SONGWON

2012
ANNUAL FINANCIAL & SUSTAINABILITY REPORT

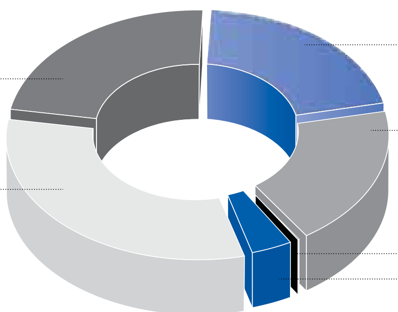
KEY FINANCIALS

KEY FINANCIAL DATA

	2012 Million KRW	2011 Million KRW
Sales of goods	679,637	628,972
Gross profit	131,999	92,119
Gross profit margin (%)	19.4%	14.6%
Operating profit	57,652	22,772
Profit for the year	20,459	10,033
Basic earnings per share (KRW)	858	418
Operating cash flow	93,999	19,725
Total assets	862,123	870,166
Total equity	286,716	275,019
Equity ratio (%)	33.3%	31.6%
Head counts	576	529

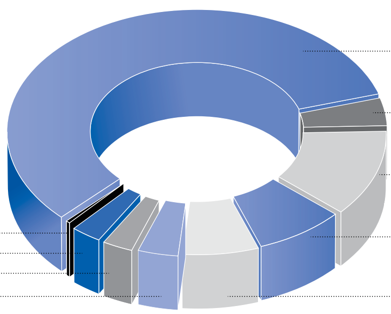
SALES BY REGION

Total sales of goods in 2012 of 679,637 Million KRW



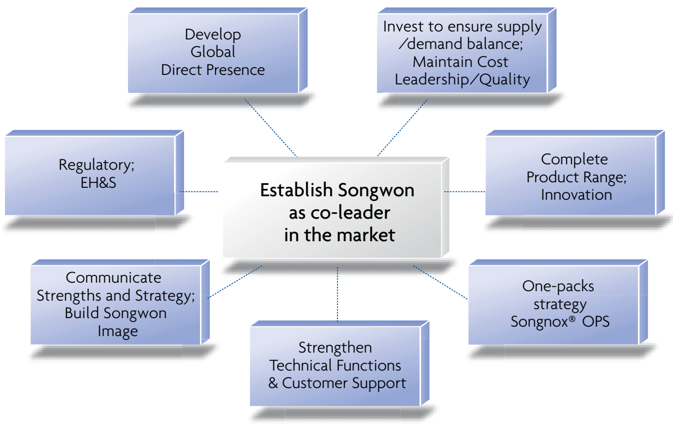
SALES BY PRODUCT

Total sales of goods in 2012 of 679,637 Million KRW



VISION

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

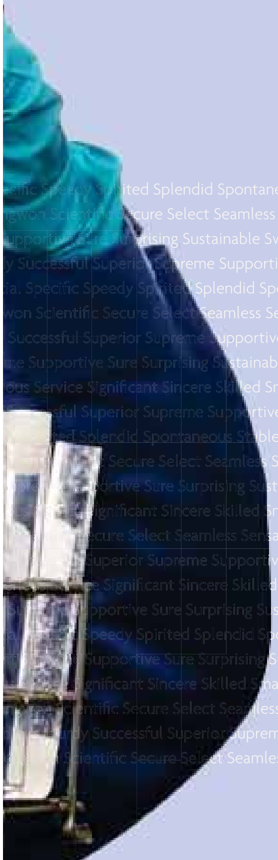


MISSION

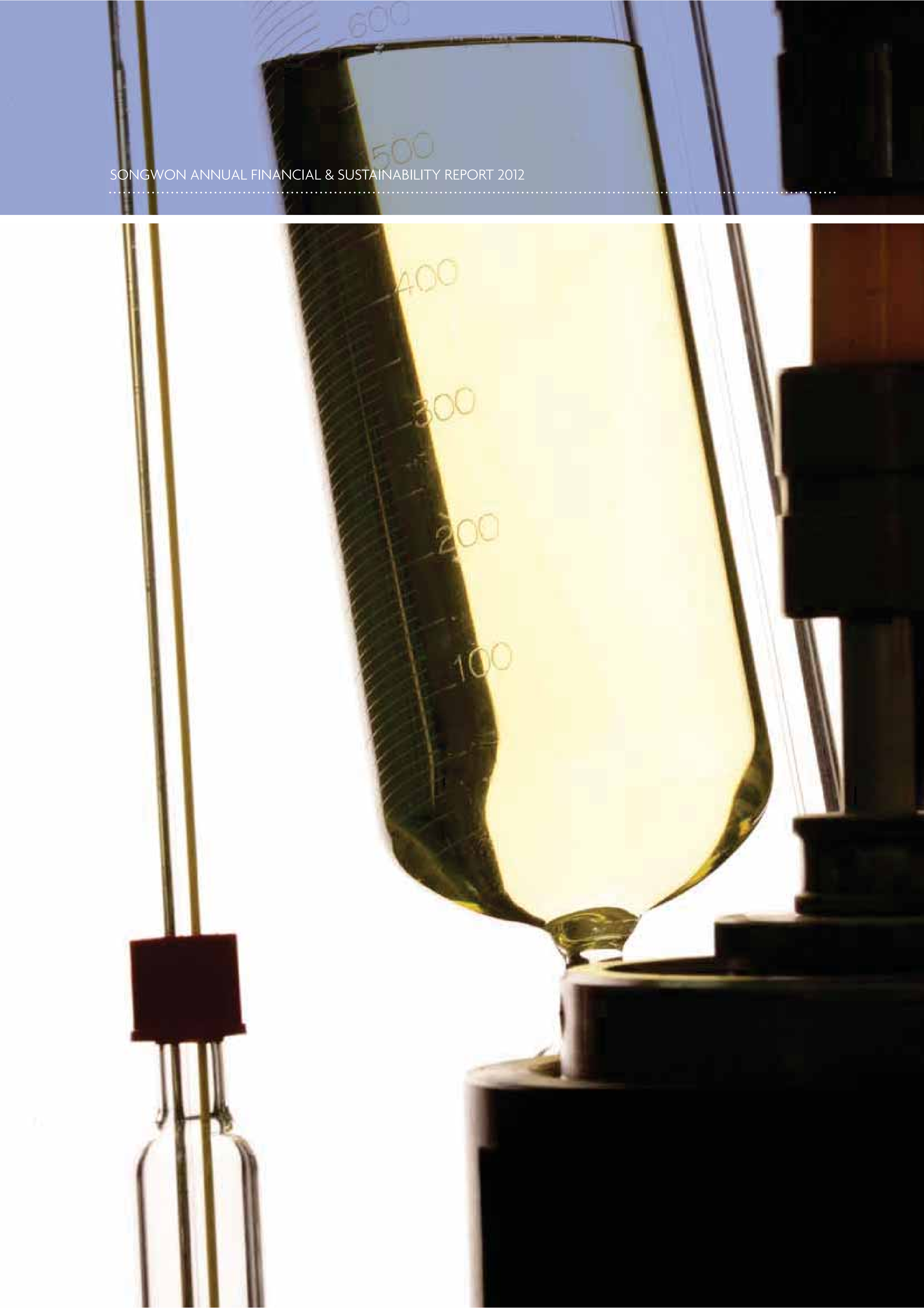
- **People:** Build a great place to work, inspiring our people to excel in a culture of creativity, collaboration, and consistency.
- **Products:** Provide a portfolio of quality products through the innovative application of sustainable chemistry.
- **Partners:** Create mutual, enduring value by constructing a winning network of customers and suppliers.
- **Performance:** Fulfill our responsibilities while maximizing long-term return to shareholders.
- **Productivity:** Develop and nurture a lean, highly effective and fast moving organization.

SONGWON INDUSTRIAL GROUP EXECUTIVE COMMITTEE

Standing from left to right: H.-P. Wüest, P. Schlaepfer, D. Morath, G. Sasselli, J. McGinley
Seated from left to right: M. Butti, JH Park, DB Park



SECTION 1



LETTER TO SHAREHOLDERS

Dear Shareholders,

2012 has been an excellent year for Songwon. We delivered consolidated revenues of 679.7 Billion KRW (636.8 Million US$) with an increase year on year of 8.1% and a consolidated net profit of 20.5 Billion KRW (19.2 Million US$), an increase of 103.9% compared to 2011. These results have been driven by our continued focus on organic growth in combination with the successful integration of Songwon Additive Technologies Greiz GmbH (formerly Additive Technology Greiz) which we acquired at the end of 2011. I am extremely satisfied with the execution of our organic growth plan, especially when set in the context of a global economic and financial crisis which started in 2011 and became even more severe during the course of 2012, particularly in Europe. The crisis has impacted global GDP and also affected emerging economies which seemed immune to the situation for some time. These achievements are a reflection of our solid foundation and the strength of our business, together with our continued effort to focus on strategic goals to understand and anticipate customer needs and to deliver superior performance in terms of quality and service. These results, delivered under the most difficult and volatile economic conditions, put us in an excellent position to achieve our future ambitious growth and profitability goals.

Despite a slow start into 2012, sales picked up during the first quarter and continued on a positive trend as the year unfolded, allowing us to develop a more consolidated and stronger market position. Raw material prices which were in a downward trend at the end of 2011, started to rise again at the beginning of 2012 to which we responded by announcing and implementing a price increase in the first quarter of the year. The difficult market conditions also had their effect on our suppliers and raw material prices started to ease, dropping back to the Q4 2011 level. The combination of a relatively stable raw material price together with the effect of production process improvements, which we continue to implement throughout all our operations and in all locations, allowed us to deliver on our cost targets ensuring that we remain a healthy investment grade business.

Maeam manufacturing facility, Korea

2012 has been an exciting year for Songwon Industrial Group where we continued to focus on the key elements of our strategy:

- Cost improvement through back integration and economies of scale, as well as a constant enhancement of our proprietary technologies and processes, leading to both cost and efficiency improvements.
- Dedication to operational excellence and streamlined business processes enabling us to deliver superior overall quality and service.
- Understand and anticipate market needs, allowing us to build strong customer and supplier relationships.
- Ability to act quickly in response to global challenges and shifting market conditions with a strong, empowered and committed management team and our unrelenting effort to attract the best talent from the industry.

In particular we launched several key initiatives to strengthen and consolidate our competitive position, focusing on our offering to the market and on key geographies, creating a strong platform to sustain future growth.

Our operations are key to our success and we are reviewing each and every one of our proprietary processes with the aim of finding improvement opportunities. Polymer Stabilizers represent a large share of our product offering and we are upgrading our existing production lines in the Ulsan plant with proven production technologies, developed by ourselves, which are already in place at our flagship Maeam plant. This has allowed us to improve efficiency and increase capacity in some of the lines and this effort will continue to improve results in the years to come.

To be a leader in compliance with environmental regulation is inherent in the Songwon culture. In 2012 we announced and implemented the expansion of our DOTO capacity by 60%; this, however, will come at the expense of DBTO capacity. A proactive move from our side which is based on the fact that we expect DBTO to be discontinued in all applications where possible by 2015; a direct consequence of global environmental regulations becoming stricter and the implementation of REACH in Europe alongside of other similar initiatives in the rest of the world. Our move to DOTO will ensure that we can provide the products that our customers need without compromising our environmental position. At the same time we decided to discontinue the production of tin based agrochemicals. Although these products are still in use in certain countries, we feel that they do not fit with our overall approach to environmental stewardship.

One Pack Systems (OPS) have been identified as a key area of growth for our Polymer Stabilizers business. Following the acquisition of ATG (Additive Technology Greiz GmbH) in Germany and its successful integration in our processes, we implemented a capacity expansion from 7,000 to 14,000 MT in the Greiz plant in Germany which came on stream in July 2012, making this facility one of the biggest plants for OPS in the world. In addition, and equally important, we have established Songwon Additive Technologies AG, a partnership with two prominent Middle Eastern groups, Pan Gulf Holdings of Bahrain and Polysys Industries of Abu Dhabi. The new partnership will become the vehicle for the global expansion of all our OPS activities

Jongho Park, Chairman of the Board and CEO

and is the parent company of ATG. Songwon Additive Technologies AG embarked on an aggressive investment plan to enable production of OPS in other key regions. The first plant in the United States will come on stream in April 2013 followed by a production facility in the Middle East, to be located in Abu Dhabi, and scheduled to start production in the first quarter of 2014.

This provides a key opportunity for Songwon, giving us access to a significant and growing segment of the global Polymer Stabilizers business. It will expand our offering to key global customers allowing greater flexibility as well as increased security in critical processes and applications. Our goal is to offer OPS products globally, based on identical technology and with the highest levels of consistency and service.

Extending our manufacturing footprint in key regions is a major step in our globalization efforts. The Middle East is rapidly becoming a key market for Polymer Stabilizers and expected to continue to show double digit growth in the coming years. OPS offer a strategic advantage in locations where compounding infrastructure is not yet in place and where climate conditions can affect powders. Building a production facility in the region will ensure that we can offer emerging customers the best possible value and expediency.

In July 2012 the joint venture with Tangshan Baifu Chemical Co. Ltd., a leading producer of thioesters, based on a fully back-integrated process, started its operations under the name of Songwon Baifu Chemicals (Tangshan) Co. Ltd.. This joint venture has given us a strong position in the thioester arena, an important group of antioxidants, and the first significant manufacturing presence in China.

In September 2012 we entered into a global distributorship agreement with Sabo S.p.A. to globally distribute HALS (hindered amine light stabilizers) produced by Sabo. This is an important step to secure our position in the HALS market which now forms one of the key growth segments of our Polymer Stabilizers portfolio. Sabo is one of the major global producers of HALS and like ourselves, is based on a fully back-integrated world scale production facility.

During 2012, following the establishment of Songwon Industrial Group and the new corporate organization, we embarked on a journey to capture the fundamentals of the company and develop a brand essence as the foundation for all corporate communications. As a result of this effort we have implemented a Songwon Corporate Identity Program, which will allow the group to communicate globally in a recognizable and coherent structure. One of the first initiatives has been the launch of a completely new corporate website (www.songwon.com) in October 2012. Our stakeholders will now benefit from easy access to comprehensive information which is presented in a format that is user-friendly and can be easily understood.

We have continued to work on and improve the newly created global organization, attracting new talent to the group. In addition, we have launched a Succession Planning initiative to highlight gaps in the organization and identify needs for people development which will result in a comprehensive training program.

Last but not least, we have decided to incorporate our first Sustainability Report into our Annual Financial Report 2012. Our commitment to sustainability is well reflected in our vision and mission and is part of our Corporate Responsibility, one of Songwon's core values which permeates all our activities. This has many aspects and 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 EH&S performance, being a responsible company caring for communities, demonstrating an irreproachable business conduct, as well as making sure that all our products and activities are not only 100% compliant with all the agreed international standards, but that they exceed such standards. We strive for sustainable development throughout Songwon, and for the future our aim is to continue to reduce the environmental impact of our business by continuing to control and reduce, whenever possible, the use of energy and water and to increase the use of renewable raw materials. We will also continue to assess and develop an understanding of the environmental impact of our products.

