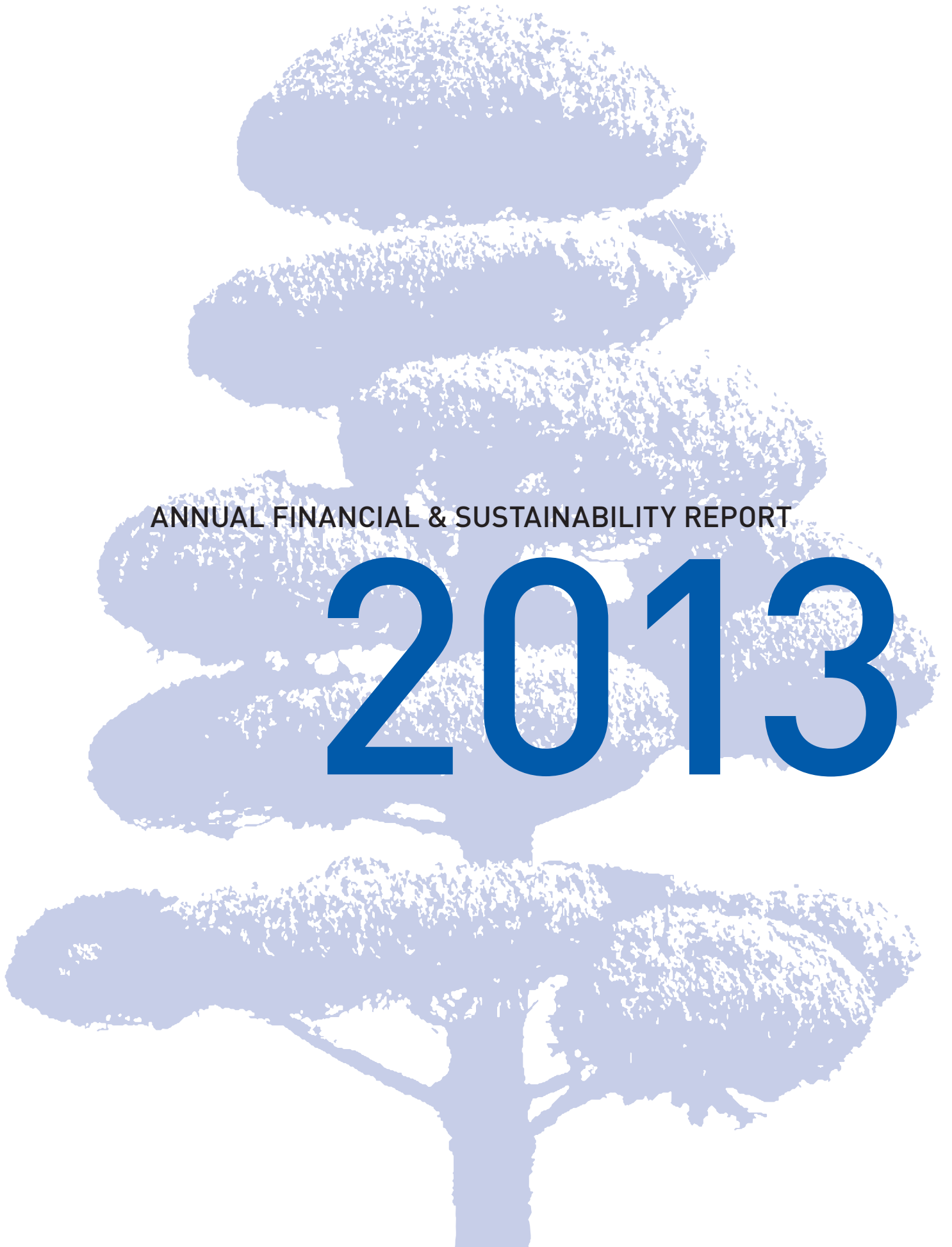




ANNUAL FINANCIAL & SUSTAINABILITY REPORT

2013





A STORY OF GROWTH

Founded in December 1965, Songwon has grown from being the only plastic additives manufacturer in Korea to a key global player in the specialty chemicals business and the 2nd global leader in polymer additives.

Songwon means pine tree. Our first 'seedling' was to produce PVC stabilizers in Korea in 1966. Since then, we have devoted all our efforts to cultivating a strong, sound and ever-green field of 'pines' in the fine chemical industry. Combining our rich and solid past with our fundamental approach to business today enables us to look confidently to the future.

Just as the pine tree is able to grow all over the planet, we are growing globally and reliably supplying first class polymer additives to our customers worldwide.

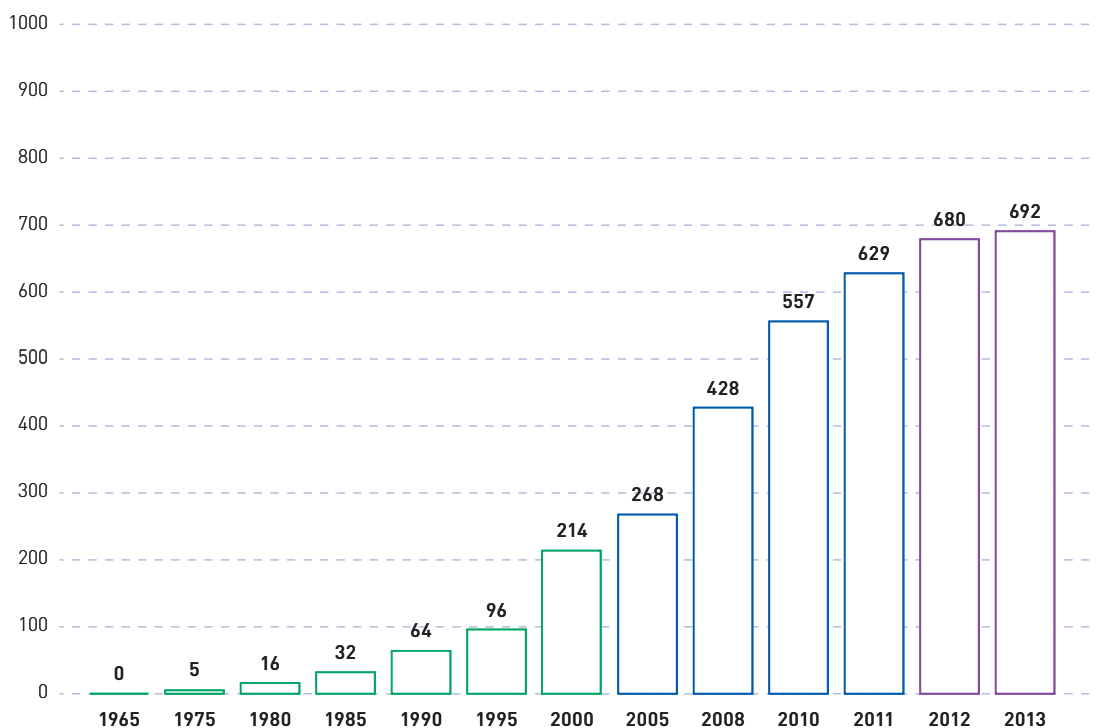
KEY FINANCIAL DATA

	2013 billion KRW	2012 billion KRW
Sales of goods	692.2	679.6
Gross profit	133.3	132.0
Operating profit	44.0	57.7
Profit for the year	22.9	20.5
Basic earnings per share (KRW)	1000	858
Operating cash flow	59.0	94.0
Total assets	866.0	862.1
Total equity	306.4	286.7
Equity ratio (%)	35.4%	33.3%
Head count	661	576

SALES GROWTH

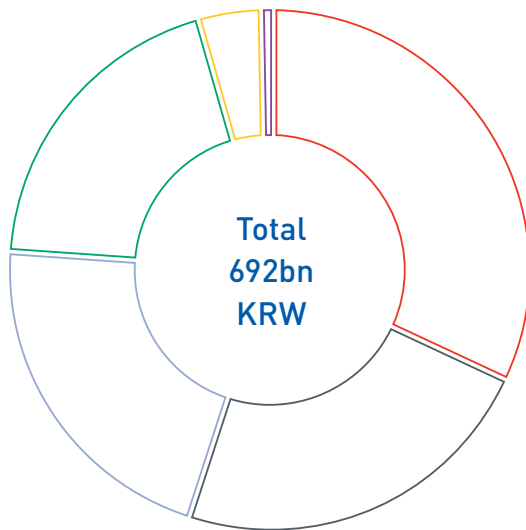
From a regional additives supplier to a key global specialty chemical player with solid growth - a vision of success.

billion KRW



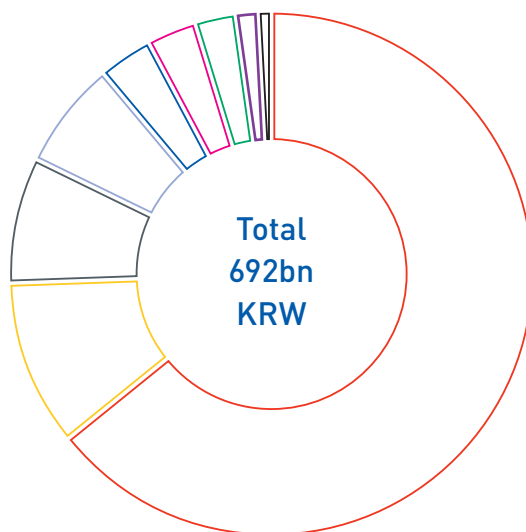
KEY FINANCIALS

2013 SALES BY REGION



- 32% Korea
- 23% Rest of Asia
- 21% Europe
- 19% North and South America
- 4% Middle East and Africa
- 1% Australia

2013 SALES BY PRODUCT GROUP



- 64% Polymer Stabilizers (AOX & UVs)
- 10% Tin Intermediates
- 8% PVC Stabilizers
- 7% Polyurethanes
- 3% Alkylphenol & Intermediates
- 3% SAP & Flocculants
- 3% Polyester Diol
- 1% Plasticizers
- < 1% Others



“We are demonstrating to the industry that as they have counted on us in the past, they can continue to count on us now and in the future. As our customers grow, we are positioned to grow with them globally.”

Jongho Park
Chairman of the Board and CEO



Dear Shareholders,

2013 was another good year for Songwon Industrial Group. We delivered consolidated revenues of 692 billion KRW (655 million USD) with an increase year over year of 2 % and a consolidated net profit of 23 billion KRW (22 million USD), an increase of 12 % compared to the net profit of 2012. Our gross profit after capacity variances is particularly satisfactory – growing 8 % year over year – and most importantly, increasing more than 1 % as a percentage of sales. Our EBITDA was 11.4 % on sales and grew 18 % to 79 billion KRW (75 million USD).

These results were based on our ongoing ability to deliver organic growth. They were achieved in the context of the continuing depressed and volatile global economic situation, which started in 2011 and continued throughout 2013, affecting the global GDP. During 2013 we confronted the negative impact of the global crisis on emerging economies, which had previously seemed to be immune to the situation affecting the rest of the world.

Based on our ongoing strategic review of issues that impact sales growth, we exited several business activities

that we judged unsatisfactory in terms of competitiveness, sustainability and delivered results. As a result, the growth of our core business was significantly higher than the 2 % we have shown overall. These achievements validate our solid foundation and the strength of Songwon's business, our continued efforts to focus on our strategic goals, to anticipate and understand customer needs, and to deliver superior performance in term of quality and service. Delivered under the most difficult and volatile economic situation, these results put us in an excellent position to achieve our future ambitious growth and profitability goals.

During 2013 we continued seamlessly implementing main elements of our strategy and an overall review of our business portfolio prompted these key actions:

- We identified several products/business which were not sustainable in terms of competitiveness and future prospects which negatively impacted the overall performance of the Group. This led to our decision to sell the Biphenol business to the SI Group in August 2013 and during the second half of 2013, we

discontinued production of the antioxidants FR/RD and PTBP. We have kept the fixed assets related to these products and these lines can be used for the production of our core products and any new products that we identify.

- Our Polymer Stabilizer main business has been reconfirmed as the key growth engine for the future and we continued to improve and consolidate our number two position in the global market. Two strategic initiatives started in 2012 - the establishment of the Joint Venture (JV) Songwon Baifu in China for Thioesters and a distributorship agreement with Sabo for UV stabilizers - began to successfully deliver the expected results in 2013.
- We reconfirmed our focus on development of Songwon's OPS (One Pack Systems) business as a strategic driver for growth and geographical expansion. At our facility in Greiz (Germany), we increased capabilities by starting up a new line based on Hot Extrusion technology. In June 2013 we also completed and successfully started up our new production plant in Houston (USA). In November 2013, construction began on our OPS plant in Abu Dhabi (UAE) that is scheduled for completion at the end of 2014. All the OPS activities are conducted under the umbrella of Songwon Additive Technologies AG, established with our partners Pan Gulf Holdings (Bahrain) and Polysys Industries (Abu Dhabi).

During 2013 we deepened our commitment to the OPS business by acquiring the 15 % share owned by Polysys in Songwon Additive Technologies AG, increasing our overall share to 75 %. Polysys will remain a shareholder of our company in Abu Dhabi.

- We took a strategic look at the successful expansion of the Group in the future and pinpointed opportunities for developing new high value specialty chemicals. We identified several areas of interest where we are focusing our R&D efforts. To bring these actions to fruition quickly we have hired important qualified resources on the business development side.

We identified cost improvements through back integration and economy of scale by constantly upgrading our proprietary technologies and processes. This will lead to further gains in cost and efficiency. Our R&D and technical functions are continuously reviewing all of our proprietary processes and we pinpointed several new opportunities for improvement that are being implemented. One example is the application of technologies in our Ulsan plant that we have developed for the new Maeam plant. This has led to greater efficiencies and is enabling us to achieve increased production capacities, using only limited investments. We are well positioned to take advantage of the market's growth and this effort will continue to pay off in the years to come.

Operational excellence and streamlined business processes will allow us to deliver superior total quality and service and the ability to respond quickly to global challenges and shifting market conditions. We have a strong, empowered and committed management team and a dedicated focus on attracting the best talent in the industry.

- In a continuous effort to improve and streamline our processes, we decided to implement a new ERP system across all the subsidiaries of Songwon Industrial Co. Ltd. In the second half of 2013 the system went live in Songwon International AG. The other subsidiaries will follow in the course of 2014.
- In 2011 we implemented our new corporate organization, and have continued to review it to make sure that this organization is aligned with our strategic targets and delivers the best results. To support this alignment, we established a new key function in 2013, Global Supply Chain. This will drive the implementation of best-in-class business processes across the Group and ensure that we are delivering the best quality and services to our customers.
- We strengthened our Executive Committee by adding three new members: the leaders of Business Management, Supply Chain and R&D.
- We consider our people as the central asset on which we are building the future of the Songwon group. In 2013, we grew our teams by adding key resources and talents.

Jongho Park, Chairman of the Board & CEO



Our efforts to understand and anticipate market needs allow us to build strong customer and supplier relationships, to strengthen and consolidate our competitive position, focus on our offering to the market and on key geographies, and to create a strong platform to sustain future growth:

- In 2013, we launched a new range of products, SONGXTEND™. These represent the innovative solutions identified by our technical teams (R&D, Applications, Technical Service) to help our customers develop new markets for their products and to address their specific technical needs.
- The shift of our tin intermediates production, by expanding the production of DOTO at the expense of DBTO, has been completed. This strategic move anticipates the need of our customers to discontinue the use of DBTO by 2015 for regulatory reasons where possible in all applications.
- In addition to establishing a local presence in important growth areas for our products, such as expanding our manufacturing footprint to United States and Middle East, we are constantly reviewing the best opportunities to develop a stronger role in some of the key economies.

Sustainability:

The 2013 Annual Report incorporates our second Sustainability Report. Songwon's commitment to sustainability is well reflected in our vision and mission and is part of our Corporate Responsibility, one of our core values, and permeates all our activities. Songwon is

actively engaged in this commitment, which ranges from a strong focus on Corporate Governance to taking responsibility for employees, providing good working conditions and development opportunities, a continuous improvement of our H&S performances, and being a good employer in our communities. We live these values by showing irreproachable business conduct and making sure that all our products and activities are 100% compliant with all the agreed international standards and even actually exceed such standards. We strive for sustainable development and our aim is to further reduce the environmental impact of our business by continuing to control and reduce the use of energy and water and to increase the use of renewable raw materials whenever possible. We will also continue to assess and develop an understanding of the environmental impact of our products.

Our efforts and attention to EH&S delivered impressive results in 2013, where all our plants delivered a very strong performance.

In 2013, we invested considerable resources to improve the safety and risk profile of our plants. This effort will continue in 2014 as a crucial step to ensure a sustainable future to our business.

In addition, we are very proud to inform you of two significant achievements during 2013 in relation to Songwon's financial structure:

- In February 2013, Songwon concluded an agreement to secure financing with five lenders through a syndicated loan valued at 220 billion KRW, with Korea Exchange Bank as the lead institution and Woori Bank as the joint lead. This facilitated the restructuring of our finances by consolidating outstanding loans extended to us by several financial institutions through a single syndicated loan. It will ensure financial stability and establish a firm foundation for the company's future growth, by decreasing the proportion of short-term debt versus long-term borrowing, and by significantly reducing borrowing costs.
- In August 2013, two key Korean rating agencies, Korea Investors Service and Korea Ratings Corporation assigned the company BBB+ credit rating (up from BBB-). Songwon's credit outlook has been rated as 'Stable' and is supported by its solid business foundation, good cash generation capacity and financial reserves for planned investments.

We expect a bright future for the Songwon Industrial Group. Our major focus is on the polymer market, which we expect to remain strong and show above average growth for the foreseeable future. In spite of short-term economic downturns, key megatrends (population growth, demand for end-use products in the emerging markets and inter-material competition) continue to remain the same and this will drive demand growth. We are in an excellent position to benefit from this growth potential by having proprietary technologies, excellent economics and best-in-class quality



Maurizio Butti, Chief Operating Officer

and reliability. Songwon's global footprint is also taking shape. Our product portfolio is robust and growing; we are rapidly becoming the additives partner of choice and a leading supplier in emerging markets. Furthermore, we are beginning to identify promising opportunities to enter into new high value/high growth markets.

Yours sincerely,

Jongho Park

Chairman of the Board & CEO

Maurizio Butti

Chief Operating Officer

Handwritten signatures in black ink. The signature on the left is 'Jongho Park' and the signature on the right is 'Maurizio Butti'. The signatures are written in a cursive, flowing style.

Our history

In almost 50 years, we have grown from being the only producer of plastics additives in Korea to a leading global specialty chemicals player.

Since our foundation in 1965 through to the major turning point of doing direct business with all our valuable customers in 2006, Songwon had expanded to a 230 million USD business. Since 2006, Songwon has more than doubled in size to become a 655 million USD business in 2013.

Eight years ago, we made a bold decision to pursue a new strategy for extending Songwon's focus beyond Asia and driving the company further ahead by approaching the market directly. This decision set us on the road to becoming a major force in plastics additives worldwide.



1965

December Songwon Industrial Co., Ltd. established with the Head Office and plant in Busan (Korea)

1968

November Office opened in Seoul (Korea)



1973

December Korean Ministry of Commerce and Industry grants Songwon its Trader's license

1977

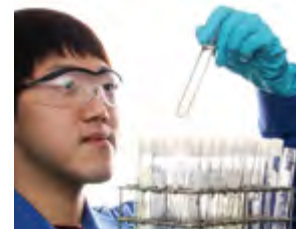
February Start-up of Songwon's plant as a 2nd production site in Suwon (Korea)
June Songwon Industrial Co., Ltd. went public (Korea)

1979

December Songwon Moolsan Co., Ltd., Songwon's holding company established in Seoul (Korea)

1983

November Songwon's own R&D Center is established with the approval of the Ministry of Science and Technology in Ulsan (Korea)





1986

May Start-up of Songwon's plant in Ulsan (Korea)

1987

April Office opened in Tokyo (Japan)

1988

March Office opened in Busan (Korea)

March Moved head office from Busan to the Ulsan plant (Korea)

1992

April Moved to the newly constructed Songwon Building in Seoul (Korea)

1995

July Songwon awarded ISO-9002 Certification

2001

March Songwon Japan K.K. established in Tokyo (Japan)

2002

December Office opened in Maeam (Korea)

2005

December Songwon Brilliant Chemicals Co., Ltd. established in Shanghai (China)

2006

June Songwon International AG established in Frauenfeld near Zurich (Switzerland)

August Songwon International - Americas, Inc. established in Friendswood, Texas (USA)

2007

June Start-up of plant in Maeam (Korea)
December ISO 14001 Environment Management System Certification awarded to the Ulsan Plant (Korea)





2009

June Start-up of IBL Plant in Maeam (Korea)

July Songwon Industrial Co., Ltd. - Representative Office established in Manama (Bahrain)

July ISO 14001 Environment Management System Certification awarded to Songwon's Maeam Plant (Korea)

2010

February: ChemService Asia Co., Ltd. established in Seoul (Korea)

April Songwon China Ltd. established in Hong Kong (China SAR)

April Songwon International-India Pvt. Ltd. established in Mumbai (India)

July Songwon Trading Shanghai Ltd. established in Shanghai (China)



2011

January Acquisition of Songwon Holdings AG - ex Mantenere Holding AG (Switzerland)

August Start-up of the new Antioxidant 1076 production line at the Maeam plant (Korea)

October Songwon Chemicals Co., Ltd. established in Shanghai (China)

November Songwon Additive Technologies AG established in Frauenfeld (Switzerland)

December Acquisition of ATG Additive Technology Greiz GmbH in Greiz (Germany)

2012

August Songwon Baifu Chemicals (Tangshan) Co., Ltd established in Tangshan (China)

October Songwon Additive Technologies-Americas, Inc. established to start production of One Pack System (OPS) products in Houston, (USA)



2013

Q1 Songwon Additive Technologies - Middle East FZE established in Dubai and Polysys Additive Technologies - Middle East LLC in Abu Dhabi (United Arab Emirates)





LOGISTIC HUBS

Ulsan, Korea
Abu Dhabi, UAE
Antwerp, Belgium
Mumbai, India
Shanghai, PR China
Tokyo, Japan
Houston, USA
Akron, USA
Newark, USA
Edmonton, Canada
Sao Paulo, Brazil

Bangkok, Thailand
Barcelona, Spain
Bogor, Indonesia
Bogotá, Colombia
Bucharest, Romania
Buenos Aires, Argentina
Caracas, Venezuela
Cheshire, United Kingdom
Hamburg, Germany
Helsingborg, Sweden
Ho Chi Minh City, Vietnam
Istanbul, Turkey
Johannesburg, South Africa
Kuala Lumpur, Malaysia
Lima, Peru
Melbourne, Australia
Mexico City, Mexico
Milano, Italy
Moscow, Russia
Prague, Czech Republic
Quito, Ecuador
Santiago, Chile

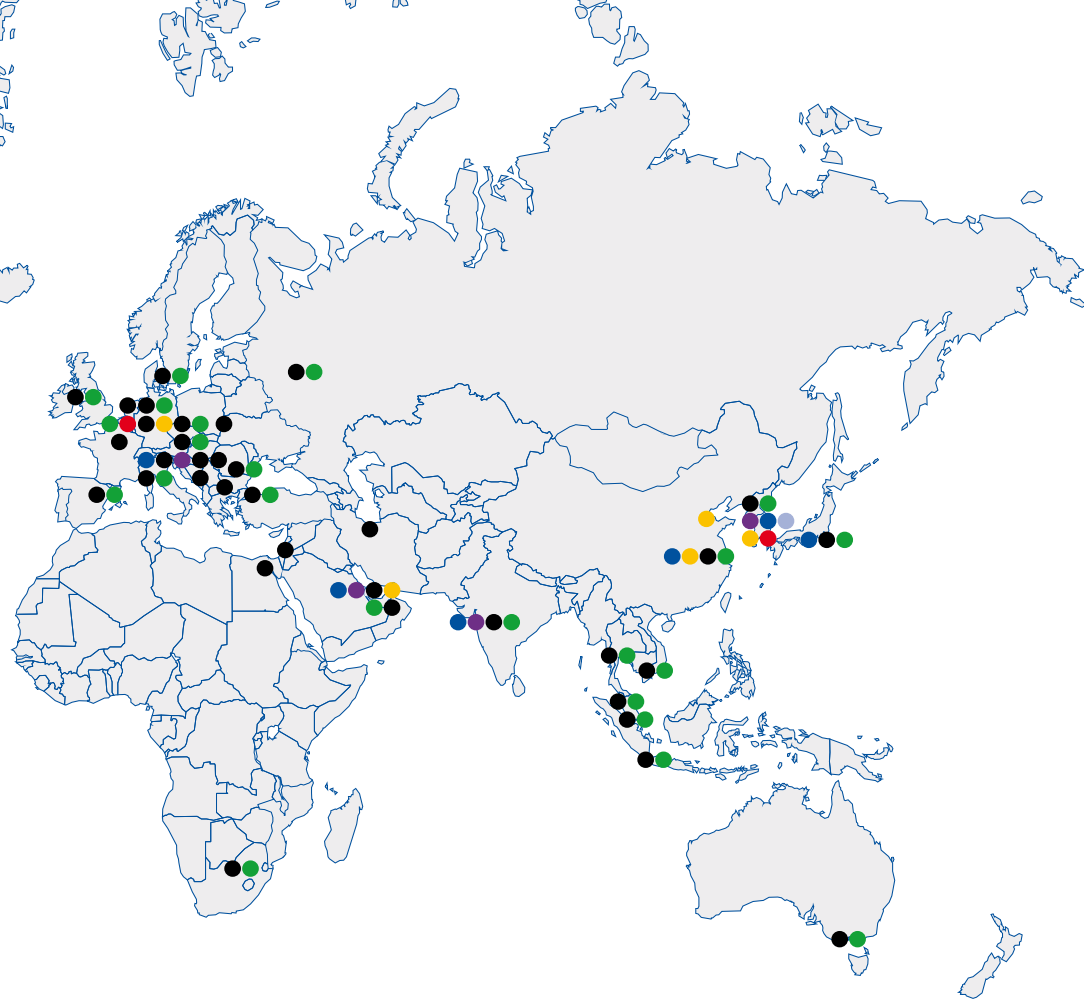
Santo Domingo, Dominican Republic
Singapore, Republic of Singapore

SALES / DISTRIBUTION

Seoul / Busan, Korea
Frauenfeld, Switzerland
Mumbai, India
Manama, Kingdom of Bahrain
Shanghai, China
Tokyo, Japan
Houston, USA

Akron, USA
Bangkok, Thailand
Barcelona, Spain
Bogor, Indonesia
Bogotá, Colombia
Brussels, Belgium
Bucharest, Romania
Budapest, Hungary
Buenos Aires, Argentina
Cairo, Egypt
Caracas, Venezuela
Cheshire, United Kingdom
Dubai, UAE
Hamburg, Germany
Helsingborg, Sweden
Ho Chi Minh City, Vietnam
Istanbul, Turkey
Jakarta, Indonesia
Johannesburg, South Africa
Kuala Lumpur, Malaysia
Lima, Peru
Melbourne, Australia
Mexico City, Mexico





HEADQUARTERS / AFFILIATES

- Ulsan, Korea
- Frauenfeld, Switzerland
- Mumbai, India
- Manama, Kingdom of Bahrain
- Shanghai, PR China
- Tokyo, Japan
- Houston, USA

MANUFACTURING

- Ulsan, Korea
- Maeam, Korea
- Suwon, Korea
- Greiz, Germany
- Shanghai, PR China
- Tangshan, PR China
- Houston, USA

APPLICATIONS

- Ulsan, Korea
- Brussels, Belgium

TECHNICAL SERVICE

- Ulsan, Korea
- Frauenfeld, Switzerland
- Manama, Kingdom of Bahrain
- Mumbai, India
- Houston, USA

R&D

- Ulsan, Korea

SALIENT

IN ADDITIVES

OUR PRODUCTS

- **SONGNOX[®]**
Basic and Specialty Antioxidants
- **SONGNOX[®] OPS**
One Pack Systems
- **SONGXTEND[™]**
Stabilizer Solutions
- **SONGSORB[®]**
UV Light Absorbers
- **SABO[®] STAB**
Hindered Amine Light Stabilizers
- **SONGSTAB[™]**
Acid Scavengers and PVC Stabilizers

- **SONGCAT[™]**
Tin Intermediates
- **SONGCIZER[™]**
Plasticizers
- **SONGSTAR[™]**
Polyester Diols
- **SONGFLOC[™]**
Flocculants
- **HI-THANE[™]**
Polyurethanes
- **HI-SWELL[™]**
Super Absorbent Polymers



SALIENT IN ADDITIVES

OUR MISSION

PEOPLE

Build a great place to work, inspiring our people to excel in a culture of creativity, collaboration and consistency.

PRODUCTS

Provide a portfolio of quality products through the innovative application of sustainable chemistry.

PARTNERS

Create mutual, enduring value by constructing a winning network of customers and suppliers.

PERFORMANCE

Fulfill our responsibilities while maximizing long-term return to our shareholders.

PRODUCTIVITY

Develop and nurture a lean, highly effective and fast moving organization.

OUR VISION

Songwon - Salient in Additives - achieves sustainable and profitable growth by understanding, anticipating, and satisfying the needs and desires of all our customers.







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SONGWON'S LEADERSHIP

COMMITTED TO A COMMON GOAL

With a history of almost 50 years of breakthrough solutions, Songwon Industrial Group is the 2nd largest manufacturer of polymer stabilizers in the world. As a leader in the development and production of additives and specialty chemicals, we provide added value products and innovative solutions to the plastics industry. In the last 5 years, we have introduced over 30 new products.

Songwon's strong results are driven by a global leadership team of 11 innovative minds with extensive industry experience and expertise - a team perfectly aligned to position the organization for the future business environment and sustainable growth.

By instilling the spirit of Songwon across all of our entities and geographies, the team is helping to generate profitable growth, expand Songwon's global presence and drive our journey of performance with purpose.

"Our strong track record is evidence that we deliver on our promises... we do what we say we will do."

James McGinley
Executive Vice President Strategy

OUR EXECUTIVE COMMITTEE

A PERFECTLY ALIGNED TEAM

Each individual member truly embraces the enterprising spirit of the company. All of them are passionate, committed leaders who share a common goal: to further the success of everyone associated with Songwon, from the manufacturing floor to our sales professionals, our distributors and most importantly, our customers.



Jongho Park
Chairman & CEO

Head of the Songwon Industrial Group Executive Committee
Since: January 1, 2011
Nationality: Korean

Background: Jongho has been President of Songwon Industrial Co. Ltd, since 2006. He has a wealth of experience in the chemical industry having held leadership positions with Sumitomo Chemical Co., Ltd with their Overseas & Marketing Department in Japan, as well as, Shanghai Grace Fabric Co. Ltd.



Maurizio Butti
Chief Operating Officer

Member of the Songwon Industrial Group Executive Committee
Since: January 1, 2011
Nationality: Italian

Background: Maurizio has been President and CEO of Songwon International AG since July 2006. Before joining Songwon, he was EVP Polymer Stabilizers and a member of the Chief Executive Council of Great Lakes Chemical Corporation. Prior to that he held various marketing, business, strategic planning and corporate development management positions.



Hans-Peter Wüest
Chief Financial Officer

Member of the Songwon Industrial Group Executive Committee
Since: January 1, 2011
Nationality: Swiss

Background: Hans-Peter gained his broad international experience in a wide variety of financial positions in the manufacturing and service industries. Before taking up his role at Songwon, he held finance leadership positions with DHL/Deutsche Post and Great Lakes Chemical Corporation.



James McGinley
EVP Strategy

Member of the Songwon Industrial Group Executive Committee

Since: January 1, 2011
Nationality: American

Background: James has been President of Songwon International – Americas Inc. since July 2006 and Executive Vice President Business Management until October 2013. Before joining Songwon, he was Vice President Business Management for Great Lakes Chemical Corporation’s polymer stabilizer business unit.



Dieter Morath
EVP Global Sales

Member of the Songwon Industrial Group Executive Committee

Since: January 1, 2011
Nationality: German

Background: Dieter has been Vice President Sales of Songwon International AG in Europe, the Middle East and Asia since 2006. Before taking on this role, he held a number of commercial leadership positions at Great Lakes Chemical Corporation and GE Plastics (now SABIC).



