long-term, Dong-A ST is targeting 30% of its total sales to come from exports by 2018, and 50% of operating profits, reflecting Dong-A ST's position as a truly global company.

## Global Network



### OVERSEAS AFFILIATES

U.S., Brazil, China

### LIAISON OFFICE

India

### EXPORT COUNTRIES

#### North America

U.S., Canada

#### South America

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

#### Oceania

Guam, New Zealand, Saipan, Australia

#### Europe

Greece, Germany, U.K., Romania, Netherlands, France, Turkey

#### Asia

Taiwan, Nepal, Malaysia, Mongolia, Indonesia, Vietnam, India, Japan, China, Cambodia, Thailand, Pakistan, Philippines, Myanmar, Sri Lanka

#### Middle East

Jordan, Saudi Arabia, UAE, Lebanon, Israel, Iraq

#### Africa

Nigeria, South Africa, Tanzania, Algeria (2015\*), Morocco (2016\*)

#### Russia/CIS

Russia, Kazakhstan, Georgia, Ukraine, Azerbaijan

\* Expected year to enter

## Global Success Story



### Closerin®

#### TUBERCULOSIS TREATMENT

Closerin® is a second-generation tuberculosis treatment. It is specifically prescribed to MDR-TB (multi-drug-resistant tuberculosis) patients who have developed a tolerance to primary tuberculosis medicines such as Isoniazid and Rifampicin. Dong-A ST successfully completed a WHO (World Health Organization) evaluation in December 2011. Having previously provided an antituberculosis APIs (Active Pharmaceutical Ingredients) to companies that supplied finished products to the WHO, Dong-A ST is now supplying its own finished products directly to the WHO. The company received WHO prequalification in 2013, thus becoming eligible to participate in the WHO's global tenders. In connection with the result of global WHO tender in 2013, Dong-A ST supplied USD 12.5 million worth of Closerin® to global markets, a year-on-year increase of more than 184%. Closerin® now has a top global market share of over 80%.

The number of patients receiving treatment through the WHO is growing exponentially, and is expected to rise by more than 76% in 2014. To expand its exports, Dong-A ST is undertaking product registration in India, China, the Philippines, and 11 African countries as well as putting into place package improvements and additional supply systems to build increased production capacity. Based on this, the company is developing a different form of antituberculosis product to register it with the WHO.



### Bacchus®

#### TONIC

Bacchus® is the most popular tonic in Korea for fighting fatigue, and Dong-A ST wants to spread its success around the world. Launched in 1963, it is a tonic that contains taurine. Bacchus® is now sold by Dong-A Pharmaceutical in Korea and exported overseas by Dong-A ST after the corporate demerger. In Korea, Bacchus® is available in the form of 100ml and 120ml glass bottles, and is categorized as a quasi-drug to be sold in pharmacies and convenience stores. The export version contains royal jelly and extracts of Korean ginseng, and is sold in the form of a 250ml can.

As of the end of 2013, Bacchus® was exported to 13 countries based on Dong-A ST's specialized strategies in each different market. Cambodia has been the base for Bacchus® in Southeast Asia since 2010, and its localization strategies there have enabled Bacchus® to record sales of KRW 26.6 billion in 2013, the highest share of the local energy drink market.

Dong-A ST is building its market position in Southeast Asia based on the success of Bacchus® in Cambodia. Bacchus® was released in Myanmar and Vietnam in 2013, and there have been promotions and marketing activities in the Philippines using a local website. Active efforts are under way to enter other new markets, such as in Africa. In October 2013, Tanzania became the first African market for Bacchus®. As a result of all these efforts, Bacchus® is seeing high growth in overseas markets, with sales of KRW 30.5 billion in 2013, a year-on-year increase of 46.7%. Dong-A ST continues to seek to increase exports; to target the US market, the company released a can Bacchus® that contains carbonic acid, and are supplying it to Korean stores in the eastern part of the U.S. and in Los Angeles, areas with large numbers of Korean residents. The company also plans to target the Han race by making Bacchus® available in supermarkets in China.



## Zydena®

ERECTILE DYSFUNCTION TREATMENT

Zydena® is the first erectile dysfunction treatment developed in Korea, introduced by Dong-A in 2005. Zydena® entered the Russian market in 2008 and is now entering other overseas markets, including Turkey, Malaysia, and India. Dong-A ST's goal is to have Zydena® available in 11 countries by the end of 2014, with that number rising to 18, including China, by the end of 2016.

Dong-A ST invited key Indian opinion leaders to Korea in August 2013 to discuss the benefits and increase the overseas sales of Zydena®. In October 2013, the company hosted the '2013 Zydena® Global Partners Seminar' and invited key partner companies in eight countries, including countries where Zydena® is currently available or will soon be made available. During the seminar, the company shared information on the development and clinical data of Zydena®, its status in Korea, and local marketing strategies and sales plans for countries around the world. Dong-A ST hopes this seminar has served as a foundation for global sales growth for Zydena®.

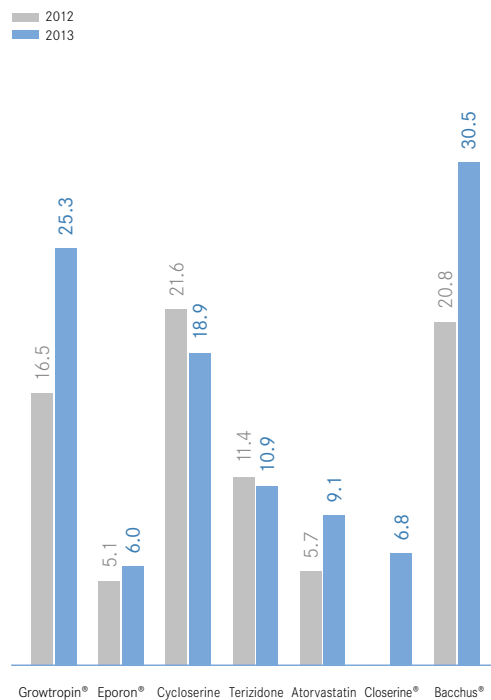
## Atorvastatin

API FOR HYPERLIPIDEMIA TREATMENT

Dong-A ST began exporting atorvastatin, an API (Active Pharmaceutical Ingredient) for Lipinon®, a generic hyperlipidemia treatment, to Japan in 2011. Sales in Japan reached KRW 9.1 billion in 2013, year-on-year growth of more than 60%. Atorvastatin had to satisfy strict Japanese quality standards, and has been a success so far. This reflects the great potential of Dong-A ST's APIs and finished products in advanced markets.

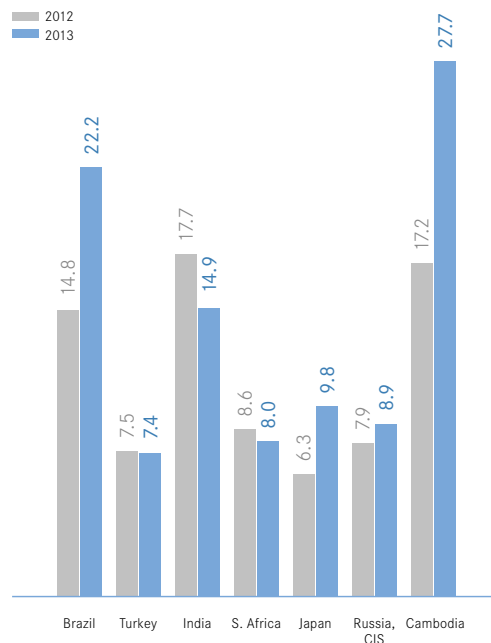
### Export Sales by Product

(Unit: KRW billion)



### Export Sales by Region

(Unit: KRW billion)



# Dong-A ST Subsidiaries

The main subsidiaries of Dong-A ST are M.I.Tech and Dong-A Participacoes. M.I.Tech is a company that manufactures and sells medical equipment, and was acquired in April 2013. Dong-A Participacoes is a Dong-A ST's subsidiary in Brazil. Established in January 2013, it will serve as the headquarters for the Latin American market.

## M.I.TECH

### Company Information

Establishment | January 11, 1991  
 Business Area | Production and sales of non-vascular stents  
 Sales | KRW 9.9 billion  
 No. of Employees | 62  
 Location | Pyeongtaek-si, Gyeonggi-do



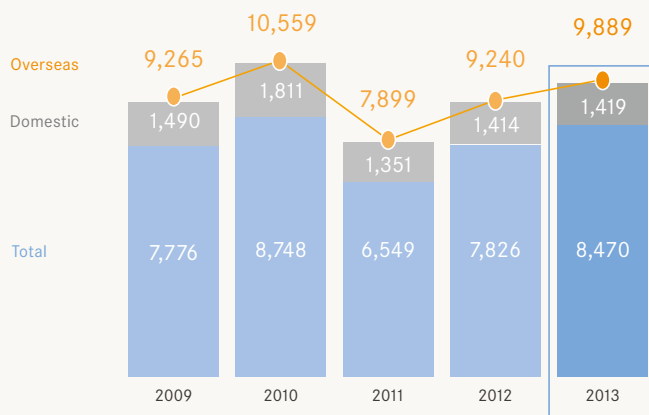
A stent is a cylindrical device that is inserted inside the body to maintain the lumen when the vascular and nonvascular lumen inside the body is closed or stenosed because of cancer, a tumor, or other causes. Hanaro Stent is a stent brand developed by M.I.Tech. Its quality has been acknowledged by the US FDA (Food and Drug Administration) and Japan's MHLW (Ministry of Health, Labor, and Welfare).

## 50+ Countries

M.I.Tech sells stents for use in gastroenterology to some 50 countries across the globe, including France and Germany. Sales in Europe account for 60% of exports.