Our major focus will continue to be on the polymer market which we expect to remain strong and show above average growth for the foreseeable future. Despite short term economic downturns, the key megatrends (population growth, demand for end use products in the emerging markets and inter-material competition) remain the same and will drive growth in demand. We are in an excellent position to benefit from this opportunity having proprietary technologies, excellent economics, best in class quality and reliability. In addition, our global footprint is taking shape and our product portfolio is robust and growing. We are rapidly becoming the additives partner of choice and a leading supplier in both established and emerging markets.

We expect a bright future for the Songwon Industrial Group, and to ensure that we take full advantage of the opportunities before us, we have embarked on the development of a new strategic plan to identify the key actions to deliver profitable growth of our expanding corporation in the future.

Yours sincerely

Jongho Park

Jongho Park
Chairman of the Board and CEO

HISTORY - 47 YEARS SONGWON

As we rapidly approach the 50th anniversary of Songwon, it is worth remembering that we started in 1965 as the only producer of plastic additives in Korea. Songwon grew constantly to become the second largest supplier of polymer additives globally. In doing so, Songwon has remained financially robust and has successfully weathered a number of volatile economic periods while many others have failed.

Established in 1965, Songwon started its activities in a manufacturing plant in Busan to produce liquid PVC stabilizers and metal soaps. Offices in Seoul were established a few years later and a second manufacturing site was started at Suwon in 1977 for the production of polyester diols and PU resins.

In the following years the production of rubber antioxidants started in Busan, while flocculants were produced in Suwon.

In 1983 Songwon opened its Research and Development Centre with the approval of the Korean Ministry of Science and Technology and the production of tin stabilizers and agrochemicals were added to the product range. Two years later the first phenolic antioxidants were produced in Busan and Songwon continued growing, refining and tailoring its product portfolio according to market and customer needs. SAP production was added in Suwon in 1986 and, in the same year, a new production site in Ulsan was commissioned focusing on the expansion of capacity for all products manufactured at the Busan site. Phosphite antioxidants were brought on stream in 1993 and shortly afterwards, in 1995, Songwon implemented ISO standards to ensure that it remained at the leading edge of quality and reliability, gaining ISO 9002 approval. In 1998 alkylphenol production was introduced which represented Songwon's first step into backward integration. The year 2000 saw the startup of production of methyl tin stabilizers and in 2001 Songwon entered the production of biphenol, bi-functional monomers and PTBP.

From inception in 1965 through to a major turning point in 2005, Songwon had grown in 40 years to a 268 Billion KRW (250 Million US$) business and was proudly considered as the strongest additives manufacturer and supplier in Korea as well as being a major player in the South East Asian region.

Songnox 1076 manufacturing, Maeam, Korea

In 2006, Jongho Park, CEO of Songwon Industrial Group, and his leadership team took the decision to drive the company further ahead by approaching the global market directly and setting Songwon on the road to becoming a major global force in polymer additives.

Songwon International - Japan K.K. had already been established and a true global network took shape as Songwon International AG, based in Frauenfeld (Switzerland), and its subsidiary, Songwon International –Americas Inc. based in Houston, United States, were added. Customer response was so positive that it was decided to add additional capacity in the new state of the art facility in Maeam, which was commissioned in 2008, dedicated to the production of antioxidants and fully back-integrated into alkylphenols. In 2009 a second step into full backward integration was taken when isobutylene, a key component in the production of antioxidants, was brought on stream and capacity increased a year later, in 2010.

With the addition of Songwon China Ltd., Songwon International - India Pvt. Ltd. and a representative office in Bahrain, Songwon Industrial Co., Ltd. started to establish a truly global presence and develop a network capable of serving a worldwide market meeting the demands of global customers.

In 2011, the new production line for Songnox 1076 was started in Maeam, increasing the capacity to 40,000 MT of antioxidants, making Maeam the largest fully back-integrated and dedicated plant for antioxidants.

At the end of 2011 Songwon established a European manufacturing base for OPS (One Pack Systems) with the acquisition of ATG (Additive Technology Greiz). The capacity in Greiz, which was approximately 7,000 MT at the time of the acquisition, was doubled in July 2012 to 14,000 MT, making Songwon the second largest manufacturer of One Pack Systems in Europe.

The new joint venture Songwon Baifu Chemicals (Tangshan) Co. Ltd., a leading producer of thioesters, based on a fully back-integrated process, has been established in July 2012. This new joint venture has given Songwon the first significant manufacturing presence in China and a strong position in thioesters.

In September 2012 a partnership agreement was signed for the establishment of Songwon Additive Technologies AG together with the two partners Pan Gulf Holdings of Bahrain and Polysys Industries of Abu Dhabi. Songwon Additive Technologies AG will be the vehicle for expansion of OPS globally, offering the same technology and service in each of the key regions. Following the establishment of the partnership the investment in two production facilities for OPS was announced, of which the first will be located in the United States, scheduled to start in April 2013, and the second in Abu Dhabi, due to come on stream during the first quarter of 2014.

In September 2012 we entered into a global distributorship agreement with Sabo S.p.A. to distribute hindered amine light stabilizers (HALS) produced by Sabo. This is a major step to secure our position in the HALS market, one of the key growth segments of our Polymer Stabilizers portfolio. Sabo is one of the major global producers of HALS and like ourselves, is based on a fully back-integrated world scale production facility. In addition, Songwon doubled the capacity for the production of polyurethanes in its Suwon facility in 2012 and has announced the expansion of its DOTO capacity at Ulsan, due to come on stream in 2013.

Songwon has grown from 268 Billion KRW (250 Million US$) in 2005 to 680 Billion KRW (637 Million US$) in 2012, and turnover is set to exceed 900 Billion KRW (800 Million US$) in 2015, establishing Songwon as one of the key global players in the specialty chemicals business and the co-leader in polymer additives.

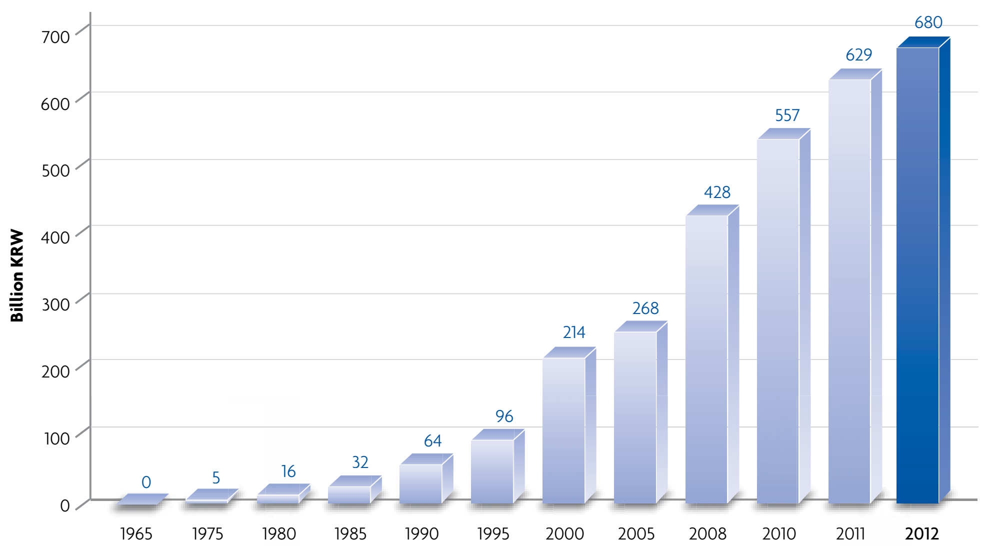


Fig. 3.1
Turnover in Billion KRW

SONGWON PROFILE

Founded in December 1965, Songwon Industrial Group today employs over 570 employees and is listed on the Korean stock exchange, Seoul (KRX), with a registered turnover in 2012 of 680 Billion KRW (637 Million US$).

Songwon Industrial Co., Ltd. has grown to become the second largest manufacturer of Polymer Stabilizers in the world. The company is headquartered in Ulsan, Korea, and today Songwon Industrial Group comprises:

- 14 companies including 2 joint ventures and 1 representative office, located in 8 different countries on 3 continents.
- 5 manufacturing facilities of which 3 are located in Korea, 1 in Germany, 1 in China and in addition a manufacturing JV plant in China.
- A worldwide network of sales and customer service offices, distributors, and 30 logistic hubs and warehouses.

Songwon's Proposition

Songwon delivers the best quality and value in the chemical additives industry to their global customers through:

- Operational and service excellence.
- Focus on innovation and technical support.
- Providing products that the customer requires, where the customer needs it and at a competitive price.

Songwon's Vision

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

Songwon's 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.
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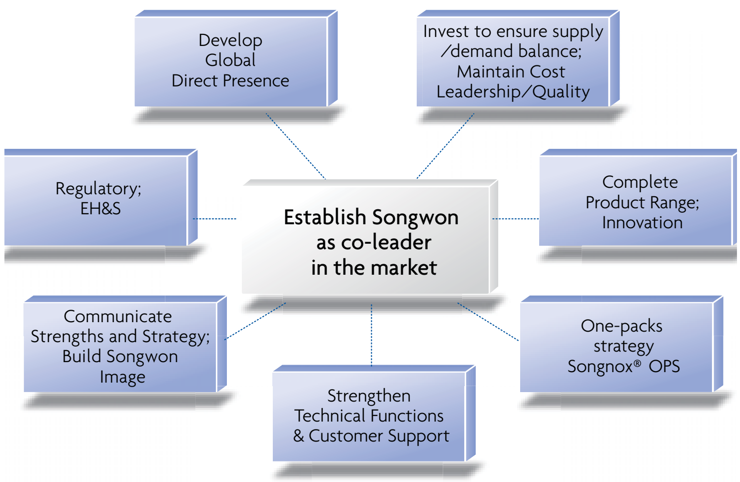


Songwon's Financial Targets

By 2015 Songwon will:

- be a business with revenues to exceed 900 Billion KRW (800 Million US$)
- achieve a gross margin in excess of 22%
- achieve an EBITDA of 12%

Awards

ISO 9000 certification was renewed in 2012 for Songwon Industrial Co., Ltd. and obtained for all other subsidiaries.

Fines and/or non-monetary sanctions

Songwon has been compliant with all rules and regulations affecting its activities in all regions and has not received any fines or non-monetary sanctions.

PRODUCT PORTFOLIO

Songwon Industrial Group is a leading producer and seller of Songnox® Antioxidants, Songnox® One Pack Systems, Sabostab® and Songlight® Hindered Amine Light Stabilizers, Songsorb® Ultraviolet Light Absorbers, 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, biphenol, SAP, flocculants and other chemicals.