Giacomo Sasselli
EVP Manufacturing & Engineering

Member of the Songwon Industrial Group Executive Committee

Since: July 1, 2011
Nationality: Italian

Background: Giacomo held a number of key technology positions with the EniChem Group. He then broadened his experience as site manager. Later, he joined the Great Lakes Chemical Corporation where he was responsible for the operations of a worldwide network of polymer additive production sites.



Philippe Schlaepfer
EVP Corporate Development

Member of the Songwon Industrial Group Executive Committee

Since: January 1, 2011
Nationality: Swiss

Background: Before joining Songwon, Philippe spent more than 20 years as a key contributor to Ciba’s Polymer Additives business. With 15 years of experience in Asia Pacific, he last headed up Ciba’s global antioxidant business for the polymer industry.





Douglas Excell
EVP Supply Chain

Member of the Songwon Industrial Group Executive Committee

Since: March 1, 2013

Nationality: American

Background: Doug has been Vice President Operations Songwon International Americas since August 2010. He has over 20 years of international business experience in the chemical and minerals industry. Before joining Songwon, Doug held various supply chain, business management, marketing, procurement, and corporate development positions.



Olivier Keiser
EVP Business Management

Member of the Songwon Industrial Group Executive Committee

Since: March 1, 2013

Nationality: Luxembourgier

Background: Olivier has been Vice President EMEA Songwon International AG since February 2011. He has over 15 years of experience in business management roles in the chemical and industrial sector. Prior to Songwon, Olivier held various positions in business management, change management, corporate development, strategic planning and marketing & sales.



Dongbek Park
Management Consultant

Member of the Songwon Industrial Group Executive Committee

Since: January 1, 2011

Nationality: Korean

Background: Dongbek started his career with Songwon Industrial Co., Ltd. in 1976 as Manager of Overseas Business. In 1997, he was appointed CEO & Representative Director of the company. Since retiring from this position in 2004, he has continued to work for Songwon as a consultant, in a general advisory role on overall company policy.



Dongkyung Park
Head of R&D

Member of the Songwon Industrial Group Executive Committee

Since: March 1, 2013

Nationality: Korean

Background: Dongkyung started his career with Songwon Industrial Co., Ltd. in 1995 as Researcher of the R&D center. He has over 19 years experience in R&D and led strategic product and technology development for Songwon's innovation. In 2010, he was appointed Head of R&D for Songwon.

OUR BOARD OF DIRECTORS (BOD)

A WEALTH OF EXPERIENCE

Songwon's Board of Directors comprises 4 members all nominated and elected by the company shareholders.

- Jongho Park, Chairman, CEO and Member of the Executive Committee
- Chongsik Kim, Executive Officer
- Kisoo Byun, Independent Director
- Yonghoon Kwon, Standing Auditor





SONGWON INDUSTRIAL GROUP

ABOUT SONGWON

Our global headquarters is in Ulsan, Korea.
The Songwon Industrial Group is located in 9 different countries on 3 continents and comprises 16 companies (including joint ventures) and 1 representative office.

The company has seven manufacturing facilities, three of which are situated in Korea, one in Germany, one in U.S., one in PR China, as well as a manufacturing JV plant in PR China.

Our worldwide network of sales and customer service offices, logistics hubs and stocking distributors ensure that we are close to our customers and can respond to their needs quickly.

We have become a supplier of choice for polymer stabilizers and offer our customers the broadest range of

products and physical forms. Major polymer producers and compounders are served from Songwon's regional headquarters in Ulsan (Korea), Frauenfeld (Switzerland), Houston (USA), Shanghai (PR China), Tokyo (Japan), Mumbai (India) and Manama (Kingdom of Bahrain).

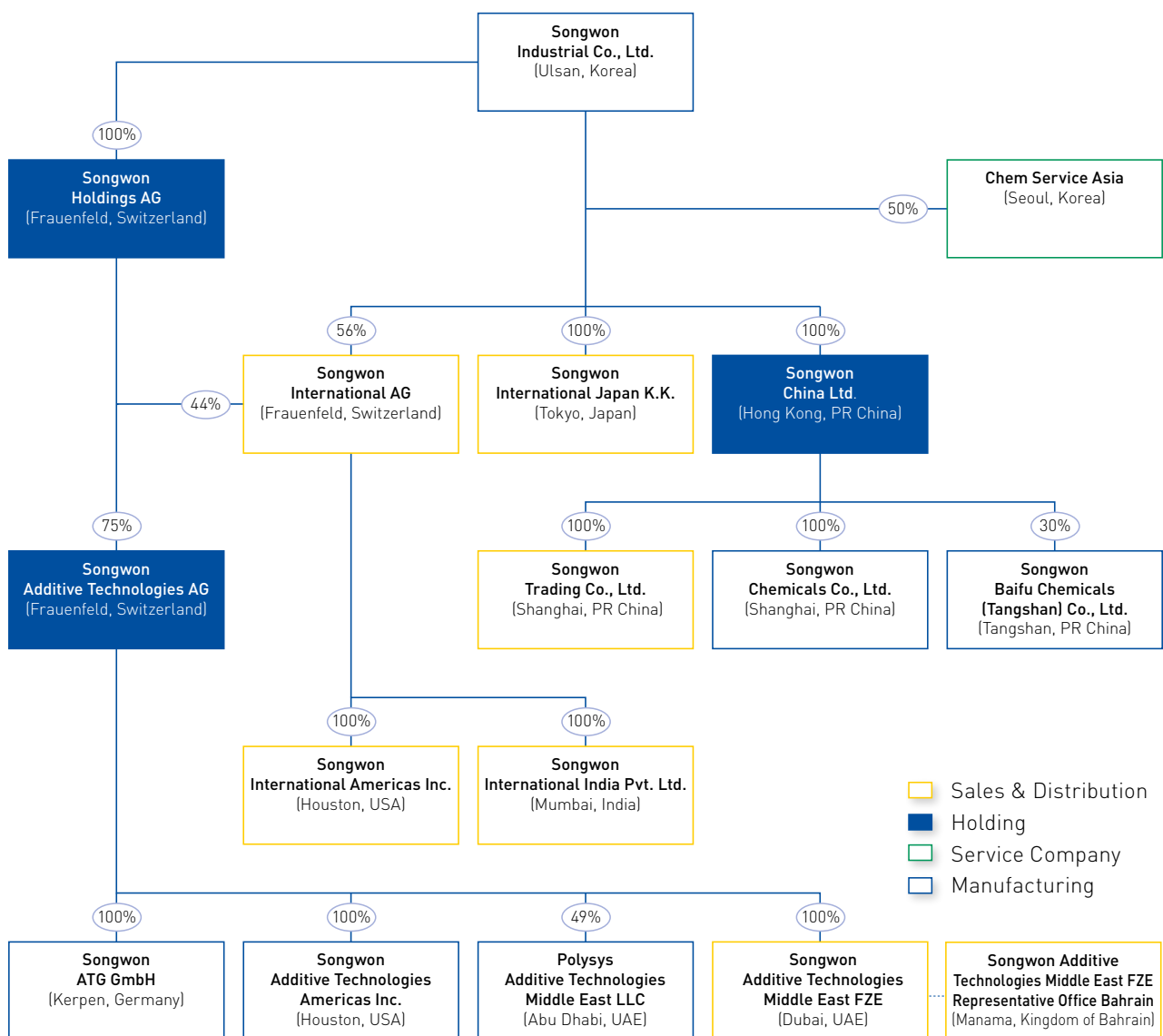
At Songwon, we strive to operate our business in a sustainable manner and continually seek ways to reduce the environmental impact of our products and services.



SONGWON INDUSTRIAL GROUP STRUCTURE

Our Group structure is designed to meet the specific needs of our industry, deliver outstanding value to our customers and optimize returns to our shareholders. Through a combination of fully and partially owned subsidiaries and joint ventures we are able to ensure that we have the right

balance for our international expansion. Holding companies enable us to manage risk and facilitate joint ventures. Where appropriate, joint ventures provide us with market access, shared risks and economies of scale.



SONGWON SHARE PRICE DEVELOPMENT

SOLID BUSINESS PERFORMANCE DESPITE UNCERTAINTY

At the beginning of 2013, Songwon's stock prices showed a strong increase. This was due to our good business performance despite the economic turbulence and stock market volatility worldwide. The market also recognized Songwon's future business potential. This stock performance continued until it hit the peak price of 15,300 KRW on April 29th in 2013.

Following the sharp price increase which continued from 2012 and caused by natural price corrections, Songwon's stock price started to drop from April 29th, 2013 until our second quarter results were announced. The results disappointed the market, especially regarding operating

income which was below market expectations. Although our business remained stable, Songwon's operating income did not show much improvement during the third quarter. This discouraged our investors and caused Songwon's stock price to drop.

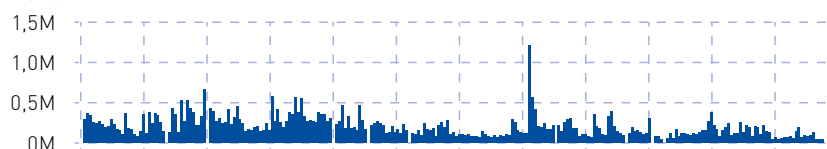
The true value of Songwon's business performance, which includes an improved bottom line number compared to 2012, is not reflected in the disappointing movement of the stock price in 2013. The demand for our products grew in 2013 and in line with Songwon's strategy, we expect our business performance to improve further in 2014.

SONGWON SHARE PRICE & VOLUME

PRICE



VOLUME



Ticker:	KOSE:A004430	Share price (31.12.2013):	9,940 KRW
Stock exchange:	Korea	52-week high:	15,300 KRW
Listed since:	1977	52-week low:	9,330 KRW
Shares outstanding:	24 million	Free float:	64.5%
Market capitalization: (million KRW)	238,560	Dividend per share (2013): (16% of nominal share value)	80 KRW



Songwon Maeam plant, Ulsan, Korea

SONGWON PRODUCT PORTFOLIO

Adding value to the global Polymer Industry

For over 60 years, plastics have played an increasingly important role in daily life. Plastics provide both consumer and industrial markets with practical, modern, and economic products in designs and forms that cannot be produced using other materials. Today, polymers are continuously being used to replace scarce and more costly materials like wood, steel and aluminum.

Today, we can hardly imagine life without plastics. Most of our daily activities involve plastics. And all plastics need additives! Wherever you are in the world and whatever you may do, it is very likely that you are in contact with Songwon products.

Your Polymers – Our Stabilizers

Songwon's products are used throughout a broad range of industries to produce light weight, environmentally friendly solutions. Our products also help improve mechanical performance and energy efficiency. In addition, they make new innovative design solutions possible for a wide range of

applications and extend life cycles. The increasing performance requirements on materials (e.g. in the automotive sector), mean that additives, as provided by Songwon, are gaining importance.

In fact, many of these required and most desired performance characteristics would be impossible to achieve without our additives.

Songwon Industrial Co., Ltd. produces **SONGNOX®** Antioxidants, **SONGNOX®** One Pack Systems, **SONGSORB®** Ultraviolet Light Absorbers, **SONGXTEND™** Stabilizer Solutions, **SONGSTAB™** Acid Scavengers, **SONGSTAB™** PVC Stabilizers, **SONGCAT™** Tin Intermediates, **SONGCIZER™** Plasticizers for the plastics industry, as well as lubricants, surface coating agents, polyurethane, alkyl phenols, flocculants super absorbant polymers (SAP) and other chemicals. Through our exclusive distribution agreement with Sabo SpA, we are able to offer a broad range of **SABO@STAB** Hindered Amine Light Stabilizers, too.



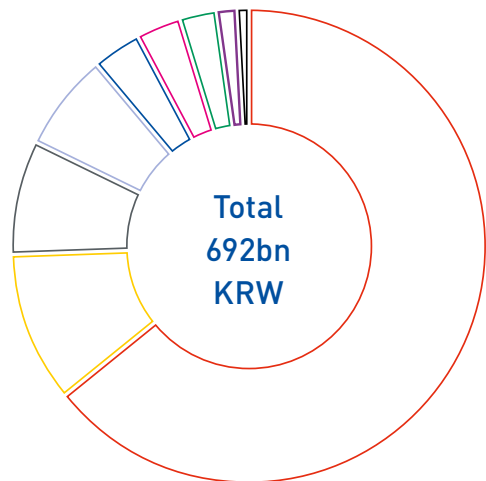
SONGWON PRODUCT GROUPS

Our Product Groups

Organized into 9 product groups, our solutions match our customers' diverse industries.

Our products are distributed worldwide by our comprehensive network of experts covering the entire value chain: from sourcing, marketing and sales to distribution, logistics and after-sales services.

SALES BY PRODUCT GROUP



- 64% Polymer Stabilizers (AOX & UVs)
- 10% Tin Intermediates
- 8% PVC Stabilizers
- 7% Polyurethanes
- 3% Alkylphenol & Intermediates
- 3% SAP & Flocculants
- 3% Polyester Diol
- 1% Plasticizers
- < 1% Others

■ POLYMER STABILIZERS

Songwon offers a complete range of polymer stabilizers. We are the 2nd biggest supplier of antioxidants for plastics in the world. Our products are available in a variety of blends and physical forms to facilitate handling of materials. Our polymer stabilizers are used to protect the polymer during processing and to ensure physical property retention during the final product's lifetime.

▶ Phenolic and Phosphite Antioxidants, Blends

Songwon is one of the few companies producing all three Main AOs, we have the second largest global capacity and we are fully backward integrated. Our antioxidants provide protection during processing and against oxidation throughout the life of the finished article.

Our Main AO products are:

- SONGNOX® 1010
- SONGNOX® 1076
- SONGNOX® 1680
- SONGNOX® 11B
- SONGNOX® 21B

▶ Speciality Antioxidants

Songwon's differentiated specialty phenolic and phosphite antioxidants (including metal deactivators) are complementary to the more essential Main AO range. Our specialty antioxidants provide plastics and resins with enhanced robustness for even the harshest conditions.

Our strong engineering and technology position in phenolic and phosphite chemistry enables us to continuously expand our specialty antioxidant portfolio.

Our Main Specialty AO products are:

- SONGNOX® 1024
- SONGNOX® 1098
- SONGNOX® 2450
- SONGNOX® 4425
- SONGNOX® 1035
- SONGNOX® 6260

▶ Thioesters

Thioesters are used to decompose and neutralize hydroperoxides formed by the oxidation of polymers. They provide heat aging protection and improve the color stability of polymers.

The availability of Thioesters to be supplied through our global sales and support network, has been ensured through the establishment of Songwon Baifu Chemicals (Tangshan) Co., Ltd. in PR China.

Our Thioester products are:

- SONGNOX® DLTDP
- SONGNOX® DTDTP
- SONGNOX® DMTDP
- SONGNOX® 4120
- SONGNOX® DSTDP

▶ HALS, UVAs and Hydroxybenzoates

Songwon has one of the largest product ranges of light stabilizers, and we have access to the full range of **SABO@STAB** Hindered Amine Light Stabilizers (HALS) products.

In 2012, to follow our long-term strategic ambition to be a leading supplier of polymer stabilizer solutions, we entered into a distribution arrangement with Sabo SpA, the global number 2 manufacturer of monomeric and polymeric HALS.

As a primary antioxidant with low color generation, HALS protect polymers from degradation due to UV exposure.

UV Absorbers provide protection by absorbing energy from UV radiation and through a reversible process, dissipate the energy as heat. Optimal UV protection is achievable with combinations of HALS and UVAs.

Once polymer has been damaged by UV light and free radicals are formed,

hydroxybenzoates act as free radical scavengers to protect the polymer from degradation. Some hydroxybenzoates can also act as UV absorbers. The combined synergy of hydroxybenzoates and HALS provides superior performance and protection from UV exposure.

Our main products are:

- **SABO@STAB UV70**
- **SABO@STAB UV94**
- **SABO@STAB UV119**
- **SONGSORB® 2340**
- **SONGSORB® 2908**

► **One Pack Systems (OPS)**

Two years ago, Songwon acquired Additive Technologies Greiz (ATG), one of Europe's largest manufacturers of One Pack Systems (OPS) products for the polymer industry.

SONGNOX® OPS is the unique fusion of Songwon's world-class antioxidants and UV stabilizers with ATG's state-of-the-art technology.

Offering tremendous flexibility and versatility, it is this combination that makes it possible to produce tailor-made blend compositions. Several additives are combined into an integrated dust free, pellet form using a broad range of compaction technology.

Our **SONGNOX® OPS** product range:

- **High melter blends**
Processing at lower temperature and reduced sheer stress
- **Low melter blends**
Tailored processing solutions
- **Nucleator & clarifier blends**
Improved re-dispersion
- **Highly loaded UV blends**
Robust processing of oligomeric HALS
- **Blends including liquid components**
Combining powders and liquids into one durable pellet
- **New developments**
Low dust powders
Tablets

► **New Songwon solutions**

In 2013, we launched our **SONGXTEND™** range of innovative stabilization packages that solve a number of well-known key issues encountered during processing, conversion and the end-use life cycle of polyolefins.

Our main **SONGXTEND™** product range:

- Processing stabilization solutions for polyolefins
SONGXTEND™ 1101
SONGXTEND™ 1102
- Solutions for high heat stabilization in PP-based automotive applications
SONGXTEND™ 2121
SONGXTEND™ 2122
SONGXTEND™ 2123
- Solutions for PP Fiber & Thin Wall Injection Molded Grades
SONGXTEND™ 1140
SONGXTEND™ 1141



■ TIN INTERMEDIATES

Songwon's Organo-Tin Intermediates are used as raw materials for Organo-Tin Stabilizers, polyurethane catalysts, car paints, esterification reactions and glass coatings. With excellent heat-stability, anti-weathering and transparency, our organo tin stabilizers are primarily used for PVC and styrenics.

Committed to security of supply, our Organo-Tin intermediates business is backward integrated into tin metal based on Grignard process.

Our Main Organo-Tin products:

- **SONGCAT™ DBTO**
- **SONGCAT™ TOT**
- **SONGCAT™ DOTO**
- **SONGCAT™ MTW-50**
- **SONGCAT™ MBTC**



Our process starts with metal tin.

■ PVC STABILIZERS

Since starting our business with PVC stabilizers in 1965, today we have grown to become one of the global leading suppliers. Our customers benefit from our broad range of PVC stabilizers. The Songwon PVC application lab in Ulsan, Korea ensures support with expert formulation and performance evaluations.

During processing PVC stabilizers protect the polymer from dehydrochlorination - an 'unzipping' effect that causes degradation.

Our PVC Stabilizer product groups:

- ▶ **Organo-Tin Stabilizers**
for excellent heat-stability, anti-weathering and transparency.
Product range:
 - **SONGSTAB™ Butyltin, Octyltin, Methyltin series**

- ▶ **Metal Soap Stabilizers**
as acid scavengers & use in nontoxic compounds.
Product range:
 - **SONGSTAB™ SC, SZ, SM, SB series**
- ▶ **Mixed Powder & Mixed Metal, PVC One Pack Systems**
complex systems for stabilizing PVC, formulations comprising blends of stabilizers and lubricants for easy handling.
Product range:
 - **SONGSTAB™ BC, BZ, CZ, BP series**
- ▶ **Auxiliary Stabilizers & Lubricants**
for increased heat stability, anti-weathering, transparency and improve coloring when used in combination with stabilizers.
Product range:
 - **SONGSTAB™ BP, SL, BS, E series**

■ POLYURETHANES

Songwon started its polyurethane business in 1974. Today, we have a leading position in Korea and are the biggest producers of ink binders for flexible packaging in Northeast Asia.

Polyester- or polyether-polyols are base materials for polyurethanes. Our strength is that we are fully back integrated into these polyalcohols. At Songwon, we differentiate between solution type polyurethanes and thermoplastic polyurethanes (TPU).

▶ TPUs for injection molding and extrusion

Our SONGSTOMER™* series of products are polyester-or polyether-based thermoplastic polyurethanes. They are used to improve the flexibility, breathability, non-blooming and transparency of polyurethane films and also facilitate the calendaring process.

Our TPU products are:

- **SONGSTOMER™ P-1100 series**
- **SONGSTOMER™ P-3200 series**
- **SONGSTOMER™ P-3100 series**
- **SONGSTOMER™ P-7100 series**

▶ Liquid Type PUs

Our HI-THANE products are used in the production process of synthetic leather (wet & dry process), flexible packaging, and as ink binders on different plastic films.

Our HI-THANE Series:

- **HI-THANE™ S, SW series**
Synthetic Leather
- **HI-THANE™ A series**
Adhesives and Ink Binders
- **HI-THANE™ CA, AT, C series**
Catalysts, Hardeners and Accelerators for Adhesive Systems
- **HI-THANE™ E series**
Surface Coating Agents

■ SUPER-ABSORBENT POLYMERS (SAP)

In 1984, Songwon began producing SAP. Since then, we have continuously developed and patented our production process.

SAP materials can absorb over 100 times their weight in liquid and do not release the absorbed fluids easily, even under pressure. They are used for disposable diapers, incontinence underpads, water holding agents for agricultural/ horticultural use, industrial dewatering agents etc.

Our Main HI-SWELL products are:

- **HI-SWELL™ HS-740S**
- **HI-SWELL™ HS-700**
- **HI-SWELL™ HS-300L**
- **HI-SWELL™ HS-1500V**
- **HI-SWELL™ HS-800**

■ FLOCCULANTS

We have been producing Flocculants since 1979. Our plant running on UV continuous anion type Songwon technology was built in 1998 which enabled us to become a specialized flocculants manufacturer.

Flocculants are highly efficient, water-soluble polyelectrolytes (anionic, cationic, nonionic) based on acrylamides and its copolymers. They are mainly used in solid liquid separation processes such as precipitation, filtering, thickening and de-watering in waste water treatments.

Our Main SONGFLOC™ products are:

- **SONGFLOC™ SA-307**
- **SONGFLOC™ SC-050AR**
- **SONGFLOC™ SA-407**
- **SONGFLOC™ SN-557**
- **SONGFLOC™ SC-0525H**
- **SONGFLOC™ SN-557S**

■ POLYESTER DIOLS

For over 40 years, Songwon's business for polyester diols has set the standard with superior and stable quality combined with excellent service for our customers.

SONGSTAR™ Polyester Diols are used for polyurethane adhesives, synthetic leather and thermoplastic polyurethane for extrusion and injection molding.

Our Main Polyester Diol products:

- **SONGSTAR™ SS-106**
- **SONGSTAR™ SS-205**
- **SONGSTAR™ SS-2046**
- **SONGSTAR™ SS-20N**
- **SONGSTAR™ SS-206S**

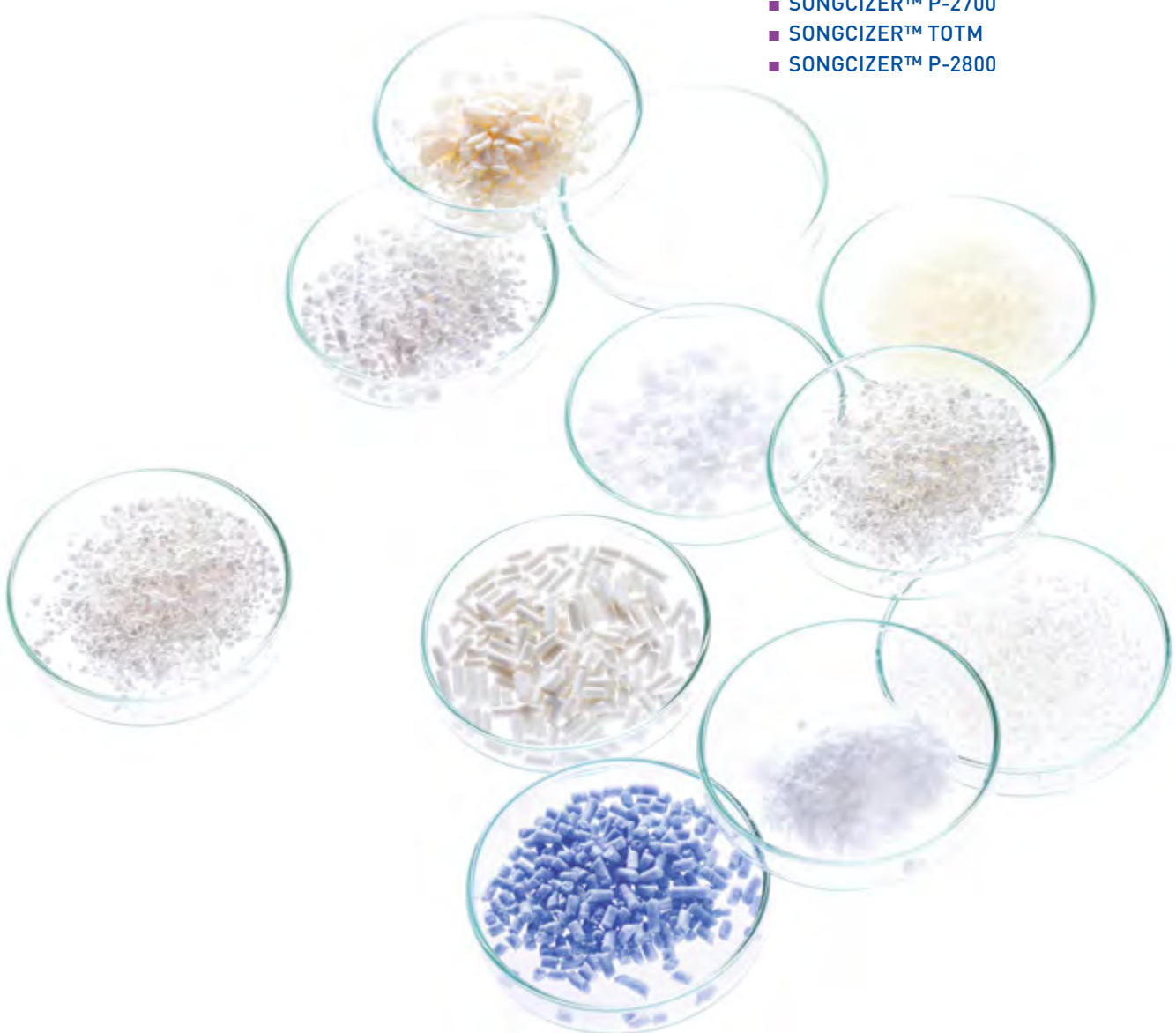
■ PLASTICIZERS

Songwon started manufacturing plasticizers in 1979. Today, we are specialized in DOA, TOTM, plasticizers based on adipic acid and trimellitic anhydride acid.

Plasticizers improve processing ability and physical properties such as flexibility, low temperature resistance, volatility and electrical properties for products made with PVC such as leather, chairs, films and electrical wires. Used as a base for PVC processing, they complement our broad range of PVC stabilizers for the PVC industry.

Our Main Plasticizer products:

- **SONGCIZER™ P-1500**
- **SONGCIZER™ DOA**
- **SONGCIZER™ P-2700**
- **SONGCIZER™ TOTM**
- **SONGCIZER™ P-2800**





PRODUCTS

THAT

PERFORM

MARKET, RISKS & OPPORTUNITIES

AN INSIGHT TO THE MARKET

Polymers are the reference market for Songwon's products. The demand for polymers is largely driven by the growth of the plastics industry, which has constantly shown significant growth rates over the last two decades. This trend is expected to continue in the medium to long term. The growth in demand for our products year over year is difficult to predict, but historically polymer demand has grown at GDP plus 1.0-1.5 %. This is expected to continue in the foreseeable future, providing us with a solid foundation for future growth. The key megatrends of population growth, developments in emerging economies, inter-material competition, new and demanding applications and climate change will also drive the future growth of the plastics industry.

Continuing to consolidate

While the long-term outlook for the chemical industry remains intact, the short-term growth outlook has been adversely affected by the cyclical and recurring global economic crises, in 2008-2009 and 2011-2013. These crises have also forced all the companies in the chemical sector to restructure and consolidate. It is an industry trend that is driving constant cost reduction and economy of scale initiatives. This consolidation has given purchasers greater power, with a few large global players sourcing increased volumes across multiple regions. It has also resulted in similar steps being taken in supply chains, of which additives are a key element.

Shifting value chains

Globalization has moved entire value chains from West to East. Explosive growth in Asia and the BRIC countries has driven demand in the last few years, although this growth slowed down significantly in 2013. Even though it is not a demand driver yet, producers in the Middle East are taking advantage of

local resources to expand existing core businesses and new opportunities are beginning to emerge. Growth has been more limited in industrialized countries. However, recently developed shale gas resources can give a fresh boost to the petrochemical industry in traditional regions such as the U.S. This is likely to lead to a redesign of the geo-economics of polymer production. To which extent this happens will depend on economic and political considerations.

Weak economic recovery

Demand recovered in 2013 after a soft fourth quarter in 2012. It has been relatively stable throughout the year without showing any sign of pronounced seasonality. As expected, year on year growth was limited to low single digit rates. The overall economic situation remained weak with very low global GDP growth. Although the U.S. economy showed signs of recovery, the European economy continued to decline and in some of the BRIC countries there was a significant slowdown.

Positive expectations

Global GDP growth is expected to improve in 2014 and as a result overall demand will finally show a more positive trend. This will be driven by a general improvement in the financial situation, with Europe eventually showing positive GDP growth, the U.S. getting back on track and an improvement in developing countries, particularly in Asia. Japanese reconstruction can also create an additional surge in demand. However, consumers remaining cautious of a fragile economic recovery will continue to demand less expensive items and expect improvements year on year which continues to put pressure on component prices and the speed of product launches.



Rethinking innovation

As producers seek out every opportunity to boost margins and profitability, consolidation in the polymers industry has been driven by commoditization. Innovation that ran like a wild fire in the 1990's slowed in the early 2000's and has almost reached a standstill in the last few years. The focus has changed to process speed and cost. Suppliers are faced with performance-based contracts, which can lead to severe production-related penalties. Nevertheless, some of the key megatrends such as inter-material competition, new and demanding applications and climate change related issues, could revitalize the quest for innovation and innovative solutions.

Risks as opportunities

The global economy presents the greatest risk but business risks often reflect opportunities. The need for plastic applications is driven by consumer demand for products, housing, mobility and general wellbeing. More often than not, additives are needed

to boost the properties and performance of these products.

The main risk in the West is the absolute unpredictability of the economic environment. Economic growth is extremely slow and makes recession an ongoing threat. This inevitably impacts the overall global economy, puts pressure on demand and continues to affect suppliers by squeezing margins further. In this environment, only the strongest will survive.

Changing landscape

In the next decade, the polymer industry landscape will change dramatically as Western companies meet new challenges and value chains displace eastwards. However, this may not be true for regions with access to the new cheap sources of natural gas (shale gas). It is not yet clear how these trends will modify the global footprint of industries but they will define how suppliers can and must react to support the industries they serve in future.

Competitive risk in the polymer additives sector will also come from consolidation defined by economics. Technology will be driven by costs and innovation will focus on system costs for the customer. Value will be driven by performance and cost parameters.

Minimizing negative impacts

Songwon's exposure to risk is alleviated to a large extent by our established economic advantages in proprietary technology, economies of scale, backward integration and geography. In particular, we have established a local presence in some of the key growth areas. Furthermore, our industry commitment, flexibility and ability to understand and anticipate market needs and trends, combined with a strong technical team, creates the foundation for minimizing negative impacts. It also enables us to take advantage of the new opportunities created by the megatrends. When evaluating possible threats to Songwon's activities, we also take climate change into consideration. However, we view it as an opportunity that can be leveraged through technological developments and not a top risk.

Capitalizing on opportunities

Our manufacturing footprint in Korea and China ideally positions us to capitalize on the polymer demand and growth potential in Asia. The reconstruction effort in Japan will provide another significant growth opportunity.

Songwon's recent investment in the U.S. of a One Pack Systems (OPS) manufacturing facility represents a great opportunity to take advantage of the expected growth of the polymer industry there. This is being driven by the newly developed sources of natural gas (shale gas).

Our new OPS production plant is under construction in the Middle East, where the majority of the demand for additives is in OPS. This is an important step towards

benefiting from the continuous growth of the polymer industry in the region, where petrochemical companies are expanding their activities based on its feedstock advantage.

With companies redefining their business structure and possibly adding or moving capacity to the Middle East, the U.S. and Asia, we can continue to be a powerful supply partner and strengthen our relationships further. OPS can play a greater role because it reduces the need for capital investment for our customers where equipment is not already in place. This is very relevant with polymer producers seeking improved productivity and compounders needing to meet greater diversification at lower costs. Songwon has become renowned for delivering innovative and cost effective solutions and we have invested in new product forms and formulations.