### Sales of M.I.Tech

(Unit: KRW million)



## DONG-A PARTICIPACOES

### Company Information

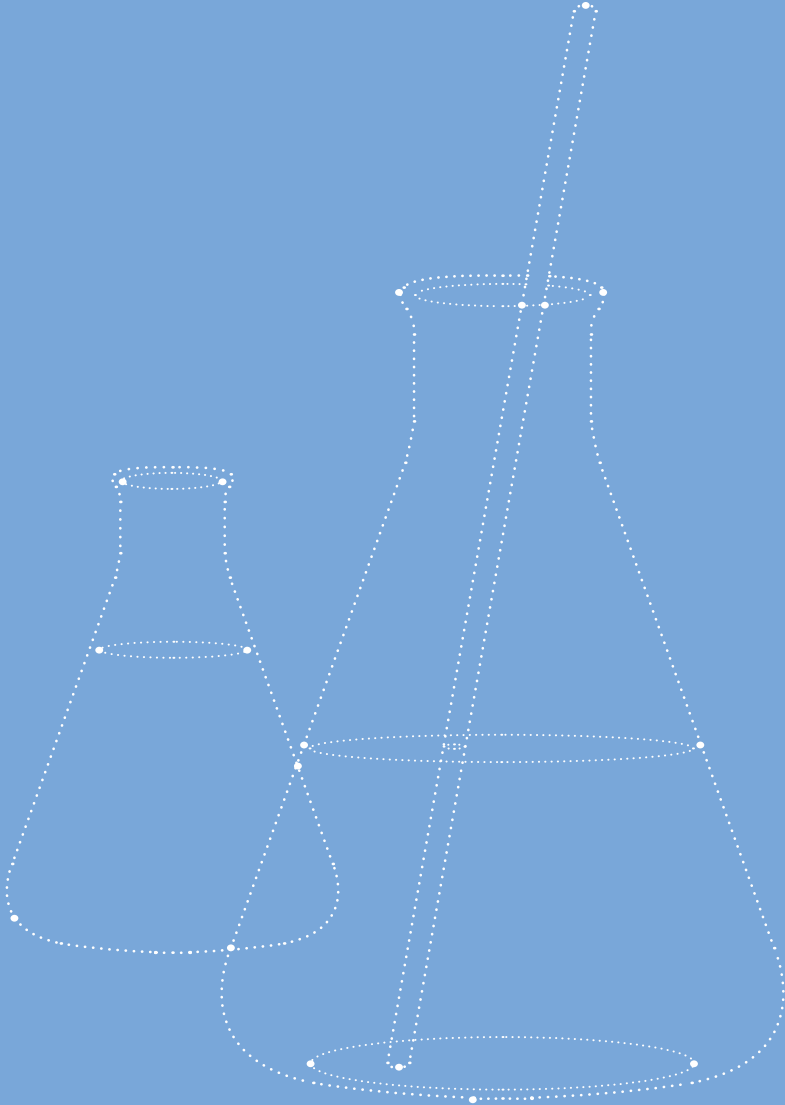
Establishment | April 1, 2013  
 Business Areas | Investment and development of new business in Brazil  
 Location | São Paulo, Brazil



\* As of December 31, 2013

Dong-A ST

# R&D REVIEW



# Research & Development

Dong-A ST uses its exceptional research and development capabilities to make new ideas and innovations into reality.



The Research Center is driving Dong-A's development into a global R&D-centered pharmaceutical company. Since its foundation in 1977, the center has become one of the most competitive pharmaceutical R&D centers in Korea, based on constant investment and ever-accumulating technologies. Dong-A rolled out Stillen<sup>®</sup>, a gastritis treatment and its first in-house developed drug, in 2002. This was followed by the release of Zyderna<sup>®</sup> in 2005, the first erectile dysfunction treatment in Korea. In 2011, the company released Motilitone<sup>®</sup>, a functional dyspepsia treatment. As such, Dong-A is continuing to achieve success in new drug development in the Korean pharmaceutical market. In addition, the clinical trials of Zyderna<sup>®</sup> and the oxazolidinone class antibiotics Tedizolid – both of which have been licensed out overseas – have been successfully completed in the U.S. and other overseas markets, suggesting that the development of new global drugs is near. The center continues to identify new pipeline items that can be developed as a new global drug in the fields of chemical, phyto, and incrementally modified drugs. The center performs a pivotal role as Dong-A ST's grows into a global pharmaceutical company.

## THE BEST

The motto of the Dong-A ST Research Center, reflecting its focus on developing best-in-class drugs

## 2013 Performance

### More Professional R&D Structure

The previous Research Center was split into a Research Center under Dong-A Socio Holdings and a Research Center under Dong-A ST, following the move to a holding company structure in 2013. Dong-A ST's Research Center operates the Drug Discovery Research Laboratories and Pharmaceutical Product Research Laboratories. Dong-A ST is leveraging its extensive experience in developing new drugs in specialist areas.

Dong-A ST will use its new and more efficient R&D structure to concentrate on items that can contribute to short-term sales growth, including developing best-in-class pharmaceuticals, based on its motto of 'The Best'. The main areas of focus will be incrementally modified drugs and phytomedicines.

### Key Achievements

Dong-A ST is building a strong R&D network with other pharmaceutical companies, start-up ventures and universities in Korea and abroad to become a global R&D company. With regards to licensing, which is an important aspect of this network, Dong-A licensed out Tedizolid to the US-based company Trius Therapeutics in 2007. Phase III trials were completed by Trius in 2013, and an NDA (New Drug Application) was submitted to the US FDA (Food and Drug Administration). DA-9801, a phytomedicine for diabetic neuropathy, recently received IND (Investigational New Drug) approval from the US

FDA for a phase II clinical trial which was conducted solely by Dong-A ST. As a result, the global development of safe phytomedicines is becoming a reality.

Dong-A ST is actively developing IMDs (Incrementally Modified Drugs) to help both its short-term sales growth and longer-term technology development. In 2012, the technologies for Monotaxel®, an IMD for cancer, were exported to a pharmaceutical company in China, and Dong-A ST submitted an application for its registration in Europe. Dong-A ST completed a pre-clinical study and formulation research for a combination drug that has improved intake convenience and efficacy for chronic diseases such as arthritis and hyperlipidemia, and the IND application this product has been made.

Dong-A ST shares research for Dong-A Pharmaceutical in the area of OTC (Over-the-counter) drugs. Dong-A ST conducts clinical research for the development of existing brands, including Garglin®, Morning Care®, and Benachio®, and have strengthened its product portfolio by conducting product research on Bacchus®, Panpyrin Q®, Circulan®, and Hairich®. The company has begun new OTC pipeline researches to develop new markets, including drugs for male infertility. There was also R&D into injury treatment, and health functional food products based on distinctive new ingredients.