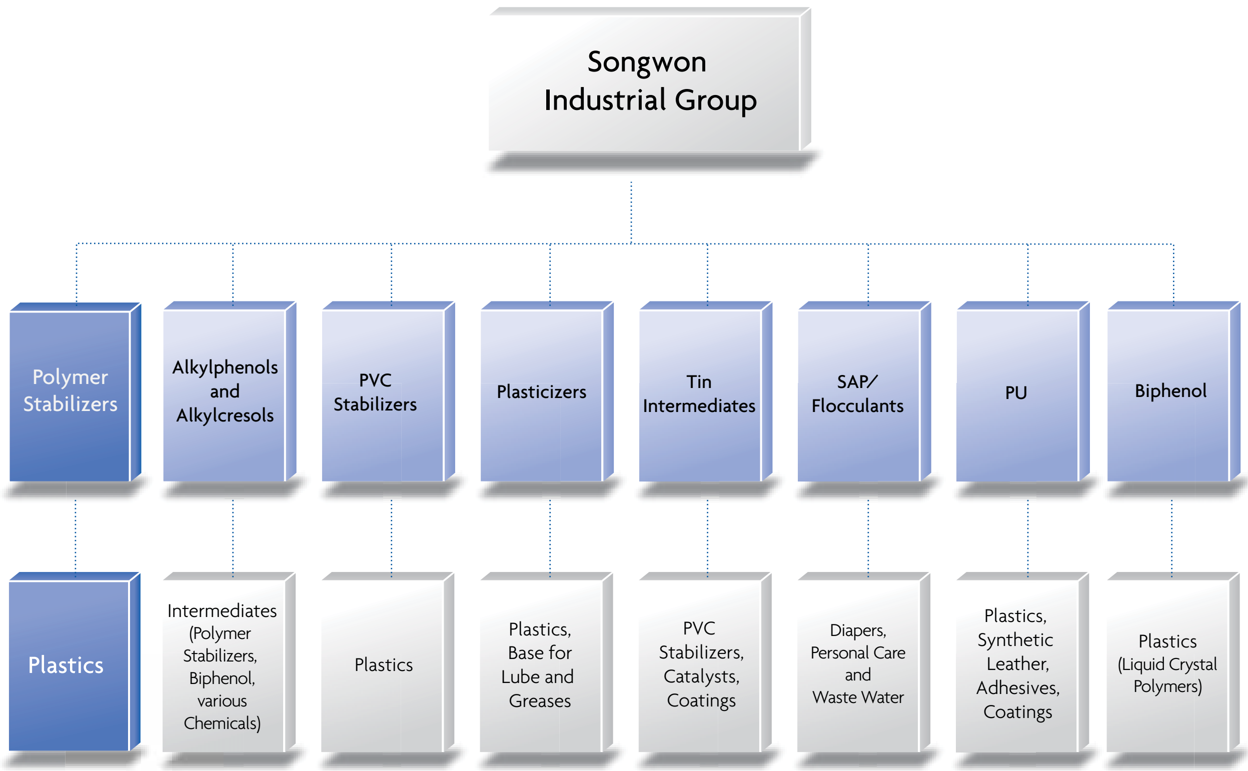


Fig. 5.1
Product overview

SONGWON INDUSTRIAL GROUP STRUCTURE

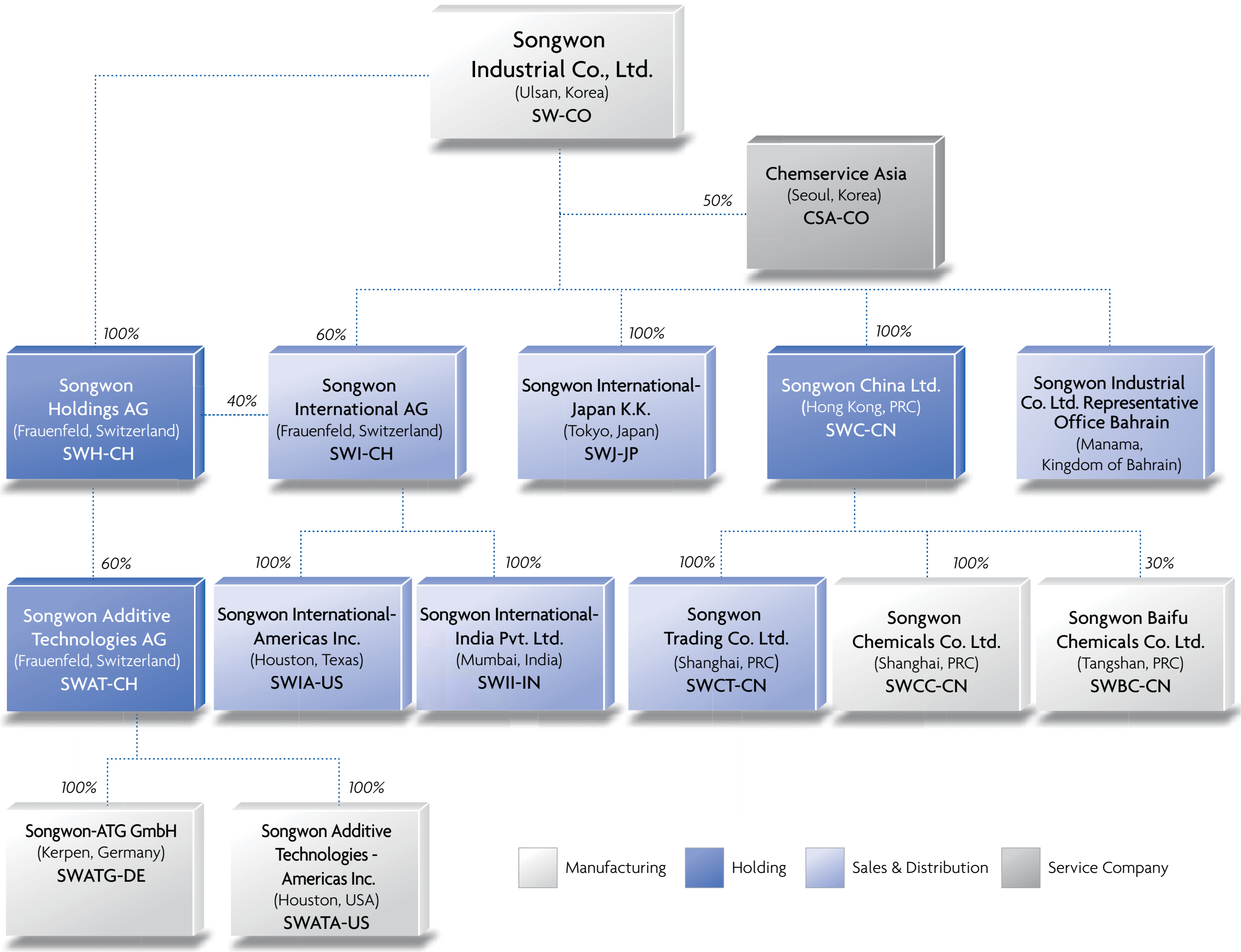


Fig. 6.1
Songwon Industrial Group Structure, December 2012

SONGWON ANNUAL FINANCIAL & SUSTAINABILITY REPORT 2012

DEVELOPMENT OF SONGWON SHARES

The Songwon share price started 2012 on an upward trend, however, the economic turbulence centered on Europe and the United States created volatility in stock markets worldwide, including the Korean stock market. This was reflected in the Songwon share price with many short term highs and lows during the year.

Expectation of Songwon's financial performance was set in context to the Korean Chemical Index which was largely related to petrochemicals and the business outlook of China. In general this remained weak throughout 2012 which affected Songwon's stock performance.

Since beginning of 2012, the quoted share price of Songwon Industrial Co., Ltd. increased by almost 29% from 9,250 KRW per share as of January 2, 2012 up to 11,900 KRW per share as of December 31, 2012.

Songwon share	
ISIN:	KR7004430005
Valor:	722523
Stock Market:	Korea Stock Exchange


SONGWON
松原産業

MARKET, RISKS AND OPPORTUNITIES

8.1 MARKET

The reference market for the Songwon Industrial Group products is mainly the polymer market and the demand for Songwon products is largely driven by the growth of the plastic industry, which has constantly shown significant growth rates over the last two decades. This trend is to be expected to continue in the medium to long term returning an AAGR of 3-5%, providing Songwon with a solid foundation for future growth.
The key megatrends of population growth, development in emerging economies, inter-material competition, new and demanding applications and climate change will drive the future growth of the plastic industry.
The world has experienced and continues to be governed by economic crisis (2008-2009 and 2011-2012). This has not only affected the short term growth prospective of the chemical industry, but has forced all companies in the chemical sector to restructure and consolidate, a trend which is driving continued cost reduction and economy of scale initiatives in the industry. The continuing trend of consolidation has given purchasers greater power with a few, large global players sourcing increased volumes across multiple regions.
As a consequence supply chains, of which additives are a key element, have been driven to take similar steps.

Globalization has moved entire value chains from West to East as explosive growth in Asia and the BRIC countries have driven demand.
Although not yet a demand driver, the Middle East is taking advantage of its feedstock resources to expand existing core businesses and new opportunities are beginning to emerge. Growth has been limited in the industrialized countries, however, the recent discovery of natural gas (shale gas) sources is predicted to boost and reinvigorate the petrochemical industry in traditional regions which is likely to lead to a redesign of the geo-economics of polymer production.

Demand in 2012 continued to be positive, despite the overall financial and economic turbulence, and was particularly strong in the first three quarters. There was a significant softening in demand towards the end of the year, however, this was also influenced by year-end inventory control. The expectation for the near future is that demand will improve to show a positive trend, driven by an overall easing of financial crisis related concerns and by demand in key countries in Asia.
The Japanese reconstruction can also create an additional surge in demand. Consumers continue to demand less expensive items and expect improved performance year on year;

this has put enormous pressure on component prices and speed of product launches. European and North American demand has softened and the recovery is temporarily fragile as consumers remain cautious.

Consolidation in the polymer industry has been driven by commoditization as producers seek out every opportunity to boost margins and profitability. Innovation that ran like wild fire in the 1990's slowed in the early 2000's and in the last few years has almost reached a standstill. The focus has changed to process speed and cost and suppliers are faced with performance based contracts which can lead to severe penalties in the event of production issues.

8.2 RISKS

As with all business risks, they often offer a reflected opportunity. The global economy presents the greatest risk. Consumer demand for products, housing, mobility and welfare drives the need for plastic applications that are made from polymers that, more often than not, require additives to boost properties and performance. The key risk in the Western hemisphere is the absolute unpredictability of the economic environment. Economic growth is extremely slow, to the point that recession is an extreme danger. This inevitably will have an effect on the overall global economy, putting pressure on demand which will continue to affect suppliers, such that margins will be squeezed further and only the strongest will survive.

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

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

Songwon's risk exposure is alleviated to a large extent by its already established economic advantages of proprietary technology, economies of scale, backward integration and geography.

OPS manufacturing in Greiz, Germany

8.3 OPPORTUNITIES

With the weighted influence on polymer demand in Asia, Songwon is ideally positioned to capitalize on the growth potential in the region. The Japanese reconstruction effort will provide a further and significant growth opportunity for the region.

Songwon's recent investment in OPS in the Middle East lays the foundation for growth in response to the continued development of the region, as petrochemical companies expand their activities based on their feedstock advantage. As Western companies define their business structure, possibly moving capacity to the Middle East and Asia, Songwon can build on its established footprint to be a powerful supply partner, strengthening its relationships further.

OPS will also be an important contributor to demand in the United States with the expected growth of the polymer industry being driven by the newly discovered sources of natural gas (shale gas).

One Pack Systems will play a greater role in this scenario as it reduces the need for capital investment where equipment is not in place. Innovation and cost control are key opportunities as polymer producers seek improved productivity and compounders need to meet greater diversification at lower cost. Songwon has become renowned for delivering innovative and cost effective solutions and has invested in new product forms and formulations.

SALES AND MARKETING

The main focus of Songwon's sales strategy has been globalization, a process that was put in place in 2005 and has progressed with major steps being taken through to the present day.

Today's global structure is centered on regional units: Songwon International AG having responsibility for Europe and the Middle East; Songwon International-Americas Inc. covering North, Central and South America; Songwon International-India Pvt. Ltd. being responsible for India and SEA. Songwon Industrial Co., Ltd. covering the Korean market. Songwon International-Japan K.K. being dedicated to the world's third largest market and benefits from being geographically close to Korea. Songwon China Ltd. is a demonstration of the level of commitment necessary for this key growth market by the establishment of Songwon Baifu Chemicals (Tangshan) Co. Ltd., a joint venture with a production capacity of 6,000 MT antioxidants.

Customer contact is handled on a regional basis at the heart of the polymer producing communities. Customer Service centers in Ulsan, Seoul, Tokyo, Shanghai, Frauenfeld, Houston, Manama and Mumbai translate global and regional best practices to meet local needs. Warehousing is also located around the regional centers and is supported by a network of experienced and dedicated distributors globally. In total, Songwon has sales and distribution capabilities in 36 countries and warehouse capacity in 30 of those.

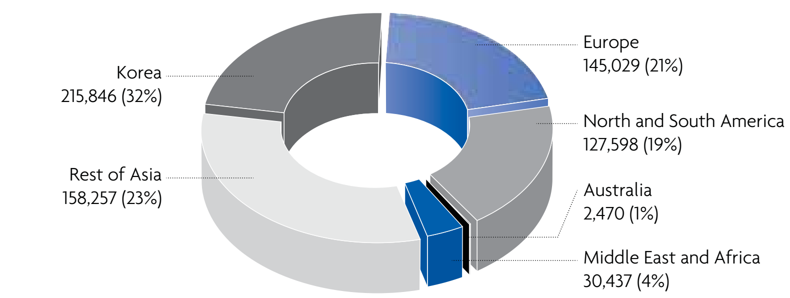


Fig. 9.1
Revenue by geographical region in Million KRW
(Total sales of goods in 2012 of 679,637 Million KRW)

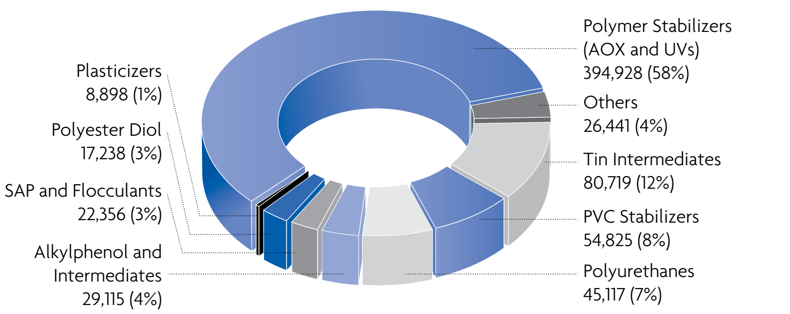


Fig. 9.2
Revenue by product category in Million KRW
(Total sales of goods in 2012 of 679,637 Million KRW)

Headquarters/Affiliates

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

Manufacturing

Ulsan, Korea
Greiz, Germany
Shanghai, China
Tangshan, China

Applications

Ulsan, Korea
Brussels, Belgium
Washington (PA), USA

Technical service

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

R&D

Ulsan, Korea

Sales / Distribution

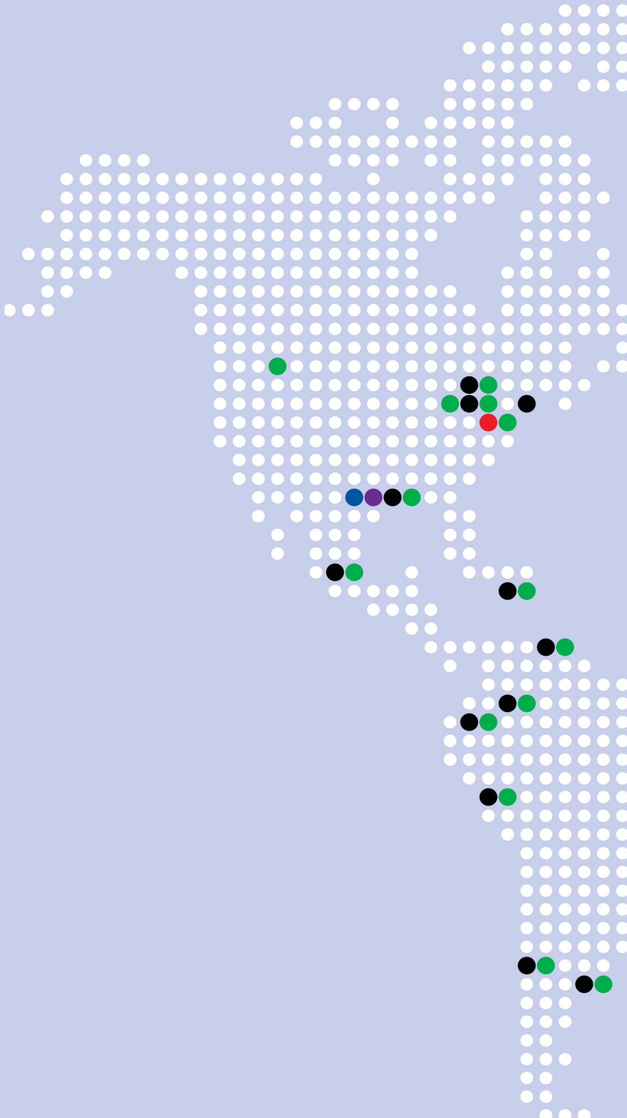
Seoul / Busan, Korea
Frauenfeld, Switzerland
Mumbai, India
Manama, Kingdom of Bahrain
Shanghai, China
Tokyo, Japan
Houston, USA

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 Min City, Vietnam
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