Songwon's significant installed capacities, combined with our efforts to improve processes in order to increase competitiveness, makes us one of the most reliable additive suppliers in the market. It also puts us in a strong position to support our customers as growth in demand materializes.

Songwon has one of the most complete product offerings in the industry. We continually add new products and focus on anticipating and identifying our customers' emerging needs and new polymer applications. By developing and offering innovative solutions to improve polymer performance and opening the door to new markets and applications for polymers, we are sustaining industry growth.

Our R&D team is focused on the development of new products for high-end applications. We have already been able to identify new development opportunities in industries showing a high growth potential.



BUSINESS & CORPORATE DEVELOPMENT

MEETING MARKET DEMAND

Despite the continuing uncertain economic situation overall, the demand for our products grew in 2013, albeit at a low one digit rate. In the additives and stabilizers segment, global capacity utilization was stable at a relatively high level. The polymer industry's medium term growth perspectives remain very healthy with an average AAGR% expected to be at GDP +1.0-1.5 %.

As and when the global economy re-stabilizes, if investments are not forthcoming, continued market growth will result in demand exceeding the capacity. One of the key issues for the additives industry is the need to re-establish a reasonable reinvestment value to justify the investment levels necessary to meet the growth of the polymer industry.

“We are refocusing Songwon’s product portfolio by continuing to invest in our existing sites based on market dynamics, and making new investments to expand our global production footprint.”

Maurizio Butti
Chief Operating Officer

Supporting market growth

As a leader in the additives industry Songwon is committed to supporting market growth and are driving a significant share of this effort. In addition to recently investing in new capacities, we are following our plan to implement improved technologies in order to increase Songwon’s cost competitiveness and further expand capacities.

We have also continued to focus on the geographical expansion of our production footprint and on further developing Songwon’s OPS business. After doubling our capacity in Greiz (Germany) based on the existing technology, we started a new line based on a hot extrusion technology in

June 2013. This has enabled us to increase our product offering to the market and ensure operational flexibility.

Songwon’s OPS plant in Houston (USA) was also completed and went into commercial operation in June 2013. In November 2013, we broke ground for a new OPS plant in Abu Dhabi. We expect this new plant to be completed in the fourth quarter of 2014.

The realization of our manufacturing footprint will make Songwon a leader in this segment of the market. Each one of our plants has been designed to allow further capacity expansions and underlines Songwon’s commitment to supporting the growth of demand in this key market segment.

Strategic partners

Our OPS operations are conducted under the umbrella of Songwon Additive Technologies AG, which was established with two partners, Pan Gulf Holdings of Bahrain and Polysys Industries of Abu Dhabi, with Songwon holding 60 % ownership.

In November 2013, we acquired the 15 % share owned by Polysys Industries in Songwon Additive Technologies AG, bringing Songwon’s ownership to 75 %. This illustrates how important our OPS business is to Songwon’s overall strategic development. Polysys Industries will remain a Songwon partner in the Abu Dhabi operations.

Environmental stewardship

During 2013, we completed the capacity expansion of Songwon’s PU product line at our Suwon plant. We also concluded the 60 % capacity expansion of Songwon’s tin intermediate product DOTO. Both of these capacities are in full commercial operation. Expanding Songwon’s DOTO capacity



came at the expense of reducing our DBTO capacity. In anticipation of a DBTO discontinuation in all applications where possible due to REACH and other global environmental regulations, we have made a proactive decision of reducing DBTO in favour of DOTO.

Being a leader that complies with environmental regulations is inherent to our culture. This move will ensure that Songwon can provide the products that our customers need without compromising our environmental stewardship.

Competitive business portfolio

In 2013, we continued to strategically assess our business portfolio. This review led to the decision to stop activities that were not showing the necessary competitive strength, growth prospects or which in

the medium term could negatively impact Songwon's overall performance.

The result was that we:

- sold the Biphenol business in August 2013 to SI Group
- discontinued the production of antioxidants AO FR/RD (mainly used in rubber applications) and the **SONGNOX® PTBP** product family (used in polycarbonate) in the second half of 2013.

The fixed assets related to these activities have remained in Songwon and can be used to further expand Songwon's core business or to commercialize newly developed products.

Investing in future development

To ensure long term continuous and sustainable growth for Songwon Group the Executive Committee recognized the need

to expand its activities into new higher value specialty chemicals building on its core R&D strength. After identifying first areas of interest Songwon not only dedicated R&D resources but also hired experienced and senior industry resources to quickly realize first commercial successes.

Although the immediate impact of these activities may not be very large, in the medium term they will create the basis for us to establish a stronger, more balanced product portfolio for the Group.

Global business, local presence

Building Songwon's global business has forced us to develop a regional strategy and a local presence. Although our business is global, we strongly believe that local execution is essential to better serve our markets and customers.

We have now established 16 entities in 9 different countries. The latest two additions are Polysys Additive Technologies-Middle East LLC, which handles the manufacturing operations in Abu Dhabi, and Songwon Additive Technologies-Middle East FZE in Dubai which manages sales for the Middle Eastern region.

Once our Abu Dhabi investment is completed, Songwon will have manufacturing capabilities in Korea, China, Europe, USA and Middle East. This will put us in a position to further improve our ability to serve the market and meet customers' requirements.

Streamlining processes

During 2013 there were no significant changes to Songwon's ownership structure. New operations have been started as described above. Songwon's fundamental processes, which we constantly monitor and improve with our best in class approach, have continued unchanged.

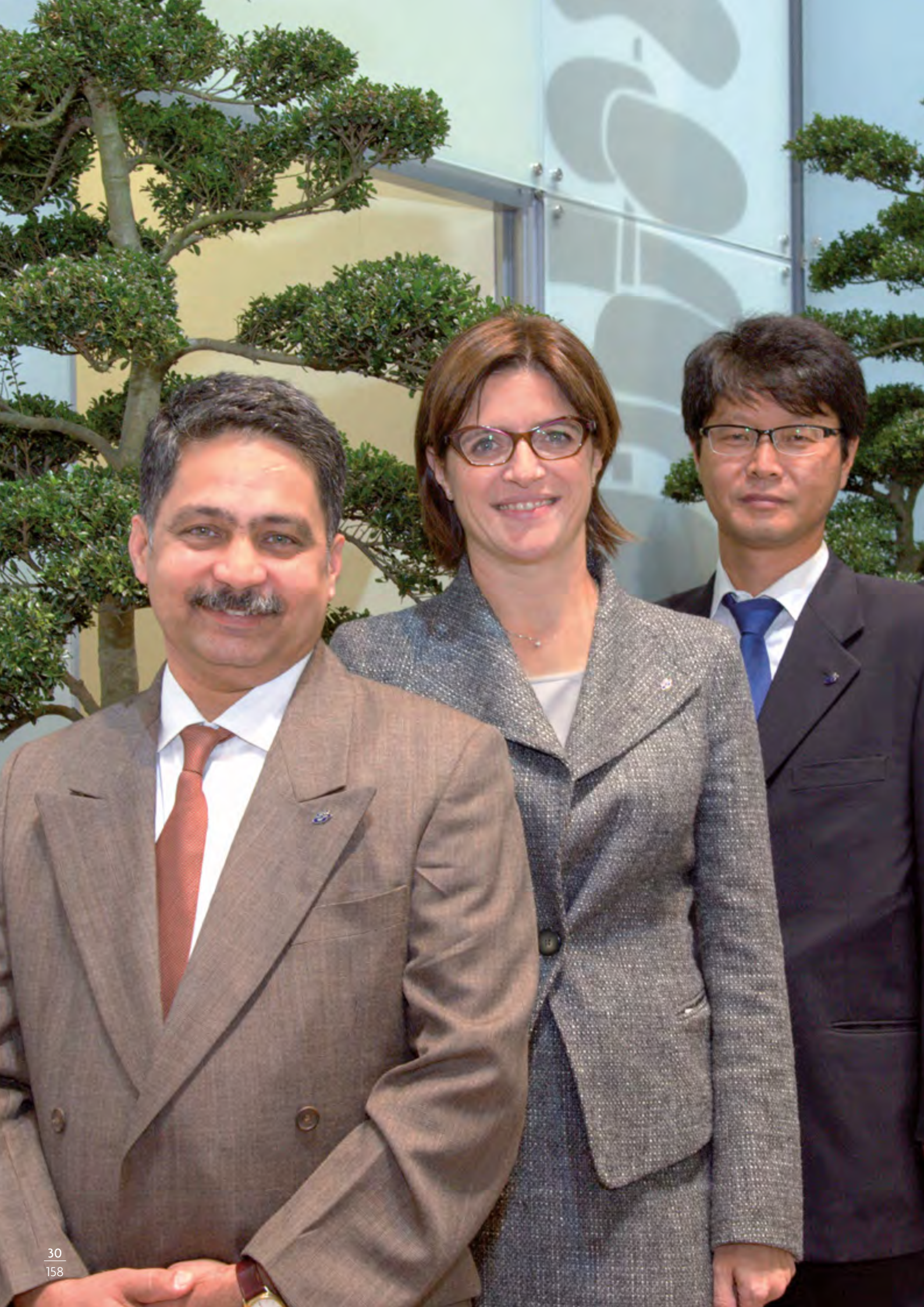
To further our efforts to streamline and improve processes at Songwon, we:

- established a Global Supply Chain function to implement best-in-class business processes across the Group and ensure delivery of the best quality and services to our customers
- decided and started to implement a new ERP system which will be applied to all the Songwon Industrial Co. LTD subsidiaries. The system was in operation in Songwon International AG in Switzerland since the 4th quarter of 2013
- further strengthened our Executive Committee by adding 3 new members: the leaders of Business Management, Supply Chain and R&D.

Strategically focused

We have continued to bring additional assets into our Maeam, Ulsan, Suwon and Greiz plants, in line with previously announced expansions and future requirements.

We continue to be focused on implementing our strategy. Despite the sensitive nature of investment in the currently uncertain global economy, margins that have been squeezed and are slow to recover, Songwon remains absolutely dedicated to supporting market growth and delivering value to our rapidly growing global customer base.



SALES AND TECHNICAL SERVICE

THE BEST SUPPORT IN THE MARKET

What sets Songwon apart is how we put our customers at the center of everything we do. We believe strongly in the principles of customer intimacy. Focusing on customers' needs and ensuring that our products consistently surpass their expectations enables us to build relationships of mutual trust. Our growth, from a regional player in 2006 to a global player today, could not have been achieved were it not for the trust our customers have placed in us.

A proactive mindset

Dedication to our customers means being proactive and responsive. For example, when the tsunami devastated parts of Japan in 2012, we put those customers in urgent need first and ensured that they were able to stay in business and serve their own customers.

Customer-centered focus

Our customer relationships are built on listening, partnering and our ability to deliver solutions that create value. The way we have structured our sales organization, and the quality of our sales people, is central to our ability to give customers what they need to succeed.

“Having an experienced and industry focused sales organization in place, ensures that both local and international customers receive the very best sales support in the market.”

Dieter Morath
Executive Vice President Sales

Full-service solutions

Songwon's full-service approach focuses on delivering high quality products at an attractive price/performance ratio and our commitment to long-term supply, backed

up by application support and technical service. Our after-sale support ensures that customers are updated on new products and developments that can add value to their business.

Enhancing understanding

Transparency is a key principle in how our sales teams interact with external and internal stakeholders. Having an open dialogue with customers is a win-win strategy that expands our understanding of their needs and enables us to effectively plan for future market requirements. Our ability to align supply with future demand positions Songwon as a trusted long-term partner and gives our customers peace of mind.

A proactive approach to regulation

Meeting REACH regulatory requirements is an essential part of our sales activities and our communication with customers. We produce REACH newsletters and bring our customers together regularly for REACH information sessions.

Market-driven global expansion

During a period when many customers were consolidating their operations, our ability to develop a business model around their needs proved to be a success factor in Songwon's rapid international growth.

Maintaining an efficient sales organization enables us to respond quickly to customer enquiries and identify new opportunities with market players and affiliates. The sales teams work closely with our technical support and our business teams to evaluate potential new products or formulations. In some industries, such as automotive, we are requested to develop compounds with enhanced performance. We are perceived by Original Equipment Manufacturers (OEM's) as a competent partner in their respective industries.

Expanded manufacturing capabilities

Practicing customer intimacy enables us to gather useful intelligence about our customer needs in the future. Input from our sales operations plays a key role in our decision making process to add manufacturing facilities in strategic locations around the world. A good example

Our Sales Organization

Songwon's sales organizations are an integrated part of our regional structures and strengthen our ability to expand globally.

- **SONGWON INTERNATIONAL AG IN SWITZERLAND**
is responsible for **Europe and the Middle East**
- **SONGWON INTERNATIONAL-AMERICAS INC IN HOUSTON**
services **North, Central and South America**
- **SONGWON INTERNATIONAL INDIA PVT LTD IN MUMBAI**
is responsible for **India and South East Asia**
- **SONGWON INTERNATIONAL-JAPAN KK IN TOKYO**
serves **Japan**
- **SONGWON INDUSTRIAL COMPANY LTD, SEOUL**
covers the **Korean market**
- **SONGWON CHINA LTD, SHANGHAI**
■ **SONGWON TRADING CO.**
serve the **Chinese market**
- **SONGWON BAIFU CHEMICALS CO.LTD, TANGSHAN**
sells Thioesters in the **Chinese market**

is our new One Pack System (OPS) plant in Houston (USA) that began operating in 2013. This investment will enable us to tap into significant opportunities in the US polymer market that are being driven by the rapid growth of shale gas production.

Technical skills and competence

Technical expertise is at the cornerstone of our sales operations. Our sales force has deep knowledge and experience

in chemicals and polymers. They truly understand the world of our customers and can relate to it in the customer's own language. Therefore, technical support often begins with our sales person. This in turn forms a strong link back to our qualified technical support team.

Songwon constantly invests in the education of our sales and technical people. A major part of their development is exchange programs within the company to expose employees to different regions, markets and cultures. This process provides on the job training and learning from best practice. We believe this will provide essential skills for developing business in the global marketplace and keep our sales force highly motivated.

Technical Service plays a vital role

Having a flat organizational structure enables our technical service teams to react quickly to customer enquiries. Technical Service contributes to generating new business because they are responsible for identifying new market segments, improving existing products, helping customers to reformulate and improve application performance, and ultimately generate ideas. Technical Service and Sales act as a team, collaborating with our customers to drive projects in the most efficient way, delivering beneficial results for both parties. In this way, they act as a facilitator between the customer, our sales people and our internal organization - Business Management, Manufacturing, R&D, and our Application Community.

Identifying and acting on opportunities Songwon's global technical service organization enables us to assess megatrends worldwide and react accordingly. For example, the automotive industry's need for lightweight polymer applications began with a megatrend to decrease CO₂ emissions. This led to



the requirement to reduce the weight of vehicles and simultaneously improve the performance of the polymer materials that often have replaced steel and aluminum. Our innovative **SONGXTEND™** stabilizer series demonstrates our ability to respond and create value.

Positioning our expertise

Customers depend on our technical papers as a reliable source of relevant information and application data. Our presentations at international industry conferences are highly rated and demonstrate Songwon's commitment to leadership and innovation.

Distributors as strategic partners

We work directly with our customers but there are some sectors and locations where it is advantageous to serve the market by

working with a distributor. Distributors are a key strategic part of our sales approach. In certain industry segments, distributors expand our service commitment by contributing their deep customer and market knowledge.

Songwon works with distribution partners who share our high standards for service and support and speak the 'language' of our customer. They are highly qualified distributors who understand their local market mechanisms and market dynamics.

Our distributors are valued partners who are actively involved in our sales activities. For example, they are an essential part of our SOIP (Sales Operations and Inventory Planning) process. We support our distributors with training programs, regular meetings and events, and relevant literature so that they can deliver the highest quality service to their customers.

Well-positioned for the future

Songwon's sales strategy has delivered impressive results to-date. We believe that our approach is solidly positioned and will enable us to swiftly respond to growth opportunities in all our markets.

"We are pushing the boundaries of stabilization in line with our promise to continue extending our product portfolio to meet specific industry needs."

Thomas Schmutz
Global Technical Service Director

CUSTOMER SERVICE, SUPPLY CHAIN & PURCHASING

BETTER QUALITY - BETTER SERVICE - BETTER VALUE

We never forget that customers always have a choice. Therefore, to achieve success, we have to offer customers the very best choice of products that provide the most value. However, we also know that our success relies on the quality of Songwon's exceptional customer service.

The relationships that we have with our customers across the globe are at the heart of our business. They give us a deep understanding of our customer needs and expectations. This insight directs our business decisions and guides us to focus on those areas where customers see the greatest value. Most importantly, it helps us give them better quality, better service and better value.

Reliable partner

Our products' value to our customers is dependent on their availability. This is

especially true with chemicals, where our customers' manufacturing operations heavily depend on reliable supplies and on-time deliveries.

At Songwon, we have built a comprehensive supply chain organization to make sure that we, and our products, are close to our customers.

By implementing state-of-the-art systems and processes combined with a proven service model, we can achieve customer satisfaction through an effective and efficient supply chain.

Songwon's supply chain model is designed to meet regional requirements and deliver local customer service through strategic regional distribution with technical support. This approach enables us to achieve excellence in customer service throughout the world.



“By combining our profound understanding of the industry with our drive for best-in-class quality and customer service, we continue to contribute to the development of the global polymer industry and reliably serve our customers throughout the world.”

Doug Excell
Executive Vice President Supply Chain

Global coverage

Songwon has focused on developing geographical coverage and a level of service that anticipates our customers' logistic and quality requirements. It also encompasses comprehensive documentation and regulatory support.

Our customer service centers are located in Ulsan, Seoul, Tokyo, Shanghai, Frauenfeld, Houston, Manama and Mumbai. These centers are continually applying global and regional best practices to meet local needs.

Around our regional centers, we established warehousing that is globally supported by a network of experienced and dedicated distributors. In total, Songwon has sales and distribution capabilities in 36 countries and warehouse capacity in 30 of those.

Our supply chain is process driven with a strong focus on logistics and local execution. Songwon has the globe covered.

Dedicated supply distribution

We carefully select ideal distribution partners for Songwon while retaining full control over the supply chain. By continually adding to our extensive global network, we increase the availability of our products to our customers in the different regions as well as, their access to our decades of expertise and support.

We work closely with our logistics services suppliers to maintain and develop our customer services. In line with this, we also regularly review our partners' performance to ensure that Songwon customers are receiving the quality, reliability and commitment that we, but more importantly our customers, expect.

Sustainable supply security

We are focused on the secure supply of high quality raw materials that are globally cost competitive. With disciplined planning and using efficient systems, we have created a world class supply chain from our sourced raw materials to the delivery of our finished products. All of our supply chain resources are organized to provide high-level service at low costs.

Songwon is a sustainable and responsible business. We continually streamline distribution, optimize transportation, seek relationships with sustainable suppliers and ensure that our products are produced and as sustainably sourced as possible.

Our supply chain is central to our operations. This is why we ensure that suppliers who work with us are aware of our sustainability targets and share our passion to drive down the carbon footprint within the industry. We are currently planning the implementation of a new sustainability program for 2014.

Songwon customers benefit from:

- regional customer service
- reliability of supply through local stock
- regional Regulatory Affairs support

OUR GLOBAL PRESENCE AT A GLANCE

Our comprehensive distributor network ensures that our customers receive the highest quality of service and rapid response anywhere in the world.

HEADQUARTERS / AFFILIATES

Ulsan, Korea
 Frauenfeld, Switzerland
 Mumbai, India
 Manama, Kingdom of Bahrain
 Shanghai, PR China
 Tokyo, Japan
 Houston, USA

MANUFACTURING

Ulsan, Korea
 Maeam, Korea
 Suwon, Korea
 Greiz, Germany
 Shanghai, PR China
 Tangshan, PR China
 Houston, USA

APPLICATIONS

Ulsan, Korea
 Brussels, Belgium

TECHNICAL SERVICE

Ulsan, Korea
 Frauenfeld, Switzerland
 Manama, Kingdom of Bahrain
 Mumbai, India
 Houston, USA

R&D

Ulsan, Korea

SALES / DISTRIBUTION

Seoul / Busan, Korea
 Frauenfeld, Switzerland
 Mumbai, India
 Manama, Kingdom of Bahrain
 Shanghai, PR China
 Tokyo, Japan
 Houston, USA

Akron, USA
 Bangkok, Thailand
 Barcelona, Spain
 Bogor, Indonesia
 Bogotá, Colombia
 Bucharest, Romania
 Budapest, Hungary
 Buenos Aires, Argentina
 Cairo, Egypt
 Caracas, Venezuela
 Cheshire, United Kingdom
 Dubai, UAE
 Hamburg, Germany
 Helsingborg, Sweden
 Ho Chi Minh City, Vietnam

SALES / DISTRIBUTION

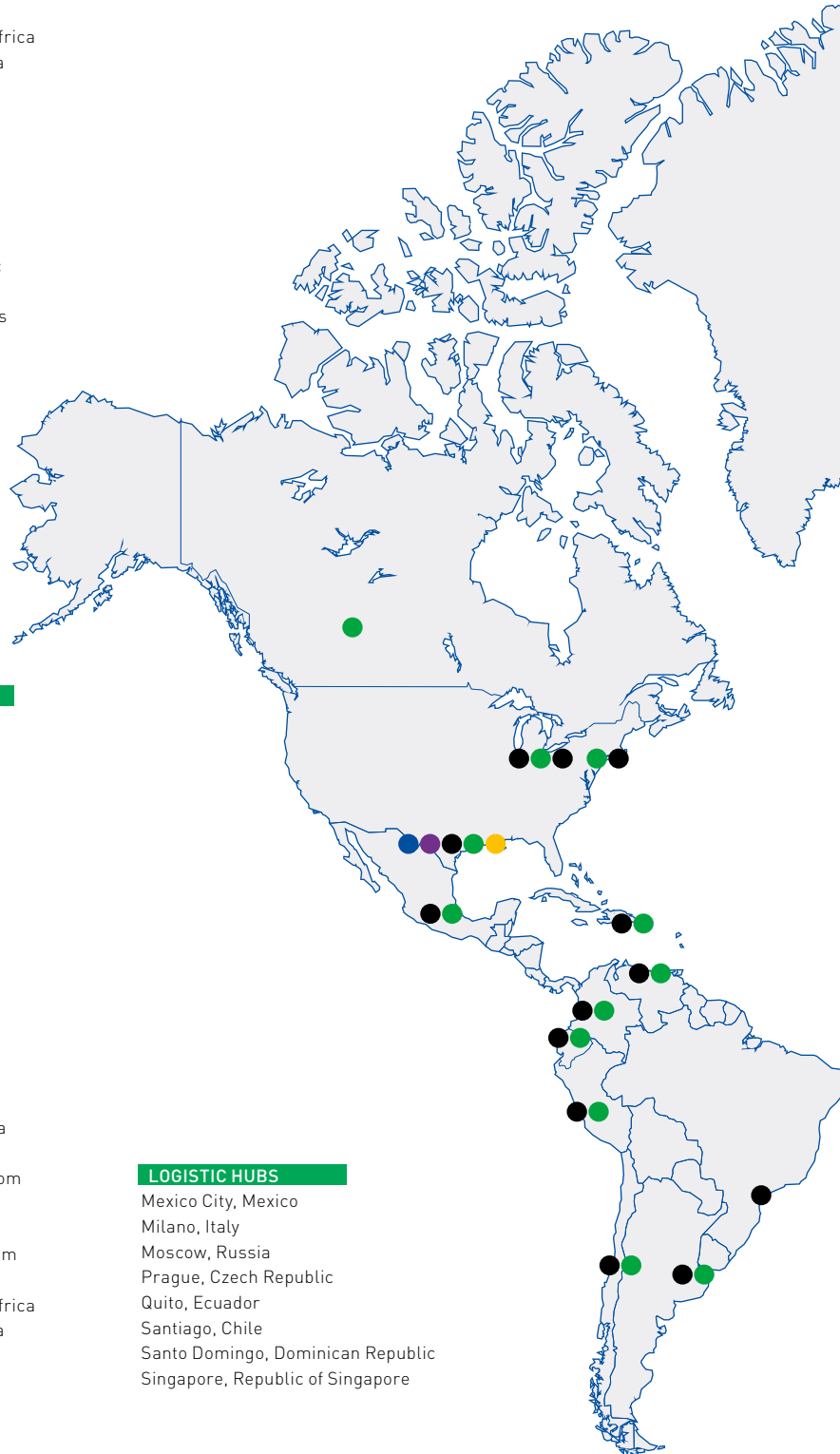
Istanbul, Turkey
 Jakarta, Indonesia
 Johannesburg, South Africa
 Kuala Lumpur, Malaysia
 Lima, Peru
 Melbourne, Australia
 Mexico City, Mexico
 Milano, Italy
 Moscow, Russia
 Norwalk, USA
 Paris, France
 Prague, Czech Republic
 Quito, Ecuador
 Rotterdam, Netherlands
 Santiago, Chile
 Sao Paulo, Brazil
 Santo Domingo, Dominican Republic
 Singapore, Republic of Singapore
 Sofia, Bulgaria
 Tehran, Iran
 Tel Aviv, Israel
 Toronto, Canada
 Warsaw, Poland
 Vienna, Austria
 Zagreb, Croatia

LOGISTIC HUBS

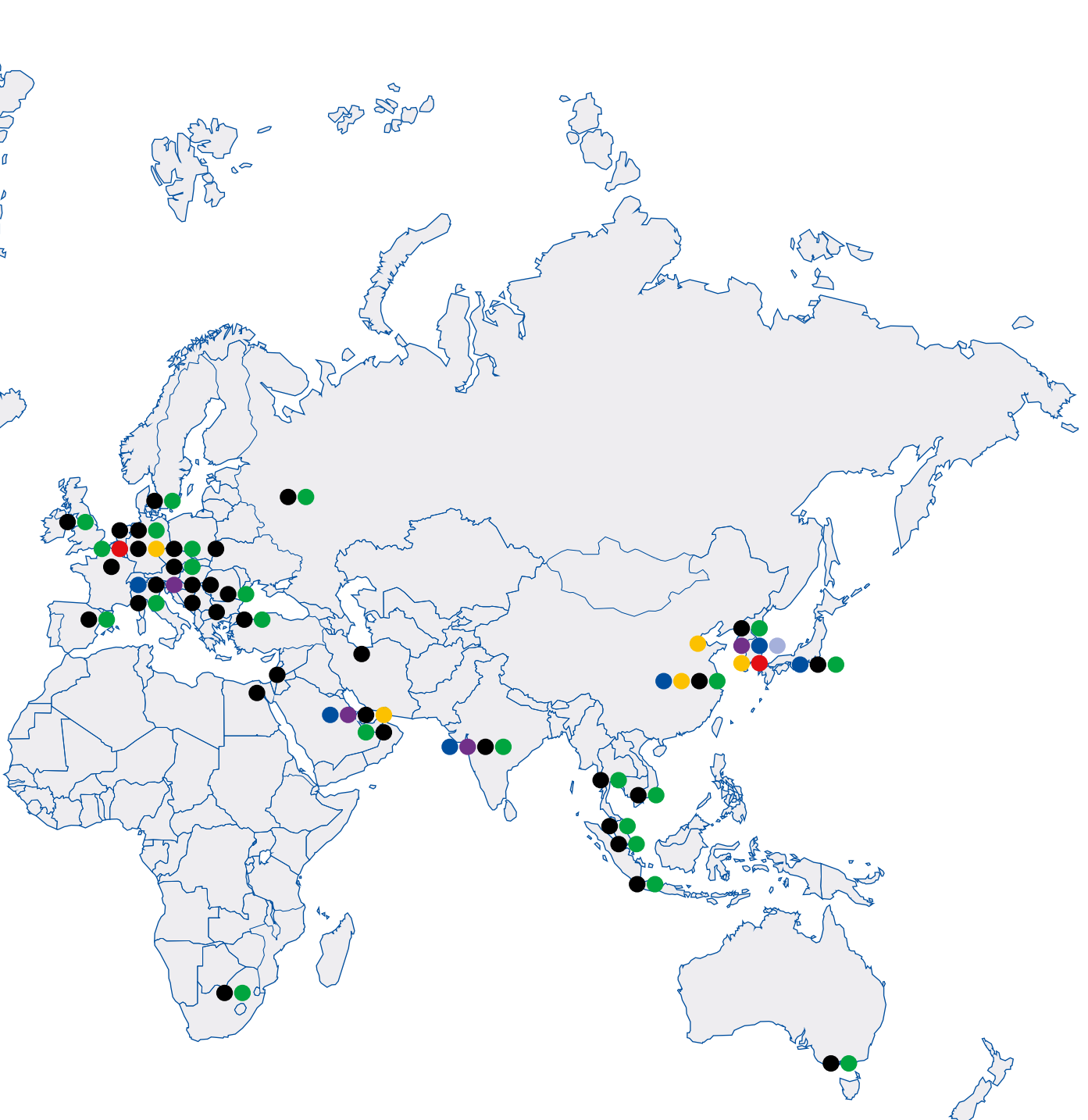
Ulsan, Korea
 Abu Dhabi, UAE
 Antwerp, Belgium
 Mumbai, India
 Shanghai, PR China
 Tokyo, Japan
 Houston, USA
 Akron, USA
 Newark, USA
 Edmonton, Canada
 Sao Paulo, Brazil
 Bangkok, Thailand
 Barcelona, Spain
 Bogor, Indonesia
 Bogotá, Colombia
 Bucharest, Romania
 Buenos Aires, Argentina
 Caracas, Venezuela
 Cheshire, United Kingdom
 Hamburg, Germany
 Helsingborg, Sweden
 Ho Chi Minh City, Vietnam
 Istanbul, Turkey
 Johannesburg, South Africa
 Kuala Lumpur, Malaysia
 Lima, Peru
 Melbourne, Australia

LOGISTIC HUBS

Mexico City, Mexico
 Milano, Italy
 Moscow, Russia
 Prague, Czech Republic
 Quito, Ecuador
 Santiago, Chile
 Santo Domingo, Dominican Republic
 Singapore, Republic of Singapore



WHEREVER OUR CUSTOMER IS, SONGWON IS THERE TOO AS AN EXPERIENCED AND RELIABLE PARTNER.





INNOVATION AND TECHNOLOGY

Innovation excellence

Since our foundation in 1965, we have attached vital importance to innovation that goes hand in hand with customer and market needs. Our dedicated innovation is based on technical expertise and a fundamental understanding of the polymer industry and the other markets it serves. We always seek new opportunities to develop ground-breaking solutions which deliver the high level performance our customers expect.

Meeting tomorrow's challenges today

A big part of Songwon's success comes from listening closely to our customers and transforming their needs into performance products. Many of our innovations began their 'lives' as customer-specific projects. We use what our customers say to develop even better, more reliable and higher quality products. It is this approach that drives Songwon's product development and enables us to give our customers a competitive edge.

In partnership with customers, our innovation teams work together to deliver new solutions never previously considered that offer increased performance, valuable reductions in energy consumption and contribute to technological advancements in a variety of applications.

"We continue to focus our efforts on increasing our understanding of what our customers' challenges are and how we can contribute to their success."

Maurizio Butti
Chief Operating Officer

Reliable state-of-the-art solutions

The ability not only to develop solutions for our customers, but to produce products in volumes that meet the demand, are commercially attractive and at the levels of quality and reliability that our customers

require, is the main driver behind our innovation.

Our Maeam plant is a prime example of our supply reliability. With state-of-the-art technology it produces up to 50,000 MT of **SONGNOX®** antioxidants based on fully back-integrated, proprietary processes. Today, antioxidant production in Maeam is also fully back-integrated in producing alkylphenols, a key intermediate. In addition, the Maeam plant produces up to 40,000 MT of TBA (Tertiary-Butyl Alcohol) based isobutylene, an important raw material for antioxidants. This ensures that we are protected against volatile market supply and cost variations. It also makes a level of consistency and quality possible that is unmatched by third-party suppliers.

At Songwon, we have 3 groups actively involved in innovation: Research & Development, our Global Application Community and our New Product Introduction Group.

GLOBAL APPLICATION COMMUNITY

Application expertise

With decades of experience and polymer industry knowledge, our Global Application Community combines creative innovation with technical competency to bring product development visions to reality. Our experts create high quality, efficient and effective applications to match what our customers demand.