217 Persons

R&D Personnel

13.6 %

R&D Personnel per Total Staff

\* As of December 31, 2013

53.8 KRW billion

R&D Investment

10.8 %

R&D Investment per Sales

\* Separate figures of Dong-A ST from March to December, 2013

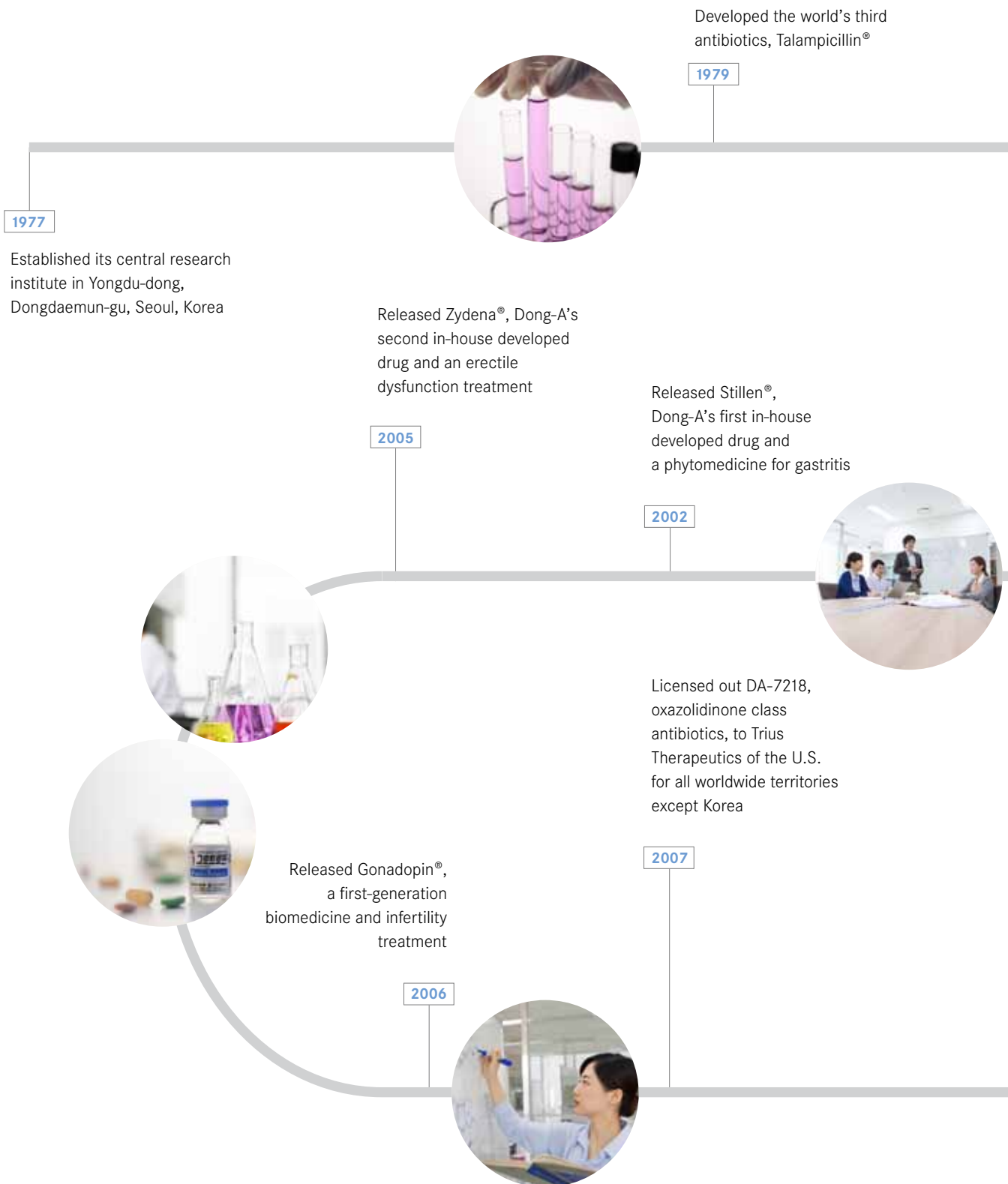
### Future Plan

Dong-A ST's Research Center engages in global pharmaceutical development in line with characteristics of new chemical drugs and phytomedicines, fitting into each targeted market. After identifying the best candidate substances, with a particular focus on digestive, urinary, metabolic, and endocrine disorders, the company undertakes both domestic and overseas development through licensing agreements in the U.S., China, India, and Japan.

In 2014, Dong-A ST will make R&D investments that amount to at least 10% of its sales to expedite the development of new global drugs. Highly-skilled personnel, essential to the success of R&D, will be hired and trained in Korea and abroad. The number of R&D personnel at Dong-A ST is growing, and it plans to hire 400 R&D experts by 2017. These bold investments into R&D will help Dong-A ST to become a global pharmaceutical company.

# R&D History

Dong-A's long and proud history of R&D is its core strength, and R&D will continue to lead us towards becoming a global pharmaceutical company.



Released AIDSIA®, Korea's first ever first-generation AIDS diagnostic reagent

-  
Constructed the first KGLP (Korea Good Laboratory Practice)-compliant research center

1988



Developed Growtropin®, a first-generation biomedicine and growth hormone

1993

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

1999

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

1997



1994

Released 'Dong-A Interferon-alfa™, a first-generation biomedicine and multiple myeloma treatment

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

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

2009



Released Motilitone®, the third in-house developed drug and a phytomedicine for functional dyspepsia

2011

Submitted an NDA (New Drug Application) for DA-7218, oxazolidinone class antibiotics

2013

# R&D Pipeline

CODE NAME (BRAND NAME)	INDICATION	DESCRIPTION	DEVELOPMENT STAGE	LICENSING AVAILABILITY
<b>NEW CHEMICAL ENTITY</b>				
DA-8159 (Zydena®)	Erectile dysfunction	PDE(Phosphodiesterase)-5 inhibitor	Launched (Korea) Ph III completed (USA)	Available for some territories
DA-8159	Portal hypertension	PDE(Phosphodiesterase)-5 inhibitor	Ph II (EU)	Available for some territories
	Benign prostatic hyperplasia	PDE(Phosphodiesterase)-5 inhibitor	Ph II (USA, Japan)	Available for some territories
	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 antibiotics	NDA submitted (USA, EU)	
	Pneumonia (Hospital-Acquired/Ventilator-Associated Bacterial Pneumonia)	Oxazolidinone class antibiotics	Ph III (Global)	
DA-6034	Gastritis	Flavone derivative	Ph III completed (Korea)	Available
	Dry eye		Ph II completed (Korea)	Available
DA-1229	Type 2 diabetes	DPP(Dipeptidyl Peptidase)-4 inhibitor	Ph III (Korea)	Available for some territories
DA-6886	Irritable bowel syndrome-constipation	5-HT(Hydroxytryptamine)4 agonist	Ph I completed (Korea)	Available
DA-8010	Overactive bladder	M <sub>3</sub> receptor antagonist	Preclinical (Korea)	Available
<b>PHYTOMEDICINE</b>				
DA-9701 (Motilitone®)	Functional dyspepsia	Herbal extract	Launched (Korea)	Available
DA-9801	Diabetic neuropathy	Herbal extract	Ph II completed (Korea) Ph II (USA)	Available
<b>BIOPHARMACEUTICAL PRODUCTS</b>				
DA-3801 (Gonadopin®)	COH (Controlled Ovarian Hyper-stimulation) in ART	Recombinant FSH (Follicle Stimulating Hormone)	Launched (Korea)	Available for some territories
	Ovulation induction in anovulatory women		Ph III completed (Korea)	
DA-3031	Neutropenia	PEGylated-G-CSF (Pegylated-Granulocyte-Colony Stimulating Factor)	NDA submitted (Korea)	Available
DA-3803	Infertility	Recombinant hCG (human Chorionic Gonadotropin)	Ph III completed (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 completed (Korea)	Available
DMB-3111	Breast cancer	Trastuzumab biosimilar	Ph I (Japan)	Available except Japan
DA-3808	Hemophilia A	Recombinant Factor VIII biosimilar	Preclinical completed (Korea)	Available
DA-3880	Anemia	Glyco-engineered Darbepoetin α biosimilar	Preclinical completed (Korea)	Available for some territories
DMB-3853	Rheumatoid arthritis	Etanercept biosimilar	Pre-clinical (USA)	Available except Japan
DMB-3113	Rheumatoid arthritis	Adalimumab biosimilar	Preclinical (UK)	Available except Japan
DA-3204	Spinal fusion	AB204	Preclinical (Korea)	
DA-3131	Age-related macular degeneration	New anti-VEGF mAb	Preclinical (Korea)	Available

\* Including pipelines of Dong-A Socio Holdings

## Key Pipeline Items

### [Udenafil; Zydena®]

Udenafil is an oral erectile dysfunction medication. It is the first such drug developed in Korea, and the fourth globally. Udenafil was licensed out to Warner Chilcott (acquired by Actavis) of the US for the territory of the US and Canada in 2009, and the company has successfully completed phase III clinical trials in the US. An NDA (New Drug Application) submission by Warner Chilcott to the US FDA (Food and Drug Administration) is now being prepared. Udenafil has also shown potential for non-erectile dysfunction 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, and Warner Chilcott is conducting a phase II clinical trial in the U.S. Dong-A also has an exclusive license agreement, signed in 2011, with Meiji Seika for the Japanese market for its urologic indications. For the indication of PH, a licensing-out agreement was signed with Dr. Falk Pharma in 2006 and a phase II clinical trial is being conducted in European countries, including Germany. With regard to PAH, Dong-A is conducting a phase IIb clinical trial in Korea.

### [Tedizolid]

Tedizolid is oxazolidinone class antibiotics developed for both intravenous (I.V.) and oral administration to treat serious gram-positive infections, including those caused by methicillin-resistant *Staphylococcus aureus* (MRSA). Dong-A ST licensed-out Tedizolid to Trius Therapeutics in 2007 for the worldwide territory outside Korea. Since then, Trius has developed Tedizolid from phase I to phase III clinical trials for the indication of acute bacterial skin and skin structure infections (ABSSSI). Their trials demonstrated that Tedizolid, even with a shorter course of therapy, was statistically non-inferior to a same class competitor in the market at the primary and secondary efficacy end-points. Tedizolid also showed a better safety profile, and is expected to enhance patient compliance given its one-per-day

treatment. In the 3rd quarter of 2013, Trius was acquired by Cubist, and the NDA for Tedizolid was submitted to the US FDA in October. As Tedizolid has received a designation as a QIDP (Qualified Infectious Disease Product) for ABSSSI as well as for HABP/VABP ((Hospital-Acquired/ Ventilator-Associated Bacterial Pneumonia), the US FDA has assigned a PDUFA (Prescription Drug User Fee Act) action date of June 20th, 2014. In addition, an MAA (Marketing Authorization Application) submitted to the EMA (European Medicines Agency) was accepted in February 2014. Cubist expects to submit an NDS (New Drug Submission) to Health Canada and initiate the global phase III study for HABP/VABP in the first quarter of 2014.

### [Evogliptin]

Evogliptin is an anti-diabetic compound of the DPP-4 (Dipeptidyl Peptidase-4) inhibitor class with high selectivity for DPP-4. The phase I clinical trial for Evogliptin showed that a single administration of Evogliptin 5mg inhibited DPP-4 activity by more than 80%, and a repeated once-daily dose of Evogliptin 5mg maintained the inhibition of DPP-4 for more than 24 hours. In the phase II clinical trial, it was confirmed that Evogliptin 5mg significantly decreased HbA1C compared to placebo. As PK (Pharmacokinetics) studies in animal models and healthy human volunteers showed low renal elimination of Evogliptin, it is not expected to require dose titrations in renal-impaired patients with diabetes. Evogliptin has also shown the potential to prevent and improve fatty liver and dyslipidemia in a high-fat diet induced obesity animal model. In 2012, Evogliptin was licensed out to Luye Pharma Group of China and Alkem Laboratories of India, and Luye and Alkem plan to conduct local clinical trials in their respective territories. In Korea, a phase II clinical trial was successfully completed in 2012, and Dong-A initiated phase III trials in May 2013.