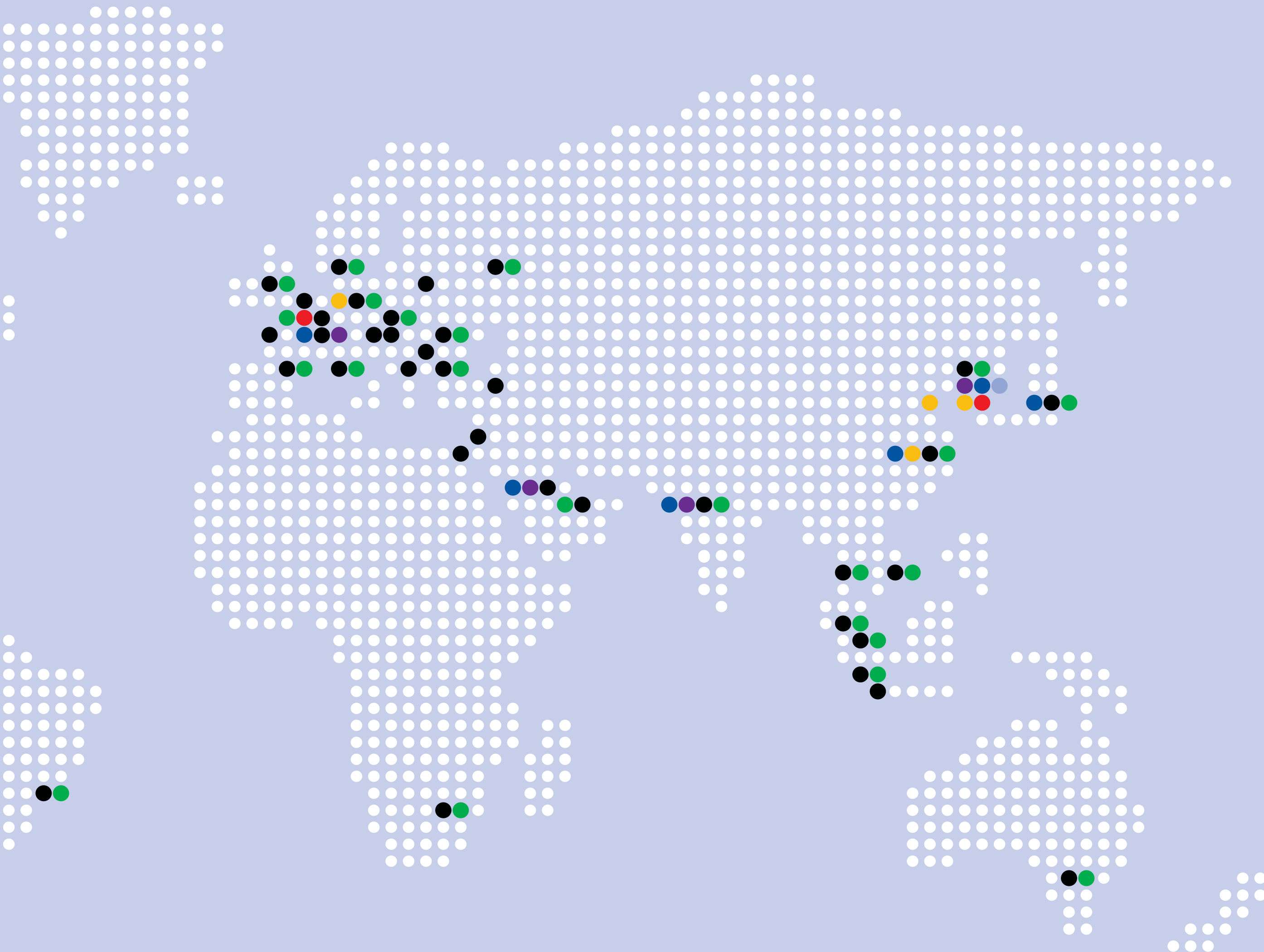
Logistic Hubs

Ulsan, Korea
Abu Dhabi, UAE
Antwerp, Belgium
Mumbai, India
Shanghai, China
Tokyo, Japan
Houston, USA
Akron, USA
Columbus, USA
Newark, USA
Edmonton, Canada
Mississauga, 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 Min 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



Customer service is a key element of the value that Songwon delivers and has achieved best in class status for technical documentation with technical support based on a Centre of Excellence model. Fundamental product development is centered in the Ulsan R&D facility which also provides key analytical support to a second level of technical and R&D groups. Local technical service engineers provide the first line of contact to the customer service centers and an established network of external laboratories with first-class expertise and facilities are available to provide fast local response.



Quality and reliability are essential to maintain service excellence. Product quality is of paramount importance in Songwon and we are committed to providing customers with products which exceed the standards set by the industry. Songwon has invested heavily in ensuring that capacity has been available as and when the customers need it. By backward integrating into raw materials Songwon has been able to ensure that market and supply volatility do not have to be passed on to the customer. Through employing proprietary technology, quality and cost levels are achieved beyond the bounds of external supply.

One hundred percent self-sufficiency is impossible in any manufacturing business and, for certain products, Songwon is reliant on outside supply. Songwon's focus on a network of key suppliers is delivering optimal cost control and security of supply. Following significant increases in raw material costs in the first quarter of 2012, the global economic slowdown took effect and the rest of the year saw a general decline of raw material costs. By generating investment capital, Songwon has been able to introduce more than 30 new products over the last four years and of its already comprehensive product range, 50% are new.

INNOVATION AND TECHNOLOGY

Songwon, in its position as a market leader and the world's second largest supplier of Polymer Stabilizers is dedicated to innovation based on technical expertise and a fundamental understanding of the polymer industry and the other markets it serves. The key goal is to deliver solutions that create value for the customers.

Innovation and technology at Songwon starts at home. The ability to produce market leading products in volumes that meet demand, are commercially attractive and at the levels of quality and reliability that customers require, has been a key factor in Songwon's success. The Maeam plant is a prime example, as it is unique in being able to produce 40,000 MT of Songnox® antioxidants based on fully back-integrated, proprietary processes. Antioxidant production in Maeam is today fully back-integrated on the production of alkylphenols, a key intermediate and in addition the Maeam plant today produces 40,000 MT of TBA (t-butanol) based isobutylene, a backbone product in antioxidants. This protects Songwon from volatile market supply and cost variations and allows a level of consistency and quality that cannot be matched by third-party suppliers.

Three groups in Songwon are actively involved in innovation: Research & Development, the Global Application Group and the Global Tech Service and New Product Introduction Group.

10.1 RESEARCH & DEVELOPMENT (R&D)

R&D plays an essential strategic role in its innovation and technology support to all functions of Songwon. Improving the cost structure of products and increasing asset utilization by process development drives higher productivity which 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. From a customer perspective, R&D contributes to competitive pricing, higher quality and better service and R&D is firmly customer oriented in all its activities. From an internal perspective, R&D underpins innovative technologies, developing new products that are requested from across the business as well as analysis development and regulatory affairs support to all related functions throughout Songwon.

To ensure success in the delivery of innovation and technology, R&D focuses on four main areas: product development, process development, analysis development and regulatory affairs. By developing core technologies internally, R&D has been a key contributor to the growth of Songwon and in the last four years, Songwon has introduced 30 new products.

Currently R&D is focusing on the following programs:

- **Process improvement.** This is key to maintaining Songwon's competitiveness and best in class quality position. Sustainability is at the heart of all process development.
- **New product development.** This is mainly focused on the development of new phosphite antioxidants and new specialty monomers that are closely related to electronic chemicals and high-end value applications.
- **Analysis development.** This provides analytical methods for new and existing products, as well as developing de-formulation methods for resins. A key goal is to continuously provide customers with reliable and accurate analytical data.
- **Regulatory affairs.** This ensures that all products are compliant with all known chemical regulations, both existing and emerging, and contributes to the creation of relevant documents including MSDS (Material Safety Data Sheet), Labels and RDS (Regulatory Data Sheet) for Songwon products.

Isobutylene backward integration in Maeam, Korea

Research & Development Center in Maeam, Korea

10.2 GLOBAL APPLICATION GROUP

The Global Application Group concentrates on the development of new solutions in answer to the needs of the polymer industry and, over the past 3-4 years, Songwon has introduced a wide range of products that meet customer requirements. Polyolefins can be found in increasing volumes in applications ranging from white goods to building materials and from cars to solar panels. In order to meet performance and safety requirements, specific additives and stabilizers are required to boost properties as well as to benefit compounding and production processes.

2010 saw the introduction of a number of key products and initiatives which have been further developed and are currently in the market introduction phase and undergoing test programs with key customers. A new Songlight® range of light stabilizers has recently been introduced based on 100% UV active systems consisting of synergistic blends of several additives. These innovative new solutions deliver superior UV protection for plastics compared to standard formulations and are particularly suitable for thick plastic sections, where surface and color protection are key to the customer's end-use applications under severe UV irradiation.

A new solution for PP Fiber stabilization was also introduced for color critical applications and is designed to maintain excellent color stability while, at the same time, address the issues of strong antagonistic chemical interactions which are induced by additives that improve processing and spinning.

One Pack Systems (OPS) have grown continuously in demand driven by their unique characteristics. Environmental Health and Safety (EH&S) is a key benefit as the product is non-dusting. They are also compositionally controlled and certified, the feeding and formulation accuracy in use is significantly improved which contributes to their cost effectiveness. Significant growth of OPS is expected especially where assets are not in place to handle powder alternatives and investment is critical.

Research & Development Laboratory in Ulsan, Korea

End-use application demands are being driven to new levels and regulation has become more stringent than ever. Total service-life requirements and the durability of applications are paramount to consumer satisfaction while EH&S demands are lowering emissions. Songwon has launched a newly developed range of high heat, low color and low emission additive solutions for thermoplastics that outperform industry standards by 50%. The second benefit of these new systems is that the improved properties are achieved at lower concentration levels, making them more robust and efficient.

Recycling has become an issue for consumers and manufacturers of applications made from plastics and a value chain has emerged that reworks waste streams. Songwon, as a technology leader, has introduced products and solutions that stabilize waste processing and can boost the properties of recyclate to similar levels of durability as prime products.

10.3 GLOBAL TECHNICAL SERVICE AND NEW PRODUCT INTRODUCTION (NPI) GROUP

The Global Technical Service and New Product Introduction Group is responsible for supporting the technical needs of the customers, answering to technical requests and providing solutions to solve technical problems. In addition, this group is also responsible for the identification of new market requirements and to feed this information back to R&D and the Global Application Group. They are also the channel for implementation of new products and solutions in the market place and are the interface between Songwon development activities and the customers.

BUSINESS AND CORPORATE DEVELOPMENT

Investment has continued in additional assets in the Maeam, Ulsan, Suwon and Greiz plants based on market dynamics and in line with previously announced expansion plans.

Demand for our products in 2012 has been healthy despite the overall economic uncertainty, with a slow down at the end of the year which was partly due to inventory control initiatives. The global capacity utilization in the additives and stabilizers segment was stable and at a relatively high level. The medium term growth perspective of the polymer industry is still very healthy with an expected AAGR of 5%. As the global economy re-stabilizes, the continued market growth will result in demand exceeding capacity if investment is not forthcoming. One of the key issues for the additives industry is the need to re-establish a reasonable reinvestment value in order to justify the investments levels necessary to meet the growth of the polymer industry.

As a leader in the additives industry Songwon is committed to support market growth and is carrying a significant share of the burden. In addition to recent investments in 2011 and 2012, Songwon is implementing technology improvements which will add another 10,000 MT of antioxidant capacity. Additionally, Songwon has significantly increased its OPS capacity, adding 7,000 MT in 2012 in its Greiz facility and with an additional 7,000 MT coming on stream in the United States by April 2013. A further 7,000 MT of OPS capacity will start up in Abu Dhabi at the beginning of 2014. Songwon is also able, through its collaboration with Sabo S.p.A. in Italy, to play a major role in HALS (hindered amine light stabilizers) globally, one of the key stabilizer product groups.

Building a global business has forced Songwon to develop a regional strategy with a strong local presence. Songwon International AG, Songwon International-Americas Inc. and Songwon International-Japan K.K. were put in place in 2006/7. Songwon International-India Pvt. Ltd. was established in 2008 to serve the rapidly growing Indian market. Songwon China Ltd., based in Hong Kong, was added in 2010 to lead all of Songwon's activities in that extremely demanding market. Songwon Shanghai Trading Ltd. and SSBC (Songwon Shanghai Brilliant Chemicals Ltd.) have been put in place in mainland China to manage the

Songwon International AG office in Frauenfeld, Switzerland

sales and service of dry and liquid products. The cooperation with Tangshan Baifu Chemical Co. Ltd. led to the establishment of Songwon Baifu Chemicals (Tangshan) Co. Ltd. with a capacity of 6,000 MT of Thioester antioxidants for sales in local and international markets. The acquisition of the major independent European producer of OPS products, ATG (Additive Technology Greiz GmbH) was completed at the end of 2011, giving Songwon access to the rapidly growing OPS market and to key pellet technologies, as well as expanding its manufacturing footprint into Europe. In 2012 the capacity at Greiz has been doubled to a total of 14,000 MT.

In addition Songwon has invested in a significant expansion of its PU production capability and is currently expanding its DOTO capacity by 60%.

Despite the sensitive nature of investment in the currently uncertain global economy, with margins that have been squeezed and are slow to recover, Songwon remains absolutely dedicated to supporting market growth and delivering value to its rapidly growing global customer base.

PEOPLE AND ORGANIZATION

The key executive leadership roles are challenging and demanding and Songwon has recruited and positioned its leaders based on international experience and proven results.

12.1 PEOPLE

The remit of the leadership team is the creation of value for customers globally and supporting growth. At the same time, and with equal importance, it is their responsibility to create an environment that encourages personal growth within their organization. The next step in Songwon's development is to become the market co-leader, to do this Songwon has to demonstrate its potential and deliver results as an investment grade business. The future of Songwon is in the hands of the company leaders and the people they empower and motivate to take ownership and responsibility for the business.

Songwon will continue to recruit first class people globally, regionally and locally and will provide a platform for personal achievement, rewarding the best with key opportunities. Songwon is not only a supplier of preference to its customers, but also an employer of choice in the chemical additives industry. Songwon considers its people to be the most important contributors to the success of the group. Their qualifications, commitment and motivation are key to its competitiveness going forward. Songwon makes every effort to recruit the persons most suited to particular positions and strives to retain and develop its employees. Songwon is particularly focused on the recruitment of young talented graduates, providing them with an opportunity to achieve their personal goals in a dynamic, growing, ethical and multicultural environment. Songwon has developed into a global group with locations in many parts of the world and is developing a broad and intercultural mix of employees who have an in-depth understanding of the different needs of customers in their region.

Our growth strategy provides, and will continue to provide, our employees with opportunities for development.

We believe that a key factor for Songwon's success is that we constantly communicate our key values, targets and company vision to all our employees in a candid and open manner so they are understood at all levels throughout the organization.