Polyolefins can be found in increasing volumes in applications ranging from household goods to building materials and from vehicles to solar panels. To meet the demanding performance and safety requirements, our customers need specific additives and stabilizers to boost their products' properties and to improve their compounding and production processes. In today's fast-moving markets, customers

need more than just a product. They need application support to replace an existing product with a better one. When keeping up with market speed, it is also important for customers to ensure that they adhere to rules and regulations. Our Global Application Community is there to offer them the comprehensive support they need.

“Innovation doesn't happen by chance, but is the result of a structured process, in which our R&D, Application & Marketing teams work together to deliver market-oriented solutions to our customers.”

Dongkyung Park
Head of R&D

Breakthrough solutions

Songwon's stabilizer packages are tailored to boost the properties of polymers that find their way into applications in agriculture, construction, infrastructure, packaging, transportation, and many other important industry segments.

For example, our breakthrough solutions are contributing to lighter weight, better quality cars by allowing thinner wall thickness at faster processing speeds and offering a wider range of more stable colors.

Farmers are using films that provide longer crop protection. At the same time, materials are becoming more durable. They will look better, last longer, and need less maintenance, all of which can only be achieved by using the right stabilization package for the right polymer in the specific application.

Overcoming limitations

Our Global Application Center development facility in South Korea is currently in the process of developing a new stabilization system, which we call “Concept Alpha”. It is a concept that has the potential to almost double the lifetime of PP at aging testing temperatures of 150°C.

PP is very sensitive to thermo-oxidative degradation. When stabilizers are absent, there is severe degradation during melt conversion. Classical state-of-the-art stabilizer systems are only able to reach a certain performance level, because additives exceed the solubility level in PP. A further addition only has a marginal effect on the long-term thermal stability of PP. Our “Concept Alpha” will be able to overcome these limitations.

Continuous development

Packaging is becoming more environmentally sustainable and as with many other applications, can be recycled more easily thanks to OPS (One Pack Systems) additive packages. Our OPS additives upgrade recycle streams back into valuable polymers.

OPS continue to grow in demand driven by their unique characteristics. They combine a range of additives into a dust-free pellet form that offer greater assurance to the compounding process. OPS contribute to reducing quality control, eliminating over- and underdosing as well as enabling a cleaner and healthier working environment.

Combined strength

By establishing a solid partnership with SABO in 2012, we strengthened our position in the light stabilizer arena. The Songwon and SABO product ranges complement each other and together form the second largest supplier of polymer additives.

Songwon and SABO's partnership extends to joining forces in research and development and applications. Our joint developments with SABO's expertise have already resulted in new UV product solutions for automotive applications.

NEW PRODUCT INTRODUCTION

Our latest solutions

Driven by our understanding of what our customers need, Songwon's new **SONGXTEND™** stabilizer solution range was especially developed to solve well-known issues arising during processing, conversion and the end-use life cycle of polyolefins. Two of our new products, **SONGXTEND™ 1101** and **SONGXTEND™ 1102** stabilizer solutions, are general purpose stabilization packages that allow polypropylene producers and processors to maintain high temperature manufacturing while safeguarding the desired properties of the polymer.

At the same time, the latest stabilizer solutions also assist in avoiding degradation and discoloration under severe processing conditions. This provides stability assurance from the reactor to extruder, where high heat and shear are often encountered. The new stabilization package is effective during conversion and end-use applications and enables both molders and converters to maintain efficient processing speeds at elevated temperatures.



One of Songwon's application test fields for agricultural film in Bangalore, India

Our **SONGXTEND™ 2121**, **SONGXTEND™ 2122** and **SONGXTEND™ 2123** stabilizer solutions are designed for the automotive industry and tailored to address fogging and odor issues in car interiors. They reduce Volatile Organic Compounds (VOC) emissions and improve organoleptic properties by either eliminating or significantly reducing any undesirable odors that negatively impact car interiors. While ensuring that critical targets related to fogging and odor are met, these packages match the long-term thermal stability of classic systems based on a combination of the **SONGNOX® 1010** stabilizer with **SONGNOX® DSTDP** stabilizer.

Our new **SONGXTEND™** stabilizer solutions for PP Fiber and Thin Walled Injection Molding grades offer good processing stability during fiber spinning or injection molding - which can be quite difficult to achieve. In these applications it is also important to maintain low color degradation. Our two latest stabilizers more than meet these requirements.

SONGXTEND™ 1141 stabilizer solution achieves an excellent balance of sufficient processing stability, low peroxide interaction, low color and low gas fading as well as being best-in-class in color development.

With a similar performance profile, **SONGXTEND™ 1140** stabilizer solution offers best-in-class initial color and color degradation. Long term thermal and UV stability can also be easily adjusted in both without impacting the other performance criteria by adding HALS, e.g. **SABO®STAB UV 119** light stabilizer.

To benefit our customers, we've designed our solutions to be much more effective than common stabilizer concepts, resulting in reduced concentrations of additives in the resin or compound.

Interior and exterior experts

Together with SABO, we successfully developed and introduced the **SABO®STAB UV 210** light stabilizer and **SABO®STAB UV 228 50PP** light stabilizer. Both products outperform standard UV stabilizers, making them ideal for automotive exterior/interior parts like bumpers, where surface, color protection and gloss are key quality requirements.

These initial successes have motivated us to further explore the possibilities for developing more enhanced UV stabilization solutions together with SABO. We are making good progress with the development of other innovative light stabilizer solutions and are eager to keep pushing the boundaries of stabilization.



RESEARCH AND DEVELOPMENT (R&D)

Helping our customers gain a competitive edge

Research and development (R&D) play an important strategic role in our business. In our rapidly changing industry, producing quality products is no longer enough to maintain leadership in the field.

We understand how vital it is for us to constantly adapt to our customers' evolving needs. Therefore, investing in R&D is a priority for us. We make sure that R&D has the necessary resources and conditions to continue providing its essential strategic support, innovation and technology to all the functions within Songwon.

From our customers' perspective, R&D contributes to their success by offering innovative products, maintaining competitive pricing, continuously improving quality and providing a best-in-class level of regulatory affairs. By extensively researching market trends in order to diversify our product portfolio, we are also able to assist our

customers to gain a competitive edge in their specific markets.

Important strategic support

From our internal perspective, R&D develops the new products requested from across the business based on the latest technologies. It also provides analysis development and regulatory affairs support.

Improving our products' cost structure and using process development to increase asset utilization drives higher productivity and has a direct impact on Songwon's financial results.

Delivering new technologies expands revenue opportunities and is fundamental to Songwon's sustainable growth and value creation. R&D has been a key contributor to our company's growth by internally developing core technologies. In the past few years, R&D has made it possible for Songwon to introduce 30 new products.

FOCUSING ON 4 KEY AREAS

R&D focused on cost reduction activities through process improvement and new technology. Achieving remarkable outcomes in intermediates and final products, R&D also developed new products in polymer stabilizers, functional monomers and precursors of electronic chemicals.

1. Process improvement - key to maintaining our competitive, best-in-class quality position. Sustainability is at the heart of all Songwon's process development. R&D successfully completed process optimization for 3 final products and 4 intermediates maximizing the benefits of cost structure within Songwon and reducing the environmental impact.

2. New product development - mainly new phosphite antioxidants and specialty monomers closely related to electronic chemicals and high-end value applications e.g. smart phones. Product development in Ulsan's R&D facility provides important analytical support to Songwon's 2nd level technical and R&D groups.

R&D is now also focusing on the development of new functional monomers and new precursors for electronic applications.

3. Analysis development - provides analytical methods for new and existing products, as well as developing de-formulation methods for resins. Our main goal is continuously providing Songwon's customers with reliable and accurate analytical data.

4. Regulatory Affairs - ensures Songwon's products comply with all known chemical regulations, both existing and emerging, and enables the creation of relevant documents including MSDS (Material Safety Data Sheet), Labels and RDS (Regulatory Data Sheet).

MANUFACTURING EXCELLENCE & QUALITY ASSURANCE

STATE-OF-THE-ART MANUFACTURING

Since our decision in 2006 to expand internationally, our manufacturing strategy has taken these dynamic factors into consideration:

- The evolving needs of our customers and how to provide the highest quality products in a timely way
- The changing landscape of our industry and the need for a more cost-effective approach to locating manufacturing assets that is a win-win for both producer and customer
- Ensuring safety and reliability at our manufacturing plants to guarantee security of supply
- Leveraging our existing know-how and assets to produce economies of scale and operating efficiencies.

“Our special culture is a key competitive advantage to us. Western and Korean approaches are merged in a mutually respectful way and create an atmosphere of trust and openness that enables us to continually improve.”

Giacomo Sasselli
EVP Corporate Manufacturing & Engineering

World-class facilities

Backward integration and large-scale plants have been a key strategic priority and have enabled us to ensure the reliability of our supply. This focus has resulted in building a new plant in Maeam (South Korea) in 2007 - a world-class manufacturing facility in terms of design, automation and powder goods management. Not only is this a benchmark for our industry, it also enabled us to continuously upgrade our other facilities through technological innovation, improved automation and reduction of complexity. All this was achieved successfully without affecting supply to our customers.

Optimizing technology & reducing complexity

Safety, health and environmental care are of the utmost importance and our priority is to continue optimizing the performance of Songwon's plants for raw material and utilities consumption. Our main productivity target is to minimize Songwon's raw materials consumption by working towards the theoretical chemical yields in the use of our technologies. We are very close to this target yield and further improvements are ongoing on our main production lines.

As we continuously review and align our products to meet market requirements, we've also terminated some of the less critical and oldest production lines. This will enable us to optimize our product portfolio and further reduce manufacturing complexity.

Ongoing commitment to quality

To manage the rapid growth in our business, Quality Assurance is a valuable tool for harmonizing our operating procedures across functions and locations. Quality Assurance at Songwon is supervised at the highest level. Our monthly Quality System meeting includes senior representatives from Manufacturing, Sales, Supply Chain and Business Management. All aspects of quality are discussed, analyzed and evaluated during these meetings. Service improvement opportunities are identified and this leads to better standardization of our procedures. When a service improvement or new procedure is approved it is executed swiftly and supported by all the Songwon functions. We have been ISO Certified since 1995 which provides a solid basis for ensuring our quality standards are maintained.



Songwon received an award from the City of Ulsan, Korea in 2013, see page 59

Strategic growth & acquisitions

We have taken a strategic approach to expanding internationally, evaluating emerging market demands and determining where to locate facilities, whether these be manufacturing plants, warehousing or service centers. Songwon has benefited from expansion without the burden of legacy assets.

Our expansion path has included the acquisition of ATG Additive Technology Greiz GmbH in 2011, the addition of our facility in Houston (USA) in 2013 and in 2014 we will open a new facility in Abu Dhabi (UAE). Our Houston plant is a replica of our Greiz plant.

We're recruiting graduates and training them to ensure that our knowledge can be passed along to a future generation of Songwon employees. An influx of new highly skilled employees is contributing to R&D advancements and technological innovation.

Leading by example

Underpinning our evolution has been our unique ability to integrate Korean

and Western approaches in developing a superior manufacturing capability.

Customers and investors who visit our world class facilities are impressed by our manufacturing excellence and our highly trained international workforce engaged with a collaborative spirit. They can also clearly see that we are highly focused on meeting our social and environmental responsibilities in a profitable manner.

Long-term approach

We have taken a prudent, yet long-term, approach to expansion. Since 2006 Songwon has doubled its capacity, in line with market needs. Based on current growth projections, our additional production capacity coming on stream in 2014 will enable us to ensure a reliable continuity of supply for our customers. We will also continue to closely analyze the global economy and adapt our investment plans accordingly.



PEOPLE

WHO

DELIVER

3 | OUR PEOPLE, OUR CULTURE

THE HEART OF OUR COMPANY

Our people are the heart of our company. They always have been and always will be. At all levels there is something fundamental that unites us: our commitment to meet and exceed our customers' expectations. Songwon's people are driven to succeed - for our clients, our business and themselves. We want to ensure that our reach is global and our approach personal.

With over 660 employees, we are working in a multinational environment across the globe. The Songwon team is built upon years of experience. We pursue excellence in everything we do.

What we offer

Our HR philosophy recognizes the contribution our people make, and acknowledges the crucial role they play in delivering growth and adding value for our shareholders and customers.

We offer challenging career opportunities to self-motivated, customer-focused and talented individuals in all areas of our global organization.

Our Culture

At Songwon, we value a work environment where diversity is embraced, employees are recognized for their achievements and where people treat each other with mutual respect and dignity. At the core of our company is a culture in which colleagues feel like part of a family. We believe in the power of collaboration and teamwork and we have an open, approachable style.

We expect our employees to be flexible, creative and to embrace new experiences and challenges. Working with Songwon provides employees with the opportunity to work in a friendly, fast-paced and international environment - an environment where they are hands-on contributors. Everyone is encouraged to share their thoughts, opinions and ideas to move us forward as a company.

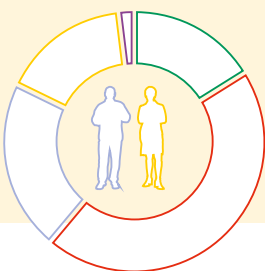
To ensure that employees at all levels always feel valued and engaged, we:

- Create an environment in which each individual feels appreciated, empowered and encouraged to grow
- Value the diversity and commitment of our people, enabling us to shape our future with confidence and innovative thinking.
- Bring the best talents together and encourage an entrepreneurial team spirit to attain our strategic goals.

Working at Songwon

Songwon is always looking for bright new talent to add to our growing team. In 2013, we attended job fairs in Germany and Austria, to review available talent and raise our company's profile. In addition to making Songwon our customers' supplier of preference, we are dedicated to being the employer of choice in the areas we operate. We also endeavor to hire the most talented, skilled and experienced employees available.

TOTAL YEARS OF SERVICE - 6.580



■ 0 - 1 years of service to Songwon	16% (105 employees)
■ 1 - 9 years of service to Songwon	45% (298 employees, in total 1490 years of service)
■ 10 - 19 years of service to Songwon	21% (141 employees, in total 2115 years of service)
■ 20 - 29 years of service to Songwon	16% (107 employees, in total 2675 years of service)
■ > 30 years of service to Songwon	2% (10 employees, in total 300 years of service)



By working with us, individuals get the chance to work with people who are committed to doing their best. They earn the trust of our customers and shape the future of Songwon.

Multicultural and motivated

Our people work with customers and colleagues from different cultures throughout the world. In a truly

“I joined Songwon just over 6,5 years ago. The Songwon spirit is fresh, dynamic and raring to go. There is a great deal of flexibility within the organization and everyone’s opinions count. Our top management has an open mindset and always respond to reasonable requests in a positive manner. We are very customer-focused and are able to deliver our responses quickly. That is one of the things that make us different.”

Nilesh Mehta
General Manager, India

international and dynamic environment, our employees are able to expand their horizons on both a professional and personal level. We offer excellent training on-the-job that gives them the hands-on experience to advance their skills, and the knowledge they need to perform their function at the highest level possible.

On-the-job experience is supplemented by targeted trainings, tailored to the needs of the specific position. We want to continue to build and maintain a multicultural and motivated workforce.

Training & Development

Songwon’s entrepreneurial spirit and collaborative culture ensures that our employees are responsive, driven by measurable results and ‘live’ their creativity. In our experience, the best path to success is to enjoy creating exceptional results.

3 | OUR PEOPLE, OUR CULTURE



“If I were to describe Songwon in one word, it would be ‘energetic’. The company has a vast cultural make up which is a real strength. At Songwon, diverse opinions are fostered towards customer solutions.”

Reuben Wilson
Sales & Commercialization Manager, USA

We also recognize that personal development is an integral part of employee satisfaction and life success. This is something that is deeply engrained in our culture and in our Performance Review System (PRS).

Our PRS aims to help our employees achieve Songwon’s strategic plan. By aligning work with organizational goals and assessing performance against a clear set of leadership expectations, targets and measures, we

motivate and develop our people. The process provides both context and purpose for each employee’s work and helps them clearly understand their contribution to the Songwon team. Our ultimate goal is that the results and discussions provide two-way feedback that is fair, accurate, inspirational and developmental for both the manager and the employee.

Development and training at Songwon varies at our sites across the globe, according to an individual’s role and responsibility.

Shared Values and Principles

Being a successful company is not just about our performance and achievements, it’s also about acting in a responsible, ethical and law-abiding way. Our Code of Conduct sets out our business principles and how every single person at Songwon should apply them.

We want our employees to be proud about working for a company that has the highest standards of integrity and passionately protects its people, assets and reputation. Our culture of responsibility to each other and all our stakeholders demonstrates our commitment to living our values every day.

“I started with Songwon 22 years ago, as part of the R&D and Technical team at our Suwon plant where I worked for 10 years. It was my very first job. Later I moved and joined the R&D and AO Technical team at the Ulsan plant. Now I am part of the Quality Assurance team. Working for Songwon has given me the opportunity to develop my potential and gain valuable experience and knowledge in various areas.”

Sung Hwan Kim
Quality Assurance Team, Korea

Investing in our talent

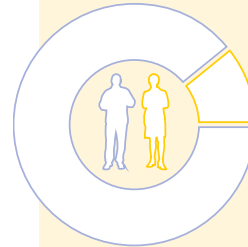
In 2013, we also successfully launched an Exchange Program that gives our administrative staff the opportunity to gain experience working in other locations and cultural environments. As well as investing in and developing the talent already within Songwon, we will continue to hire exceptional people to ensure we are well-placed to meet our customers’ future needs and support their success.

“It’s exciting to work in such an entrepreneurial, bureaucracy-free, environment and being able to add value either as a team player or an individual contributor. Due to our size we can respond quickly to customers’ needs with our high-quality and reliable technology.”

Arie Kooij
Market- & Business Development Manager, Switzerland

EMPLOYEES BY GENDER

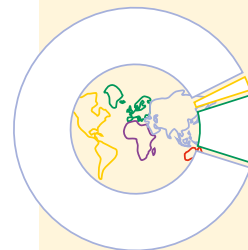
Songwon Group



Total employees	661
Women	71
Men	590

EMPLOYEES BY REGION

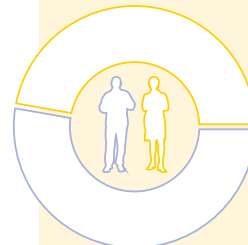
Songwon Group



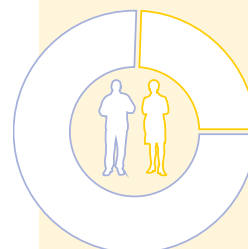
Total employees	661
North and South America	17
Europe	66
Asia	578

EMPLOYEES BY REGION & GENDER

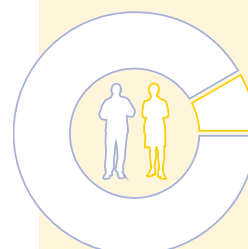
Songwon Group



North and South America	17
Women	8
Men	9



Europe	66
Women	16
Men	50



Asia	578
Women	47
Men	531

3 | OUR PEOPLE, OUR CULTURE

EMPLOYEE STRUCTURE OF SONGWON GROUP IN 2013		
Data based on head counts	Total	in %
Total employees as of December 2013	661	100%
Employment relationship		
Permanent	659	100%
Men	589	89%
Full time men	589	89%
Part time men	-	0%
Women	70	11%
Full time women	68	10%
Part time women	2	0%
Temporary	2	0%
Men	1	0%
Women	1	0%
Type of employment		
Salaried	660	100%
Men	590	89%
Women	70	11%
Hourly	1	0%
Men	-	0%
Women	1	0%
Gender	661	100%
Men	590	89%
Women	71	11%
Personnel movements in 2013		
Number of employees leaving employment during year (YTD) by gender	39	6%
Men	27	4%
Women	12	2%
Number of employees leaving employment during year (YTD) by age group	39	4%
Over 50 years old	11	2%
From 30 to 50 years old	17	3%
Under 30 years old	11	2%
Number of employees hired during year (YTD) by gender	116	11%
Men	99	15%
Women	17	3%
Number of employees hired during year (YTD) by age group	116	11%
Over 50 years old	3	0%
From 30 to 50 years old	41	6%
Under 30 years old	72	11%



4 | CORPORATE RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

COMMITTED TO CSR

Corporate social responsibility (CSR) is an integral part of how we think about our business and how we make our business decisions.

We look closely at the world around us and respond quickly to what is happening and adapt to changes. CSR is the compass we use to ensure that we grow in a responsible way.

Social responsibility can come in many forms and mean different things to different people. At Songwon, we care for how we do business, how we treat our people, the communities we serve and the environment around us. We take our role in responsibly and sustainably shaping the future very seriously.

We continually reach out to improve our performance in all of our endeavors and the consistent quality of our products, while always respecting social responsibility. In simple terms, we live up to our commitments and take ownership for what we do.

Although we believe our business is the best example of our CSR, Songwon's commitment extends beyond the positive contribution that our products are making every day. We support a variety of programs and initiatives.

Here are just some examples:

- Brains Korea 21 (BK21) - a government program supporting graduate students and young researchers
- medical missions to Cambodia to help low income patients with thyroid and breast cancer
- the Korean Red Cross.



4 | CORPORATE RESPONSIBILITY

REGULATORY AFFAIRS & REACH

COMMITTED TO COMPLIANCE

Doing business internationally means that we are subject to legislation and guidelines in all the countries we operate in. At Songwon, we have always invested time, effort and capital to ensure that our products are 100% compliant with all regional and country specific regulations. One of our priorities is making sure that our global customers can continue to meet their environmental, health and safety goals, secure in the knowledge that they are using products that meet regulations. Beyond this, we also see it as our responsibility to provide our customers with expert support on the complexities of compliance, registration and certification.

Our responsible culture

Songwon has a strong compliance culture and we are dedicated to ensuring that our business abides by all the standards, laws and regulations related to our activities worldwide. Our dedication also instills permanent awareness of compliance responsibility in all our employees. Everyone at Songwon understands that without compliance there is no trust, and without trust we cannot grow. Each of us takes compliance seriously and we all aim to be good, ethical corporate citizens.



Chemicals are essential

Chemicals have always played a central function in modern life. They will also continue to have a pivotal role in the development of new technologies in the future. Unfortunately, the public often doesn't realize that without chemistry and the chemical industry, the exceptional progress made by mankind to date would not have even been possible.

Presumptions that all chemicals are toxic, unsafe and pollute the environment, causes the chemical industry to be under constant attack. For this reason, it is important that the

industry assumes the adequate responsibility through applying the right product stewardship measures. By putting both the effort and resources needed in place, we ensure that more efficient and safer chemical substances are developed and made.

This is why our company places a very high priority on ensuring that we comply with all existing regulations. We also support the intervention of regulators to develop new regulations, like the establishment of REACH (EU Regulation on Registration, Evaluation Authorization and Restriction of Chemicals).

It is important for us to take great care in how we produce chemicals but also in how we can use them safely. As a responsible global specialty chemicals manufacturer, Songwon cares for the safety and health of people and the environment. For us, REACH compliance is a logical step.

An opportunity not a threat

To ensure that we all live and work in a safe and healthy environment, the chemical industry and its value chain continually face new challenges regarding chemical control legislations. REACH* is one of the most comprehensive and complex regulatory initiatives to date. It has increased awareness and raised the bar on the level of chemical control. By doing so, REACH has subsequently triggered other regions to take a similar approach.

When first introduced, many people and companies looked at REACH as a threat to their business. If not taken seriously, it can definitely be a threat: no data, no registration, no business in the EU.

For us at Songwon, we have always seen REACH as an opportunity because:

- it can be used to differentiate us from competitors

“We at Songwon are committed to regulatory affairs and REACH and see them as an opportunity not a threat. They are an integral part of our daily business process and crucial to our success.”

Maurizio Butti
Chief Operating Officer

- it forces us and other companies to take a hard look at and re-evaluate product portfolios
- it creates customer intimacy.

Sometimes REACH is also seen as a mere technical exercise, but this is most definitely not the case. The implications of wrong decisions in the registration process have far reaching consequences on the future of a company. It is essential for REACH to be a part of every day's business process. At Songwon, we are highly committed to this.

Supporting REACH objectives

Songwon fully supports the REACH objectives and our aim is to reduce the chemical footprint on our health and environment. It is our policy to minimize the risks associated with our production activities and products, and to continuously improve their safety, health, and environmental performance. Our organization cooperates with co-producers, suppliers and customers to help us achieve our REACH goals. We understand that through REACH, we can make a positive contribution to our common future.

Sharing information

We provide extensive information to Songwon customers through a newsletter, on the REACH processes, requirements, deadlines developments and achievements. Our regular updates on the substances registration process allows our customers

to proceed with their business, knowing that Songwon's products will be 100% compliant within REACH deadlines.

Customers in our industry are accustomed to receiving 3 data sheets for each product: the specification, a technical data sheet (TDS) and a safety data sheet (SDS). We go a step further and provide them with what we call the '4th data sheet' - the regulatory data sheet (RDS). This gives our customers a summary of all global regulatory approval information on that particular Songwon product. It also enhances our customers' sense that we care about their business.

An important aspect of how we create value for our customers and their businesses is anticipating future regulatory change. For example, we foresee a regulatory ban of dibutyltin oxide (DBTO) by 2015. This organic compound will be replaced by dioctyltin oxide (DOTO). We already informed our customers in 2013 and are adapting our production to ensure that enough DOTO will be available when the new regulations come into force.

Accomplishing more together

REACH's scope is complex and the impact it has is big. The most certain way to get the best results is through cooperation. By working together, industry and authorities will increase their knowledge and expertise regarding chemical substances, and contribute to a healthier future for us all.

At Songwon, we continually work on improving the implementation of REACH for all our stakeholders, by proactively developing and exchanging industry best practices in an open, cooperative manner. We aim to reach further than simply meeting today's requirements and see our efforts as contributing to safeguarding the needs of future generations.

4 | CORPORATE RESPONSIBILITY

SONGWON & REACH IN 2013

Strong focus on innovation

Our strong focus on innovation is illustrated by the registrations we submitted in 2013. With the expiration of the REACH Tier 2 registration deadline on June 1st, 2013, we successfully completed:

- 26 REACH registrations in total
- 19 were Tier 1 and Tier 2 substances
- 7 were new substances (nonphaseins).

In order to register all relevant substances in time, we are now focusing on the next tonnage band (<100 t/a).

Highlighting REACH compliance

Since 2008 we have issued more than 1.000 REACH Coverage Statements and more than 2.000 REACH Import Certificates for our EU importers via our Only Representative (OR). This highlights our REACH compliance and the coverage for our customers.

Our registration strategy

We have submitted around 200 pre-registrations and updated or created more than 7.500 EU Safety Data Sheets (incl. translations). Our EU Safety Data Sheets (SDS) are available in a minimum of 15 different languages.

We created approximately 100 Regulatory Data Sheets (RDS) - our Songwon '4th data sheet' that displays the global regulatory status of a product. We participate in 7 REACH Consortia in order to ensure that we continue to have an efficient REACH implementation and registration strategy for our substances.

Best Practice Guide to REACH Regulation

The REACH Regulation which came into force on June 1st, 2007 has been described as the "most complex" piece of legislation in EU history. REACH is the basic law for any business concerning chemical substances in the European Union.

In order to compile the experience made during the implementation phase, a Best Practice Guide (REACH Best Practice Guide to Regulation [EC] No 1907/2006, Publisher: Drohmann / Townsend) was published.

The handbook covers all the relevant issues from the initial registration of chemical substances to the final enforcement of the obligations under the regulation.

Songwon's Chief Operating Officer, Maurizio Butti, is one of the REACH experts who contributed to the book. His chapter is related to the REACH implementation business strategy at Songwon.

Further information is available at:
www.beckshop.de/drohmann-Townsend-REACH/productview.px?product=31044



EH&S & SUSTAINABILITY

OUR SUSTAINABILITY STRATEGY

Sustainability has been at the center of Songwon's strategy for years. For us, it represents new opportunities to grow and add vitality to our business, society and our daily lives. We are inspired to rise to the global challenges faced today and committed to responsibly preserving our planet's resources.

"At Songwon we believe that sustainability is fundamental to our long term success. There can be no economic success without responsibility for our society and the environment."

Maurizio Butti
Chief Operating Officer

We see the world's greatest challenges as opportunities for Songwon to make a positive difference. For example, by adding value for customers while growing our business in a sustainable way. When we develop our strategies we keep a close eye on how they will affect the sustainability of our business and that of our customers.

Songwon Philosophy

of sustainability standards covers:

- Human Rights
- Occupational Health & Safety
- Environment
- Fair Trading
- Information Security

Sustainable smart solutions

For Songwon, 'sustainable' means developing smart solutions. By fully optimizing our production processes and developing more applications that bring savings in energy and resources, we are adding value - value for our customers, value for our people, value for society and value for future generations. We never forget that our 'license to operate' comes from our stakeholders. To maintain it, we must clearly show that we take our responsibilities seriously.

An expanding base of engaged customers is the most critical driver of sustainable growth. However, true customer engagement can only be created when the customers' experience meets or exceeds our promise to deliver smart sustainable solutions.

EH&S - a top priority

We recognize our obligation to provide safe and healthy work environments for all of our stakeholders (employees, contractors, neighbors). At every Songwon location, safety is taken very seriously. We place great importance on being trusted and seen by the public as an organization with a high level of safety awareness and clear safety processes. Protecting the safety, health and well-being of all our employees is a top priority at Songwon.

Achieving zero accidents

At Songwon, efficient production and preventing injuries go hand in hand. Incident-free production can only be achieved in safe plants with qualified, safety aware employees. We know that a zero accident target is difficult to reach but we also know that it is achievable. Zero accidents is our Songwon goal. All accidents must be reported at Songwon and we compile this data in a global data base. We classify any injuries that occur according to the local laws and recordkeeping criteria.

4 | CORPORATE RESPONSIBILITY

This data includes all Songwon Industrial Co., Ltd. employees.

The total recordable accidents at Songwon, not including first aid injuries, continued to steadily decrease to 0,5 in 2013.

This continuous improvement is the result of our heightened focus on safe operations and the awareness of our plant operators.

In 2013 there were no fatalities and zero Occupational Diseases Rate (ODR).

Even if our performance is aligned with the best in class chemical companies, we continue to be committed to the ongoing improvement of our Health and Safety performance.

We are introducing an accurate monitoring system for our near miss accidents and incidents, which includes the contractors operating in our plants. Focusing on corrective actions, we have established an annual plan for reviewing and updating the risk assessment of our technologies, equipment and safety devices' design. At Songwon, there are stringent procedures in place to continuously investigate and assess all possible risks, and to improve existing operating procedures. We dedicate 32 % of our annual capital budget to improving the safety and environmental protection aspects of our plants and facilities.

Dedication rewarded

In 2013, we were awarded for our commitment to improving fire safety at our Ulsan site, and our more than 5 year accident-free and fire-free record. The award was also in recognition of Songwon's investment in and maintenance of firefighting and safety facilities/ equipment, as well as our dedicated efforts to reduce the risk of air pollution.

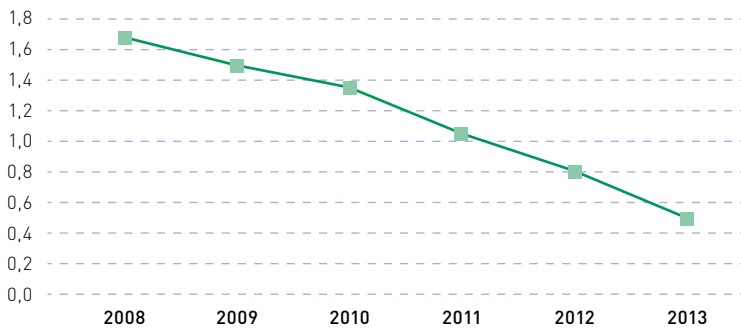
Environmental awareness

Songwon is proud to be a leader in developing processes that reduce our overall carbon footprint, saving energy and reducing emissions. A long-standing commitment of Songwon's leadership team has been to make use of every opportunity to demonstrate to our customers, and to the chemical industry, the potential to contribute to a better world.

Songwon is engaged in an aggressive program to improve processes. The aim is to increase competitiveness through cost reductions, but also to significantly reduce energy consumption as well as waste production and CO₂ emissions. Furthermore, we are investing in renewable energy resources and have now installed photovoltaic panels at our Ulsan plant.