### [DA-3031]

DA-3031 is a long-acting product of Leucostim®, which stimulates the level of white blood cells for those suffering from anti-cancer induced neutropenia. Dong-A launched Leucostim® in 1999, and is now is developing a long-acting PEG-G-CSF (DA-3031) which needs to be administered just once per chemotherapy cycle, to avoid the inconvenience of daily injection with Leucostim® during each chemotherapy cycle. In animal studies, DA-3031 showed efficacy and safety comparable with its competitor already on the market. Clinical trials from phase I to phase III for DA-3031 have been successfully completed and an NDA was submitted to the MFDS (Ministry of Food and Drug Safety) in Korea in August 2013. Dong-A is aiming to launch DA-3031 in Korea in 2014.

### [DA-3880]

DA-3880 is a biosimilar of darbepoetin-alpha, which stimulates erythropoiesis (increases red blood cell levels) and is used to treat anemia, commonly associated with chronic renal failure and cancer chemotherapy. While erythropoietin is usually administered three times a week, DA-3880 has been developed as a once-weekly treatment, depending on the indication, and is therefore expected to increase patient compliance. Due to the complex glycosylation of the reference product, development of a biosimilar with high similarity is generally difficult. However, because the high similarity of DA-3880 has been demonstrated, a phase I clinical trial is planned for 2014. In January 2014, Dong-A ST signed a licensing agreement with Sanwa Kagaku Kenkyusho Co., Ltd. (SKK) of Japan under which Dong-A ST will supply the finished product of DA-3880 to SKK for commercialization in Japan.

## Glossary

At Dong-A ST, the company focuses on translating excellence in science into innovative drugs which help people to enjoy better, healthier and happier lives.



## IN-HOUSE DEVELOPED ORIGINAL DRUG



### Stillen® Tab.

#### GASTRITIS TREATMENT

Launched in 2002, Stillen® is the first new drug developed by Dong-A. It consists mainly of the herbal ingredients eupatilin and jaceosidin.



### Zydena® Tab.

#### ERECTILE DYSFUNCTION TREATMENT

Launched in 2005, Zydena® is the second new drug developed by Dong-A. Its main ingredient is udenafil.



### Motilitone® Tab.

#### FUNCTIONAL DYSPEPSIA TREATMENT

Launched in 2011, Motilitone® is the third new drug developed by Dong-A. Its main ingredient is corydaline, an herbal ingredient.

## IMD (Incrementally Modified Drug)



### Orodipine® Tab.

#### HYPERTENSION TREATMENT

Launched in 2006, Orodipine® is CCB (Calcium Channel Blocker) with amlodipine orotate as its main ingredient.



### Orosartan® Tab.

#### HYPERTENSION TREATMENT

Launched in 2013, Orosartan® is a combination drug consisting of two anti-hypertensive materials, ARB (Angiotensin II Receptor Blocker) and CCB (Calcium Channel Blocker). The ingredients are valsartan as the ARB and amlodipine orotate as the CCB.

## BIOLOGICAL PRODUCTS



### Growtropin II® Inj.

#### HUMAN GROWTH HORMONE

Launched in 2003, Growtropin II® is a human growth hormone, and the main ingredient of which is somatropin. A cartridge form was added in 2008 for maximum patient convenience.



### Leucostim® Inj.

#### NEUTROPENIA TREATMENT

Launched in 1999, Leucostim® is a biosimilar of Grasin® and its main ingredient is filgrastim. It is the first in-house developed rhG-CSF (recombinant human Granulocyte Colony Stimulating Factor) medication in Korea.

## LICENSED-IN ORIGINAL DRUG



### Opalmon® Tab.

#### LUMBAR SPINAL STENOSIS TREATMENT

Launched in 1993, Opalmon® is Ono's prostaglandin E1 derivative, containing 5µg of limaprost.



### Flivas® Tab.

#### BENIGN PROSTATIC HYPERPLASIA TREATMENT

Launched in 2012, Flivas® is an 1d-adrenoceptor blocker of Asahi Kasei. Its main ingredient is naftopidil.



### Valtrex® Tab.

#### ANTIVIRAL AGENT

Launched in 2000, Valtrex® is an anti-herpes virus treatment of GSK (GlaxoSmithKline). Its main ingredient is valaciclovir, and it has various indications, including shingles, herpes labialis, genital herpes, CMV infection prevention, and chicken pox.



### Talion® Tab.

#### ALLERGIC RHINITIS, URTICARIA, PRURITUS TREATMENT

Released in 2004, Talion® is a second-generation anti-histamine of Mitsubishi Tanabe. Its main ingredient is bepotastine besilate.



### Epocelin® Inj.

#### ANTIBIOTICS

Launched in 1983, Epocelin® is one of the third-generation cephalosporin family antibiotics, developed by Astellas. Its main ingredient is ceftizoxime sodium.



### Butyris®

#### PETIT PLASTIC SURGERY FILLER

Launched in 2013, Butyris® is a high purity, monophasic-type filler. The main ingredient is HA (Hyaluronic Acid).



### Gaster® Tab./D Tab./Inj.

#### PEPTIC ULCER TREATMENT

Launched in 2002, Gaster® is an H2RA medication of Astellas. Its main ingredient is famotidine 20mg.



### Onon® Cap.

#### BRONCHIAL ASTHMA AND ALLERGIC RHINITIS TREATMENT

Launched in 1999, Onon® is a leukotriene receptor antagonist of Ono whose main ingredient is pranlukast hydrate 112.5 mg.



### Nenoma® Tab.

#### PREMATURE EJACULATION TREATMENT

Launched in 2013, Nenoma® is a premature ejaculation treatment with compound effects. Its main ingredient is clomipramine hydrochloride. It has the effect of delaying ejaculation by reabsorbing serotonin and norepinephrine.



### Nicetile® Tab./Powder

#### DEMENTIA TREATMENT

Launched in 1994, Nicetile® is a neuroprotective agent of Sigma-Tau whose main ingredient is acetyl-L-carnitine.

## GENERIC DRUG



### Lipinon® Tab.

#### HYPERLIPIDEMIA TREATMENT

Launched in 2008, Lipinon® is a generic of Lipitor®, and the main ingredient is atorvastatin.



### Gabapentin® Cap.

#### NEUROPATHIC PAIN TREATMENT

Launched in 2006, Gabapentin® is a generic of Neurontin® whose main ingredient is gabapentin.



### Plavitor® Tab.

#### PLATELET AGGREGATION INHIBITOR

Launched in 2007, Plavitor® is a generic of Plavix® whose main ingredient is clopidogrel.



### Pantoline® Tab.

#### PEPTIC ULCER TREATMENT

Launched in 2006, Pantoline® is a generic of Pantoloc® whose main ingredient is pantoprazole.



### Glimel® Tab.

#### DIABETES TREATMENT

Launched in 2004, Glimel® is a generic of Amaryl® from the sulfonylurea family. Its main ingredient is glimepiride.



### Aclofen® Tab.

#### ANTI-INFLAMMATORY ANALGESIC TREATMENT

Launched in 2000, Aclofen® is a generic of Airtal® whose main ingredient is aceclofenac.



### Cozartan® Tab.

#### HYPERTENSION TREATMENT

Launched in 2008, Cozartan® is a generic of ARB (Angiotensin II Receptor Blocker) Cozaar® whose main ingredient is losartan.



### Glinib® Tab.

#### CHRONIC MYELOID LEUKEMIA TREATMENT

Launched in 2013, Glinib® is a generic of Gleevec® whose ingredient is imatinib.

**Dong-A ST**

# FINANCIAL REVIEW

## I. Overview

Dong-A ST is an affiliate of Dong-A Socio Group and specializes in ETC (Ethical) drugs. The company was established with the former Dong-A Pharmaceutical's shift into a holding company structure in March 2013. Dong-A ST engages in the ETC and medical equipment & diagnostics businesses, and overseas operations.

Dong-A ST's financial statements for 2013 detail its performance from March 1st, the date of the demerger, through to December 31st. This Management's Discussion & Analysis (MD&A) is based on separate financial statements. We do not make any claims or provide any guarantees regarding the accuracy and integrity of the projections included in this material. In particular, future outlooks and forecast information, such as Dong-A ST's business goals, are based on our own analysis and market forecasts. As such, they include uncertainties and may change due to external and other factors. Because of these uncertainties, there may be significant differences between the forecasts provided in this material and future performance.

### The Global Economy and the Pharmaceutical Market in 2013

In 2013, the global economy continued its sluggish recovery, with growth of 2.9%, slightly less than in 2012. The Korean economy regained growth over 3% for seven quarters, mainly due to the recovery in the global economy although it did not recover as much as was expected at the beginning of the year.

According to IMS Health data, the global pharmaceutical market continued trend of limited growth due to various factors, including the expiration of patents for some blockbuster drugs. Growth in 2013 came about mainly as a result of reduced sales losses from the expiration of patents, new revenue lines to replace expired patents, and an increase in new drug applications and approvals. The global pharmaceutical market reached USD 991 billion in 2013, representing year-on-year growth of 3.3%, and is expected to grow by an average of 5.3% through to 2017, at which point it will be worth an annual USD 1,242 billion. In particular, emerging markets, such as Asia, Africa, Australia, and Latin America, will increase in importance as a result of government healthcare policies. Currently, these markets accounted for a relatively low share in the global pharmaceutical market.

The Korean pharmaceutical market in 2013 was worth around KRW 13,622 billion about the same as last year. The ETC market, which has traditionally led the Korean pharmaceutical market, saw growth of 0.1% despite the expansion of government regulations and policies, and changes in the overall business environment. In contrast, the OTC (Over-the-counter) market saw negative growth of 0.7%. The Korean pharmaceutical industry showed limited growth in 2013; it is, however, expected to continue to grow thanks to increased demand for medical services, as a result of Korea's aging population and overall improvements in the economy, which will in turn facilitate more pharmaceutical R&D.