EMPLOYEE STRUCTURE OF SONGWON GROUP IN 2012

Data based on head counts	Total	in %
Total employees as of December 2012	**576**	**100%**
Employment relationship		
Permanent	576	100%
Men	**513**	**89%**
Full time men	512	89%
Part time men	1	0%
Women	63	11%
Full time women	60	10%
Part time women	3	1%
Temporary	-	0%
Men	-	0%
Women	-	0%
Type of employment		
Salaried	576	100%
Men	513	89%
Women	63	11%
Hourly	-	0%
Men	-	0%
Women	-	0%
Gender	576	100%
Men	513	89%
Women	63	11%
Personnel movements in 2012		
Number of employees left	24	4%
Men	18	3%
Women	6	1%
Number of employees left	24	4%
Over 50 years old	4	1%
From 30 to 50 years old	6	1%
Under 30 years old	14	2%
Number of employees left	24	4%
Asia	21	4%
Europe	2	0%
North and South America	1	0%
Number of employees hired	63	11%
Men	48	8%
Women	15	3%
Number of employees hired	63	11%
Over 50 years old	3	1%
From 30 to 50 years old	14	2%
Under 30 years old	46	8%

Training

Development and training at Songwon varies by job role and responsibility at our sites around the globe. Training requirements are currently determined by the supervisor for selected direct reports and approved by the management. To take a more systematic approach, as part of the Succession Planning initiative, managers have been requested to identify the training needs for each of their direct reports. As a result, a series of corporate training programs will be developed and made available to address the prioritized needs.

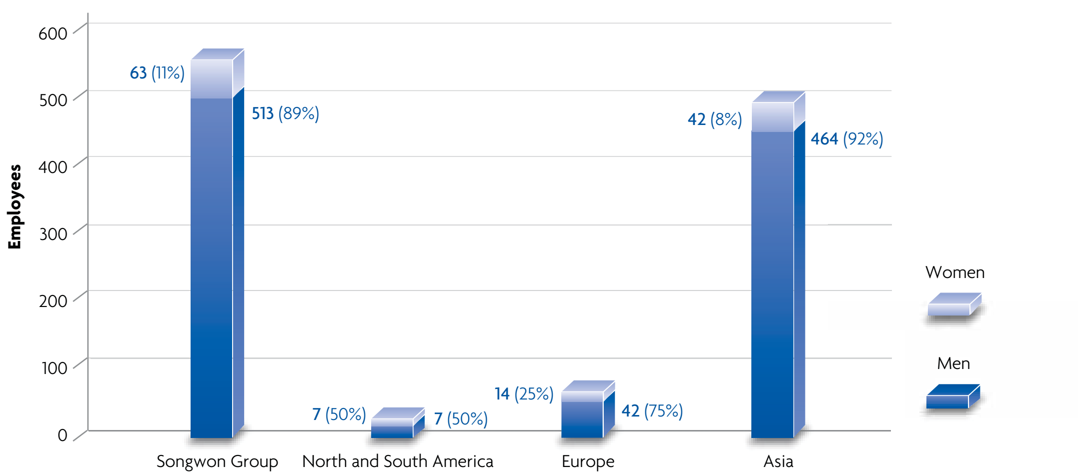


Fig. 12.1
Employees by region in 2012

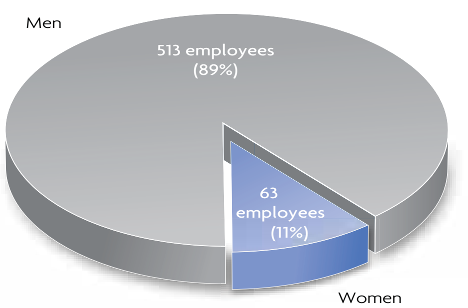


Fig. 12.2
Employees by gender in 2012

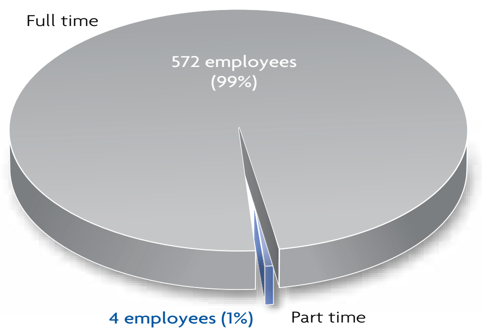
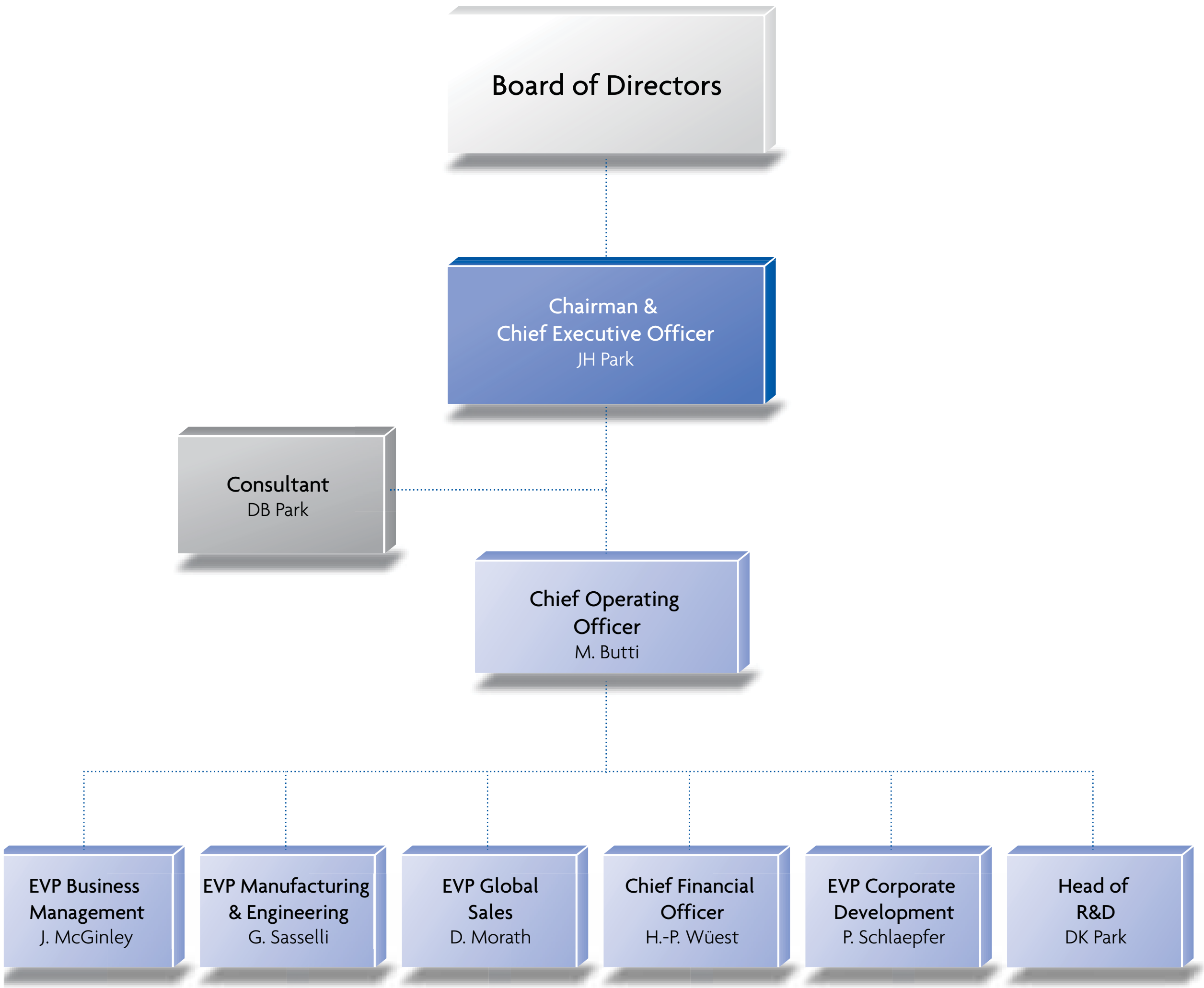


Fig. 12.3
Employees by type of employment in 2012


Board of Directors
Chairman &
Chief Executive Officer
JH Park
Consultant
DB Park
Chief Operating
Officer
M. Butti
EVP Business
Management
J. McGinley
EVP Manufacturing
& Engineering
G. Sasselli
EVP Global
Sales
D. Morath
Chief Financial
Officer
H.-P. Wüest
EVP Corporate
Development
P. Schlaepfer
Head of
R&D
DK Park

12.2 ORGANIZATION, GOVERNANCE, COMMITMENTS AND ENGAGEMENTS

General Meeting

The General Meeting is the forum where shareholders make decisions about the urgent matters facing Songwon Industrial Co., Ltd. and the Group. The Annual General Meeting was held on March 23, 2012, at which the Annual Report for 2011 financial year was adopted together with the proposal for distribution of profits. The Board of Directors was elected at the meeting.

The Board of Directors (BOD)

The Board of Directors consists of 4 Members all nominated and elected by the company shareholders. The individuals elected to the Board at the 2011 Annual General Meeting were:

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

The Directors are elected for a period of 3 years. The responsibilities of the Board are regulated by the Korean Company Act.

The Executive Committee

With its business growing steadily, Songwon in recent years has emerged as a key global player in the field of specialty chemicals, reaching a number two position globally in the field of Polymer Stabilizers. In line with this, the group has developed a truly international presence and with this the complexity of doing business has increased. In response, at the beginning of 2011, and in order to capitalize on this responsibility and maintain its position as the supplier of preference, Songwon created a new organization based on global functions, in order to oversee the activities of the group. This led to the establishment of an Executive Committee, composed of eight key executives, the role of which is to manage the business of Songwon in all its aspects, formulate policies and take the key decisions concerning strategy, investments and people, excepting those decisions which are reserved for the Board of Directors according to the Korean Company Act. In such cases the Executive Committee formulates proposals which are then brought to the BOD for final approval. In this context the Executive Committee is responsible for economic, social and environmental performance of the Group. The Executive Committee meets in person once a quarter and holds regular consultation by telephone conference.

CEO and Executive Management

The CEO of the Group is elected by the BOD and is also the CEO of the parent company. The CEO exercises ongoing control of the Group. The CEO nominates the COO, reporting to him. All executive managers report to the COO. The CEO manages according to the instructions of the BOD and in line with the division of responsibilities between the CEO, the BOD, and as approved by the BOD.

R&D

The head of R&D, Mr. DK Park, provides regular feedback and consultation to the Executive Committee.

Nationality: Korean

Function: Chairman and CEO and Head of the Songwon Industrial Group Executive Committee.

Date in Function: January 1st, 2011

Career / Experience: President of Songwon Industrial Co., Ltd. since 2006. Jongho 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.

Jongho Park
Chairman & CEO

Maurizio Butti
COO

Nationality: Italian

Function: Chief Operating Officer and Member of the Songwon Industrial Group Executive Committee.

Date in Function: January 1st, 2011

Career / Experience: President and CEO of Songwon International AG since July 2006. Before joining Songwon, Maurizio was Executive Vice President Polymer Stabilizers and 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 at Great Lakes, Enichem and SOL Industries.

Nationality: German

Function: Executive Vice President Sales and Member of the Songwon Industrial Group Executive Committee.

Date in Function: January 1st, 2011

Career / Experience: President Sales of Songwon International AG in Europe, the Middle East and Asia since 2006. Prior to that Dieter held a number of commercial leadership positions at Great Lakes Chemicals and GE Plastics (now SABIC).

Dieter Morath
EVP Global Sales

Philippe Schlaepfer
EVP Corporate Development

Nationality: Swiss

Function: Executive Vice President Corporate Development and Member of the Songwon Industrial Group Executive Committee.

Date in Function: January 1st, 2011

Career / Experience: Before joining Songwon, Philippe spent more than twenty years as a key contributor to the Ciba Polymer Additives business. With 15 years experience in Asia Pacific, he headed up their global antioxidant product portfolio to serve the polymer producing industry.

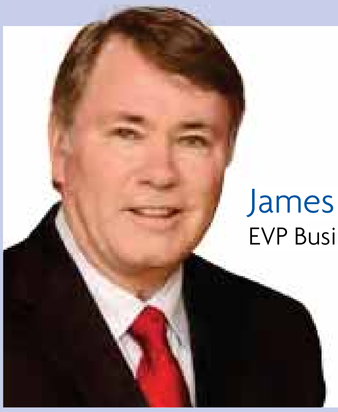
Nationality: Swiss

Function: Chief Financial Officer and Member of the Songwon Industrial Group Executive Committee.

Date in Function: January 1st, 2011

Career / Experience: Hans-Peter has held a wide variety of financial positions giving him a broad international experience in the manufacturing and service industries. Prior to Songwon he held leadership finance positions with DHL/Deutsche Post and Great Lakes Chemicals.

Hans-Peter Wüest
CFO



James McGinley
EVP Business Management

Nationality: American

Function: Executive Vice President Business Management and Member of the Songwon Industrial Group Executive Committee.

Date in Function: January 1st, 2011

Career / Experience: President of Songwon International – Americas Inc. since July 2006. Prior to that Jim was the VP Business Management for the Polymer Stabilizer business unit of Great Lakes Corporation and has held various business, sales, and technical management positions at Great Lakes, Polymer Products Co. Inc., and PPG Industries.

Nationality: Italian

Function: Executive Vice President Manufacturing and Engineering and Member of the Songwon Industrial Group Executive Committee.

Date in Function: July 1st, 2011

Career / Experience: Giacomo started his career with the Italian Enichem group in a number of key technology positions finally broadening his experience as a site manager. Following this he joined Great Lakes Chemical Corporation where he expanded this role, taking responsibility for operations of a worldwide network of polymer additives production sites.

Giacomo Sasselli
EVP Manufacturing & Engineering

Dong Bek Park
Consultant

Nationality: Korean

Function: Management Consultant and Member of the Songwon Industrial Group Executive Committee.

Date in Function: January 1st, 2011

Career / Experience: Dong Bek started his career in 1976 with Songwon Industrial Co., Ltd. when he assumed responsibility as Manager of Overseas Business. In 1997 he was appointed as CEO & Representative Director of the company. In 2004 he retired from his position. Since then he continued to work for Songwon as a consultant, taking on a general advisory role regarding the overall company policy.

Development and training at Songwon

External auditors

Songwon's auditors are elected by the Annual General Meeting for a period of three years. The current period started in 2011 and runs to 2013. Audit consultants Ernst & Young have been appointed auditors of the company with Mr. Kapsoo Lee being the lead auditor. The Board and the Executive Committee aim to have a close relationship with the auditors, to the extent they shall be kept well informed about relevant issues concerning the accounts, reporting procedures and management of the Group's assets.

Internally developed statements, policies and procedure

In 2012 Songwon developed new Vision and Mission statements; these represent the roadmap which drives Songwon's approach to business. The mission statement in particular spells out our philosophy and values in regard to all our stakeholders. The Vision and Mission statements have been communicated to all employees and released publicly in order to reach all our stakeholders globally.

In addition Songwon has laid down a complete set of policies covering all aspect of doing business which are accessible to all employees. In particular the Songwon Code of Conduct, which is available on our Songwon website (www.songwon.com) defines the values of the entire Songwon Group and the behavior we expect to be demonstrated by all our executives, managers and employees. The guidelines also define what is required of them in dealing with the internal and external world in all aspects of social, economic, environmental and business relations. We believe that our Code of Conduct is in line with internationally agreed standards, and all policies and the code are strictly enforced and applied across the organization and in all regions.