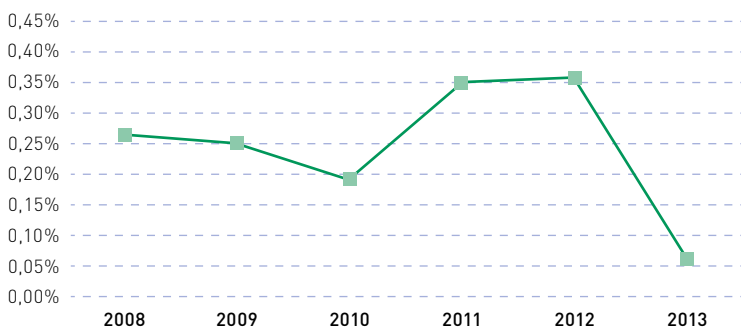
TRCR: Total Recordable Case Rate

Recordable accidents * 200.000 / total working hours



LDR: Lost Day Rate

Total lost days / total worked hours

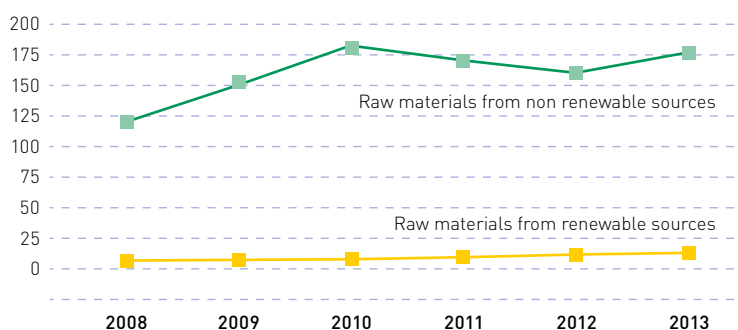


Raw materials

As a leading manufacturer of specialty chemicals, we look for every opportunity to use raw materials from renewable

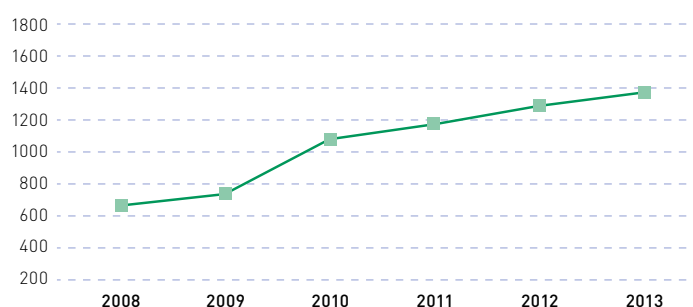
Raw materials used

Tons (x1000)



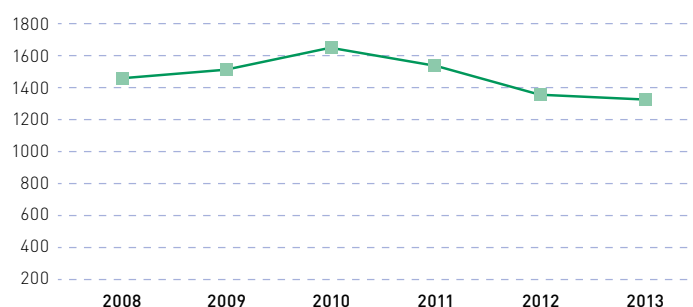
Direct energy consumption

GJ (x1000)



Indirect energy consumption

GJ (x1000)



sources. Unfortunately, only a few of the key raw materials we use are available from these sources. The majority are oil derivatives or metals. The only raw materials available from renewable sources are stearic acid and stearyl alcohol. Both are derived from palm kernel oil and represent approximately 7 % of the total raw materials we use.

Recycled materials

In our plant we produce the methanol and chloridric acid we use as raw materials in other production lines. The total amount of those recycled corresponds to approximately 2000 t/y in 2013, namely 1 % of the total raw materials used.

Direct energy consumption

100 % of Songwon's direct energy consumption is in the natural gas form. The majority is used for steam generation and hot oil heating. In 2013, we used 1.381.000 gigajoules and the total direct energy consumption of the Group increased by 8 %. This was mainly due to the direct steam generation unit we installed in the Maeam plant.

Indirect energy consumption

We also purchase electricity and steam for our facilities. More than 70 % is attributable to steam purchases. We typically make these purchases from the local utility companies using non-renewable energy sources. In 2013, we have reduced the indirect energy consumption by 1 %.

Songwon initiatives

Here are some of our initiatives that have resulted in providing energy efficient or renewable-energy based products and services as well as, a reduction in our energy needs.

Songwon is engaged in an energy consumption reduction program. One of the actions we have undertaken in

4 | CORPORATE RESPONSIBILITY

the plants is to incinerate all the volatile organic compounds (VOC) produced. In doing this, we generate the steam we need in the production process. This action reduces the overall energy consumption and contributes to a cleaner and safer environment. At the moment, we have 3 incinerators currently in operation.

The last one was installed in 2010 and is based on a patented technology that we jointly developed with eTEC, the incinerator supplier.

To improve the long term efficiency of our operations and products, we also have several energy consumption reduction initiatives:

- optimizing the use of steam in the distillation step
- partial recycling of washing solvents and mother liquors after the crystallization step
- steam condensate reuse to boiler feeder water
- solar panels on the warehouse roof
- inverter for saving electricity
- direct recycling of the solvents condensate in crystallization from the final product drying step

Thanks to the above initiatives in 2013, we have reduced the total energy consumption by 42.363 GJ in total compared to 2012.

- Power: 2.076 GJ
- Steam: 40.287 GJ

Total withdrawal of water by source

Songwon purchases the water from the local municipality for the Ulsan and Maeam plants. In the Suwon plant, water is sourced from underground.

Songwon's target in 2014 is to reduce our total water consumption by 10 % compared to 2012. We are already well on track to achieving this.

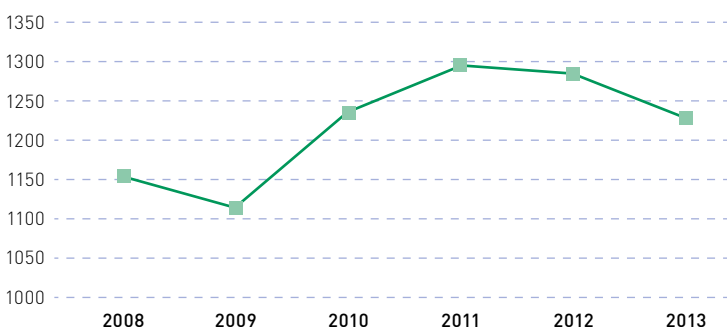
Ulsan's Chemical Industrial area is served from the municipality water source and our water consumption amount to only a very small part of the total use by the Chemical Industrial area.

At the moment, the total volume of water recycled and reused at Songwon plants is less than 5 % of the total water we use. In 2013, we installed a membrane unit for recycling part of the salty water. Thanks to an extensive plan, we have reduced our water withdrawal by 5 %.

Biodiversity

Songwon does not own, lease or manage anything that is in or near protected areas or areas of high biodiversity. To our knowledge, none of our activities, products or services have any significant impact on biodiversity. Songwon has taken proactive steps to eliminate products which could potentially affect biodiversity (e.g tin based agrochemicals).

Water withdrawn
m³ (x1000)



Direct and indirect greenhouse emissions

Our overall objective at Songwon is to work progressively towards a reduction in carbon emissions.

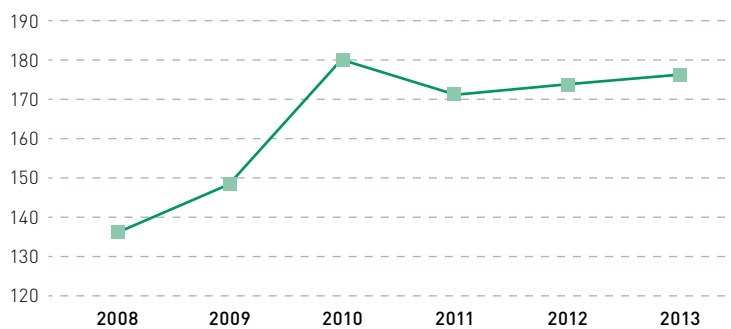
We planned several projects in 2013 to reduce steam consumption and we are aiming for a general greenhouse gas (GHG) reduction of 10 % during 2014.

The data reported here do not show the positive impact on the total GHG from the ongoing backward integration we are implementing. The backward integration reduces the overall carbon footprint by eliminating waste and transport (for example the Maeam plant is now capable of producing 40.000 tons of isobutylene that, under normal circumstances, would have to be delivered from an outside source).

The reported data do include the direct emissions and the indirect ones from our electricity and steam purchasing. There are no other indirect emissions to be recorded.

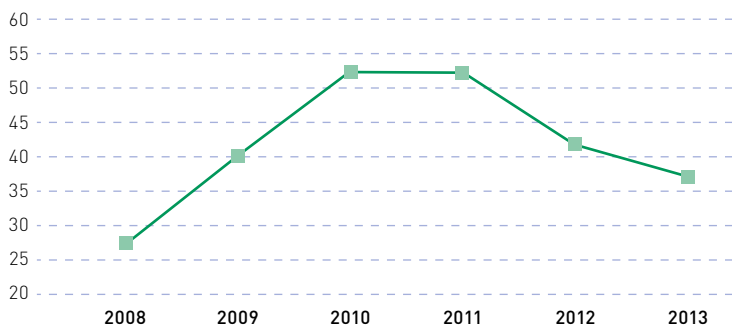
Total greenhouse gas emissions

Tons CO₂ (x1000)



NOx (kg)

KG (x1000)



Significant air emissions

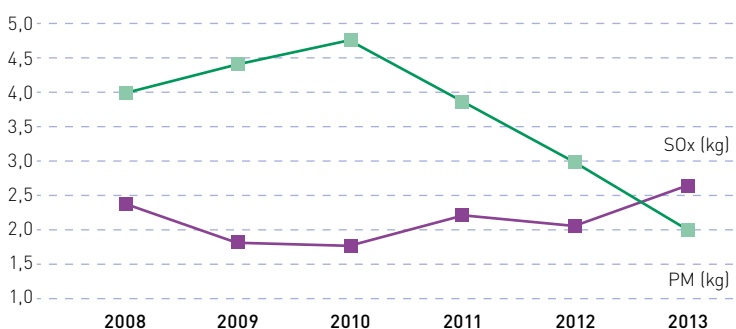
In Songwon's plants there are only nitrogen oxide (NOx), sulfur oxide (SOx) and particulate matter (PM) emissions that are measured automatically by in-line analyzers.

Total water discharged

After being internally treated, all the water discharged by Songwon's plants is conveyed to the municipality's central water treatment to have the organic content reduced further and then discharged to the sea.

SOx and particulate matter (kg)

KG (x1000)



As already mentioned, specific water reduction projects were implemented during 2013 in order to reduce the total water consumption by 10 % compared to 2012.

The worsening quality of the discharged water was due to the exceptionally hot, long-lasting weather during the summer season that significantly reduced the bioreactor's effectiveness. We now have corrective actions in place to control the bioreactor's temperature.

4 | CORPORATE RESPONSIBILITY

Other wastes

There are no hazardous wastes created by Songwon's operations. Currently, approximately half of the liquid organic wastes are incinerated on site, while half are disposed offsite by incineration.

All the solid wastes are disposed outside via landfilling.

Significant spills

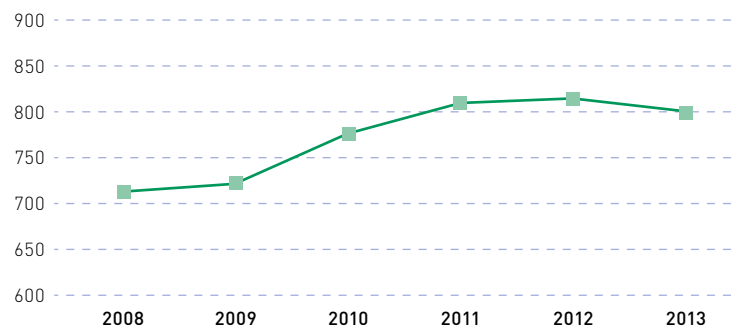
We have had no significant spills recorded or reported since 2008 or during 2013.

Non-compliance

We have been in full compliance with all environmental rules and regulations. A single fine (2,000 USD) was issued to Songwon because the water discharged from the Ulsan plant had exceeded the COD limit. As previously mentioned, this was caused by the effect that the exceptionally long-lasting, hot weather had on the effectiveness of the bioreactor.

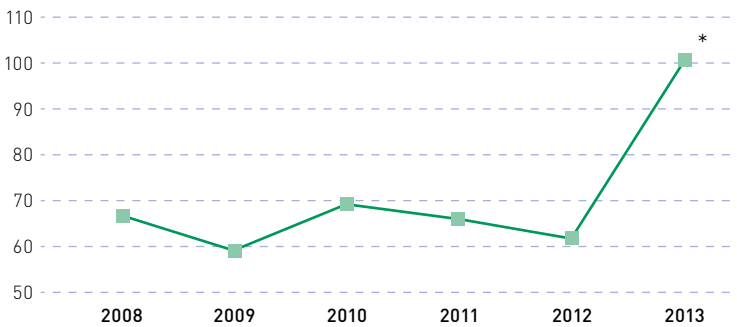
Total water discharged

m³ (x1000)



Discharged water quality

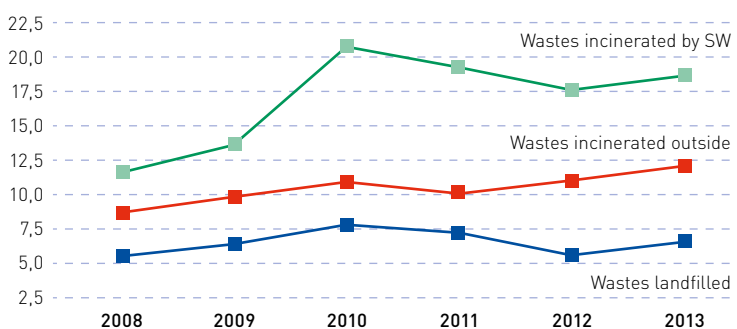
COD ppm (x1000)



* see page 60

Other wastes

Tons (x1000)



Songwon is member of the following organizations:

(some of the most important ones)

- Society of Plastics Engineers Korea (www.spekorea.org)
- The Korean Chemical Society (www.kcsnet.or.kr)
- Korea Industrial Safety Association (www.safety.or.kr)
- ELiSANA (www.cefic.org/About-us/How-Cefic-is-organised/Petrochemistry-and-Plastic-Additives/Light-Stabilisers-and-Anti-Oxydants-ELiSANA/)
- CEFIC (www.cefic.org)
- ORTEPA (www.ortepa.org)
- LiSAO (REACH Consortium) (www.reachcentrum.eu)
- OrganoTinREACH REACH Consortium (www.reachcentrum.eu)
- PSRC – Phosphate Stabilisers REACH Consortium (chemicalwatch.com/reach-consortia)
- EPCA (www.epca.eu)
- GPCA (www.gpca.org.ae)
- AFPM (www.afpm.org)

Meeting 1

CORPORATE GOVERNANCE

GOVERNING RESPONSIBLY AND TRANSPARENTLY

“For us, good corporate governance goes beyond merely fulfilling statutory requirements.”

Jongho Park
Chairman of the Board and CEO

Good governance is key to us. The goal of Songwon’s Executive Committee and Board of Directors is to align our management and supervision with nationally and internationally recognized benchmarks of good corporate governance.

To secure the success and sustained value creation of our organization with its strong traditions, strengthening the trust of our customers and investors is fundamental. Therefore, transparent and responsible corporate governance has the highest priority in our daily work and allows us to meet the steadily increasing demand for information from national and international stakeholders.

Annual General Meeting

Songwon holds an Annual General Meeting each year that all shareholders are invited to attend. At the meeting, decisions on matters concerning Songwon Industrial Company Ltd. and the Group are made. Shareholders are also invited to ask questions relating to the agenda of the meeting, which customarily deals with the annual report and accounts.

In addition, Korean law provides mechanisms for shareholders that require directors of companies to hold a shareholders meeting and to propose resolutions submitted by the shareholders.

In 2013, the Annual General Meeting was held on March 26, 2013. At the meeting,

the Annual Report for 2012 financial year was adopted together with the proposal for distributing profits.

The Board of Directors (BOD)

The Board of Directors consists of 4 Members all nominated and elected by the company’s shareholders. The current directors were elected at the General Meeting in 2011. Directors are elected for a period of 3 years. The next election will take place in 2014. The Board’s responsibilities are regulated by the Korean Company Act.

The Executive Committee

With our business growing steadily in recent years, Songwon has become a key global player in specialty chemicals and number 2 globally in polymer stabilizers. At the beginning of 2011, in order to oversee the activities of the group and maintain our position as the supplier of preference, we created an organization based on global functions. The Executive Committee was established at that time and currently comprises 11 key executives. (see ‘Leadership’ section)

The Committee’s role is to manage all aspects of our business, create policies and make key decisions concerning Songwon’s strategy, investments and people. However, with the exception of decisions reserved for the Board of Directors according to the Korean Company Act.

In these instances, the Committee prepares their proposals and passes them to the BOD for final approval. The Executive Committee is also responsible for the economic, social and environmental performance of the Group. The Committee members meet in person once every quarter and hold regular teleconferences.

Chief Executive Officer (CEO) and Executive Management

The CEO of the Songwon Group is elected by the BOD and is also the CEO of the parent company Songwon Industrial Co., Ltd.

The CEO manages according to the BOD's instructions and in line with the division of responsibilities between the CEO and BOD as approved by the BOD. The CEO exercises ongoing control of the Group.

The CEO nominates the Chief Operating Officer (COO), who reports directly to him. All of Songwon's executive managers report to the COO.

The remuneration for members of our highest governance body, senior managers, and executives (including departure arrangements) is in line with the overall performance of the company including the social, economic and environmental results.

External auditors

Auditors for Songwon are elected at the Annual General Meeting for a period of 3 years. The current period started in 2011 and ends in 2013. The current audit consultants are Ernst & Young. In order to remain well informed about relevant issues concerning the accounts, reporting procedures and management of the Group's assets, the Board and the Executive Committee aim to foster a close relationship with the auditors.

Songwon policies

The company's Vision and Mission statements form a roadmap which drives Songwon's approach to business. The Vision and Mission statements have been communicated to all employees and released publicly to reach all of our stakeholders globally.

We also have a complete set of Songwon policies that cover all aspect of doing business which are accessible to all employees. They outline our commitment to high ethical

standards and our compliance with the applicable laws wherever we operate.

Our **Code of Conduct** is available on our website (<http://www.songwon.com/en/corp-respons/companyvalues>). The Code guides employees on how to apply basic principles in line with our core values and our 'safe, honest, trustworthy, professional, customer focused' culture. It also provides practical advice on how to comply with laws and regulations and how to relate to our customers, communities and colleagues. We have endeavored to ensure that our Code of Conduct is in line with internationally agreed standards. All of our policies are applied across the organization in all the regions and strictly enforced.

There have not been any incidents against our principles, as e.g. corruption. We also do not have any monetary or non-monetary significant fines for non-compliance with laws and regulations to be reported.

Internal control

Internal control is fundamental to Songwon's company culture. It involves implementing an effective control system and follow up of the Group's activities. It also ensures that Songwon's rules of business engagement are followed diligently with regard to external legislation and regulations, as well as internal guidelines and control documentation.

An important element of internal control is identifying risks and then ensuring that they are managed effectively. Our aim is to minimize the exposure to risk as far as possible, while ensuring that desired opportunities are capitalized upon at the same time.

The Group is organized to meet the requirements for effective internal control. Our working methods are characterized by organizational transparency and a clear division of responsibilities. The Group also

has the necessary financial and business reporting systems in place. These are important control instruments that enable us to achieve reliable consolidation and financial reporting.

Using well established procedures, internal group reports are compiled once a month and then presented in a document which includes extensive analysis. A number of people from the Group, department and company level work on the quarterly and annual accounts. The summarized results are reviewed and approved by the management team, the Executive Committee and the BOD.

To ensure the highest levels of corporate governance, should a conflict of interest arise, the member concerned will abstain from voting on the issues involving a conflict of interest. Songwon is not aware of any conflicts of interest that arose or could have arisen in 2013.

Clear communication

We believe that effective internal communication is key to achieving Songwon's business and strategic objectives. We encourage all employees to seek answers to their questions and promote an effective, transparent and open atmosphere of communication.

At Songwon, communication and consultation with stakeholders may take place as face-to-face meetings, group meetings, meetings with union representatives, team briefings, announcements, email, letters, memos, notices and telephone calls. The appropriate method of communication and/or consultation is decided depending on the nature of the topic involved.

Stakeholder groups engaged with Songwon:

- Shareholders
- Local/Regional/National Governments
- Employees

- Unions
- Customers
- Suppliers
- Communities
- Industry/Trade Associations
- Civil Organizations

Identifying Stakeholders

Stakeholders are identified by each individual site and business operation as part of the communication process. We have no formal corporate mechanism currently in place for this.

The content of this document has been put together taking into consideration the feedback and recommendations of all our stakeholders relating to the reported topics and their importance without having a formal process in place.





SUSTAINABILITY REPORT
Global Reporting Initiative Application Level B

2013

GLOBAL REPORTING INITIATIVE GUIDELINES

GRI APPLICATION LEVEL B

STANDARD DISCLOSURES PART I: PROFILE DISCLOSURES

In 2013, Songwon was elevated from Application Level C to Application Level B by the Global Reporting Initiative (GRI). On the following pages of the report, the GRI index and disclosures for Application Level B are presented.

Profile Disclosure	Disclosure	Location of Disclosure / Chapter
1. STRATEGY AND ANALYSIS		
1.1	Statement from the most senior decision-maker of the organization.	Letter to shareholders
1.2	Description of key impacts, risks, and opportunities.	Letter to shareholders Our business - Markets, Risks & Opportunities
2. ORGANIZATIONAL PROFILE		
2.1	Name of the organization.	Letter to shareholders Various
2.2	Primary brands, products, and/or services.	Our business - Business Group Profiles
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Our business - Songwon Industrial Group Structure
2.4	Location of organization's headquarters.	Our business - About Songwon
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Our business - About Songwon, Sales & Technical Service
2.6	Nature of ownership and legal form.	Our business - About Songwon
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Our business - Business Group Profiles
2.8	Scale of the reporting organization.	Consolidated Financial Statements
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Letter to shareholders
2.10	Awards received in the reporting period.	Our business - Manufacturing Excellence & Quality Assurance
3. REPORT PARAMETERS		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Letter to Shareholders Various
3.2	Date of most recent previous report (if any).	About this report
3.3	Reporting cycle (annual, biennial, etc.)	About this report
3.4	Contact point for questions regarding the report or its contents.	Contact
3.5	Process for defining report content.	Governance
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	About this report
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	About this report

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Profile Disclosure	Disclosure	Location of Disclosure / Chapter
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	About this report
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	About this report
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	About this report
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	About this report
3.12	Table identifying the location of the Standard Disclosures in the report.	Sustainability Report
3.13	Policy and current practice with regard to seeking external assurance for the report.	About this report
4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT		
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	Leadership - Executive Committee, Our Board of Directors Governance
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Governance
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Governance
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Governance
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	Governance
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Governance
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	Governance
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Governance

**CONT'D STANDARD DISCLOSURES PART I:
PROFILE DISCLOSURES**

Profile Disclosure	Disclosure	Location of Disclosure / Chapter
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Governance
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Governance
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Letter to shareholders Our Business - Markets, Risks & Opportunities Governance
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	There are none
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Corporate Responsibility - EH&S
4.14	List of stakeholder groups engaged by the organization.	Governance
4.15	Basis for identification and selection of stakeholders with whom to engage.	Governance
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Governance
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	Governance

STANDARD DISCLOSURES PART II + III : DISCLOSURES ON MANAGEMENT APPROACH (DMAs) AND PERFORMANCE INDICATORS

Profile Disclosure	Disclosure	Location of Disclosure / Chapter
ECONOMIC		
DMA EC	Disclosure on Management Approach Economic	Letter to shareholders Our business - Markets, Risks & Opportunities
Economic performance		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Consolidated Financial Statements
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Our business - Markets, Risks & Opportunities
EC3	Coverage of the organization's defined benefit plan obligations.	Consolidated Financial Statements
Market presence		
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Our people - Our culture
ENVIRONMENTAL		
DMA EN	Disclosure on Management Approach Environmental	Corporate Responsibility - EH&S
Materials		
EN1	Materials used by weight or volume.	Our business - Manufacturing Excellence & Quality Assurance
EN2	Percentage of materials used that are recycled input materials.	Our business - Manufacturing Excellence & Quality Assurance
Energy		
EN3	Direct energy consumption by primary energy source.	Corporate Responsibility - EH&S
EN4	Indirect energy consumption by primary source.	Our business - Manufacturing Excellence & Quality Assurance
EN5	Energy saved due to conservation and efficiency improvements.	Our business - Manufacturing Excellence & Quality Assurance
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Our business - Manufacturing Excellence & Quality Assurance
Water		
EN8	Total water withdrawal by source.	Our business - Manufacturing Excellence & Quality Assurance
EN9	Water sources significantly affected by withdrawal of water.	Our business - Manufacturing Excellence & Quality Assurance
EN10	Percentage and total volume of water recycled and reused.	Our business - Manufacturing Excellence & Quality Assurance

**CONT'D STANDARD DISCLOSURES PART II + III :
DISCLOSURES ON MANAGEMENT APPROACH (DMAs) AND PERFORMANCE INDICATORS**

Profile Disclosure	Disclosure	Location of Disclosure / Chapter
Biodiversity		
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Corporate Responsibility - EH&S
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Our business - Manufacturing Excellence & Quality Assurance
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Our business - Manufacturing Excellence & Quality Assurance
Emissions, effluents and waste		
EN16	Total direct and indirect greenhouse gas emissions by weight.	Our business - Manufacturing Excellence & Quality Assurance
EN17	Other relevant indirect greenhouse gas emissions by weight.	Our business - Manufacturing Excellence & Quality Assurance
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Our business - Manufacturing Excellence & Quality Assurance
EN20	NO _x , SO _x , and other significant air emissions by type and weight.	Our business - Manufacturing Excellence & Quality Assurance
EN21	Total water discharge by quality and destination.	Our business - Manufacturing Excellence & Quality Assurance
EN22	Total weight of waste by type and disposal method.	Corporate Responsibility - EH&S
EN23	Total number and volume of significant spills.	Corporate Responsibility - EH&S
Compliance		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Corporate Responsibility - EH&S
SOCIAL: LABOR PRACTICES AND DECENT WORK		
DMA LA	Disclosure on Management Approach Labor Practices and Decent Work	Our People - Our Culture Governance
Employment		
LA1	Total workforce by employment type, employment contract, and region.	Our people - Our culture
LA2	Total number and rate of employee turnover by age group, gender, and region.	Our people - Our culture
Occupational health and safety		
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Our business - Manufacturing Excellence & Quality Assurance
Diversity and equal opportunity		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Leadership - Executive Committee

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Profile Disclosure	Disclosure	Location of Disclosure / Chapter
SOCIAL: HUMAN RIGHTS		
DMA HR	Disclosure on Management Approach Human Rights	Customer Service, Supply Chain & Purchasing Our People - Our Culture Governance
Non-discrimination		
HR4	Total number of incidents of discrimination and actions taken.	Our people - Our culture
SOCIAL: SOCIETY		
DMA SO	Disclosure on Management Approach Society	Customer Service, Supply Chain & Purchasing Our People - Our Culture Governance
Corruption		
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	Our people - Our culture
S04	Actions taken in response to incidents of corruption.	Our people - Our culture
Anti-competitive behavior		
S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Our people - Our culture
Compliance		
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Our people - Our culture
SOCIAL: PRODUCT RESPONSIBILITY		
DMA PR	Disclosure on Management Approach Product Responsibility	Customer Service, Supply Chain & Purchasing Sales & Technical Service, Reach and Regulatory Affairs Governance
Product and service labelling		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Sales & Technical Service / Customer Service, Supply Chain & Purchasing
Compliance		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Our people - Our culture / Governance



Statement GRI Application Level Check

GRI hereby states that **Songwon Industrial Co.Ltd.** has presented its report "Annual Financial & Sustainability Report 2013" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 18 February 2014

A handwritten signature in blue ink, appearing to read "Nelmara Arbex", is written over a faint, large watermark of the GRI logo in the background.

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative



The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: *Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 7 February 2014. GRI explicitly excludes the statement being applied to any later changes to such material.*



CONSOLIDATED FINANCIAL STATEMENTS

2013

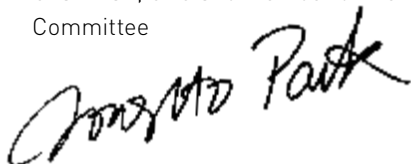
INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF THE BOARD OF DIRECTORS & CFO

On the following pages, consolidated financial statements for the year 2013 are presented. The financial statements disclosed are prepared according to the Korean International Financial Reporting Standards ("K-IFRS") and represent the one as submitted for approval to the annual general shareholder's meeting taking place on March 21, 2014, in Ulsan, Korea.

While the management of the Group is responsible for the preparation and presentation of the financial statements, the responsibility of the independent group auditor is to express an opinion on these financial statements. The report on the consolidated financial statements issued by our Group auditor Ernst & Young Han Young can be found on the next pages.

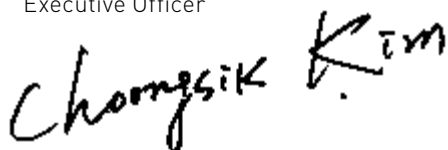
Jongho Park,
Chairman, CEO and Member of the Executive
Committee



Kisoo Byun,
Independent Director



Chongsik Kim,
Executive Officer



Yonghoon Kwon,
Standing Auditor



Hans-Peter Wüest,
CFO and Member of the Executive Committee



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Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

Independent auditors' report

The Board of Directors and Stockholders
SONGWON INDUSTRIAL CO., LTD.

We have audited the accompanying consolidated financial statements of SONGWON INDUSTRIAL CO., LTD. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above expressed in Korean won present fairly, in all material respects, the financial position of SONGWON INDUSTRIAL CO., LTD. and its subsidiaries as at December 31, 2013 and 2012 and the results of its financial performance, and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

We have also reviewed the translation of the financial statements mentioned above into United States dollar amounts on the basis described in Note 2.3 to the accompanying financial statements. In our opinion, such statements have been properly translated on such basis.



As mentioned in the preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.