## II. Major Business Performance

### 1. Sales

Although Dong-A ST was established on March 1st, 2013, the date of the demerger, in order to allow comparisons with the previous year we have made estimates including performance in January and February, the period prior to the demerger. Over this period of the full calendar year, the ETC Unit's sales fell by 12.7% year-on-year, while the Overseas Unit grew by 23.6%. The Medical Equipment & Diagnostics Unit saw a decline of 11.7%, and sales in other sectors grew 146.6%. The rise in sales in other sectors is attributable to major inflows from out-licensing, as well as lease sales that came about as a result of the move to a holding company structure.

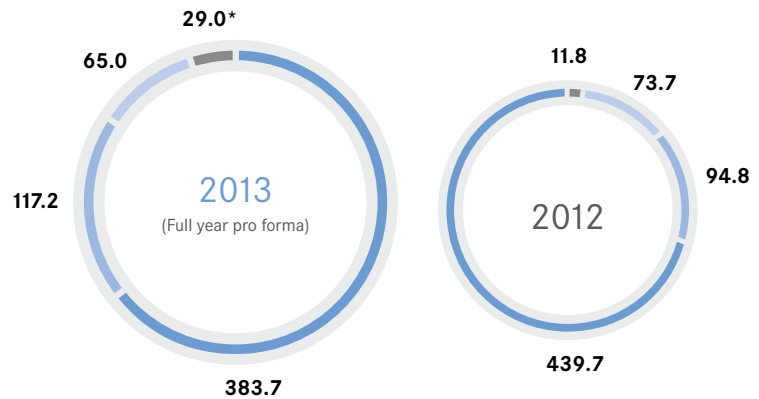
By unit, the percentage of overall sales accounted for the ETC Unit declined 6.4% points from 70.9% to 64.5%. The Overseas Unit grew by 4.4% points from 15.3% to 19.7% while the Medical Equipment & Diagnostics Unit declined 1% point from 11.9% to 10.9%. Other sectors rose 3% points from 1.9% to account for 4.9%.

#### Sales by Unit

(Unit: KRW billion)

- ETC
- Overseas
- Medical Equipment & Diagnostics
- Others

\* Full year pro forma due to the demerger

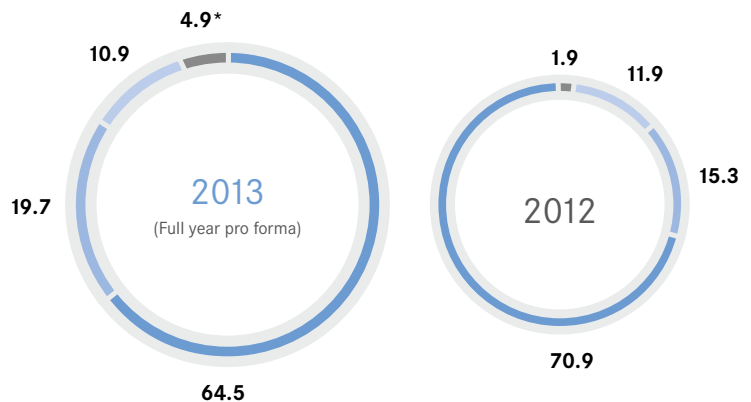


#### Proportion of Sales by Unit

(Unit: %)

- ETC
- Overseas
- Medical Equipment & Diagnostics
- Others

\* Full year pro forma due to the demerger



## ETC Unit

The ETC Unit saw sluggish sales of KRW 317.3 billion mainly due to the Korean government's continued strengthening of regulations and policies, and the unfavorable business environment. Considering sales recorded in January and February, prior to the demerger, full year sales were around KRW 383.7 billion, a year-on-year decline of approximately 12.7%.

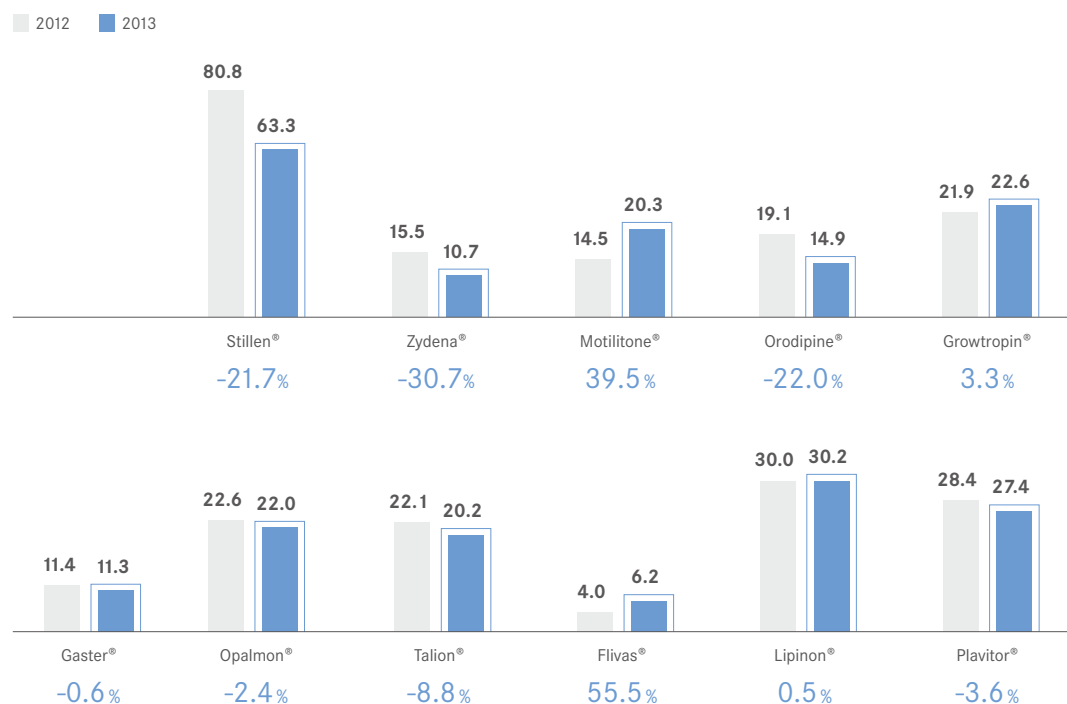
There were declines in the sales of ETC drugs that had previously been growth leaders, including Stillen<sup>®</sup>, an in-house developed drug for gastritis, Zydena<sup>®</sup>, an in-house developed drug for erectile dysfunction, and Orodipine<sup>®</sup>, an IMD (Incrementally Modified Drug) for hypertension. Stillen<sup>®</sup> saw sales fall by 21.7% year-on-year due to the release of a competitor product. Sales of Zydena<sup>®</sup> declined by 30.7% with the release of a low-cost generic version of Viagra<sup>®</sup>, while demand for high blood pressure drugs has shifted steadily towards the combination product market, resulting in a 22% drop in sales for Orodipine<sup>®</sup>.

However, the recently released Motilitone<sup>®</sup>, which treats functional dyspepsia, and Flivas<sup>®</sup>, a drug for benign prostatic hyperplasia, posted sales growth of 39.5% and 55.5%, respectively. Grotropin<sup>®</sup>, a human growth hormone, recorded a sales increase of 3.3%, and is forecast to maintain this upward trend.

The ETC market was extremely difficult in 2013, and will likely remain much the same in 2014. Against this backdrop, Dong-A ST will strive to improve its market share of existing drugs and establish a strong position for recently-released products. In particular, our plan for Stillen<sup>®</sup> and Zydena<sup>®</sup> is to increase indication differentiation from competitor products. We will also utilize distinctive marketing in ways that are most suitable for the Korean pharmaceutical market, such as academic activities based on clinical data, going beyond competition with domestic pharmaceutical companies.

### Sales of Major ECT Products

(Unit: KRW billion)



## Overseas Unit

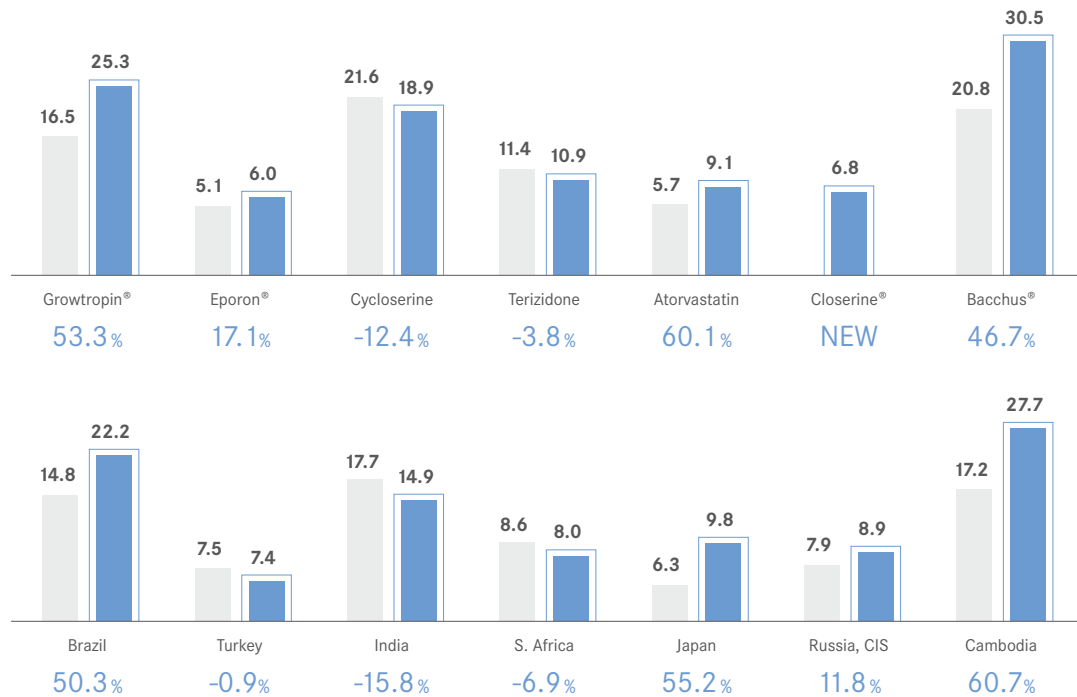
With the domestic market virtually saturated, Dong-A ST is actively expanding into overseas markets which are larger and have greater potential for growth. As an outcome of these efforts, our Overseas Unit grew by 76.9% in 2012, and continued this trend in 2013, posting year-on-year growth of 23.6%. Sales have reached KRW 98.2 billion due to the increased product sales in emerging markets, such as Brazil, India, Turkey, and Cambodia. Another significant factor was the start of exports of Closerin®, a tuberculosis treatment, to the WHO (World Health Organization). Including sales in January and February, prior to the demerger, the Overseas Unit posted sales of approximately KRW 117.2 billion.