Internal control

The concept of internal control for Songwon is fundamental to our company culture and involves the Group's capability for implementing an effective system for control and follow up of the Group's activities. It also ensures that the Songwon rules of business engagement are followed diligently, both with regards to external legislation and regulations, as well as internal guidelines and control documentation. An important element of internal control is to identify risks and ensure that they are managed efficiently, the purpose being to minimize risk exposure as far as possible, while at the same time ensuring that opportunities are exploited as desired.

The Group's organization is adapted to meet the requirements for effective internal control and working methods are characterized by organizational transparency with a clear division of responsibilities. The Group's financial and business reporting systems are important control instruments that enable reliable consolidation and financial reporting.

Internal group reports are compiled once a month, following well established procedures, and the outcome is presented in a document which includes extensive analysis. Work on the Quarterly and Annual accounts involve a number of people at Group, Department and Company level and the summarized results are vetted and approved by the management team, the Executive Committee and the BOD.

All effort is made to make sure that a complete set of policies and procedures are in place and available and that each business or their subsidiaries follow these rules.

Mechanism for shareholders and employees to provide recommendations or directions to the highest governance body

Songwon holds an Annual General Meeting each year to which all shareholders are invited to attend and ask questions relating to the agenda of the meeting, which customarily deals with the annual report and accounts.
In addition, Korean law provides statutory mechanisms for shareholders that require directors of companies to hold a shareholders meeting and to propose resolutions submitted by the shareholders.

Songwon believes that effective internal communication is key to reaching its business and strategic objectives. Songwon encourages all employees to be enquiring and promotes an effective, transparent and open atmosphere of communication.

Communication and consultations may take various forms that include, but are not limited to face to face meetings, group meetings, meetings with union representatives, team briefings, announcements, E-mail, letter, memo, notice and telephone calls. The appropriate method of communication and/or consultation will be decided upon dependent on the nature of the topic involved.

List of stakeholder groups engaged in the organization:

- Shareholders
- Local/Regional/National Governments
- Employees
- Unions
- Customers
- Suppliers
- Communities
- Industry/Trade Association
- Civil Organizations

Basis for identification of stakeholders with whom to engage

Stakeholders are identified by each site and business operation as part of the communication process. No formal corporate mechanism is employed at this time.

COMPLIANCE AND REGULATORY AFFAIRS

Chemistry and the chemical industry have always played a central role in the progress made by humanity to create the world as we know it today and will continue to have a pivotal role in the development of new technologies in the future.

Unfortunately, it is not often recognized by the public that without chemistry and the chemical industry, the exceptional progress mankind has experienced to date would not have been possible. Instead the chemical industry is constantly under attack on the grounds that chemicals are pollutants, toxic or not safe. The chemical industry needs to take a central role to put in place the effort and resources needed to make and develop chemical substances that are more efficient and safe. Clearly, this is a process that has to continue and become even more central to the strategy of chemical companies. This is why we, at Songwon, put a very high priority on compliance with all existing regulations and support the intervention of regulators to develop new regulations, like the establishment of REACH (Regulation, Evaluation and Authorization of Chemicals).

Songwon has invested time, effort and capital in ensuring that its products are 100% compliant with all regional and country specific regulations. The Korean Chemicals Industry is the 8th largest in the world and is dependent on exporting its chemical products and substances throughout the key global regions.

The European Union introduced REACH in 2007, with the key objective of minimizing environmental and health risks connected to chemical substances. It is without a doubt the most comprehensive new initiative of its kind in recent times. It is complex and the process is lengthy, entailing in-depth detail as each substance must be registered by an extensive dossier.

Songwon entered into a partnership with Chemservice S.A., based in Luxembourg, a company with outstanding experience in regulatory affairs and international chemical control legislation combined with a substantial network and knowledge of the chemical industry and its related value chain. REACH Pre-registration was given a deadline of end 2008, which Songwon achieved for all its products imported directly or indirectly into Europe. Since that time, Songwon has also become a member of CEFIC (European Industry Chemical Association), ELiSANA (European Light Stabilizers and Antioxidants Association) and ORTEP (the International Organotin Producers Association).

Automatic packaging at Maeam, Korea

December 2010 was the given deadline for REACH registration and Songwon had all the pieces in place, such as CLP, a regulation for the Classification, Labeling and Packaging of substances and mixtures. This regulation aligns previous EU legislation on classification, labeling and packaging of chemicals to the GHS (Globally Harmonized System of Classification and Labeling of Chemicals). The GHS is a United Nations system to identify hazardous chemicals and to inform users about these hazards through standard symbols and phrases on the packaging labels and through safety data sheets (SDS).

Chemical control legislation, such as REACH, is rapidly translating to other regions, most recently Asia, which is driving growing demand for regulatory affairs competence in the region. Due to the excellent cooperation with Chemservice S.A. both partners have committed to the formation of a joint venture, Chemservice Asia Co. Ltd., to be registered in Seoul, Korea. Chemservice Asia Co. Ltd. will combine global regulatory affairs expertise together with EH&S skills and chemical process competence. The remit is to be a strategic partner for the chemical and polymer related industry in the Asia region by identifying opportunities to gain competitive advantage through the regulatory process.

Songwon provides extensive information on Regulatory Affairs and REACH process via its website (www.songwon.com). Regular updates are given on the product registration process and customers can proceed with their business safe in the knowledge that Songwon products will be 100% compliant on or before given deadlines.

EH&S AND SUSTAINABILITY

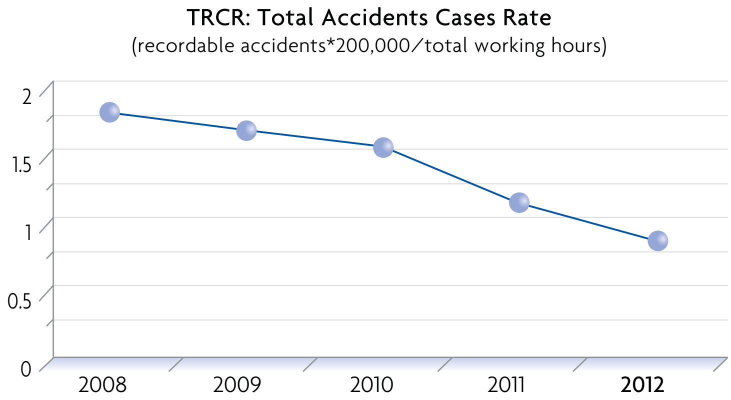
At Songwon we believe that sustainability is fundamental to the long term success of the Group; there can be no economic success without responsibility for society and the environment.

14.1 HEALTH & SAFETY

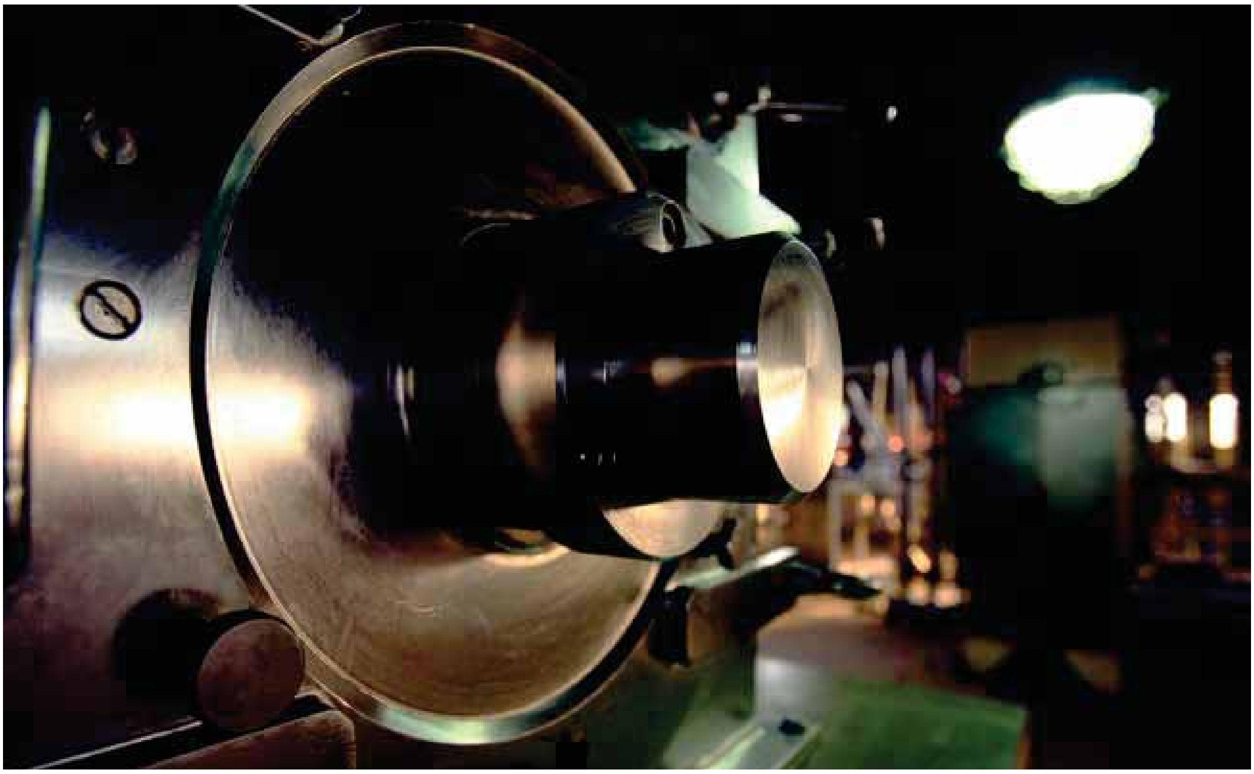
Songwon is committed to maintaining and promoting safe working conditions. Our aim is to protect our stakeholders (employees, contractors and neighbors) and be trusted by the public as a company with high safety awareness and clear safety processes. Economic success is founded on efficient and trouble-free production, which can only be achieved in safe plants and by qualified employees.

Songwon requires all injuries to be reported. Data is compiled in a global database and the classification of injuries is compiled according to local legislation defining record keeping criteria. This data includes all employees and contract employees of Songwon Industrial Co., Ltd. and all majority owned subsidiaries.

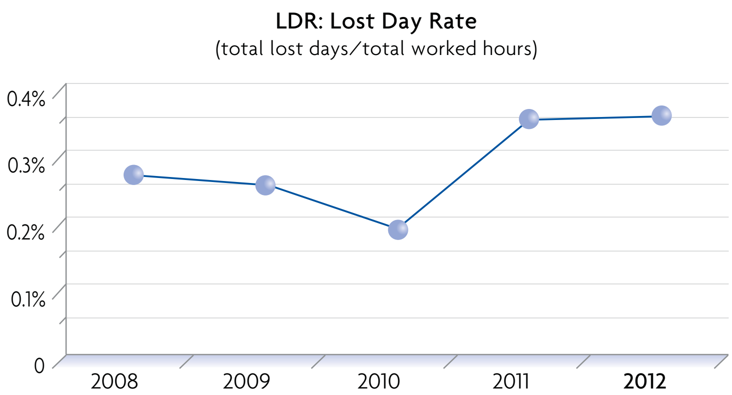
The total 'recordables', not inclusive of first aid injuries, have steadily decreased to reach the value of 0.80 in 2012. This value is the result of the outstanding performance of two of our plants, most notably the Ulsan plant which reduced the TRCR from 1.7 in 2011 to 0.9 in 2012.



Graph 13.1
Recordable accidents case rate from 2008 to 2012



Ulsan manufacturing facility, Korea



Graph 13.2
Lost day rate from 2008 to 2012

Though this performance is in line with the best in class chemical companies globally, we continue to be committed to continuous improvement of our health and safety record. Songwon has introduced an accurate monitoring system for near miss accidents and incidents which results in a focus on the necessary corrective actions. An annual plan has been established for reviewing and updating the risk assessment of our technologies, equipment and safety device design. Stringent procedures have been put in place to continuously investigate and assess all possible risks, and to improve existing operating procedures. 30% of our annual capital budget is dedicated to improve the safety and environmental protection of our plants and facilities.

14.2 ENVIRONMENTAL

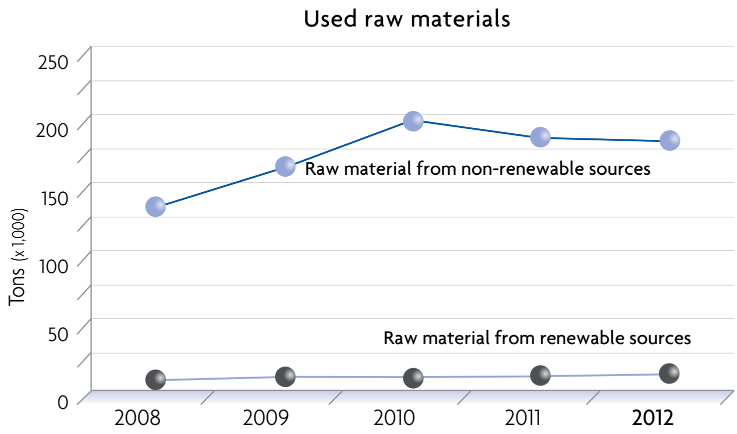
Songwon is proud to be a leader in developing processes that reduce its overall carbon footprint, saving energy and reducing emissions. The leadership team has long been committed to making use of every opportunity to demonstrate to its customers, and to the chemical industry, the potential to contribute to a better world. Songwon is engaged in an aggressive program to improve processes, with the aim of not only increasing competitiveness through cost reductions, but also to significantly reduce energy consumption as well as the production of waste and CO_2 emissions. In addition Songwon is investing in renewable energy resources and has now installed photovoltaic panels at its Ulsan plant.

Raw materials

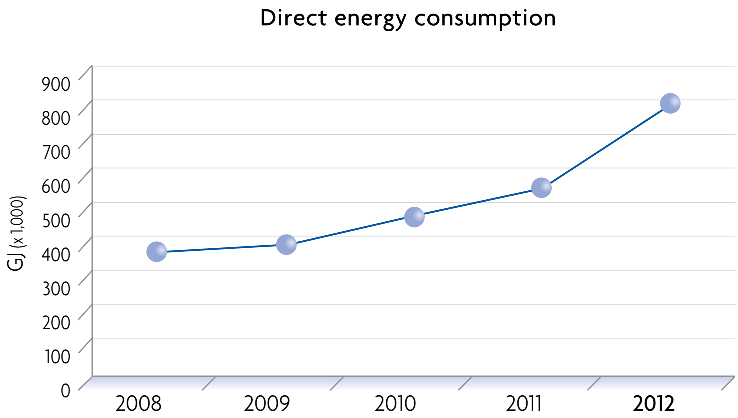
Songwon, as a leading manufacturer of specialty chemicals, seeks every opportunity to use raw materials from renewable sources. Only a few of the key raw materials used by Songwon are currently available from renewable sources, the majority being only available as oil derivatives or metals. Despite this obstacle, Songwon continues to use materials such as stearic acid and stearyl alcohol, both refined from palm kern oil, representing 8% of the total of raw materials used.