Ernst & Young Han Young

February 25, 2014

This audit report is effective as at February 25, 2014 the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 December

	Notes	2013 Million KRW	2012 Million KRW
Assets			
Non-current assets			
Property, plant and equipment	6, 24, 25	426,277	420,962
Investment properties	7, 25	27,935	27,930
Intangible assets	8, 9	36,443	40,689
Investments accounted for using the equity method	10	2,310	1,411
Available-for-sale financial investments	11	1,854	6,764
Other non-current financial assets	12	2,495	2,936
Deferred tax assets	27	1,117	2,780
Current assets			
Inventories	13	182,684	170,999
Trade and other receivables	14	109,811	100,543
Income tax receivables		193	371
Other current assets	15	4,513	2,367
Other current financial assets	12	6,713	2,833
Cash and cash equivalents	16	63,677	81,538
Total assets		866,022	862,123
Equity and liabilities			
Equity			
Non-controlling interests		271	1,122
Equity attributable to owners of the parent		306,152	285,594
Share capital	17	12,000	12,000
Capital surplus	17	24,361	24,361
Reserves	17	26,439	26,247
Retained earnings		247,175	226,379
Accumulated other comprehensive income	17	-3,823	-3,393
Non-current liabilities			
Interest-bearing loans and borrowings	18, 24, 25	152,341	30,014
Pension liability	19	12,101	14,522
Other long-term employee related liabilities	20	1,247	1,499
Other non-current financial liabilities	21	1,883	9,529
Deferred tax liabilities	27	45,772	44,433
Current liabilities			
Interest-bearing loans and borrowings	18, 24, 25	262,630	404,160
Trade and other payables	22	76,917	56,616
Other current financial liabilities	21	1,077	9,861
Other current liabilities		1,758	856
Income tax payable		3,873	3,917
Total liabilities		559,599	575,407
Total equity and liabilities		866,022	862,123

7 | CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 December [see Note 2.3]

	2013 Thousand USD	2012 Thousand USD
Assets		
Non-current assets	471,477	476,246
Property, plant and equipment	403,225	398,197
Investment properties	26,424	26,420
Intangible assets	34,472	38,489
Investments accounted for using the equity method	2,185	1,335
Available-for-sale financial investments	1,754	6,398
Other non-current financial assets	2,360	2,777
Deferred tax assets	1,057	2,630
Current assets	347,712	339,254
Inventories	172,804	161,749
Trade and other receivables	103,873	95,106
Income tax receivables	183	351
Other current assets	4,269	2,239
Other current financial assets	6,350	2,680
Cash and cash equivalents	60,233	77,129
Total assets	819,189	815,500
Equity and liabilities		
Equity	289,851	271,210
<i>Non-controlling interests</i>	256	1,061
<i>Equity attributable to owners of the parent</i>	289,595	270,149
Share capital	11,351	11,351
Capital surplus	23,044	23,044
Reserves	25,009	24,828
Retained earnings	233,808	214,136
Accumulated other comprehensive income	-3,617	-3,210
Non-current liabilities	201,808	94,589
Interest-bearing loans and borrowings	144,103	28,391
Pension liability	11,447	13,737
Other long-term employee related liabilities	1,180	1,418
Other non-current financial liabilities	1,781	9,013
Deferred tax liabilities	43,297	42,030
Current liabilities	327,530	449,701
Interest-bearing loans and borrowings	248,427	382,304
Trade and other payables	72,757	53,554
Other current financial liabilities	1,019	9,328
Other current liabilities	1,663	810
Income tax payable	3,664	3,705
Total liabilities	529,338	544,290
Total equity and liabilities	819,189	815,500

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended 31 December

		2013	2012
	Notes	Million KRW	Million KRW
Sales of goods	5	692,164	679,637
Cost of sales		-558,873	-547,638
Gross profit		133,291	131,999
Selling and administration costs	26.2	-89,246	-74,347
Operating profit		44,045	57,652
Other income	26.3	17,757	8,118
Other expenses	26.4	-14,415	-28,623
Share of result from investments accounted for using the equity method	10	923	40
Finance costs	26.6	-36,813	-37,095
Finance income	26.7	20,368	24,244
Profit before tax		31,865	24,336
Income tax expense	27	-8,938	-3,877
Profit for the year		22,927	20,459
Other comprehensive income, net of taxes			
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		-430	-3,392
Gain/(loss) on valuation of available-for-sale financial investments	17.4	191	-218
Gain/(loss) on valuation of interest rate swap	17.4	-45	99
Exchange differences on translation of foreign operations	17.4	-576	-3,273
<i>Net other comprehensive income not to be reclassified to profit or loss</i>		-684	-5,158
Re-measurements gain/(loss) on defined benefit plans	17.4	-684	-5,158
Total other comprehensive income, net of taxes		-1,114	-8,550
Total comprehensive income		21,813	11,909
Profit of the year attributable to:			
Owners of the parent		23,997	20,586
Non-controlling interests		-1,070	-127
Profit for the year		22,927	20,459
Total comprehensive income attributable to:			
Owners of the parent		22,883	12,036
Non-controlling interests		-1,070	-127
Total comprehensive income		21,813	11,909
Earnings per share		KRW	KRW
Basic/Diluted, profit for the year attributable to ordinary equity holders of the parent	28	1,000	858

7 | CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended 31 December (see Note 2.3)

	2013 Thousand USD	2012 Thousand USD
Sales of goods	654,733	642,883
Cost of sales	-528,650	-518,023
Gross profit	126,083	124,860
Selling and administration costs	-84,420	-70,326
Operating profit	41,663	54,534
Other income	16,797	7,679
Other expenses	-13,635	-27,075
Share of result from investments accounted for using the equity method	873	38
Finance costs	-34,822	-35,089
Finance income	19,267	22,933
Profit before tax	30,143	23,020
Income tax expense	-8,455	-3,667
Profit for the year	21,688	19,353
Other comprehensive income, net of taxes		
<i>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</i>	-407	-3,209
Gain/(loss) on valuation of available-for-sale financial investments	181	-206
Gain/(loss) on valuation of interest rate swap	-43	94
Exchange differences on translation of foreign operations	-545	-3,097
<i>Net other comprehensive income not to be reclassified to profit or loss</i>	-647	-4,879
Re-measurements gain/(loss) on defined benefit plans	-647	-4,879
Total other comprehensive income, net of taxes	-1,054	-8,088
Total comprehensive income	20,634	11,265
Profit of the year attributable to:		
Owners of the parent	22,700	19,474
Non-controlling interests	-1,012	-119
Profit for the year	21,688	19,353
Total comprehensive income attributable to:		
Owners of the parent	21,646	11,384
Non-controlling interests	-1,012	-119
Total comprehensive income	20,634	11,265
Earnings per share	USD	USD
Basic/Diluted, profit for the year attributable to ordinary equity holders of the parent	0.95	0.81

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 December 2013 and 31 December 2012

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total		
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW		
As at January 1, 2012	12,000	24,361	26,103	212,556	-1	275,019	-	275,019
Profit for the period	-	-	-	20,586	-	20,586	-127	20,459
Gain/(loss) on available-for-sale financial instruments, net of tax	-	-	-	-	-218	-218	-	-218
Gain/(loss) on valuation of interest rate swap, net of tax	-	-	-	-	99	99	-	99
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-3,273	-3,273	-	-3,273
Re-measurement gain/(loss) on defined benefit plans, net of tax	-	-	-	-5,158	-	-5,158	-	-5,158
Total comprehensive income	-	-	-	15,428	-3,392	12,036	-127	11,909
Disposal of non-controlling interests	-	-	-	-21	-	-21	1,249	1,228
Dividends	-	-	-	-1,440	-	-1,440	-	-1,440
Appropriation to reserves	-	-	144	-144	-	-	-	-
As at December 31, 2012	12,000	24,361	26,247	226,379	-3,393	285,594	1,122	286,716

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total		
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW		
As at January 1, 2013	12,000	24,361	26,247	226,379	-3,393	285,594	1,122	286,716
Profit for the period	-	-	-	23,997	-	23,997	-1,070	22,927
Gain/(loss) on available-for-sale financial instruments, net of tax	-	-	-	-	191	191	-	191
Gain/(loss) on valuation of interest rate swap, net of tax	-	-	-	-	-45	-45	-	-45
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-576	-576	-	-576
Re-measurement gain/(loss) on defined benefit plans, net of tax	-	-	-	-684	-	-684	-	-684
Total comprehensive income	-	-	-	23,313	-430	22,883	-1,070	21,813
Acquisition of interests	-	-	-	-405	-	-405	-19	-424
Issue of share capital of a subsidiary	-	-	-	-	-	-	238	238
Dividends	-	-	-	-1,920	-	-1,920	-	-1,920
Appropriation to reserves	-	-	192	-192	-	-	-	-
As at December 31, 2013	12,000	24,361	26,439	247,175	-3,823	306,152	271	306,423

7 | CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 December 2013 and 31 December 2012 [see Note 2.3]

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total		
	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD		
As at January 1, 2012	11,351	23,044	24,691	201,061	-1	260,146	-	260,146
Profit for the period	-	-	-	19,474	-	19,474	-119	19,355
Gain/(loss) on available-for-sale financial instruments, net of tax	-	-	-	-	-206	-206	-	-206
Gain/(loss) on valuation of interest rate swap, net of tax	-	-	-	-	94	94	-	94
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-3,097	-3,097	-	-3,097
Re-measurement gain/(loss) on defined benefit plans, net of tax	-	-	-	-4,879	-	-4,879	-	-4,879
Total comprehensive income	-	-	-	14,595	-3,209	11,386	-119	11,267
Disposal of non-controlling interests	-	-	-	-20	-	-20	1,180	1,160
Dividends	-	-	-	-1,363	-	-1,363	-	-1,363
Appropriation to reserves	-	-	137	-137	-	-	-	-
As at December 31, 2012	11,351	23,044	24,828	214,136	-3,210	270,149	1,061	271,210

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total		
	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD		
As at January 1, 2013	11,351	23,044	24,828	214,136	-3,210	270,149	1,061	271,210
Profit for the period	-	-	-	22,700	-	22,700	-1,012	21,688
Gain/(loss) on available-for-sale financial instruments, net of tax	-	-	-	-	181	181	-	181
Gain/(loss) on valuation of interest rate swap, net of tax	-	-	-	-	-43	-43	-	-43
Exchange differences on translation of foreign operations, net of tax	-	-	-	-	-545	-545	-	-545
Re-measurement gain/(loss) on defined benefit plans, net of tax	-	-	-	-647	-	-647	-	-647
Total comprehensive income	-	-	-	22,053	-407	21,646	-1,012	20,634
Acquisition of interests	-	-	-	-383	-	-383	-18	-401
Issue of share capital of a subsidiary	-	-	-	-	-	-	225	225
Dividends	-	-	-	-1,817	-	-1,817	-	-1,817
Appropriation to reserves	-	-	181	-181	-	-	-	-
As at December 31, 2013	11,351	23,044	25,009	233,808	-3,617	289,595	256	289,851

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended 31 December

	Notes	2013 Million KRW	2012 Million KRW
Profit for the year		22,927	20,459
Adjustments of non-cash items	29	65,984	46,861
Changes in operating assets and liabilities	29	-25,226	28,875
Interest received		720	624
Receipt of dividends		34	7
Payment of income tax		-5,401	-2,827
Net cash flow from operating activities		59,038	93,999
Proceeds from sale of property, plant and equipment		797	336
Proceeds from sale of intangible assets		154	-
Purchase of property, plant and equipment	6	-19,929	-24,055
Purchase of investment properties	7	-195	-
Purchase of intangible assets	8	-1,716	-796
Proceeds from sale of available-for-sale financial instruments		5,542	-
Purchase of available-for-sale financial instruments		-1,001	-5,000
Acquisition of a joint venture	10	-	-1,498
Proceeds from the sale of non-controlling interests	1.2.4	-	1,228
Increase of other financial assets		-3,432	-1,715
Net cash flow from investing activities		-19,780	-31,500
Proceeds from borrowings (current)		943,285	1,896,180
Repayment of borrowings (current)		-1,139,900	-1,909,846
Proceeds from interest bearing borrowings (non-current)		180,000	3,560
Decrease in other financial liabilities		-16,138	-10,367
Interest paid		-20,050	-23,219
Acquisition of non-controlling interests	1.2.4	-424	-
Proceeds from issue of share capital of a subsidiary		238	-
Dividends paid	17	-1,920	-1,440
Net cash flow from financing activities		-54,909	-45,132
Increase/(decrease) in cash and cash equivalents		-15,651	17,367
Net foreign exchange difference		-2,210	-8,724
Cash and cash equivalents at January 1	16, 29	81,538	72,895
Cash and cash equivalents at December 31	16, 29	63,677	81,538

7 | CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended 31 December (see Note 2.3)

	2013 Thousand USD	2012 Thousand USD
Profit for the year	21,688	19,353
Adjustments of non-cash items	62,416	44,327
Changes in operating assets and liabilities	-23,862	27,313
Interest received	681	590
Receipt of dividends	32	7
Payment of income tax	-5,109	-2,674
Net cash flow from operating activities	55,846	88,916
Proceeds from sale of property, plant and equipment	754	318
Proceeds from sale of intangible assets	146	-
Purchase of property, plant and equipment	-18,851	-22,754
Purchase of investment properties	-184	-
Purchase of intangible assets	-1,623	-753
Proceeds from sale of available-for-sale financial instruments	5,242	-
Purchase of available-for-sale financial instruments	-947	-4,730
Acquisition of a joint venture	-	-1,417
Proceeds from the sale of non-controlling interests	-	1,160
Increase of other financial assets	-3,246	-1,622
Net cash flow from investing activities	-18,709	-29,798
Proceeds from borrowings (current)	892,274	1,793,638
Repayment of borrowings (current)	-1,078,256	-1,806,565
Proceeds from interest bearing borrowings (non-current)	170,266	3,367
Decrease in other financial liabilities	-15,265	-9,806
Interest paid	-18,966	-21,961
Acquisition of non-controlling interests	-401	-
Proceeds from issue of share capital of a subsidiary	225	-
Dividends paid	-1,816	-1,362
Net cash flow from financing activities	-51,939	-42,689
Increase/(decrease) in cash and cash equivalents	-14,802	16,429
Net foreign exchange difference	-2,094	-8,253
Cash and cash equivalents at January 1	77,129	68,953
Cash and cash equivalents at December 31	60,233	77,129

1 CORPORATE INFORMATION

1.1 THE COMPANY

Songwon Industrial Group (the "Group") consists of the parent company Songwon Industrial Co. Ltd. (the "Company") and its consolidated subsidiaries as listed below. The Company was incorporated on December 15, 1965 under the law of the Republic of Korea to engage in the manufacture and commercial sale of antioxidants, stabilizers and polyester diols. The Company's main manufacturing plants are located in Ulsan and Suwon, both in Korea.

The Company listed its common shares on the Korea Exchange in June 1977 pursuant to the provisions of the Korean Securities and Exchange Act.

1.2 SCOPE OF CONSOLIDATION

1.2.1 CHANGES IN THE SCOPE OF CONSOLIDATION

In 2013, the scope of consolidation for the consolidated financial statements encompasses 14 entities (2012: 12 entities). Two of them were first-time consolidations in 2013 (2012: 1 entity) and one is classified a joint operation (2012: 0 entity). Additionally, two entities were classified as joint ventures in 2013 (2012: 2 entities) and accounted for using the equity method.

First-time consolidations in 2013 comprised:

- Songwon Additive Technologies - Middle East (Dubai), newly established at the end of the first quarter 2013 as sales company for the Middle East region
- Polysys Additive Technologies - Middle East LLC (Abu Dhabi) – a partnership with Polysys Industries LLC, newly established during the first quarter 2013 and building up an additional production facility for the OPS business. The entity is proportionally consolidated in 2013

First-time consolidations in 2012 comprised:

- Songwon Additive Technologies – Americas Inc. (USA), newly established during the fourth quarter 2012 and running a production facility for the OPS business

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

7 | CONSOLIDATED FINANCIAL STATEMENTS

Name	Location	December 31, 2013		December 31, 2012	
		Status	Equity interest	Status	Equity interest
Consolidated entities					
Songwon Industrial Co. Ltd.	Korea	Parent		Parent	
Songwon International-Japan KK	Japan	Subsidiary	100%	Subsidiary	100%
Songwon China Ltd.	Hong Kong	Subsidiary	100%	Subsidiary	100%
Songwon Trading Co. Ltd.	China	Subsidiary	100%	Subsidiary	100%
Songwon Chemicals Co. Ltd.	China	Subsidiary	100%	Subsidiary	100%
Songwon International-India Pvt. Ltd.	India	Subsidiary	100%	Subsidiary	100%
Songwon International-Americas Inc.	USA	Subsidiary	100%	Subsidiary	100%
Songwon Holdings AG	Switzerland	Subsidiary	100%	Subsidiary	100%
Songwon International AG	Switzerland	Subsidiary	100%	Subsidiary	100%
Songwon Additive Technologies AG	Switzerland	Subsidiary	75%	Subsidiary	60%
Songwon ATG GmbH	Germany	Subsidiary	75%	Subsidiary	60%
Songwon Additive Technologies-Americas Inc.	USA	Subsidiary	75%	Subsidiary	60%
Songwon Additive Technologies-Middle East FZE	Dubai (UAE)	Subsidiary	75%	-	-
Entities consolidated relating to the involvement (joint operations)					
Polysys Additive Technologies –Middle East LLC	Abu Dhabi (UAE)	Joint Operation	36,75%	-	-
Entities accounted for using the equity method (joint ventures)					
Chemservice Asia Ltd.	Korea	Joint Venture	50%	Joint Venture	50%
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	China	Joint Venture	30%	Joint Venture	30%

1.2.2 SUMMARIZED STATEMENTS OF FINANCIAL POSITION AND COMPREHENSIVE INCOME OF SUBSIDIARIES

The summarized statements of financial position and the summarized statements of comprehensive income of subsidiaries are as follows:

	Total assets	Total liabilities	Total equity	Sales revenue	Net income	Total comprehensive income
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
as at December 31, 2013						
Songwon Industrial Co. Ltd.	829,172	524,992	304,180	596,635	17,964	17,380
Songwon International-Japan KK	27,252	24,448	2,804	78,301	1,411	1,360
Songwon China Ltd.	8,007	7,599	408	13,490	-140	-121
Songwon Trading Co. Ltd.	3,011	1,717	1,294	7,178	73	97
Songwon Chemicals Co. Ltd.	2,497	258	2,239	1,451	173	214
Songwon International-India Pvt. Ltd.	1,644	759	885	3,082	294	188
Songwon International-Americas Inc.	46,045	42,680	3,365	142,562	1,472	1,396
Songwon Holdings AG	30,160	20	30,140	-	142	-271
Songwon International AG	91,975	78,490	13,485	231,084	-1,112	-1,127
Songwon Additive Technologies AG	18,915	16,913	2,002	-	-2,013	-1,871
Songwon ATG GmbH	8,221	3,106	5,115	6,325	-309	31
Songwon Additive Technologies-Americas Inc.	5,174	3,241	1,933	226	-403	-392
Songwon Additive Technologies-Middle East FZE	289	70	219	-	-69	-81
as at December 31, 2012						
Songwon Industrial Co. Ltd.	837,746	549,026	288,720	600,967	27,524	23,556
Songwon International-Japan KK	27,926	26,019	1,907	82,261	762	393
Songwon China Ltd.	8,658	8,031	627	14,054	591	780
Songwon Trading Co. Ltd.	2,925	1,728	1,197	7,394	277	198
Songwon Chemicals Co. Ltd.	2,190	166	2,025	1,189	-15	-170
Songwon International-India Pvt. Ltd.	1,764	1,067	697	4,228	497	433
Songwon International-Americas Inc.	52,696	50,724	1,972	137,761	1,429	1,284
Songwon Holdings AG	14,031	9,918	4,113	-	1,391	-204
Songwon International AG	92,898	84,573	8,325	201,485	1,522	-576
Songwon Additive Technologies AG	15,110	12,189	2,921	-	-901	-279
Songwon ATG GmbH	4,505	1,537	2,968	30,166	868	-43
Songwon Additive Technologies-Americas Inc.	4,034	2,439	1,595	-	-28	-41

1.2.3 INTEREST IN JOINT VENTURES

The Group has a 50% interest in Chemservice Asia Ltd., a jointly controlled entity operating as a compliance service provider. Further the Group has a 30% interest in Songwon Baifu Chemicals (Tangshan) Co., Ltd., determined to be a jointly controlled entity involved in production of thioesters. Determination was driven by contractually agreed sharing of control in regard to relevant activities which requires unanimous consent of the control sharing parties. Summarized statement of financial position and summarized statement of comprehensive income of joint ventures (accounted for using the equity method) are as follows:

Statement of financial position	Cash and Cash equivalents	Total current assets	Total non-current assets	Current financial liabilities	Total current liabilities	Non-current financial liabilities	Total non-current liabilities	Equity	Carrying amount
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Chemservice Asia Ltd.	33	48	-	-	9	-	9	30	15
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	187	4,305	2,495	-	2,147	-	-	4,653	1,396
December 31, 2012	220	4,353	2,495	-	2,156	-	9	4,683	1,411
Chemservice Asia Ltd.	38	52	-	-	8	-	13	31	16
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	2,231	6,691	4,616	3,240	3,660	-	-	7,647	2,294
December 31, 2013	2,269	6,743	4,616	3,240	3,668	-	13	7,678	2,310

Statement of comprehensive income	Revenue	Depreciation & Amortization	Interest income	Interest expense	Profit before tax	Income tax expenses	Profit for the year	Other comp. income	Total comp.
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Chemservice Asia Ltd.	-	-	-	-	38	-2	36	-	36
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	6,739	-5	-	-6	113	-30	83	-	83
2012	6,379	-5	-	-6	151	-32	119	-	119
Chemservice Asia Ltd.	-	-	-	-	1	-1	-	-	-
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	18,604	-43	2	-166	3,833	-759	3,074	-80	2,994
2013	18,604	-43	2	-166	3,834	-760	3,074	-80	2,994

All joint ventures are measured using the equity method. All operations are continuing. The financial statements of all joint ventures have the same reporting dates as the Group. No dividends were received from the joint ventures during the periods reported.

1.2.4 NON-CONTROLLING INTERESTS

1.2.4.1 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Purchase of non-controlling interests in Songwon Additive Technologies AG, Switzerland

In December 2013, the Group purchased an additional equity interest of 15% in Songwon Additive Technologies AG, Switzerland, increasing its equity stake from 60% as of December 31, 2012 to 75% as of December 31, 2013. Cash consideration of 424 Million KRW was paid to the non-controlling shareholders. The carrying value of the net assets of Songwon Additive Technologies AG was 127 Million KRW. The effect of changes in the ownership interest of Songwon Additive Technologies AG on equity attributable to owners of the Group during the year is summarized as follows:

	Million KRW
Cash consideration paid to non-controlling shareholders	-424
Carrying value of the additional interest in Songwon Additives Technologies AG	19
Decrease in parent's equity	-405

Disposal of interest in Songwon Additive Technologies AG, Switzerland, without loss of control

On September 30, 2012, the Group disposed of a 40% interest out of the 100% interest held in Songwon Additive Technologies AG, Switzerland, at a consideration of 1,228 Million KRW. The carrying amount of the non-controlling interests in Songwon Additive Technologies AG on the date of disposal was 1,249 Million KRW (representing 40% interest). This resulted in an increase in non-controlling interests of 1,249 Million KRW and a decrease in equity attributable to owners of the parent of 21 Million KRW. The effect of changes in the ownership interest of Songwon Additive Technologies AG on the equity attributable to owners of the Group during the year is summarized as follows:

	Million KRW
Carrying amount of non-controlling interests disposed of	-1,249
Consideration received from non-controlling interests	1,228
Decrease in parent's equity	-21

1.2.4.2 INTEREST OF NON-CONTROLLING INTERESTS

The Group has one subsidiary (Songwon Additive Technologies AG, Switzerland) with non-controlling interests representing an ownership of 25% as of December 31, 2013 (40% as of December 31, 2012). The net loss attributable to the non-controlling interests for the year 2013 is -1,070 Million KRW (2012: net loss of -127 Million KRW).

Summarized cash flow information of the partly owned subsidiaries is as follows:

	2013	2012
	Million KRW	Million KRW
Operating cash flow	-395	2,396
Investing cash flow	-5,895	-3,925
Financing cash flow	5,861	2,361
Net cash flow	-429	832

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") established adopting International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in accordance with the Item 1 of the 1st Clause of the Article 13 of External Audit Law.

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

The Group maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with Korea International Financial Reporting Standards ("K-IFRS"). In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 CONVENIENCE TRANSLATION INTO UNITED STATES DOLLAR AMOUNTS

The company operates primarily in Korean won and its official accounting records are maintained in Korean won. The U.S. dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at the rate of KRW 1,057.17 to USD 1, the exchange rate in effect on December 31, 2013. Such presentation is not in accordance with generally accepted accounting principles, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or at any other rate.

2.4 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

In business combinations achieved in stages, any previously held equity interest in the acquiree is remeasured to its acquisition date fair value.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2.5 INTEREST IN JOINT ARRANGEMENTS

Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint venture are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of a joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculated the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as "Share of profit of a joint venture" in the statement of profit.

Upon loss of significant influence over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Joint operations

A joint operation is defined as an arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

2.6 FOREIGN CURRENCY TRANSLATION

The financial statements are presented in Korean won, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group companies at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets including goodwill and liabilities of foreign subsidiaries, where the functional currency is other than the Korean won, are translated using the exchange rate at the end of the reporting period, while the statements of income are translated using average exchange rates during the period. Differences arising from such translations are recognized within equity and reclassified to net income when the gain or loss on disposal of the foreign subsidiary is recognized.

2.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is valued at cost, less accumulated depreciation and accumulated impairment losses. Such cost include the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Other repair and maintenance costs are recognized in the income statement as incurred. If the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately.

Depreciation expense is recognized using the straight-line method. The following useful lives are assumed:

Land	no depreciation
Buildings	18 to 54 years
Structures	6 to 39 years
Machinery	10 to 20 years
Other	1 to 10 years

Residual values and useful lives are reviewed annually and, if expectations differ from previous estimates, adjusted accordingly.

The gain or loss arising from derecognition of a property, plant or equipment shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset. It shall be recognized in the income statement when the asset is derecognized.

2.8 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with useful finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the income statement under cost of sales and selling and administration costs as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives (such as goodwill and memberships) are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Intangible assets with finite useful lives are amortized using the straight-line method with the following useful lives:

Software	3 to 10 years
Industrial rights	10 years
Useful lives of items recognized on business combinations	Over its useful life between 6 to 9 years
Customer relationships	6 to 9 years
Non-compete agreements	6 years
Process technology	6 years

2.9 INVESTMENT PROPERTY

The Group classifies the property to earn rentals or for capital appreciation or both as investment properties. As investment properties are accounted for using a cost model, the same accounting policies applied to property, plant and equipment are used for other accounting treatment except for their classification and presentation.

2.10 LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases which transfer substantially to the Group all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The Group has not entered into finance lease agreements as a lessor.

2.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group reviews non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication exists, or when annual impairment testing for assets such as membership is required, the Group estimates the asset's recoverable amount. Recoverability of assets is measured by the comparison of the carrying amount of the asset to the recoverable amount, which is the higher of the asset's value in use and its fair value less costs to sell. If assets do not generate cash inflows that are largely independent of those from other assets or groups of assets, the impairment test is not performed at an individual asset level, instead, it is performed at the level of the cash-generating unit (CGU) the asset belongs to.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as of December 31, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the (groups of) cash-generating unit(s) that is expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit(s), to which the goodwill is allocated, exceeds its recoverable amount, an impairment loss on goodwill is recognized. The recoverable amount is the higher of cash-generating unit(s) fair value less costs to sell and its value in use.

Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are tested for impairment annually as of December 31 either individually or at the cash-generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

2.12 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets.

2.13 INVENTORIES

Inventory is valued at the lower of acquisition or production cost and net realizable value, cost being generally determined on the basis of a weighted average. Production costs comprise direct material and labour and applicable manufacturing overheads, including depreciation charges based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

2.15 PROVISIONS

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are recognized at present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

2.16 PENSIONS AND OTHER LONG-TERM EMPLOYMENT BENEFITS

Pensions

The Group operates two defined benefit pension plans, one in Korea and one in Switzerland. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The pension expenses are recognized in the income statement under cost of sales and selling and administration costs.

Other long-term employment benefits

The parent company also implements a bonus plan designed to present prescribed quantity of gold and entitle compensated vacation to long-term service employees. Accounting policies to the bonus plan are mostly the same with the defined benefit plan except for that re-measurements are recognized immediately in profit or loss.

2.17 TAXES

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.18 REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Dividends

Revenue is recognized when the Group's right to receive the payment is established.

2.19 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The subsequent measurement of financial assets depends on their classification as follows:

- At fair value through profit or loss
- Held to maturity
- Loans and receivables
- All other financial assets are classified as "available-for-sale"

The Group determines the classification of its financial assets at initial recognition.

■ Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1039. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the income statement.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

■ Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs.

■ Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment.

As for loans and receivables above the EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs.

■ Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

■ Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

■ **Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

■ **Available-for-sale financial investments**

In the case of equity investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and prolonged, against the period in which the fair value has been below its original cost.

In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

Financial liabilities

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The measurement of financial liabilities depends on their classification as follows:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

The Group determines the classification of its financial liabilities at initial recognition.

■ **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Gains or losses on liabilities held for trading are recognized in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

■ Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

■ Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

When determining the fair value, quoted market prices on the balance sheet date are used. If no such quoted market prices are available, the fair value is determined using appropriate valuation techniques.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

■ Cash flow hedges

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income. Amounts recognized as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Group applies cash flow hedge accounting for interest rate swap contracts.

2.20 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to K-IFRS effective as of January 1, 2013 adopted by the Group:

K-IFRS 1001 Presentation of Items of Other Comprehensive Income – Amendments to K-IFRS 1001:

The amendments to K-IFRS 1001 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g. actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

K-IFRS 1001 Clarification of the requirement for comparative information (Amendment):

The amendment to K-IFRS 1001 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements. An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under K-IFRS 1034, the minimum items required for interim condensed financial statements do not include a third balance sheet.

K-IFRS 1019 Employee Benefits (Revised 2011) (K-IFRS 1019R):

K-IFRS 1019R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. In case of the Group, the transition to K-IFRS 1019R had an impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets and unvested past service costs. The impact of the adoption of K-IFRS 1019 revised is not material.

K-IFRS 1032 Tax effects of distributions to holders of equity instruments (Amendment):

The amendment to K-IFRS 1032 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with K-IFRS 1012 Income Taxes. The amendment removes existing income tax requirements from K-IFRS 1032 and requires entities to apply the requirements in K-IFRS 1012 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

K-IFRS 1107 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to K-IFRS 1107:

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with K-IFRS 1032. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with K-IFRS 1032. As the Group is not setting off financial instruments in accordance with K-IFRS 1032 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

K-IFRS 1110 Consolidated Financial Statements and K-IFRS 1027 Separate Financial Statements:

K-IFRS 1110 establishes a single control model that applies to all entities including special purpose entities. K-IFRS 1110 replaces the parts of previously existing K-IFRS 1027 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and K-IFRS 2102 Consolidation – Special Purpose Entities. K-IFRS 1110 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in K-IFRS 1110, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. K-IFRS 1110 had no impact on the consolidation of investments held by the Group.

K-IFRS 1111 Joint Arrangements and K-IFRS 1028 Investment in Associates and Joint Ventures:

K-IFRS 1111 replaces K-IFRS 1031 Interests in Joint Ventures and K-IFRS 2013 Jointly-controlled Entities — Non-monetary Contributions by Venturers. K-IFRS 1111 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under K-IFRS 1111 must be accounted for using the equity method.

K-IFRS 1112 Disclosure of interests in other entities:

K-IFRS 1112 sets out the requirements of disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in K-IFRS 1112 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. K-IFRS 1112 disclosures are provided in Note 1.2.

K-IFRS 1113 Fair Value Measurement:

K-IFRS 1113 establishes a single source of guidance under K-IFRS for all fair value measurements. K-IFRS 1113 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under K-IFRS. K-IFRS 1113 defines fair value as an exit price. As a result of the guidance in K-IFRS 1113, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. K-IFRS 1113 also requires additional disclosures. Application of K-IFRS 1113 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 23.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Note	Description	Nature of estimation
6, 7, 8, 9	Impairment of non-financial assets	An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the expectations for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. The recoverable amount based on the value in use is most sensitive to the discount rate used for the discounted cash flow model (WACC) as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The recoverable amount based on the fair value less cost to sell is most sensitive to the market prices, premiums and the estimate of cost to sell. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.
8	Customer relations	Customer relations are depreciated over their estimated useful life. The estimated useful life is based on estimates of the time period during which this intangible asset generates cash flows, as well as historic empirical data concerning customer loyalty. Calculation of the present value of estimated future cash flows includes essential assumptions, especially of future sales. Discounting is in addition also based on assumptions and estimations concerning business-specific capital costs, which are themselves dependent on national risks, and additional risks resulting from the volatility of the respective business.
19, 20	Pension and other employment benefits	The cost of defined benefit pension plans and other similar long term employee benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.
27.2	Deferred tax assets	Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.
23	Fair value of financial instruments	Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

Investment Entities (Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027)

These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under K-IFRS 1110. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under K-IFRS 1110.

K-IFRS 1032 Offsetting Financial Assets and Financial Liabilities - Amendments

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Group.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to K-IFRS 1036 Impairment of Assets

These amendments remove the unintended consequences of K-IFRS 1113 on the disclosures required under K-IFRS 1036. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014.

K-IFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

K-IFRS 2121 Levies – Amendments

K-IFRS 2121 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. K-IFRS 2121 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that K-IFRS 2121 will have material financial impact in future financial statements.

The Group is currently assessing that the impacts from the aforementioned standards on the Group's consolidated financial statements will be not significant for the years the Group applies those standards for the first time.

5 SEGMENT INFORMATION

For management purposes, Songwon Industrial Group is organised into one main operating segment. All of the Group's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment.