Growtropin®, a growth hormone exported mainly to Brazil, recorded year-on-year growth of 53.3%. Bacchus®, which is primarily exported to Cambodia, saw growth of 46.7%, while atorvastatin, an API (Active Pharmaceutical Ingredient) used in the treatment of hyperlipidemia in the Japanese market, enjoyed growth of 60.1%. Sales of cycloserin and terizidone, which are tuberculosis APIs, declined slightly, but overall sales of tuberculosis drugs, including all finished products and APIs, increased by around 11.0%, helped by exports of Closerin® to the WHO. We plan to increase overseas sales in 2014 by expanding the markets for existing items and increasing both the number of products sold overseas and our export destinations.

### Sales of Major Export Products

(Unit: KRW billion)

■ 2012 ■ 2013



### Medical Equipment & Diagnostics Unit and Others

The business environment for the Medical Equipment & Diagnostics Unit was difficult due to sluggishness in the overall market and reductions in medical fees. The Medical Equipment & Diagnostics Unit posted sales of KRW 53.7 billion; including sales in January and February, prior to the demerger, sales were KRW 65 billion, a year-on-year decline of around 11.7%. We currently sell licensed-in products, but we aim to develop our own products. We also plan to improve sales by generating synergy with M.I. Tech, a medical equipment company that we acquired in 2013.

In other sectors, we recorded sales of KRW 29.0 billion, a year-on-year increase of 146.6%. This substantial increase is attributable to major inflows from the completion of the phase III clinical trial of Tedizolid, oxazolidinone class antibiotics, that was licensed-out in 2007, and research services and lease sales to the subsidiaries of Dong-A Socio Holdings after the move to a holding company structure. Sales in other sectors are expected to remain steady in 2014.

## 2. Profit and Loss

For the period from March through to December 2013, Dong-A ST recorded sales of KRW 495.8 billion and an operating profit of KRW 39.4 billion, but a net loss of KRW 65.3 billion. The cost of goods sold ratio was 47.2%, the SG&A expenses ratio was 44.9%, the operating profit margin was 8.0%, and the profit before income tax margin was 3.5%. R&D investment, included in SG&A expenses, amounted to 10.6% of sales. Considering sales in January and February, prior to the demerger, full year sales were around KRW 595.0 billion, and operating profits were KRW 51.6 billion, with an operating profit margin of around 8.6%. Our goal for 2014 is to improve the operating profit margin by more than 1 percentage point by expanding sales efficiently and keeping close track of SG&A expenses.

The biggest factor in the net loss for 2013 was Dong-A ST being subject to a tax audit for the five year period from 2007 through to 2011. As a result of this investigation, additional taxes of around KRW 84 billion were levied by the Korean National Tax Service – KRW 64.6 billion for corporate tax expenses and around KRW 19.6 billion for other expenses. The additional taxes came about because certain marketing expenses were not recognized as sales promotion expenses due to a difference in the interpretation of accounting requirements. This, along with accumulated surtaxes, resulted in the high additional tax payment. In order to prevent a recurrence of these problems, we will considerably strengthen our internal accounting management systems. We will frequently examine the implementation of our accounting management guidelines to ensure that they are fully observed, and address any shortcomings. We believe that this additional tax payment was a one-time expense, and will not impact significantly Dong-A ST's future development.

## Summarized Separate Statements of Comprehensive Income

(Unit: KRW billion)

2013 (March through December)

Sales	495.8
Cost of goods sold	233.8
Cost of goods sold ratio	47.2%
Gross profit	262.0
SG&A expenses	222.6
SG&A expenses ratio	44.9%
Operating profit	39.4
Operating profit margin	8.0%
Other income	5.1
Other costs	22.3
Finance income	13.7
Finance costs	18.6
Profit before income tax	17.3
Profit before income tax ratio	3.5%
Net profit	(65.3)

### 3. Financial Position

Dong-A ST's total assets declined by 5.9 from KRW 983.7 billion at the time of the demerger to KRW 925.7 billion at the end of 2013. Current assets fell by 15.8%, from KRW 403.7 billion to KRW 340.2 billion mainly due to a reduction of approximately 33% in cash and cash equivalents as a result of the corporate tax payment from a regular tax audit.

Total liabilities declined by 5.7% from KRW 515.6 billion to KRW 486.3 billion. Current liabilities fell by 31.4%, from KRW 247.7 billion to KRW 169.9 billion, while non-current liabilities rose by 18.1% from KRW 268 billion to KRW 316.5 billion. Current liabilities fell and non-current liabilities rose mostly because the redeemable convertible preferred stocks issued in 2012 and distributed to Dong-A ST at the time of the demerger were converted into common stocks in April 2013. This removed current liabilities of around KRW 31 billion. There was also an issuance of foreign currency bond of around KRW 31.7 billion in November 2013 to repay short-term borrowings; this resulted in a slight reduction in the borrowings ratio from 82.5% to 79.8%. The net gearing ratio, excluding cash, increased from 40.8% to 50.1%, and the current ratio also increased from 1.6x to 2.0x.

Total shareholders' equity declined 6.1% from KRW 468.1 billion to 439.4 billion. This was mainly attributable to the corporate tax payment, not fully off-set by the inflow of capital from the conversion of redeemable convertible preferred stocks into common stocks.

### Summarized Separate Statements of Financial Position

(Unit: KRW billion)	Dec. 31, 2013	Mar. 1, 2013	Change (%)
Total assets	925.7	983.7	(5.9)
Current assets	340.2	403.7	(15.8)
Cash and equivalents	130.7	195.3	(33.0)
Receivables	95.9	102.9	(6.8)
Inventories	91.6	97.5	(6.1)
Non-current assets	585.5	579.7	1.0
Total liabilities	486.3	515.6	(5.7)
Current liabilities	169.8	247.6	(31.4)
Non-current liabilities	316.5	268.0	18.1
Total shareholders' equity	439.4	468.1	(6.1)
Borrowings	350.8	386.3	(9.2)
Net debt	220.1	191.0	15.2

### Key Ratios

(Unit: %)	Dec. 31, 2013	Mar. 1, 2013	Change (%)
Debt-to-equity ratio (Total liabilities/Total shareholders' equity)	110.7	110.2	0.5
Borrowings ratio (Total borrowings/Total shareholders' equity)	79.8	82.5	(2.7)
Net gearing ratio (Total borrowings – cash/Total shareholders' equity)	50.1	40.8	9.3
Current ratio (Current assets/Current liabilities)	200.3	163.1	37.2

## III. Major Business Issues

Dong-A ST continued to achieve significant milestones in R&D last year. Global clinical trials for Tedizolid, oxazolidinone class antibiotics, were successfully completed by our partner and an NDA to the FDA were submitted in October 2013, indicating that this global new drug will soon be launched. In addition, an NDA submission for Zyderna®, an erectile dysfunction drug, is being prepared by our partner. Dong-A ST is preparing for submitting NDAs (New Drug Applications) in Korea after the completion of clinical trials for two types of infertility drugs and rolling out of a sustained-release product for anticancer induced neutropenia.

## IV. Economic Outlook and Management Strategies for 2014

The Korean pharmaceutical market is saturated due to the government's continuing implementation of detailed regulations, increased competition in generic products, and the entry by global generic drug companies into the Korean market. Economic conditions also remain uncertain. Dong-A ST has therefore shifted its attention earlier towards the global market, with its higher potential for growth. The move to a holding company structure in 2013 has enabled Dong-A ST to build the foundations for becoming a global pharmaceutical company. To execute this goal, we will undertake the following tasks.

First, we will execute localization strategies in rapidly growing pharmerging markets, so that we can continue the globalization of Dong-A ST. We have had success in exporting our products recently, but implementing these localization strategies will speed up our globalization. To this end, we signed an MOU (Memorandum of Understanding) in 2013 to establish a joint venture in Mongolia with MEIC of the Mongolia-based Bishreft Group, and we are now working on getting Dong-A ST's products into the Mongolian market. We have also established Dong-A Participacoes, our subsidiary in Brazil, to expand into the Brazilian market. In addition, we aim to enter the Indonesian and Chinese pharmaceutical markets in 2014.

Second, we will continue our intense focus on R&D for new drug development. The best way for a pharmaceutical company to globalize is to develop innovative new drugs. Our new drug development focuses on digestive, urinary, metabolic and endocrine disorders, as well as on biomedicines. We will develop not just better, but best-in-its-class new drugs, to make Dong-A a brand that is recognized around the world.

Third, we will pursue profit-oriented management through stable sales growth. In 2014, we will strengthen our portfolio through balanced sales of in-house developed original drugs, licensed-in original drugs, and generic drugs. We will also enhance the customer trust we have established over many years, which will provide the base for a stable increase in sales and strong improvements in profits.