Direct energy consumptions

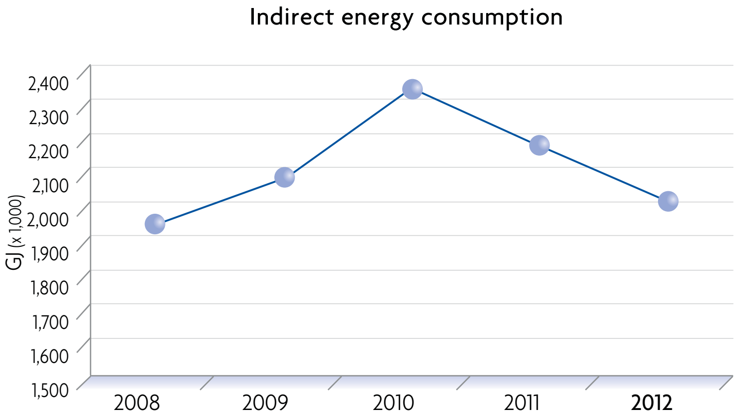
100% of direct energy consumed at Songwon is in the form of natural gas, the majority being used for the generation of steam and for heating oil. Consumption in 2012 was 791,000 gigajoules and the total direct energy used by the Songwon Group increased by 40% following the installation of a direct steam generation unit in the Maeam plant.



Graph 13.3
Raw material consumption from 2008 to 2012



Graph 13.4
Direct energy consumption from 2008 to 2012



Graph 13.5
Indirect energy consumption from 2008 to 2012

Indirect energy consumption

Songwon purchases electricity and steam for its facilities. More than 70% of indirect energy purchased is attributable to steam. Indirect energy is typically sourced from local utility companies using non-renewable energy sources.

Indirect energy consumption decreased significantly in in 2011 and 2012 due to the start up of captive steam production in the Maeam plant.

Initiatives to provide energy efficient or renewable energy based products and services and reduction in energy requirements as a result of these initiatives

Songwon is engaged in an energy consumption reduction program. One of the actions undertaken is to incinerate all the VOC's produced in its manufacturing plants, which adds value to its in-plant processes and, at the same time, results in a cleaner and safer environment. This incineration process is used to produce steam consumed in the production of its products, reducing the overall energy required. There are three incinerators currently in operation and the last one, installed in 2010, is based on a patented technology jointly developed by Songwon and eTEC, the incinerator supplier.

In addition, Songwon has a portfolio of energy based initiatives to improve long term efficiency of its operations. Energy and waste reduction opportunities are considered by all employees in their daily activities. Capital projects completed in 2012 deliver yearly saving in energy costs of more than 3 Million US$.

Total withdrawal of water by source

Songwon purchases water from the municipalities responsible for the Ulsan and Maeam plants as well as sourcing water from underground wells at the Suwon plant. Songwon has set a target to reduce the total consumption of water by 10% by the end of 2014.

As far as it is known to Songwon, their withdrawal of water does not significantly impact water resources where its operations are located.

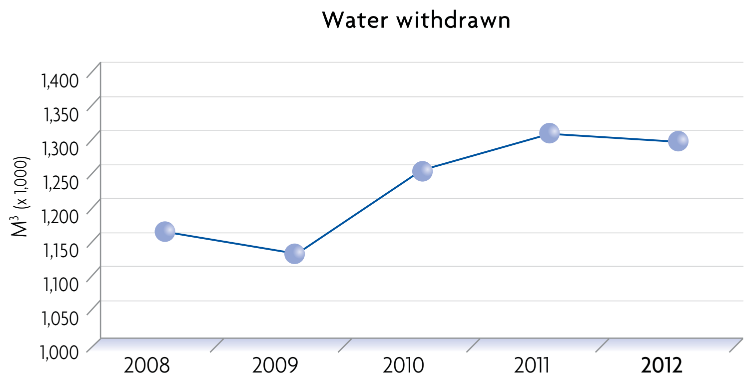
Currently the total volume of water recycled and re-used at Songwon plants is less than 5% of the total used water. In 2013 a membrane unit for recycling saline water will be installed and an extensive plan to reduce water withdrawal by 5% will be implemented.

Biodiversity

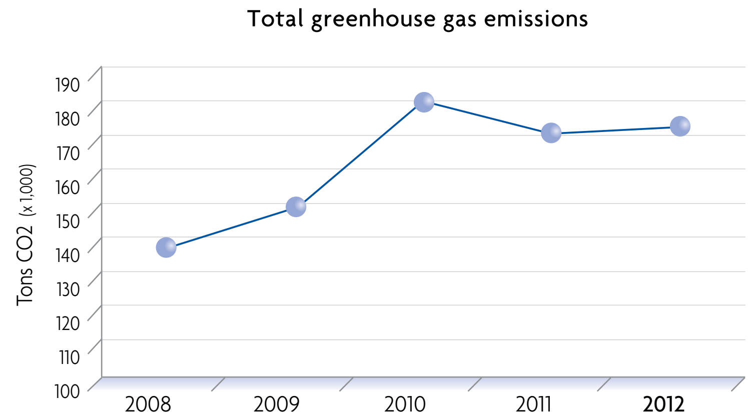
Songwon does not own, lease or manage facilities that are directly located or in the proximity of protected areas of known biodiversity. To Songwon's knowledge none of its activities, products or services have any significant impact on biodiversity. Songwon has taken proactive steps to eliminate such products which could potentially affect biodiversity (e.g. tin based agrochemicals).

Total direct and indirect green house emissions

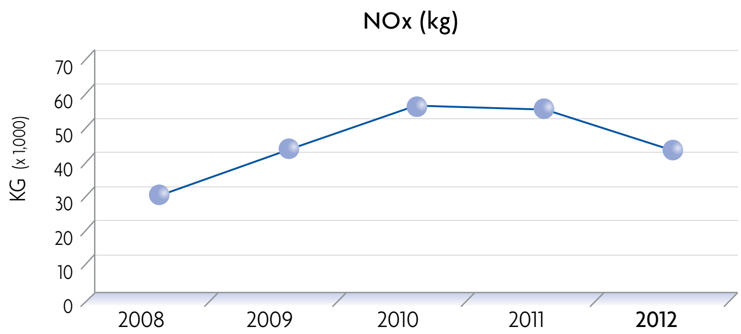
Songwon's overall objective is to work progressively towards a continuous reduction in carbon emissions.



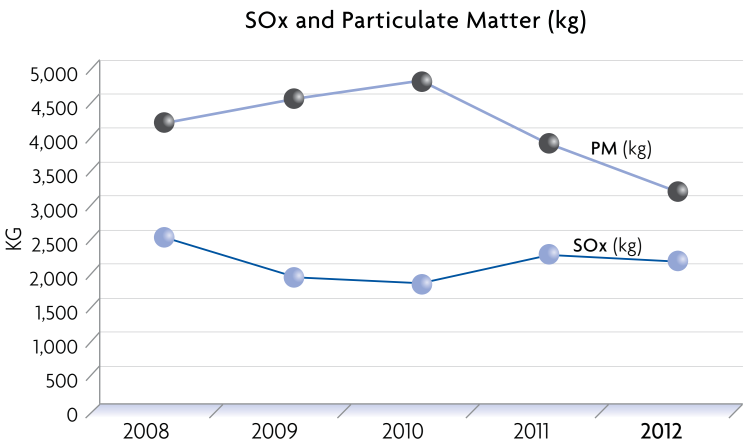
Graph 13.6
Water withdrawal from 2008 to 2012



Graph 13.7
Greenhouse gas emissions from 2008 to 2012



Graph 13.8
NOx emissions from 2008 to 2012



Graph 13.9
SOx and PM emissions from 2008 to 2012

Several projects are planned during 2013 in order to reduce steam consumption. A target of 10% reduction in general green house gases (GHG) has been set by the end of 2014.
The overall positive impact of backward integration on total GHG emissions is not reflected in the reported data. Waste and transport are largely eliminated through back integration and the Maeam plant is now capable of producing 40,000 MT of isobutylene that would, under normal circumstances, have to be delivered from an outside source.

The data as reported includes direct emissions from Songwon operations as well as indirect emissions from electricity and steam purchased from third party sources. There are no other indirect emissions to be recorded.

NOx, SOx, and other significant air emissions

NOx, SOx and PM emissions are measured automatically by in-line analyzers in Songwon facilities.

Total water discharged

All the water discharged by Songwon plants, after internal treatment, is conveyed to the local municipality central water treatment plants to reduce the organic content further prior to safe discharge into the sea.
The increase in the total amount of water discharged is related to increased production rates in our Ulsan and Maeam plants which in turn increased the overall water consumption. As already mentioned, specific water reduction projects will be launched during 2013 in order to reduce the total water consumption by 10% during 2014.

Other waste

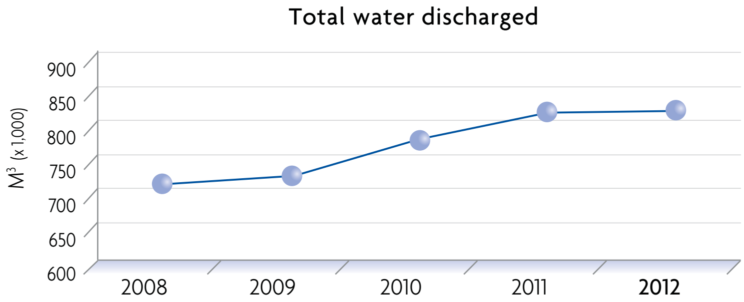
There are no hazardous waste products created by Songwon operations. Approximately 50% of liquid organic waste is incinerated on site, the remainder being disposed of by incineration offsite. All solid waste currently goes to landfill.

Significant spills

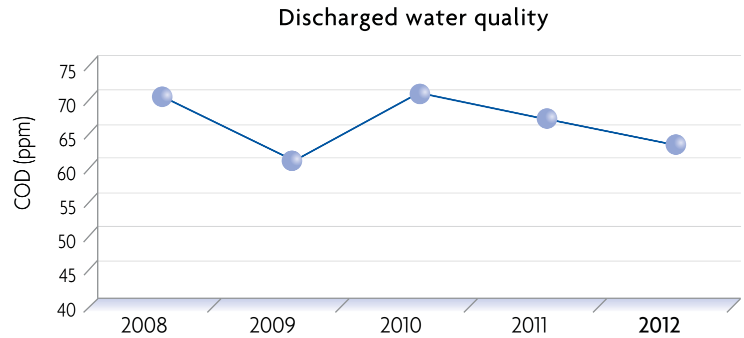
No significant spills were reported or recorded during 2012 and Songwon has a clean track record since 2008.

Non compliance fines-sanctions

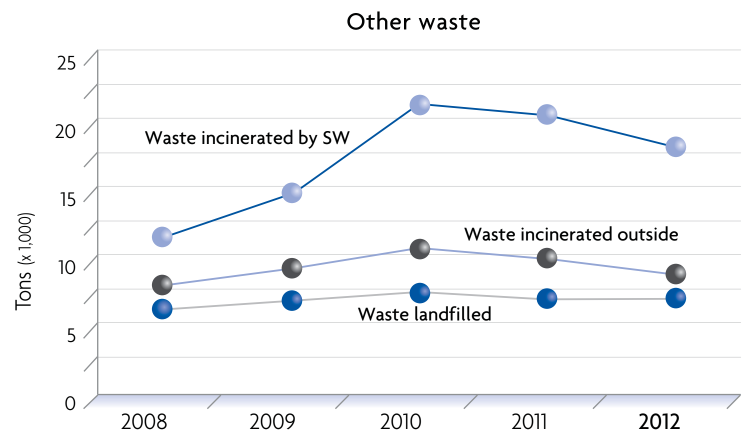
Songwon is fully compliant with all environmental rules and regulations in all regions, and no fines have been issued.



Graph 13.10
Total water discharged from 2008 to 2012



Graph 13.11
COD of discharged water from 2008 to 2012



Graph 13.12
Other waste from 2008 to 2012

TARGET AND RESULTS

As a consequence of a strategic review in 2005, Songwon developed a vision to transform the business from a medium size local Korean producer into a major global player in the Specialty Chemicals market.

Songwon has a target to exceed a turnover of 900 Billion KRW (800 Million US$) by 2015, with an EBITDA of 12%, based on a sound balance sheet structure. The resultant strategy which was developed can be divided into two phases, both with different characteristics despite some overlaps. The first, from 2006 to 2010, was strongly focused on organic growth based on the strategic decision to focus on the Polymer Stabilizer Business with the key goal of becoming the global number two player in this market. This phase included a series of strategic investments namely: the new world scale Maeam plant, additional back integration and the expansion of the Polymer Stabilizers product range. Since the focus was on accelerated growth, the existing core markets and customers provided the starting point. This approach brought with it additional investments in the Maeam plant and the decision was taken to further back integrate in isobutylene. This phase continued well into 2012 with the implementation in Ulsan of improved process technologies, developed for Maeam, which has increased capacity and resulted in an overall improvement in production costs.

In 2011 Songwon unfolded a new chapter of its strategic development. The foundation based on accelerated profitable growth remains the same and Polymer Stabilizers are still a key focus. However, there has been a shift of balance to a more comprehensive approach in terms of our business portfolio and geographical coverage, putting emphasis on external growth.

15.1 KEY MEGATRENDS

The following megatrends will shape Songwon's business and the businesses of our customers in the future. A clear understanding of the influences these trends will have, will govern how Songwon approaches the market in the years to come and the investments to be made to support that:

- Population growth from 7,1 billion people today to more than 9 billion in 2050 is a strong driver for global demand. This represents the biggest single opportunity for Songwon business and will require significant investment in production capacity in order to take full advantage.
- The growth will take place mainly in developing countries, driving a global shift in regional demand. This implies that the demand will shift from traditional markets to new markets. Songwon is already in the process of expanding globally and will continue to develop its manufacturing footprint to take advantage of these opportunities.
- Quality of life over the next 20 years will improve for an emerging middle class of around 3 billion people. This will directly impact the volume, quality and performance demand of plastic products. The consumption of plastics per capita is strictly related to income and, as wealth increases, additional demand will be generated on top of simple population growth.
- Climate change will increase the need for energy efficiency and for low carbon and renewable energy resources: Songwon management is well aware of the risk connected to climate change and of the social and economic impact of such change. The increased frequency and severity of natural disasters can pose serious financial risks to our business activities. It is hard to quantify such risks; however, the impact could be very significant. To balance this, the drive to more efficient and renewable energy resources and the emergence of new technologies are creating opportunities to develop new products and businesses.
- The depletion of non-renewable resources will drive innovation. Today we collectively use the replenishment capacity of 1,4 planets: world demand for resources like, oil, coal, water and ore is rising continuously. The risk that this poses to the Songwon business is that the price of such resources or their derivatives, which are fundamental for the production of Songwon products, will rise dramatically. Songwon is actively engaged in a continuous improvement program to reduce consumption of energy and non-renewable raw materials. Equally the development of new and alternative technologies (wind, solar energy, recycling etc.) opens opportunities for Songwon and we are actively engaged in the development of new applications and innovative solutions. Water resources, which are in short supply and continue to deplete, are becoming critical and an efficient system of water distribution is necessary, as well as eliminating losses due to leakage. Dramatic increases in potable water demand and pipe replacement programs drive huge volume demand for polymers and represent a great opportunity for Songwon.