The results from this operating segment are equivalent to the financial statements of the Group as a whole. Songwon Industrial Group is active in particular as a manufacturer of polyurethane resins and additives including, stabilizers, plasticizers and lubricants.

The Group is acting worldwide and discloses therefore geographic segments.

5.1 PRODUCT INFORMATION

	2013 Million KRW	2012 Million KRW
Alkylphenol and Intermediates	23,077	29,115
Plasticizers	9,306	8,898
Polyester Diol	17,812	17,238
Polymer Stabilizers (AOX and Uvs)	444,236	394,928
Polyurethanes	46,273	45,117
PVC Stabilizers	53,452	54,825
SAP and Flocculants	21,113	22,356
Tin Intermediates	72,647	80,719
Others	4,248	26,441
Total revenue per consolidated income statement	692,164	679,637

5.2 GEOGRAPHIC INFORMATION

Revenue from external customers

	2013	2012
	Million KRW	Million KRW
Korea	221,790	215,846
Rest of Asia	160,114	158,257
Europe	145,777	145,029
North and South America	133,768	127,598
Australia	2,172	2,470
Middle East and Africa	28,543	30,437
Total revenue per consolidated income statement	692,164	679,637

The revenue information above is based on the location of the customer. Despite the material Korean home market all other countries have been summarized to regions. Therefore no country revenues are disclosed separately.

The Group is not recognizing more revenue than 10% of total revenue with one client during the reporting periods.

Non-current assets

	2013	2012
	Million KRW	Million KRW
Korea	445,527	444,750
Rest of Asia	997	1,270
Europe	35,903	38,967
North and South America	6,502	4,594
Middle East and Africa	1,726	-
Total	490,655	489,581

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

6 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Structures	Machinery	Other	Construc- tion-in- progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Cost							
At January 1, 2012	151,495	57,115	63,263	377,871	12,120	4,792	666,657
Additions	-	39	34	130	650	23,202	24,055
Disposals	-122	-55	-	-246	-246	-	-669
Reclassification	-	1,198	-47	22,857	81	-24,089	-
Net exchange differences	-	-3	-	-475	-82	-102	-662
At December 31, 2012	151,373	58,294	63,250	400,137	12,523	3,803	689,381
Additions	-	31	-	3,865	2,414	24,675	30,985
Disposals	-178	-79	-	-611	-432	-	-1,300
Reclassification	-	3,078	647	20,849	123	-24,684	13
Net exchange differences	-	2	-	13	-64	88	39
At December 31, 2013	151,195	61,326	63,897	424,253	14,564	3,882	719,117
Depreciation and impair- ment							
At January 1, 2012	-	-11,745	-18,780	-204,974	-9,212	-	-244,711
Depreciation charge for the year	-	-1,469	-3,113	-18,607	-1,109	-	-24,298
Reclassification	-	-	3	-3	-	-	-
Disposals	-	20	-	245	242	-	507
Net exchange differences	-	-	-	55	28	-	83
At December 31, 2012	-	-13,194	-21,890	-223,284	-10,051	-	-268,419
Depreciation charge for the year	-	-1,528	-3,134	-19,111	-1,156	-	-24,929
Impairment charge for the year	-	-	-	-277	-	-	-277
Reclassification	-	-	-	-	-	-	-
Disposals	-	28	-	341	408	-	777
Net exchange differences	-	-	-	-8	16	-	8
At December 31, 2013	-	-14,694	-25,024	-242,339	-10,783	-	292,840
Net book value							
At December 31, 2013	151,195	46,632	38,873	181,914	3,780	3,882	426,277
At December 31, 2012	151,373	45,100	41,360	176,853	2,472	3,803	420,962

In 2013 machinery items amounting to 277 Million KRW were impaired due to damage caused by a flood after heavy rains. No impairment occurred in 2012. Non-cash transactions amounting to 11,056 Million KRW are included in the Additions for the year ending 2013.

Capitalised borrowing costs

Borrowing costs, which are directly attributable to the acquisition or production of a qualified asset are capitalized as part of the cost of that asset. No borrowing costs have been capitalized during financial years 2013 and 2012.

Finance leases

There are no assets held under leasing agreements which may be considered as an asset purchase in economic terms (finance lease) in the Group. Payment on leased assets defined as "operating lease" and having a rental character are expensed over the lease period.

Contractual commitments and pledged assets

A pledged asset is an asset that is transferred to a lender for the purpose of securing debt. The lender of the debt maintains possession of the pledged asset, but does not have ownership unless default occurs (see Note 25). For contractual commitments to purchase property, plant and equipment, please refer to Note 24.3.

7 INVESTMENT PROPERTIES

	Land Million KRW	Buildings Million KRW	Structures Million KRW	Total Million KRW
Cost				
At January 1, 2012	21,321	8,696	349	30,365
Net exchange differences	-5	-22	-	-27
Additions	-	-	-	-
At December 31, 2012	21,316	8,673	349	30,338
Net exchange differences	-4	-21	-	-25
Additions	-	195	-	195
At December 31, 2013	21,312	8,847	349	30,508
Depreciation				
At January 1, 2012	-	-2,133	-112	-2,245
Net exchange differences	-	11	-	11
Depreciation charge for the year	-	-164	-10	-174
At December 31, 2012	-	-2,286	-122	-2,408
Net exchange differences	-	10	-	10
Depreciation charge for the year	-	-167	-10	-177
At December 31, 2013	-	-2,441	-132	-2,573
Net book value				
At December 31, 2013	21,312	6,406	217	27,935
At December 31, 2012	21,316	6,387	227	27,930

Investment properties are stated at cost less any accumulated depreciation and impairment losses, if any. The same useful lives have been used as for property, plant and equipment.

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	2013	2012
	Million KRW	Million KRW
Rental income	1,672	1,607
Operational expenses	886	821

The Group's major investment property is a building named Songwon Building located in Seocho-gu, Seoul, which is held for the purpose of leasing without a plan to sell, thus the Group currently does not have it assessed of fair value by an independent appraiser. Meanwhile, the fair value of the building is estimated to 38,000 Million KRW based on the reference to the cases of deals on similar buildings nearby. Further Songwon Japan KK owns an object which is subleased. The fair value of the building is 60 Million KRW.

Disclosure of pledged assets can be found in Note 25.

8 INTANGIBLE ASSETS

	Indu- trial rights	Soft- ware	Mem- bership	Cus- tomer relati- onship	Non- compe- te con- tracts	Capita- lization Process Techno- logy	Good- will	Con- struc- tion-in- progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Cost									
At January 1, 2012	1,591	2,027	1,895	25,639	14,152	687	37,532	952	84,475
Additions	1	444	-	-	-	-	-	351	796
Reclassifications	-	-	-	-	-	-	-	-	-
Net exchange differences	-	-36	-	-1,316	-725	-50	-2,317	-	-4,444
At December 31, 2012	1,592	2,435	1,895	24,323	13,427	637	35,215	1,303	80,827
Additions	-	99	-	-	-	-	-	1,617	1,716
Disposal	-154	-	-	-	-	-	-	-	-154
Reclassifications	1,652	-	-	-	-	-	-	-1,652	-
Net exchange differences	-	-26	-	-230	-127	15	-111	-	-479
At December 31, 2013	3,090	2,508	1,895	24,093	13,300	652	35,104	1,268	81,910
Amortization and impairment									
At January 1, 2012	-212	-1,294	-	-2,965	-2,322	-29	-29,657	-	-36,479
Amortization charge for the year	-159	-248	-	-3,017	-2,362	-90	-	-	-5,876
Net exchange differences	-	25	-	270	205	7	1,710	-	2,217
At December 31, 2012	-371	-1,517	-	-5,712	-4,479	-112	-27,947	-	-40,138
Amortization charge for the year	-257	-283	-	-3,262	-1,965	-116	-	-	-5,883
Net exchange differences	-	14	-	162	114	-	264	-	554
At December 31, 2013	-628	-1,786	-	-8,812	-6,330	-228	-27,683	-	-45,467
Net book value									
At December 31, 2013	2,462	722	1,895	15,281	6,970	424	7,421	1,268	36,443
At December 31, 2012	1,221	918	1,895	18,611	8,948	525	7,268	1,303	40,689

The intangible assets (except for Goodwill and memberships) are amortized over a finite useful life. The Goodwill items consist of items acquired in a business combination. The intangible assets with indefinite useful lives are tested for impairment on an annual basis. No impairment was identified. An impairment test was carried out for Goodwill and membership items on the basis of calculated value in use. For further details of the impairment test please see Note 9.

In the financial years reported, no business combination took place that lead to a capitalisation of intangible assets.

8.1 DETAILS OF INDIVIDUALLY SIGNIFICANT INTANGIBLE ASSETS

Description	Remark	December 31, 2013	December 31, 2012	Remaining life
		Million KRW	Million KRW	
Industrial rights	REACH	2,380	1,123	8 years
Software	ERP	304	462	1.4 years
Membership	Hanyang Country, New Seoul Country and others	1,895	1,895	Indefinite
Goodwill	Acquisition of SWI Subgroup	1,817	1,834	Indefinite
Goodwill	Acquisition of Songwon Chemicals Co. Ltd.	215	210	Indefinite
Goodwill	Acquisition of ATG Additive Technology Greiz GmbH	5,389	5,224	Indefinite
Intangible assets acquired in a business combination	Customer relationship	15,281	18,611	6.0 years
Intangible assets acquired in a business combination	Non-compete contracts	6,970	8,948	3.0 years
Intangible assets acquired in a business combination	Capitalisation Process Technology	424	525	3.8 years
Construction in progress	REACH	1,268	1,303	n/a
Significant intangible assets total		35,943	40,135	

9 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

9.1 IMPAIRMENT TEST ON INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

Goodwill acquired through business combinations and memberships with indefinite lives has been allocated to the group of cash-generating unit (CGU) expected to benefit from acquisitions. The goodwill acquired during the acquisition of Songwon Holdings AG and Songwon ATG GmbH is allocated to the group of CGU's comprising the acquired entities and the parent company, which correspond almost to the entire Group. Insignificant CGU's were not included.

The Group performed its annual impairment test in December 2013 and 2012. The recoverable amount of the group of CGU's to which goodwill and intangible assets with indefinite lives are allocated has been determined based on its value in use, calculated using a discounted cash flow (DCF) model. In 2012 the recoverable amount was calculated on the basis of fair value less cost to sell.

There is no impairment loss recognized during 2013 and 2012 according to the impairment test on goodwill and memberships. As of the measurement date, the recoverable amount based on the value in use in 2013 (2012: fair value less cost to sell) exceeded the carrying amount of the relevant CGU.

As of December 31, 2013 the carrying amount of goodwill allocated to the main CGU is 7,206 Million KRW, the carrying amount of memberships with indefinite lives equals 1,895 Million KRW. Goodwill not allocated to the main CGU of 215 Million KRW is allocated to the CGU comprising the Chinese entities and is considered not to be material. The recoverable amount of the main CGU equals 783,858 Million KRW.

9.2 KEY ASSUMPTIONS USED IN CALCULATION OF VALUE IN USE

The calculation of the CGU's value in use reflects the future cash flows for the next three years, discounted to present value at the weighted average cost of capital (WACC), and an estimated residual value. The projected cash flows are estimated on the basis of the Budget 2014 approved by management, and mid-term assumptions. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a constant growth rate. The long-term growth rate is in line with blended long-term inflation expectations for relevant countries.

In addition, a market risk premium of 5% and a small cap premium of 4.1% were applied for the calculation of the WACC.

The key assumptions underlying the calculation are as follows:

Parameters for the determination of the recoverable amount of the CGU	Description
Average annual growth	Average annual growth is calculated on the basis of mid-term assumptions
WACC	WACC is calculated using the Capital Asset Pricing Model (CAPM). The latter comprises the weighted cost of own equity and of external borrowing costs. The application of WACC pre-tax and WACC post-tax results in the same value in use.
Long-term growth rate	Long-term growth rate is calculated on the basis of expected inflation rates for currencies of relevant countries.

Parameters for the determination of the recoverable amount of the CGU	2013
Average annual growth	3.0%
Pre-tax WACC	13.6%
Post-tax WACC	10.9%
Long-term growth rate	1.7%

The following changes in material assumptions lead to a situation where the value in use equals the carrying amount:

Parameters for the determination of the recoverable amount of the CGU	Sensitivity analysis
Average annual growth	2.1%
Pre-tax WACC	14.5%
Post-tax WACC	11.6%
Long-term growth rate	0.8%

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10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As of January 1, 2013 Million KRW	Addition Million KRW	Share of result from equity method revaluation Million KRW	Dividends Million KRW	Exchange rate effect	As of December 31, 2013 Million KRW
Chemservice Asia Ltd.	15	-	1	-	-	16
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	1,396	-	922	-	-24	2,294
Total	1,411	-	923	-	-24	2,310

	As of January 1, 2012 Million KRW	Addition Million KRW	Share of result from equity method revaluation Million KRW	Dividends Million KRW	Exchange rate effect	As of December 31, 2012 Million KRW
Chemservice Asia Ltd.	-	-	15	-	-	15
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	-	1,498	25	-	-127	1,396
Total	-	1,498	40	-	-127	1,411

11 AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

Description	As per December 31, 2013			Book value	
	Number of	% to	Cost	December 31,	December 31,
	shares	equity		2013	2012
			Million KRW	Million KRW	Million KRW
Ulsan Broadcasting Corp.	180,000	3.00%	900	900	900
Shilla Country Club	4	0.14%	-	-	-
Jin Yang Development	900	-	450	450	450
Hybrid Tier 1 (Busan Bank)	-	-	-	-	100
Hybrid Tier 1 (Korea Exchange Bank)	-	-	400	404	417
Subordinated bonds (Citibank)	-	-	100	100	100
Public Bonds (Korea Land & Housing Corporation)	-	-	-	-	4,796
Total			1,850	1,854	6,764

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Impairment on available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

Based on these criteria, the Group did not identify any impairment on available-for-sale investment as of December 31, 2013 and 2012.

12 OTHER FINANCIAL ASSETS

Description	December 31, 2013		December 31, 2012	
	Non-current	Current	Non-current	Current
	Million KRW	Million KRW	Million KRW	Million KRW
Bank deposits (> 3 months)	2,298	3,927	2,878	2,126
Loans	-	346	1	-
Derivative financial assets (Note 23)	-	294	-	257
Guarantee deposits	197	2,146	57	450
Total	2,495	6,713	2,936	2,833

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12.1 LOANS

Details of loans as of December 31, 2013 and 2012 are as follows:

Description	Annual interest rate (%)	December 31, 2013	December 31, 2012
		Million KRW	Million KRW
Loans for employees	-	-	1
Loan to related party (see Note 30)	8,0	346	-
Total		346	1

12.2 OTHER FINANCIAL ASSETS PLEDGED AS COLLATERAL

The bank deposits pledged as collateral in connection with interest-bearing loans and borrowings as of December 31, 2013 and 2012 are as follows:

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Bank deposits - Current	1,350	2,300
Total	1,350	2,300

13 INVENTORIES

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Raw materials and supplies	20,297	17,537
Finished goods	136,763	128,643
Goods in transit	25,474	24,688
Consignment stocks	150	132
Total inventories at the lower of cost and net realizable value	182,684	170,999

As of December 31, 2013 inventory write-off amounted to 2,610 Million KRW for raw material and finished goods (December 31, 2012: 2,220 Million KRW).

14 TRADE AND OTHER RECEIVABLES

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Trade and notes receivable (net)	106,483	96,543
Other receivable (net) – third parties	3,269	3,308
Other receivable (net) – related parties	13	617
Accrued income	46	75
Total	109,811	100,543

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

The movements of the allowance for doubtful receivables are as follows:

	Individually impaired	Collectively impaired	Total
	Million KRW	Million KRW	Million KRW
January 1, 2012	-628	-262	-890
Charge for the year	-	-4	-4
Utilized	21	-	21
Unused amounts reversed	52	207	259
December 31, 2012	-555	-59	-614
Charge for the year	-263	-	-263
Utilized	579	12	591
Unused amounts reversed	-	25	25
December 31, 2013	-240	-21	-261

The ageing analysis of trade and other receivables is as follows:

	Total	Neither past	Past due but not impaired				
		due nor	< 30	30-90	90-120	120-180	> 180
		impaired	days	days	days	days	days
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
December 31, 2013	109,811	96,335	10,485	2,725	191	62	13
December 31, 2012	100,543	90,882	7,347	1,306	119	91	799

See Note 23.3.2 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

15 OTHER CURRENT ASSETS

Other current assets as of December 31, 2013 and 2012 consist of the following:

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Advance payments	105	424
Prepaid expenses	4,185	1,142
VAT refundables	223	801
Total	4,513	2,367

16 CASH AND CASH EQUIVALENTS

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Cash on hand	73	61
Bank accounts	63,203	81,182
Time deposit (< 3 months)	401	295
Total	63,677	81,538

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

17 ISSUED CAPITAL AND RESERVES

17.1 SHARE CAPITAL

In accordance with the Articles of Incorporation, the company is authorized to issue 100,000,000 shares of common stock with a par value of 500 KRW per share. As of December 31, 2013 and 2012, the company issued 24,000,000 shares of common stock with carrying value of 12,000 Million KRW.

17.2 CAPITAL SURPLUS

As of December 31, 2013 and 2012, capital surplus of the company amounts to 24,361 Million KRW. Thereof comprised paid-in capital in excess of par value is 20,065 Million KRW and gain on disposal of treasury stock 4,296 Million KRW, respectively.

17.3 RESERVES

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Legal reserve	624	432
Asset revaluation surplus	25,815	25,815
Total	26,439	26,247

Legal Reserves

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital. Appropriation to legal reserve from retained earnings, pursuant to the approval of the General Meeting of Shareholders during 2013 and 2012, amounted to 192 Million KRW and 144 Million KRW respectively.

Asset revaluation reserve

The Group re-valued certain of its property, plant and equipment in accordance with the Korean Asset Revaluation Act on January 1, 1984 and on January 1, 1999, resulting in a revaluation surplus of 2,884 Million KRW and 64,277 Million KRW, respectively. Asset revaluation surplus amounting to 62,343 Million KRW, net of related revaluation tax, was credited to capital surplus. Asset revaluation surplus as of December 31, 2013 and 2012 is 25,815 Million KRW, as asset revaluation surplus of 23,312 Million KRW and 13,216 Million KRW was utilized in disposition of accumulated deficit pursuant to the approval of the stockholders on March 6, 2009 and March 7, 2008, respectively. The asset revaluation surplus may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Dividends

Dividends approved by the shareholders are as follows:

Description	December 31, 2013	December 31, 2012
	2012	2011
Dividends on ordinary shares in KRW	1,920,000,000	1,440,000,000
Number of shares	24,000,000	24,000,000
Dividends per share in KRW	80	60

17.4 ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of tax as of December 31, 2013 and 2012 is composed of the following:

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Available-for-sale financial investments	4	-187
Exchange differences on translation of foreign operation	-3,782	-3,206
Interest rate swap	-45	-
Total	-3,823	-3,393

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Detail of other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

Description	December 31, 2013 Million KRW	December 31, 2012 Million KRW
Pretax amounts		
Gain/(loss) on valuation of available-for-sale financial assets	191	-266
Gain/(loss) on valuation of interest rate swap	-45	127
Exchange differences on translation of foreign operations	-576	-3,273
Re-measurement gains/(losses)	-880	-6,371
Pretax amounts total	-1,310	-9,784
Tax effects:		
Gain/(loss) on valuation of available-for-sale financial assets	-	48
Gain/(loss) on valuation of interest rate swap	-	-28
Exchange differences on translation of foreign operations	-	-
Re-measurement gains/(losses)	196	1,213
Tax effects total	196	1,233
Net amounts:		
Gain/(loss) on valuation of available-for-sale financial assets	191	-218
Gain/(loss) on valuation of interest rate swap	-45	99
Exchange differences on translation of foreign operations	-576	-3,273
Re-measurement gains/(losses)	-684	-5,158
Net amounts total	-1,114	-8,550

18 INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings as of December 31, 2013 and 2012 are as follows:

Description	December 31, 2013 Million KRW	December 31, 2012 Million KRW
Long-term privately placed corporate bonds	10,000	5,000
Long-term borrowings	142,341	25,014
Non-current bank loans and bonds	152,341	30,014
Current portion of borrowings	35,244	10,584
Current portion of privately placed corporate bonds	5,000	-
Short-term privately placed corporate bonds	-	35,000
Short-term borrowings	222,386	358,575
Current loans and borrowings	262,630	404,160
Total	414,971	434,174

Details of **long-term borrowings** as of December 31, 2013 and 2012 are as follows:

Banks	Description	Annual interest rate (%)	December 31, 2013 Million KRW	December 31, 2012 Million KRW
Woori Bank	General Loan	5.25	53,455	-
Korea Development Bank	General Loan	1.75-4.94	21,214	21,798
Busan Bank	General Loan	5.25	17,818	5,000
Hana Bank	General Loan	5.25	17,818	5,000
NRW Bank	General Loan	6.03	251	325
Pan Gulf Holding Company W.L.L.	General Loan	6.52	3,804	2,172
Polysys Industries LLC	General Loan	6.50	862	1,303
Korean Exchange Bank	General Loan	5.25	44,545	-
Korean Standard Chartered Bank	General Loan	5.25	17,818	-
Sub-total			177,585	35,599
Less current portion			-35,244	-10,584
Non-current portion			142,341	25,014

Details of **privately placed bonds** as of December 31, 2013 and 2012 are as follows:

Banks	Issuance date	Maturity date	Annual interest rate (%)	December 31, 2013 Million KRW	December 31, 2012 Million KRW
Woori Bank	02.20.12	02.20.13	-	-	5,000
Woori Bank	05.11.12	05.10.13	-	-	20,000
Korea Development Bank	01.27.11	01.27.14	5.03	5,000	5,000
Gyeong Nam Bank [see Note 23.1.2]	04.04.13	04.04.16	3MCD+2.27	10,000	10,000
Sub-total				15,000	40,000
Less short-term bonds				-	-35,000
Less current portion				-5,000	-
Non-current portion				10,000	5,000

Details for **short-term borrowings** are as follows:

Banks	Description	Annual interest rate (%)	December 31, 2013 Million KRW	December 31, 2012 Million KRW
Woori Bank	Gen. & trade loans	1.92-4.77	37,502	102,806
Hana Bank	Gen. & trade loans	1.86-4.77	10,657	19,772
Citibank	Gen. & trade loans	1.80-4.71	32,144	36,925
Korea Development Bank	Gen. & trade loans	1.95-4.36	64,631	51,188
Busan Bank	Trade loans	2.22-5.93	-	11,501
Korea Standard Chartered Bank	Trade loans	1.84	4,436	30,000
Suhyup Bank	General loans	4.61	10,000	10,000
Gyeong Nam Bank	Trade loans	1.80-4.44	28,054	31,255
Korea Exchange Bank	Gen. & trade loans	0.74-4.77	34,772	65,127
Commerzbank AG	Trade loans	6.75	189	-
Total			222,386	358,575

19 PENSIONS LIABILITY

	2013	2012
	Million KRW	Million KRW
Korean pension plan	9,619	12,147
Swiss pension plan	2,483	2,374
Total	12,101	14,522

The Group has two defined benefit pension plans, one salary plan in Korea and one in Switzerland.

The following tables summarise the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the statement of financial position for the respective plans.

19.1 DEFINED BENEFIT OBLIGATION

Changes in the defined benefit obligation:

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
Defined benefit obligation as of January 1, 2012	24,576	11,937	36,513
Pension cost charged to profit or loss			
- <i>Service cost</i>	1,982	596	2,578
- <i>Net interest</i>	1,283	360	1,643
Sub-total included in profit or loss	3,265	956	4,221
Benefits paid/received	-1,172	1,844	672
Re-measurement gains/(losses) in OCI			
- <i>Actuarial changes arising from changes in demographic assumptions</i>	-3	-	-3
- <i>Actuarial changes arising from changes in financial assumptions</i>	3,409	1,204	4,613
- <i>Experience adjustments</i>	1,458	44	1,502
Sub-total included in OCI	4,864	1,248	6,112
Employee contributions	-	458	458
Plan amendment	-	300	300
Exchange differences	-	-693	-693
Defined benefit obligation as of December 31, 2012	31,533	16,051	47,584
Pension cost charged to profit or loss			
- <i>Service cost</i>	2,466	874	3,340
- <i>Net interest</i>	1,301	319	1,620
Sub-total included in profit or loss	3,767	1,193	4,960
Benefits paid/received	-2,365	3,171	806
Re-measurement gains/(losses) in OCI			
- <i>Actuarial changes arising from changes in demographic assumptions</i>	109	-	109
- <i>Actuarial changes arising from changes in financial assumptions</i>	-2,291	244	-2,047
- <i>Exchange adjustments</i>	2,979	-323	2,656
Sub-total included in OCI	796	-78	718
Employee contributions	-	484	484
Exchange differences	-	295	295
Defined benefit obligation as of December 31, 2013	33,732	21,115	54,847

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19.2 PLAN ASSETS

Changes in the fair value of plan assets:

	Korean plan Million KRW	Swiss plan Million KRW	Total Million KRW
Fair value of plan assets as of January 1, 2012	14,951	11,254	26,205
Pension cost charged to profit or loss			
- <i>Net interest</i>	608	358	966
Sub-total included in profit or loss	608	358	966
Benefits paid/received	-600	1,844	1,244
Re-measurement gains/losses in OCI			
- <i>Return on plan assets (excluding amounts included in net interest expense)</i>	-69	-190	-259
- <i>Actuarial changes arising from changes in financial assumptions</i>	-	-	-
- <i>Exchange adjustments</i>	-	-	-
Sub-total included in OCI	-69	-190	-259
Employer contributions	4,200	641	4,841
Employee contributions	-	458	458
Exchange differences	-	-688	-688
Fair value of plan assets as of December 31, 2012	19,090	13,677	32,767
Pension cost charged to profit or loss			
- <i>Net interest</i>	767	281	1,048
- <i>Administration expense</i>	-	-46	-46
Sub-total included in profit or loss	767	235	1,002
Benefits paid/received	-2,364	3,171	807
Re-measurement gains/losses in OCI			
- <i>Return on plan assets (excluding amounts included in net interest expense)</i>	-149	-13	-162
- <i>Actuarial changes arising from changes in financial assumptions</i>	-	-	-
- <i>Experience adjustments</i>	-	-	-
Sub-total included in OCI	-149	-13	-162
Employer contributions	6,500	828	7,328
Employee contributions	-	484	484
Exchange differences	-	250	250
Fair value of plan assets as December 31, 2013	23,844	18,632	42,476

19.3 NET PENSION LIABILITY

Changes in the net defined benefit liability are as follows:

	Korean plan Million KRW	Swiss plan Million KRW	Total Million KRW
Defined net benefit obligation as of January 1, 2012	-9,320	-683	-10,003
Pension cost charged to profit or loss			
- <i>Service cost</i>	-1,982	-596	-2,578
- <i>Net interest</i>	-675	-2	-677
Sub-total included in profit or loss	-2,657	-598	-3,255
Benefits paid/received	572	-	572
Re-measurement gains/(losses) in OCI			
- <i>Actuarial changes arising from changes in demographic assumptions</i>	3	-	3
- <i>Actuarial changes arising from changes in financial assumptions</i>	-3,409	-1,204	-4,613
- <i>Return on plan assets (excluding amounts included in net interest expense)</i>	-69	-190	-259
- <i>Experience adjustments</i>	-1,458	-44	-1,502
Sub-total included in OCI	-4,933	-1,438	-6,371
Employer contributions	4,200	641	4,841
Employee contributions	-	-	-
Plan amendment	-	-300	-300
Exchange differences	-	4	4
Change in prepayment to the NPS as per December 31, 2012	-10	-	-10
Defined net benefit obligation as of December 31, 2012	-12,147	-2,374	-14,522
Pension cost charged to profit or loss			
- <i>Service cost</i>	-2,466	-874	-3,340
- <i>Administration expenses</i>	-	-46	-46
- <i>Net interest</i>	-534	-38	-572
Sub-total included in profit or loss	-3,000	-958	-3,958
Benefits paid/received	1	-	1
Re-measurement gains/losses in OCI			
- <i>Actuarial changes arising from changes in financial assumptions</i>	2,291	-244	2,047
- <i>Actuarial changes arising from changes in demographic assumptions</i>	-109	-	-109
- <i>Return on plan assets (excluding amounts included in net interest expense)</i>	-149	-13	-162
- <i>Experience adjustments</i>	-2,979	323	-2,656
Sub-total included in OCI	-946	66	-880
Employee contributions	-	-	-
Employer contributions	6,500	828	7,328
Exchange differences	-	-45	-45
Change in prepayment to the NPS as per December 31, 2013	-26	-	-26
Defined net benefit obligation as of December 31, 2013	-9,619	-2,483	-12,101

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The re-measurement gains and losses recognized in the statement of comprehensive income were losses of -684 Million KRW (2012 losses of -5,158 Million KRW), net of tax. The total amount at December 31, 2013 of accumulated loss included in retained earnings are -10,458 Million KRW (2012: accumulated loss of -9,774 Million KRW), net of tax.

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	Determining net expense		Determining pension benefit obligation	
	2013	2012	December 31, 2013	December 31, 2012
	%	%	%	%
Discount rate:				
Korean Plan	4.20%	5.40%	4.90%	4.20%
Swiss Plan	2.00%	2.75%	2.00%	1.75%
Future salary increases:				
Korean Plan	5.00%	5.00%	5.00%	5.00%
Swiss Plan	2.00%	2.00%	2.00%	2.00%

A quantitative sensitivity analysis for significant assumptions as of December 21, 2013 is as follows:

	Sensitivity level	Impact on net defined benefit obligation
	Change	Million KRW
Discount rate:		
Korean Plan	+1%	-2,981
	-1%	3,461
Swiss Plan	+0.25%	-505
	-0.25%	532
Salary increase		
Korean Plan	+1%	3,237
	-1%	-2,849
Swiss Plan	+0.25%	85
	-0.25%	-84

The Group expects to contribute a comparable amount as in 2013 to its defined benefit pension plan in 2014.

The sensitivity analysis above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

20 OTHER LONG-TERM EMPLOYEE RELATED LIABILITIES

Other long-term employee related liabilities consist of the following:

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Other long-term employee benefits	1,160	1,499
Share based payment related liability	87	-
Total other long-term employee related liabilities	1,247	1,499

20.1 OTHER LONG-TERM EMPLOYEE BENEFITS

The parent company implements a bonus plan designed to present a prescribed quantity of gold and entitle compensated vacation to long-term service employees. Accounting policies of the bonus plan are mostly the same as the defined benefit plan except that all the past service cost and actuarial variances are recognized immediately in profit or loss.

Description	Million KRW
As of January 1, 2012	1,421
Current service cost	152
Interest cost	74
Re-measurement gain/(losses)	-
Total payment	-147
As of December 31, 2012	1,499
Current service cost	276
Interest cost	64
Re-measurement gain/(losses)	-559
Total payment	-120
As of December 31, 2013	1,160

	December 31, 2013	December 31, 2012
Discount rate	4.90%	4.20%
Compensation increase	5.00%	5.00%
Compensation per day for vacation	KRW 49,280 - 128,880	KRW 51,760 - 113,140
Rate of increase in gold price	5.70%	6.10%
Gold price per 3.75 gram	KRW 153,000	KRW 213,700

20.2 SHARE BASED PAYMENT RELATED LIABILITY

On March 31, 2013, the Group granted virtual stock options to eligible employees of subsidiaries according to the "Virtual Stock Option and Long-term Incentive Plan" ("LTIP"). The virtual stock options granted are an entitlement in money and are neither a stock nor any other listed or unlisted security and do not grant any right to physically acquire stocks. Settlement of options exercised is in cash only. Upon exercise, Songwon shall pay the receiver the greater of the difference between the fair market value at the exercise date (listed stock price of Songwon Industrial Co. Ltd) minus the Strike price or 0 (zero). The virtual stock options granted under the LTIP are subject to a vesting period of two to four years during which the receiver of the options must be continuously employed by the group.

The fair value of options granted as of December 31, 2013, was estimated using the following assumptions:

Dividend yield:	0.8%
Expected volatility	49.2%
Risk-free interest rate:	2.7%
Weighted average expected life of share options (years)	7.3
Model used	Binomial tree

The carrying amount of the liability relating to the LTIP at December 31, 2013 was 87 Million KRW. No share options had vested at December 31, 2013.