We hope to see good results from our global new drug development projects in 2014. We believe Tedizolid will be commercialized in the U.S. upon the NDA approval by the US FDA. There will be increased demand for Closerin<sup>®</sup>, selected by the WHO as the primary tuberculosis drug for its global operations. We also expect accelerated localization in Mongolia, Indonesia, China and Brazil. Dong-A ST will continue its efforts to become a truly global pharmaceutical company, and we will do our very best to implement the highest standards of transparent and ethical management, and to maximize shareholder value based on our philosophy of respecting life.

# Independent Auditors' Report

Based on a report originally issued in Korean

## The Board of Directors and Shareholders DONG-A ST CO., LTD.:

We have audited the accompanying separate statements of financial position of Dong-A ST Co., Ltd. (the "Company") as of December 31, 2013 and the related separate 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 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 audit 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, 2013 and its financial performance and its cash flows for the years then ended December 31, 2013, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following: As described in note 1, Dong-A ST Co., Ltd. (the "Company") was newly established by spin-off of the ethical drugs, medical devices and overseas business department of Dong-A-Socio Holdings Co., Ltd. (formerly named as DONG-A PHARMACEUTICAL CO., LTD) on March 1, 2013. The Company's shares were relisted on the Korea Stock Exchange on April 8, 2013.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 7, 2014

This report is effective as of March 7, 2014, 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, 2013

DONG-A ST CO., LTD.

(In thousands won)

2013

<b>ASSETS</b>		
Cash and cash equivalents	₩	130,746,113
Trade receivables		95,921,399
Other receivables		5,004,219
Other financial assets		13,228,800
Inventories		91,557,280
Other current assets		3,771,591
<b>Total current assets</b>		<b>340,229,402</b>
Long-term financial instruments		7,500
Other receivables		2,567,235
Other financial assets		17,288,219
Property, plant and equipment		440,970,408
Intangible assets		11,018,690
Investment property		104,071,445
Investments in subsidiaries		8,700,738
Other non-current assets		896,229
<b>Total non-current assets</b>		<b>585,520,464</b>
<b>Total assets</b>	₩	<b>925,749,866</b>

(In thousands won)

2013

<b>LIABILITIES</b>		
Trade payables	₩	29,731,863
Other payables		47,423,340
Short-term borrowings		80,768,476
Other financial liabilities		865,027
Provisions		4,662,986
Other current liabilities		2,629,984
Income tax payable		3,774,466
<b>Current liabilities</b>		<b>169,856,142</b>
Other payables		7,430,175
Long-term borrowings		270,052,652
Other financial liabilities		872,601
Employee benefits		8,440,089
Other non-current liabilities		3,867,661
Deferred tax liabilities		25,829,025
<b>Non-current liabilities</b>		<b>316,492,203</b>
<b>Total liabilities</b>		<b>486,348,345</b>
<b>EQUITY</b>		
Share capital		36,754,580
Share premium		276,482,886
Capital adjustment		(606,444)
Other equity components		186,067,257
Deficit		(59,296,758)
<b>Total equity</b>		<b>439,401,521</b>
<b>Total liabilities and equity</b>	₩	<b>925,749,866</b>

# Separate Statements of Comprehensive Income

For the year ended December 31, 2013

DONG-A ST CO., LTD.

(In thousands won, except per share information)

2013

Revenue	₩	495,823,073
Cost of sales		(233,809,322)
<b>Gross profit</b>		<b>262,013,751</b>
Selling and administrative expense		(222,591,199)
<b>Results from operating activities</b>		<b>39,422,552</b>
Other income		5,085,188
Other costs		(22,268,953)
Finance income		13,668,851
Finance costs		(18,574,595)
<b>Profit before income tax</b>		<b>17,333,043</b>
Income tax expense		(82,626,303)
<b>Loss for the year</b>		<b>(65,293,260)</b>
<b>Other comprehensive income</b>		
<b>Items that will never reclassified to profit or loss</b>		
Remeasurements of defined benefit liability (asset)		5,996,502
<b>Items that are or may be reclassified to profit or loss</b>		
Available-for-sale financial assets – net change in fair value		408,992
Cash flow hedges – effective portion of changes in fair value		(239,270)
Revaluation of property, plant and equipment		(3,252)
<b>Other comprehensive income for the year, net of income tax</b>		<b>6,162,972</b>
<b>Total comprehensive loss for the year</b>		<b>(59,130,288)</b>
<b>Loss per share</b>		
Basic loss per share (won)	₩	(8,939)

# Separate Statements of Changes in Equity

For the year ended December 31, 2013

DONG-A ST CO., LTD.

(In thousands won)		SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	OTHER EQUITY COMPONENTS	DEFICIT	TOTAL EQUITY
Balance at March 1, 2013	₩	35,007,940	245,470,113	-	187,604,567	-	468,082,620
<b>Total comprehensive income for the year:</b>							
Loss for the year		-	-	-	-	(65,293,260)	(65,293,260)
<b>Other comprehensive income (loss):</b>							
Change in fair value of available-for-sale financial assets		-	-	-	408,992	-	408,992
Defined benefit plan actuarial gains (losses)		-	-	-	-	5,996,502	5,996,502
Effective portion of cash flow hedges		-	-	-	(239,270)	-	(239,270)
Revaluation reserve		-	-	-	(3,252)	-	(3,252)
Total other comprehensive income (loss)		-	-	-	166,470	5,996,502	6,162,972
<b>Total comprehensive income for the year</b>		-	-	-	166,470	(59,296,758)	(59,130,288)
<b>Transactions with owners of the Company, recognized directly in equity:</b>							
Conversion of convertible redeemable preferred stocks		1,746,640	31,012,773	-	(1,703,780)	-	31,055,633
Acquisition of treasury shares		-	-	(606,444)	-	-	(606,444)
<b>Total transactions with owners of the Company</b>		1,746,640	31,012,773	(606,444)	(1,703,780)	-	30,449,189
<b>Balance at December 31, 2013</b>	₩	36,754,580	276,482,886	(606,444)	186,067,257	(59,296,758)	439,401,521

# Separate Statements of Cash Flows

For the year ended December 31, 2013

DONG-A ST CO., LTD.

(In thousands won)

2013

<b>Cash flows from operating activities</b>		
Loss for the year	₩	(65,293,260)
Adjustments		114,692,012
Changes in assets and liabilities		15,860,221
Income taxes expense		(79,786,218)
<b>Net cash from operating activities</b>		<b>(14,527,245)</b>
<b>Cash flows from investing activities</b>		
Interest received		2,339,236
Decrease in short-term receivables from employees		4,295
Disposal from sale of available-for-sale financial assets		21,282,422
Proceeds from sale of property, plant and equipment		604,716
Decrease in deposits		547,104
Increase in short-term receivables from employees		(440,000)
Increase in long-term financial instruments		(7,500)
Acquisition of available-for-sale financial assets		(10,508,750)
Acquisition of held-to-maturity financial assets		(1,010,730)
Acquisition of investments in subsidiaries		(8,700,738)
Acquisition of property, plant and equipment		(32,020,252)
Acquisition of intangible assets		(1,987,596)
Acquisition of derivative instruments		(4,220,050)
Increase in deposits		(97,000)
<b>Net cash used in investing activities</b>	₩	<b>(34,214,843)</b>

(In thousands won)

2013

Cash flows from financing activities		
Proceeds from short-term borrowings	₩	16,668,875
Proceeds from long-term borrowings		20,000,000
Proceeds from bonds		31,225,835
Proceeds from rental deposits received		217,000
Interest paid		(8,876,506)
Repayment of short-term borrowings		(40,787,402)
Repayment of current portion of long-term borrowings		(21,500,000)
Repayment of current portion of bonds		(10,000,000)
Proceeds from rental deposits increase		(215,696)
Acquisition of treasury stocks		(606,444)
<b>Net cash from financing activities</b>		<b>(13,874,338)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(62,616,426)</b>
Cash and cash equivalents at beginning of year		195,278,864
Effect of exchange rate fluctuations on cash held		(1,916,325)
<b>Cash and cash equivalents at end of year</b>	₩	<b>130,746,113</b>

# Independent Auditors' Report

Based on a report originally issued in Korean

## The Board of Directors and Shareholders

### DONG-A ST CO., LTD.:

We have audited the accompanying consolidated statements of financial position of Dong-A ST Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2013 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 audit. We did not audit the financial statements of M.I.Tech CO., LTD., a subsidiary, whose financial statements represent 1.34% of consolidated total assets as of December 31, 2013, and 1.03% of total sales for the year ended December 31, 2013. Other auditors audited those financial statements and our report, insofar as it relates to the subsidiary, is based solely on the report of other auditors.

We conducted our audit 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, 2013 and its financial performance and its cash flows for the years then ended December 31, 2013, in accordance with Korean International Financial Reporting Standards.