The expense for employee services received during the year 2013 recognized in the statement of comprehensive income amounts to 87 Million KRW.

There were no cancellations and modifications to the awards during the year 2013.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the reporting period:

	December 31, 2013	December 31, 2012
	Number	KRW
Outstanding at January 1	-	n/a
Granted during the year	90,000	11,900
Forfeited during the year	-4,500	11,900
Exercised during the year	-	n/a
Expired during the year	-	n/a
Outstanding at December 31	85,500	11,900
Exercisable at December 31	-	n/a

The weighted average remaining contractual life for the share options outstanding as at December 31, 2013 was 9.3 years.

The weighted average fair value of options granted during the reporting period was KRW 0.

The exercise prices for options outstanding at the end of the reporting period was KRW 11,900.

21 OTHER FINANCIAL LIABILITIES

Other financial liabilities as of December 31, 2013 and 2012 are as follows:

Description	December 31, 2013		December 31, 2012	
	Non-current Million KRW	Current Million KRW	Non-current Million KRW	Current Million KRW
Other specific payables	330	-	8,212	8,212
Other withholdings	42	-	51	-
Long-term deposits received	1,466	-	1,266	-
Derivative liabilities (see Note 23)	45	130	-	394
Accrued interest expenses	-	945	-	1,254
Unpaid dividends	-	2	-	2
Total	1,883	1,077	9,529	9,861

22 TRADE AND OTHER PAYABLES

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Trade payables	37,977	30,228
Trade payables (related parties)	879	324
Other accounts payables	22,712	13,026
Other accounts payables (related parties)	7	7
Withholdings	535	326
Accrued expenses	14,790	12,684
Guarantee deposits	17	21
Total	76,917	56,616

Trade and other payables do not bear interest and will usually become due within 30 to 60 days.

23 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

23.1 DERIVATIVES FINANCIAL INSTRUMENTS

Description	December 31, 2013		December 31, 2012	
	Assets Million KRW	Liabilities Million KRW	Assets Million KRW	Liabilities Million KRW
Forward foreign exchange contracts (current portion)	294	78	257	304
Interest rate swaps (current portion)	-	52	-	90
Interest rate swaps (non-current portion)	-	45	-	-
Total	294	175	257	394

23.1.1 CURRENCY FORWARDS

Currency forward contracts which the Group has entered into in order to hedge the risk of foreign exchange rate fluctuation of assets denominated in foreign currencies as of December 31, 2013 and 2012 are as follows:

As per December 31, 2013

Contractual party	Position	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Citibank	Sell	EUR 6,600,000	24.01.14 - 25.03.14	1,455.50 - 1,472.90
Citibank	Sell	JPY 360,000,000	25.02.14 - 25.03.14	1,017.00 - 1,047.60
Korea Standard Chartered Bank	Sell	EUR 3,300,000	25.02.14	1,445.55
Korea Standard Chartered Bank	Sell	JPY 180,000,000	24.01.14	1,097.00

As per December 31, 2012

Contractual party		Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Citibank	Sell	EUR 9,900,000	25.01.13 - 25.03.13	1,410.30 - 1,435.70
Citibank	Sell	JPY 320,000,000	25.02.13 - 25.03.13	1,266.70 - 1,321.50
Korea Standard Chartered Bank	Sell	JPY 160,000,000	25.01.13	1,384.00
Korea Standard Chartered Bank	Buy	CHF 1,000,000	01.02.13	1,234.70

Contractual party		Contract amount	Maturity dates	Contracted exchange rate (Swiss francs)
Korea Standard Chartered Bank	Sell	EUR 5,008,347	02.01.13	1.20

23.1.2 INTEREST RATE SWAP

As of December 31, 2013 the Group has entered into the following interest rate swap contract:

As per December 31, 2013

Description	Bonds contract	Interest rate swap contract
Contract date	04.04.13	04.07.13
Maturity date	04.04.16	04.04.16
Contract amount	10,000 Million KRW	10,000 Million KRW
Fixed interest rate	n/a	5.35%
Floating interest rate	3MCD+2.27%	3MCD+2.27%

As of December 31, 2012 the Group has not entered into any interest rate swap contracts.

The Group applies cash flow hedge accounting on interest rate swap, currently in 2013 there is an interest rate swap designated as cash flow hedge. The balances included in accumulated other comprehensive income are 45 Million KRW as of December 31, 2013 and 0 Million KRW as of December 31, 2012, respectively (see Note 17.4), net of income tax.

23.2 FAIR VALUES

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

Description	Carrying amount		Fair value	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	Million KRW	Million KRW	Million KRW	Million KRW
Financial assets at fair value through profit and loss	294	257	294	257
Other financial assets (Derivatives)	294	257	294	257
Thereof Current	294	257	294	257
Thereof Non-Current	-	-	-	-
Loans and receivables	182,402	187,593	182,402	187,593
Other financial assets	8,914	5,512	8,914	5,512
Thereof Current	6,419	2,576	6,419	2,576
Thereof Non-Current	2,495	2,936	2,495	2,936
Trade and other receivables	109,811	100,543	109,811	100,543
Thereof Current	109,811	100,543	109,811	100,543
Thereof Non-Current	-	-	-	-
Cash and cash equivalent	63,677	81,538	63,677	81,538
Thereof Current	63,677	81,538	63,677	81,538
Thereof Non-Current	-	-	-	-
Available-for-sale financial assets	1,854	6,764	1,854	6,764
Thereof Current	-	-	-	-
Thereof Non-Current	1,854	6,764	1,854	6,764
Total	184,550	194,614	184,550	194,614

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Description	Carrying amount		Fair value	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	Million KRW	Million KRW	Million KRW	Million KRW
Financial assets at fair value through profit and loss	130	394	130	394
Other financial liabilities (Derivatives)	130	394	130	394
Thereof Current	130	394	130	394
Thereof Non-Current	-	-	-	-
Financial liabilities at fair value through OCI	45	-	45	-
Other financial liabilities (Derivatives)	45	-	45	-
Thereof Current	-	-	-	-
Thereof Non-Current	45	-	45	-
Financial liabilities measured at amortized costs	494,673	509,786	494,673	509,786
Interest bearing loans and borrowings	414,971	434,173	414,971	434,173
Thereof Current	262,630	404,160	262,630	404,160
Thereof Non-Current	152,341	30,014	152,341	30,014
Other financial liabilities	2,785	18,996	2,785	18,996
Thereof Current	947	9,467	947	9,467
Thereof Non-Current	1,838	9,529	1,838	9,529
Trade and other payables	76,917	56,616	76,917	56,616
Thereof Current	76,917	56,616	76,917	56,616
Thereof Non-Current	-	-	-	-
Total	494,848	510,180	494,848	510,180

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalent, trade receivables, other receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available.
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques (see Note 23.2.1).

23.2.1 FAIR VALUE HIERARCHY

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

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

As of December 31, 2013 and as of December 31, 2012 the Group held the following financial instruments carried at fair value on the statement of financial position:

Description	December 31, 2013	Level 1	Level 2	Level 3
	Million KRW	Million KRW	Million KRW	Million KRW
Assets measured at fair value				
Financial assets at fair value through profit or loss	294	-	294	-
Derivatives	294	-	294	-
Available-for-sale financial assets	404	-	404	-
Hybrid Tier 1	404	-	404	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss	130	-	130	-
Derivatives	130	-	130	-
Financial liabilities at fair value through OCI	45	-	45	-
Derivatives	45	-	45	-

Description	December 31, 2012	Level 1	Level 2	Level 3
	Million KRW	Million KRW	Million KRW	Million KRW
Assets measured at fair value				
Financial assets at fair value through profit or loss	257	-	257	-
Derivatives	257	-	257	-
Available-for-sale financial assets	5,213	-	5,213	-
Public Bonds	4,796	-	4,796	-
Hybrid Tier 1	417	-	417	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss	394	-	394	-
Derivatives	394	-	394	-

During the reporting period ending December 31, 2013 and December 31, 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

23.3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

23.3.1 MARKET RISK

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

- Interest rate risk
- Foreign currency risk

Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December in 2013 and 2012.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings and bank deposits with floating interest rates.

The Group's exposure to the risk of changes in market interest rates relates substantially to the Group's interest-bearing loans and borrowings with floating interest rates, which makes the Group exposed to cash flows risk. Responsively, the Group is minimizing the risk partially through interest rate swap contracts or choosing the best favourable financing instruments by switching to the loans with more favourable conditions or improving the Group's credit rating.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings and bank deposits with floating interest rates.

With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in %	Effect on profit before tax Million KRW
2013	1.00	-2,116
	-1.00	2,116
2012	1.00	-2,295
	-1.00	2,295

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities. The risk of foreign exchange primarily relates to Japanese Yen (JPY), US Dollars (USD), Euro (EUR) and to Swiss Francs (CHF).

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

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

Foreign currency sensitivity

The Group carries out a sensitivity analysis for the dominant foreign currencies Euro (EUR), Japanese Yen (JPY), Swiss Francs (CHF) and US Dollar (USD). The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments. The following table demonstrates the sensitivity of consolidated net profit before tax to a reasonably possible shift in exchange rates related to financial instruments held in the balance sheet. Assuming that the other variables are constant but only the foreign exchange rate changes by 10%, the impacts on net profit for the year ended on December 31, 2013 and 2012 are as follows:

Currency	December 31, 2013		December 31, 2012	
	10% increase	10% decrease	10% increase	10% decrease
	Million KRW	Million KRW	Million KRW	Million KRW
USD	-406	406	673	-673
EUR	-717	717	2,384	-2,384
JPY	-687	687	-1,017	1,017
CHF	868	-868	2,693	-2,693
Total	-942	942	4,733	-4,733

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

23.3.2 CREDIT RISK

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and investing activities.

The Group maintains a policy to keep a trade relationship only with customers with a high credit rating assessed by credit assessment considering their financial position, past experience of defaults and other indicators of default. If a customer worsens in its credit rating, the Group sets an individual credit limit on that customer and intensively manages the credit risk. In addition, the Group minimizes the credit risk by maintaining the exposure to the credit risk at an insignificant level through ongoing management including periodical reviews on all the customers.

The Group is also exposed to credit risk with regard to bank deposits and cash and cash equivalents, in which the maximum exposure to credit risk at the reporting date is the carrying value. The exposure to the related credit risk, however, is relatively restricted because the Group maintains relationships with financial institutions with high credit ratings.

23.3.3 LIQUIDITY RISK

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

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

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

The details of the maturity profile of the Group's financial liabilities, excluding financial derivative instruments, based on contractual undiscounted payments as of December 31, 2013 and 2012 are as follows (based on contractual undiscounted payments):

7 | CONSOLIDATED FINANCIAL STATEMENTS

As of 31 December 2013	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	63,196	96,683	102,751	149,271	3,070	414,971
Other financial liabilities	947	-	-	1,838	-	2,785
Trade and other payables	67,267	8,288	1,363	-	-	76,917
Total	131,410	104,971	104,114	151,109	3,070	494,674

As of 31 December 2012	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	148,902	91,167	164,091	27,805	2,209	434,174
Other financial liabilities	9,373	37	57	9,529	-	18,996
Trade and other payables	51,105	5,393	118	-	-	56,616
Total	209,380	96,597	164,266	37,334	2,209	509,786

23.3.4 CAPITAL MANAGEMENT

The capital managed by the Group is identical to the total amount of equity presented in the consolidated statement of financial position. The primary objective of the Group's capital management is to ensure that its continued ability to provide a consistent for its equity shareholders through a combination of capital growth and distribution. In order to achieve this objective, the Group monitors its gearing to balance risk and returns at an acceptable level and also maintain a sufficient funding base to enable the company to meet its working capital and strategic investment needs. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares considering not only the short-term position but also its long-term operational and strategic objectives. On Group level the debt ratio is reviewed regularly. The debt ratio as of December 31, 2013 and 2012 is 183% and 201% respectively.

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

24 COMMITMENTS AND CONTINGENCIES

24.1 CONTINGENT LIABILITY

There are no current proceedings such as lawsuits, claims, investigations and negotiations due to product liability, mercantile law, environmental protection, health and safety etc. which could have significant influence on business operations, on the Group's financial position or income.

24.2 OPERATING LEASE COMMITMENTS

The Group has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

Description	December 31, 2013	December 31, 2012
	Million KRW	Million KRW
Within one year	-1,063	-686
After one year but not more than five years	-2,448	-1,149
More than five years	-1,275	-590
Total	-4,786	-2,425

24.3 OTHER COMMITMENTS

As part of the ordinary business, the Group could enter into various contractual commitments for the purchase of tangible fixed assets and intangible assets as well as investment properties and promotion properties.

As of December 31, 2013 commitments to purchase property, plant and equipment amounting to 4,008 million KRW (December 31, 2012: 5,079 million KRW) were entered.

The Group has provided two checks amounting to 22 Million KRW to Lotte Chemical Co., Ltd. and one blank promissory note to Hanwha Chemical Co., Ltd. as security on the supply contracts.

One check and one promissory note which the Group received from Korea Exchange Bank are outstanding as of December 31, 2013 due to bankruptcy declared by the issuers of the check.

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Details of the Group's available short-term credit line facilities (excluding general loans) as of December 31, 2013 are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	25,800	14,758	11,042
D/A and D/P	Thousand USD	125,000	76,973	48,027
	Million KRW	43,000	28,493	14,507
Trade loans	Million KRW	68,000	51,224	16,776
Syndicated short-term loans	Million KRW	50,000	10,000	40,000
L/G for import	Thousand USD	1,000	-	1,000
Other foreign currency guarantees	Thousand USD	4,000	4,000	-
Total	Million KRW	161,000	89,717	71,283
Total	Thousand USD	155,800	95,731	60,069

The Group signed on February 18, 2013 a syndicated loan facility of 220,000 Million KRW comprising 170,000 Million KRW of 3 year term loan and 50,000 Million KRW of Revolving Credit Facility (RCF) that revolves every year. Replacing the existing loans, the Group has withdrawn long term facility amounting to 170,000 Million KRW and revolving credit facility amounting to 20,000 Million KRW. The syndicated loan facility was organized by Korea Exchange Bank and Woori Bank as leading banks and other 3 banks such as Standard Chartered Bank, Hana Bank and Busan Bank as participating banks.

In connection with the syndicated loan agreement entered into on February 18, 2013, the parent company must maintain the following financial ratios:

Financial measure	Required ratio
DEBT/EBITDA	8 or less than 8
EBITDA/Interest	2.5 or more than 2.5
Debt/ Equity	250% or less than 250%

25 ASSETS PLEDGED AS COLLATERAL AND GUARANTEES

Details of property, plant and equipment and investment properties pledged by the Group as collateral for interest-bearing loans and borrowings as of as of December 31, 2013 and 2012, expressed in the maximum value registered to Korean court, are as follows:

Pledged to	Pledged assets	December 31, 2013	December 31, 2012
		Million KRW	Million KRW
Property, plant and equipment (Joint collateral in connection with syndicated loan)			
Woori Bank	Land, buildings, investment properties and machinery		
Korea Exchange Bank	Land, buildings, investment properties and machinery		
Hana Bank	Land, buildings, investment properties and machinery	242,000	-
Busan Bank	Land, buildings, investment properties and machinery		
Korean Standard Chartered Bank	Land, buildings, investment properties and machinery		
Property, plant and equipment (Collateral for loans and borrowings other than syndicated loan)			
Woori Bank	Land, buildings and machinery	-	210,000
Korea Exchange Bank	Land, buildings and machinery	-	36,200
Korea Development Bank	Land, buildings and machinery	57,000	57,000
Citibank	Land, buildings and machinery	-	13,000
Investment properties			
Hana Bank	Land and buildings	-	25,000
Total		299,000	341,200

Additionally, items of property, plant and equipment belonging to Songwon ATG GmbH (Germany) with a total value of 251 Million KRW are pledged as a collateral for interest-bearing loans and borrowings as of December 31, 2013.

Investment properties pledged by the Group as collateral in connection with repayment of leasehold deposits received as of December 31, 2013 and December 31, 2012 amounted to 200 Million KRW.

Songwon Industrial Co. Ltd. is providing a payment guarantee of 800 Million KRW to Seoul guarantee insurance company on behalf of H2 Logistics who is providing ocean transportation arrangement service to the Group.

The land and buildings received as collateral from Songwon Moolsan Co., Ltd. and Kyungshin Ind. Co., Ltd. amounting to 27,000 Million KRW in connection with the Group's borrowings from Busan Bank have been excluded from the collateral properties as all of the borrowings have been repaid on March 8, 2013. Busan bank is participating in the syndicated loan facility signed on February 18, 2013.

The Group has received payment guarantees amounting to 387,114 Million KRW and 63.80 Million USD provided by Jongho Park, CEO of the Group, in connection with the Group's borrowings from banks as of December 31, 2013.

For further details regarding other financial assets pledged as collateral please see Note 12.2.

26 OPERATING PROFIT AND OTHER INCOME/EXPENSES

26.1 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of 1,668 Million KRW (2012: 1,456 Million KRW) are recorded in the income statement. Development expenses are not capitalized because the conditions for capitalization have not been met.

26.2 SELLING AND ADMINISTRATION COST

Description	2013 Million KRW	2012 Million KRW
Sales related costs	-37,942	-31,159
Personnel expenses	-25,619	-22,957
Travelling and Entertainment	-6,447	-4,485
Depreciation and amortization	-6,531	-6,358
Administration expenses	-9,284	-7,327
Bad debt loss	-238	255
Others	-3,185	-2,315
Total	-89,246	-74,347

A new accounts structure was implemented in 2013. The prior year accounts structure was adjusted accordingly.

26.3 OTHER INCOME

Description	2013 Million KRW	2012 Million KRW
Fee income	260	223
Miscellaneous income	1,381	472
Gains on foreign exchange transaction	10,001	5,170
Gains on foreign exchange translation	1,533	468
Gain on disposal of property, plant and equipment and operations	2,906	175
Rental income (third parties)	1,676	1,609
Rental income (related parties)	-	1
Total	17,757	8,118

26.4 OTHER EXPENSES

Description	2013 Million KRW	2012 Million KRW
Loss on capacity variance	-1,966	-10,864
Miscellaneous operating expenses	-1,591	-2,204
Loss on disposal of property, plant and equipment and operations	-14	-
Loss on foreign exchange transaction	-6,929	-8,671
Loss on foreign exchange translation	-3,915	-6,884
Total other expenses	-14,415	-28,623

26.5 EXPENSES CLASSIFIED BY NATURE

Description	2013	2012
	Million KRW	Million KRW
Purchased material	-414,490	-424,109
Freight and logistic costs	-28,833	-28,221
Energy costs	-46,189	-45,196
Personnel expenses	-69,327	-61,218
Depreciation and amortization	-31,266	-30,348
Changes in inventories of finished goods and supplies	2,718	4,828
Foreign exchange losses	-10,844	-15,557
Other expenses	-64,303	-50,787
Total	-662,534	-650,608
Thereof recorded in cost of sales	-558,873	-547,638
Thereof recorded in selling and administration costs	-89,246	-74,347
Thereof recorded in other expenses	-14,415	-28,623
Total	-662,534	-650,608

26.6 FINANCE COSTS

Description	2013	2012
	Million KRW	Million KRW
Interest on borrowings	-18,625	-23,125
Total interest cost	-18,625	-23,125
Loss on foreign exchange	-16,505	-13,425
Loss on derivative transaction	-686	-114
Loss on valuation of derivatives	-78	-304
Loss on disposal of available-for-sale securities	-574	-
Bank charges	-345	-127
Total finance costs	-36,813	-37,095

26.7 FINANCE INCOME

Description	2013	2012
	Million KRW	Million KRW
Gain on foreign exchange	16,210	20,985
Gain on derivative transaction	2,993	2,296
Gains on valuation of derivatives	336	257
Interest on loans and receivables (3 rd parties)	782	603
Interest on loans and receivables (related parties)	13	-
Other	34	103
Total finance income	20,368	24,244

7 | CONSOLIDATED FINANCIAL STATEMENTS

26.8 NET GAINS AND LOSSES OF THE CLASSES OF FINANCIAL INSTRUMENTS

Net gains or losses (excluding bank charges) on the classes of the financial instruments for the years ended December 31, 2013 and 2012 are as follows:

Description	2013 Million KRW	2012 Million KRW
Financial assets measured at fair value through profit or loss	2,522	2,135
Loans and receivables	855	127
Available-for-sale financial assets	-339	97
Financial liabilities measured at amortized cost	-19,138	-15,082
Total	-16,100	-12,724
Finance costs	-36,813	-37,095
Finance income	20,368	24,244
Bank charges	345	127
Total	-16,100	-12,724

27 INCOME TAX

The major components of income tax expense for the years ended December 31, 2013 and 2012 are:

27.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Description	2013 Million KRW	2012 Million KRW
Current income tax charge	-6,264	-5,739
Adjustments in respect of current income tax of previous year	467	-41
Deferred income taxes relating to changes of temporary differences, net	-1,482	5,162
Deferred income taxes relating to tax loss carry forwards	209	-4,059
Deferred income taxes from tax credits	-1,672	2,033
Deferred income taxes recognized directly to other comprehensive income	-196	-1,233
Income tax expense reported in the income statement	-8,938	-3,877

Description	2013 Million KRW	2012 Million KRW
Accounting profit before income tax	31,865	24,336
At parent company's statutory income tax rate of 22.26% (2012: 22.71%)	-7,094	-5,527
Increase/(decrease) in income taxes resulting from:		
Adjustments in respect to current income tax of previous years	467	-41
Non temporary differences	-448	-212
Tax credits	688	-
Effect of different tax rates in tax jurisdiction	-1,722	-1,977
Other (reassessment of impaired deferred tax assets etc.)	-829	3,880
At the effective income tax rate 28.05% (2012: 15.93%)	-8,938	-3,877

27.2 DEFERRED TAX

Deferred tax relates to the following:

Description	Consolidated statements of financial position		Consolidated statements of comprehensive income	
	December 31, 2013 Million KRW	December 31, 2012 Million KRW	2013 Million KRW	2012 Million KRW
Pension obligation	999	1,498	-638	-667
Other long term employment benefits	266	330	-64	17
Trade receivables	1	-	1	-
Inventories	906	2,810	-1,904	870
Fixed assets	-21,926	-23,283	7,262	2,544
Gain on revaluation of land	-24,911	-24,014	-6,803	11
Impairment loss on available-for-sale investments	3	-	3	-
Loss on currency forwards	-	67	-67	-61
Other withholdings (governmental grant)	-	55	-55	-
Accrued income	-10	-161	151	-126
Gain on foreign exchange	-	-1,478	1,478	-251
Loss on foreign exchange	-	1,683	-1,683	353
Prepaid expenses	65	-	65	163
Other current liabilities	5	75	-70	75
Other current provisions	89	69	20	69
Other non-current provisions	10	2	8	-38
Gain on valuation of available-for-sale investments	-1	41	-42	-
Gain on currency forwards	-	-57	57	-57
Intangible assets	-2,381	-2,984	603	1,027
Losses available for offsetting against future taxable income	209	-	209	-4,059
Tax credits carry forwards	2,022	3,694	-1,672	2,033
Deferred tax income/(expense)	-	-	-3,141	1,903
Net deferred tax assets/(liabilities)	-44,655	-41,653		
Reflected in the statement of financial position as follows:				
Deferred tax assets	1,117	2,780		
Deferred tax liabilities	-45,772	44,433		

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

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Reconciliation of deferred tax liabilities, net:

Description	2013	2012
	Million KRW	Million KRW
Opening balance as of January 1	-41,653	-45,079
Tax income (expense) during the period recognized in total comprehensive income	-2,945	3,136
Exchange differences	-57	290
Closing balance as of December 31	-44,655	-41,653

Expecting sufficient taxable income, the Group recognized deferred income tax assets to the extent of future taxable income. For the following deductible temporary differences, tax loss carry forwards, no deferred tax assets as of December 31, 2013 and 2012 were recognized:

Description	2013	2012
	Million KRW	Million KRW
Temporary differences related to investments in subsidiaries	177	131
Total	177	131

Expected timing of expiration of recognized tax loss carry forwards and tax credit carry forwards as of December 31, 2013 and 2012 are as follows:

	Recognized deferred tax assets	
	Tax loss carry forwards	Tax credit carry forwards
	Million KRW	Million KRW
December 31, 2013		
less 1 year	-	-
1-5 years	-	2,022
5 years and later	209	-
Total	209	2,022
December 31, 2012		
less 1 year	-	824
1-5 years	-	2,821
5 years and later	-	49
Total	-	3,694

28 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the average number of ordinary shares outstanding during the year.

There is no difference between basic and diluted earnings per share in 2013 and 2012.

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

Description	2013	2012
	KRW	KRW
Net profit attributable to ordinary equity holders of the parent	23,997,429,263	20,585,707,165
Weighted average number of ordinary shares	24,000,000	24,000,000
Earnings per share (basic/diluted)	1,000	858

29 CASH FLOW STATEMENT

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

The Group's statement of cash flow is prepared using the indirect method. The adjustments, to the net profit for the period, of the non-cash and non-operating items and changes in operating assets and liabilities for the years ended December 31, 2013 and 2012 are as follows:

Description	Notes	2013	2012
		Million KRW	Million KRW
Adjustments of non-cash items			
Depreciation and impairment of property, plant and equipment	6	25,206	24,298
Depreciation of investment properties	7	177	174
Amortization of intangible assets except for goodwill	8	5,883	5,876
Gain on disposal of property, plant and equipment, net		-273	-175
Loss on disposal of available-for-sale financial instruments		574	-
Share of result from investments accounted for using the equity method	10	-923	-40
Finance costs		29,908	37,095
Finance income		-3,506	-24,244
Income tax expenses	27	8,938	3,877
Total		65,984	46,861

7 | CONSOLIDATED FINANCIAL STATEMENTS

Description	2013	2012
	Million KRW	Million KRW
Changes in operating assets and liabilities		
Trade receivables	-16,208	11,166
Other receivables	638	-3,055
Other current assets	-2,439	823
Other current financial assets	-37	-257
Inventories	-14,455	5,306
Trade payables	8,506	15,560
Other payables	1,155	2,422
Other current financial liabilities	-98	-359
Other current liabilities	1,240	-651
Pension liabilities	-3,278	-2,158
Other long-term employment benefits	-250	78
Total	-25,226	28,875

30 RELATED PARTY DISCLOSURES

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

Related party	Description	For the year ending on December 31	
		2013 Million KRW	2012 Million KRW
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Sales	14	-
	Purchase	12,110	3,148
	Selling and administration costs	-	-
	Other income	-	-
	Finance income	13	-
Chemservice Asia Ltd. (Joint venture)	Sales	-	-
	Purchase	-	-
	Selling and administration costs	73	73
	Other income	-	1
	Finance income	-	-
Total	Sales	14	-
	Purchase	12,110	3,148
	Selling and administration costs	73	73
	Other income	-	1
	Finance income	13	-

Related party	Description	December 31, 2013	December 31, 2012
		Million KRW	Million KRW
	Other receivables	13	617
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Other current financial assets	346	-
	Trade payables	879	324
	Other payables	-	-
Chemservice Asia Ltd. (Joint venture)	Other receivables	-	-
	Other current financial assets	-	-
	Trade payables	-	-
	Other payables	7	7
	Other receivables	13	617
Total	Other current financial assets	346	-
	Trade payables	879	324
	Other payables	7	7

30.1 THE ULTIMATE PARENT

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

30.2 TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2013, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2012: None). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

30.3 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Since January 3, 2011, the Group holds 100% of Songwon International AG's share both directly (55.8% equity interest), and indirectly by acquiring 100% share of Songwon Holdings AG (44.2% interest).

The former shareholders of Songwon Holdings AG are present members of the Board of Directors of its subsidiaries Songwon International AG and Songwon International Americas, Inc.

The amount outstanding of the total acquisition cost of Songwon Holdings AG as of December 31, 2012 together with an interest earned, was completely paid in during 2013.

30.4 COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

Description	2013	2012
	Million KRW	Million KRW
Short term employee benefits	8,765	7,339
Post-employment benefits	729	695
Other long-term benefits	861	762
Share based payments	25	-
Total compensation paid to key management personnel	10,380	8,796

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

30.5 OTHER RELATED PARTIES

Other related parties are Songwon Moolsan Co. Ltd (Korea) which has significant influence on the Group due to the interest held in the share capital of the parent company of 23.88%. Further the subsidiary of Songwon Moolsan Co. Ltd, Kyungshin Industrial Co., Ltd. Holding interest in the share capital of the parent company of 9.15%, is identified as a related party to the Group.

31 EVENTS AFTER THE REPORTING PERIOD

The consolidated financial statements for the year ended December 31, 2013 were approved by the Board of Directors of the parent company on February 4, 2014.

ABOUT THIS REPORT

NOTE ON FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning the future plans, strategies and performance of the Songwon Industrial Group. These statements reflect the views, expectations and assumptions of the Songwon Industrial Group management based on the current information available at the date of publication. Such statements are subject to various known and unknown

factors, risks and uncertainties that may cause the actual future results, financial situation, development or performance of the company to differ from the expectations expressed in the annual report. The company assumes no liability whatsoever to update these statements or to conform them to future events or developments.

FURTHER NOTES ABOUT THIS REPORT

This the most recent report of Songwon It covers the period Jan 2013 to Dec 2013. It succeeds the previous Songwon Annual Report 2012, published in March 2013.

Songwon`s Corporate Sustainability Report includes updates to the previous report to reflect data through end-of-year 2013 unless otherwise specified. Data for this report has been measured according to industry standard measurement methods unless otherwise stated. There are no significant changes in the scope, boundary or measurement methods applied in the report.

There are no re-statements of information provided in earlier reports.

Boundary of Report GRI: Responses provided in Operational Structure (GRI 2.3), Countries of Operations (GRI 2.5), and Report Basis (GRI 3.8) define the boundary for this report within the reporting period unless otherwise stated.

Songwon does not currently engage an external agency or organization to audit its GRI responses or our Corporate Sustainability Report.

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For more information, please contact:

Songwon International AG

Phone: +41 52 635 00 00

Fax: +41 52 635 00 01

E-mail: ir@songwon.com

www.songwon.com

Songwon Industrial Co., Ltd.

83, Jangsaengpo-ro

Nam-Gu 680-090

Ulsan, Korea

Songwon Holdings AG

Walzmühlestrasse 48

CH-8500 Frauenfeld

Switzerland

Songwon International AG

Walzmühlestrasse 48

CH-8500 Frauenfeld

Switzerland

Songwon International-Americas, Inc.

1311 W Parkwood Ave

Friendswood, TX 77546

USA

Songwon International - India Pvt. Ltd.

701 - Purva Plaza

Shimpoli Road, Borivali (West)

Mumbai 400092, India

Songwon International - Japan K.K.

Nishi-Shinbashi 1chome Kawate building 8F,

room 801 Nishi-Shinbashi 1-5-8,

Minato-ku, 105-0003 Tokyo

Japan

Songwon China Ltd.

Rooms 2202-03, 22/F, Wing On House

71 Des Voeux Road, Central

Hong Kong, PR China

Songwon Trading Co. Ltd.

3rd Floor, Unit 2, 159 Tianzhou Road

Shanghai 200233, PR China

Songwon Chemicals Co. Ltd.

No. 680 Shenfu Road, Jiuting,

Songjiang District

Shanghai 201615, PR China

Songwon Baifu Chemicals (Tangshan) Co. Ltd.

Tangshan Nanpu Development Zone

South to Ronghua Road

Tangshan, PR China

Chemservice Asia Co. Ltd.

Songwon Building, 59-4, Banpo 4-Dong

Seocho-gu 137-044

Seoul, Korea

Songwon Additive Technologies AG

Walzmühlestrasse 48

CH-8500 Frauenfeld

Switzerland

Songwon-ATG GmbH

Heinrich-Hertz-Strasse 10

DE-50170 Kerpen

Germany

Songwon Additive Technologies - Americas Inc.

1311 W Parkwood Ave

Friendswood, TX 77546

USA

Songwon Additive Technologies - Middle East FZE

Dubai Airport Free Zone

Building 6EB, Office No. 250

P.O. Box 371467

Dubai

United Arab Emirates

Polysys Additive Technologies - Middle East LLC

P.O. Box 112838

Abu Dhabi

United Arab Emirates