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

As described in note 1, Dong-A ST Co., Ltd. was newly established by spin-off of the ethical drugs, medical devices and overseas business department of Dong-A-Socio Holdings Co., Ltd. (formerly named as DONG-A PHARMACEUTICAL CO., LTD) on March 1, 2013. Company's shares were relisted on the Korea Stock Exchange on April 8, 2013.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 7, 2014

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This report is effective as of March 7, 2014, 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, 2013

DONG-A ST CO., LTD. AND SUBSIDIARIES

(In thousands won)

2013

<b>ASSETS</b>		
Cash and cash equivalents	₩	132,263,800
Short-term financial instruments		3,500,000
Trade receivables		97,118,575
Other receivables		5,139,383
Other financial assets		13,228,800
Inventories		93,109,132
Other current assets		4,290,543
<b>Total current assets</b>		<b>348,650,233</b>
Long-term financial instruments		7,500
Other receivables		2,782,923
Other financial assets		17,378,219
Property, plant and equipment		445,018,050
Intangible assets		12,967,996
Investment property		104,071,445
Other non-current assets		841,908
<b>Total non-current assets</b>		<b>583,068,041</b>
<b>Total assets</b>	₩	<b>931,718,274</b>

(In thousands won)

2013

<b>LIABILITIES</b>		
Trade payables	₩	29,857,322
Other payables		48,892,485
Short-term borrowings		80,768,476
Other financial liabilities		865,027
Provisions		4,662,986
Other current liabilities		2,812,209
Income tax payable		3,770,738
<b>Current liabilities</b>		<b>171,629,243</b>
Other payables		7,461,391
Long-term borrowings		274,352,652
Other financial liabilities		744,531
Employee benefits		8,473,269
Other non-current liabilities		3,867,661
Deferred tax liabilities		25,829,025
<b>Non-current liabilities</b>		<b>320,728,529</b>
<b>Total liabilities</b>		<b>492,357,772</b>
<b>EQUITY</b>		
Share capital		36,754,580
Share premium		276,482,886
Capital adjustment		(606,444)
Other equity components		185,914,396
Deficit		(59,718,560)
<b>Equity attributable to owners of the Company</b>		<b>438,826,858</b>
<b>Non-controlling interests</b>		<b>533,644</b>
<b>Total equity</b>		<b>439,360,502</b>
<b>Total liabilities and equity</b>	₩	<b>931,718,274</b>

# Consolidated Statements of Comprehensive Income

For the year ended December 31, 2013

DONG-A ST CO., LTD. AND SUBSIDIARIES

(In thousands won, except per share information)

2013

Revenue	₩	500,967,483
Cost of sales		(236,049,807)
Gross profit		264,917,676
Selling and administrative expense		(225,130,103)
Results from operating activities		39,787,573
Other income		5,138,480
Other costs		(22,387,844)
Finance income		13,715,175
Finance costs		(19,335,625)
Profit before income tax		16,917,759
Income tax expense		(82,626,303)
Loss for the year		(65,708,544)
Other comprehensive income		
Items that will never reclassified to profit or loss		
Remeasurements of defined benefit liability (asset)		5,996,502
Items that are or may be reclassified to profit or loss		
Available-for-sale financial assets – net change in fair value		408,992
Cash flow hedges – effective portion of changes in fair value		(239,270)
Foreign operations – foreign currency translation differences		(156,794)
Revaluation of property, plant and equipment		(3,252)
Other comprehensive income for the year, net of income tax		6,006,178
Total comprehensive loss for the year		(59,702,366)
Loss attributable to:		
Owners of the Company		(65,715,063)
Non-controlling interests		6,519
Loss for the year		(65,708,544)
Total comprehensive loss attributable to:		
Owners of the Company		(59,704,951)
Non-controlling interests		2,585
Total comprehensive loss for the year	₩	(59,702,366)
Loss per share		
Basic loss per share (won)	₩	(8,997)

# Consolidated Statements of Changes in Equity

For the year ended December 31, 2013

## DONG-A ST CO., LTD. AND SUBSIDIARIES

(In thousands won)		SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	OTHER EQUITY COMPONENTS	DEFICIT	NON- CONTROLLING INTERESTS	TOTAL EQUITY
<b>Balance at March 1, 2013</b>	₩	35,007,940	245,470,114	-	187,604,568	-	-	468,082,622
<b>Total comprehensive income for the year:</b>								
Loss for the year		-	-	-	-	(65,715,063)	6,519	(65,708,544)
<b>Other comprehensive income (loss):</b>								
Change in fair value of available-for-sale financial assets		-	-	-	408,992	-	-	408,992
Defined benefit plan actuarial gains (losses)		-	-	-	-	5,996,502	-	5,996,502
Effective portion of cash flow hedges		-	-	-	(239,270)	-	-	(239,270)
Revaluation reserve		-	-	-	(3,252)	-	-	(3,252)
Changes in fair value of exchange differences on translating from foreign operations		-	-	-	(152,861)	-	(3,933)	(156,794)
Total other comprehensive income (loss)		-	-	-	13,609	5,996,502	(3,933)	6,006,178
<b>Total comprehensive income for the year</b>		-	-	-	13,609	(59,718,561)	2,586	(59,702,366)
<b>Transactions with owners of the Company, recognized directly in equity:</b>								
Conversion of convertible redeemable preferred stocks		1,746,640	31,012,772	-	(1,703,781)	-	-	31,055,631
Acquisition of treasury shares		-	-	(606,444)	-	-	-	(606,444)
Changes in scope of consolidation		-	-	-	-	-	531,059	531,059
<b>Total transactions with owners of the Company</b>		1,746,640	31,012,772	(606,444)	(1,703,781)	-	531,059	30,980,246
<b>Balance at December 31, 2013</b>	₩	36,754,580	276,482,886	(606,444)	185,914,396	(59,718,561)	533,645	439,360,502

# Consolidated Statements of Cash Flows

For the year ended December 31, 2013

DONG-A ST CO., LTD. AND SUBSIDIARIES

(In thousands won)

2013

		2013
<b>Cash flows from operating activities</b>		
Loss for the year	₩	(65,708,544)
Adjustments		115,656,749
Changes in assets and liabilities		15,619,137
Income taxes expense		(79,786,262)
<b>Net cash from operating activities</b>		<b>(14,218,920)</b>
<b>Cash flows from investing activities</b>		
Interest received		2,432,583
Decrease in short-term financial instruments		10,082,031
Decrease in short-term receivables from employees		4,295
Disposal from sale of available-for-sale financial assets		21,352,516
Proceeds from sale of property, plant and equipment		657,716
Decrease in deposits		547,104
Increase in short-term financial instruments		(10,500,000)
Increase in short-term receivables from employees		(440,000)
Increase in long-term financial instruments		(7,500)
Acquisition of available-for-sale financial assets		(11,063,839)
Acquisition of held-to-maturity financial assets		(1,010,730)
Acquisition of property, plant and equipment		(32,167,330)
Acquisition of intangible assets		(3,815,885)
Acquisition of derivative instruments		(4,220,050)
Increase in deposits		(125,903)
<b>Net cash used in investing activities</b>	₩	<b>(28,274,992)</b>

(In thousands won)

2013

<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	₩	16,668,875
Proceeds from long-term borrowings		24,300,000
Proceeds from bonds		31,225,835
Proceeds from rental deposits received		217,000
Interest paid		(9,003,531)
Repayment of short-term borrowings		(40,787,402)
Repayment of current portion of long-term borrowings		(21,500,000)
Repayment of current portion of bonds		(10,000,000)
Proceeds from rental deposits increase		(215,696)
Acquisition of treasury stocks		(606,444)
<b>Net cash from financing activities</b>		<b>(9,701,363)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(52,195,275)</b>
Cash and cash equivalents at beginning of year		195,278,864
Effect of exchange rate fluctuations on cash held		(2,070,334)
Changes in ownership interests in subsidiaries that do not result in loss of control		(8,749,455)
<b>Cash and cash equivalents at end of year</b>	₩	<b>132,263,800</b>

# 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

#### **DM Bio Plant**

45 Jisikgiban-ro, Yeonsoo-gu,  
Incheon, Korea  
Phone: +82-70-8636-1252

## IR Information

### Head Office

64, Cheonho-daero,  
Dongdaemun-gu, Seoul, Korea  
Phone: +82-2-920-8187  
Fax: +82-2-925-8244  
ir@donga.co.kr

### Date of Establishment

#### **Dong-A Socio Holdings**

December 1932

#### **Dong-A ST**

March 2013

#### **Dong-A Pharmaceutical**

March 2013

### Securities Listing

#### **Dong-A Socio Holdings**

Korea Stock Exchange A000640

#### **Dong-A ST**

Korea Stock Exchange A170900

### Annual General Meeting

March 21, 2014

### Information Availability

#### **Dong-A Socio Holdings**

Korean: <http://www.donga.co.kr>

English: <http://en.donga.co.kr>

#### **Dong-A ST**

Korean: <http://www.donga-st.com>

English: <http://en.donga-st.com>

#### **Dong-A Pharmaceutical**

Korean: <http://www.dapharm.com>

English: <http://en.dapharm.com>

## Credits

### Task Force for This Report

#### **Dong-A Socio Holdings**

##### Accounting Team

Dong-Wan Kang

##### Communication 2 Team

Kyung-Tai Kim, Gi-Yeop Seong, Hyun-Jin Jo, Yong-Mi Lee

##### Finance Team

Yong-Hoon Choi

##### General Affairs Team

Sang-Hoon Moon, Nara Yun

##### Human Resource Planning Team

Kee-Hyuk Kwon, Jae-Hoon Choi

##### Management Planning Team

Ok-Goo Kang

##### Research Planning Team

Tae-Hyoung Kim

#### **Dong-A ST**

##### Marketing Strategy Team

Dong-Youl Bae, Jin-Ung Ka

##### Overseas Development Team

Eun-Ju Jang, So-Ra Jo

##### Overseas Sales Strategy Team

Jung-Ha Ryu, Geun-Sung Kim

##### Production Management Team

Yun-Jung Kim

#### **Dong-A Pharmaceutical**

##### Bacchus Marketing Strategy Team

Seung-Ir Kwon

##### Marketing Team

Kyeong-Mi Kim

#### **M.I.Tech**

##### Business Management Team

Sang-Hwan Baek

#### **DM Bio**

##### Management Planning Team

Jin-Pub Son, Yu-Mi Kim

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DONG-A SOCIO GROUP