Our reference market, the polymer industry, is perfectly aligned to these megatrends. The market for polymer additives must change accordingly to support this growth opportunity.

15.2 KEY ELEMENTS OF SONGWON'S NEW STRATEGIC APPROACH

Accelerated profitable growth

Our new strategic agenda is firmly focused on delivering growth.

Polymer Stabilizers will continue to play a key role. The reference market, plastics and in particular polyolefins, are estimated to continue to grow at an AAGR of 5%, making this one of the few markets currently growing above global GDP. In contrast, Songwon started in 2010 to look in greater depth at other businesses in the existing portfolio, a process that is ongoing. The first key action was to utilize the established global network to expand sales of products outside the traditional core market of Northeast Asia. Concurrently, Songwon has embarked on a strategic analysis of all its businesses to define the next rising star as well as those businesses which do not have the potential to deliver profitable growth. This review has led to the doubling of our TPU capacity in 2012 and to the approval of a 60% expansion of our DOTO capacity to be completed by mid-2014. In line with our desire to be an industry leader in environmental stewardship it has been decided to discontinue the production of tin based agrochemicals to proactively avoid potential environmental problems related to the products.

Architectural rendering of the Songwon OPS manufacturing facility in the Middle East

External growth

For the first time in its history, Songwon started on a program of expansion in 2011 based on targeted acquisitions which are considered to be a critical step in meeting the set growth agenda. The choice of the most salient acquisition is critical to the desired outcome and our approach is, and will be, to focus on potential targets which will expand our product portfolio, our geographical footprint or bring new technologies to Songwon.

A number of key actions have already been taken:

- The acquisition of the 40% of Songwon International AG, owned by other shareholders, in early 2011.
- The acquisition of 100% of Additive Technology Greiz GmbH at the end of 2011. This has been an important step and has given Songwon access to key technologies to produce OPS, as well as expanding our overall manufacturing footprint with a production plant in Germany.
- The establishment of a joint venture with Tangshan Baifu Chemical Co. Ltd., a leading producer of thioesters who, like Songwon Industrial Group, is fully back-integrated, in July 2012. This joint venture (Songwon Baifu Chemicals (Tangshan) Co. Ltd.) has given us the first significant manufacturing presence in China and a strong position in thioesters which are an important group of antioxidants.
- The establishment of a joint venture, Songwon Additive Technologies AG, with two prominent Middle Eastern partners, Pan Gulf Holdings of Bahrain and Polysys Industries of Abu Dhabi in September 2012, which will be the vehicle for global expansion of all OPS activities. The new joint venture (which is the parent company of Songwon Additive Technologies Greiz GmbH), has embarked on an aggressive investment plan to produce OPS in other key regions, namely the United States and Middle East. The plant in the United States will come on stream in April 2013 while in Abu Dhabi, the chosen location in the Middle East, production will start in the first quarter 2014. This is a key opportunity for Songwon as it will give access to a significant and growing segment of the Polymer Stabilizer business globally. It will expand our offering to key global customers with a high quality, value added product in key regions with identical technology delivered through Songwon sales and service networks.
- The signature of a global distributorship agreement with Sabo S.p.A. in September 2012. Under the agreement Songwon will distribute hindered amine light stabilizers (HALS) produced by Sabo worldwide. This is a major step forward in meeting our desire to be the global number two in the HALS market, one of the key and growing areas of our Polymer Stabilizers offerings. Sabo is one of the major global producers of HALS based on fully back-integrated world scale production facilities.

We will continue to focus on targeted acquisitions in order to gain entrance to key markets, to give access to new technologies, or to complete and strengthen our product portfolio, with developing countries having the highest priority.

Songwon International AG office in Frauenfeld, Switzerland

Geographical emphasis

The key focus will continue to be on emerging markets; however, the opportunity to deliver optimized products and solutions to mature markets where growth still exists will continue to be an important area of our core business. The acquisition of 30% shares in Baifu is the first step for Songwon to establish a significant production presence in China. The acquisition of ATG (Additives Technology Greiz) in Germany has extended our manufacturing footprint into Europe as well as giving access to OPS technology. This will give us the tool to extend this important product form to key markets and establish a manufacturing presence in other regions. This is a key step in our globalization efforts with production facilities planned in the United States and Middle East which, in particular, is rapidly becoming a key market for Polymer Stabilizers and is expected to continue to show double digit growth. OPS offer distinct advantages where compounding equipment is not in place and where the use of powders can be affected by climate conditions.

Ulsan manufacturing facility, Korea

15.3 EFFECTIVE ORGANIZATION AND PEOPLE

It is a common understanding in business that a successful strategy has to be clear, simple, understood and shared by the organization. It is of equal importance that the organization is designed in a way that it aligns and evolves with the strategic targets and direction set. The global expansion of Songwon has highlighted that in order to effectively manage its continuous growth, it would be necessary to create a global, functional group organization. This new organization was implemented at the beginning of 2011 and is constantly monitored and adjusted to the business needs. The key responsibilities have been assigned to a group of executives who have a proven track record and experience in an international business environment. In addition we have put a key emphasis on functional excellence, introducing and developing key unified business processes across the organization.

Our people are fundamental to the future successful growth of the company and will be responsible for the implementation of our strategy. Particular effort has been put in place to identify leaders, internally and externally, who have the capacity and growth potential to drive the company toward greater heights, now and in the future.

Build on company values and enforce best in class social and business relations behavior

Songwon has a proud history based on embedded cultural and family values in all aspects of business, social and environmental behavior which is clearly defined in our Vision, Mission and Code of Conduct statements. This is fundamental for the successful growth of the company and will determine its ethical and economic value. Songwon's track record is faultless and we will continue to build on these values as the foundation for future success.

Continuous innovation

The identified megatrends provide the framework for future innovation efforts. The combination of population growth and improved quality of life will mean that the world's population, currently exceeding 7 billion, continues to rise and wealth increases, with significant mid-market development in high growth economies.

To meet the demands of the emerging consumers, innovation will need to be at the heart of products to provide affordable, high quality goods and products that are economically and environmentally sustainable for the future.

Songwon is not alone in focusing on innovation and technology can be found and acquired through market knowledge and accessibility. Songwon is committed to helping other business partners share in its success with cooperation and investment in technology development. Songwon has already established strategic partnerships in specific areas of mutual interest.

Sustainability

Sustainability as well as safety is interrelated with other key performance metrics such as innovation delivery and operational effectiveness.

For many years, Songwon has recognized that to become a true leader in the industry it would require leadership both in terms of economic as well as ethical values. Increasingly, these are neither separate, nor are they separable. Achieving our growth aspirations means that we must produce and market products that use less of the Earth's resources, a process that must be considered throughout the full value chain.

Top quartile operational effectiveness is based on top quartile performance in terms of cost, quality, the service and safety levels and, in most cases, the performance of these four metrics is interrelated.

Communicating our sustainability performance to our stakeholders is of primary importance. For that reason Songwon has decided to incorporate a GRI (Global Reporting Initiative) based Sustainability Report into the Annual Report.

Songwon results are reported annually and the present Annual Financial & Sustainability Report covers the fiscal year 2012. The 2011 Annual Report was issued in April 2012 and although it partly dealt with sustainability related issues it was not designed to encompass this subject. The present report is the first of this kind and has a clear focus on sustainability.

Thioester antioxidant manufacturing, Songwon Baifu Chemical Co. Ltd., China

To support our endeavor in complying with a GRI (Global Reporting Initiative) based report, a multidisciplinary team was convened to review the GRI protocols and all aspects of the guidelines were reviewed and applied to this report. Boundaries, material impact and the availability of data were considered in determining the content of the report.

The sustainability report covers all Songwon majority owned manufacturing and business entities. Details for environmental and energy indicators are for manufacturing sites only. The report addresses the material, environmental, social and economic impact of the organization within the boundaries as described above. No specific limitations on the scope or boundaries have been identified. On the basis of the test questions listed in the "Materiality" section of the GRI "Principles for determining report content", all aspects were assessed from an internal corporate perspective and with regards to their materiality for stakeholders' interest known to the Songwon Industrial Group. In determining the content and target audience of the report, Songwon considered in detail any stakeholders groups that are significantly influenced by the company's activities and have a major impact on its success. This particularly includes shareholders, employees, customers, suppliers, communities, civil organizations, local, regional and national governments, unions as well as industry and trade associations. Topics proving to be significant from a stakeholders' as well as from a company perspective were treated as priorities when drawing up the chapters of the report.

This is the first Songwon GRI based report; therefore no comparison can be made regarding scope and boundaries for previous reporting periods. No significant changes were made to measurement methods applied to previously reported data.

Contact information can be found at the end of this Annual Financial and Sustainability Report 2012. The content index of the Sustainability Report can be found in Section 2 of this Report.

SECTION 2

GLOBAL REPORTING INITIATIVE GUIDELINES - CONTENT INDEX

GRI APPLICATION LEVEL C

Number	Description	Reference
1. STRATEGY AND ANALYSIS		
1.1	Statement from the most senior decision-maker of the organization.	Letter to Shareholders
2. ORGANIZATIONAL PROFILE		
2.1	Name of the organization.	Letter to Shareholders
2.2	Primary brands, products, and/or services.	Letter to Shareholders, Chapter 5
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Chapter 6
2.4	Location of organization's headquarters.	Chapter 4
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.	Chapter 9
2.6	Nature of ownership and legal form.	Chapter 8
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Chapter 7, 8, 9
2.8	Scale of the reporting organization.	Chapter 4, 5, 12 Notes of Financial Statements
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Letter to Shareholders, Chapter 15
2.10	Awards received in the reporting period.	Chapter 4
3. REPORT PARAMETERS		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Letter to Shareholders, Chapter 15
3.2	Date of most recent previous report (if any).	Chapter 15
3.3	Reporting cycle (annual, biennial, etc.)	Front page, Chapter 15
3.4	Contact point for questions regarding the report or its contents.	Last page
3.5	Process for defining report content.	Chapter 15
3.6	Boundary of the report (e.g., countries, divisions,subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Chapter 15
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Chapter 15
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.	Chapter 15
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).	Chapter 15
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Letter to Shareholders, Chapter 15
3.12	Table identifying the location of the Standard Disclosures in the report.	Chapter 15
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.	Chapter 12
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Chapter 12
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.	Chapter 12
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Chapter 12
4.14	List of stakeholder groups engaged by the organization.	Chapter 12
4.15	Basis for identification and selection of stakeholders with whom to engage.	Chapter 12

ECONOMIC

Number	Description	Reference
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.	Financial Statement
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Chapter 15
EC3	Coverage of the organization's defined benefit plan obligations.	Financial Statement
Market presence		
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Chapter 13, Financial Statement

ENVIRONMENTAL

Number	Description	Reference
Materials		
EN1	Materials used by weight or volume.	Chapter 14
EN2	Percentage of materials used that are recycled input materials.	Chapter 14
Energy		
EN3	Direct energy consumption by primary energy source.	Chapter 14
EN4	Indirect energy consumption by primary source.	Chapter 14
EN5	Energy saved due to conservation and efficiency improvements.	Chapter 14
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Chapter 14
Water		
EN8	Total water withdrawal by source.	Chapter 14
EN10	Percentage and total volume of water recycled and reused.	Chapter 14
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.	Chapter 14
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Chapter 14
Emissions, effluents and waste		
EN16	Total direct and indirect greenhouse gas emissions by weight.	Chapter 14
EN17	Other relevant indirect greenhouse gas emissions by weight.	Chapter 14
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Chapter 14
EN20	NOx, SOx, and other significant air emissions by type and weight.	Chapter 14
EN21	Total water discharge by quality and destination.	Chapter 14
EN22	Total weight of waste by type and disposal method.	Chapter 14
EN23	Total number and volume of significant spills.	Chapter 14
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Chapter 14
Products and services		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Chapter 15
Compliance		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Chapter 4

Number	Description	Reference
SOCIAL: LABOR PRACTICES AND DECENT WORK		
Employment		
LA1	Total workforce by employment type, employment contract, and region.	Chapter 12
LA2	Total number and rate of employee turnover by age group, gender, and region.	Chapter 12
Occupational health and safety		
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Chapter 14
Diversity and equal opportunity		
EN10	Percentage and total volume of water recycled and reused.	Chapter 14
SOCIAL: HUMAN RIGHTS		
Non-discrimination		
HR4	Total number of incidents of discrimination and actions taken.	Chapter 15
SOCIAL: SOCIETY		
Corruption		
SO4	Actions taken in response to incidents of corruption.	Chapter 15
Anti-competitive behavior		
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Chapter 15
Compliance		
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Chapter 4, 15
SOCIAL: PRODUCT RESPONSIBILITY		
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.	Chapter 13
Compliance		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Chapter 28

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **Songwon Industrial Co. Ltd.** has presented its report "Annual Financial and Sustainability Report 2012" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level C.

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, 14 February 2013

C
GRI REPORT
GRI CHECKED

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

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SECTION 3

SONGWON INDUSTRIAL GROUP
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

	Notes	2012 Million KRW	2011 Million KRW
ASSETS			
Non-current assets		503,472	503,421
Property, plant and equipment	8	420,962	421,945
Investment properties	9	27,930	28,120
Intangible assets	10	40,689	47,996
Invest. accounted for using the equity method	6	1,411	-
Available-for-sale financial investments	11	6,764	1,983
Other non-current financial assets	12	2,936	1,700
Deferred tax assets	24	2,780	1,677
Current assets		358,651	366,745
Inventories	13	170,999	182,605
Trade and other receivables	14	100,543	105,339
Income tax receivables		371	363
Other current assets	15	2,367	3,312
Other current financial assets	12	2,833	2,231
Cash and cash equivalent	16	81,538	72,895
Total assets		862,123	870,166
EQUITY AND LIABILITIES			
Equity		286,716	275,019
Non-controlling interests		*1,122*	*-*
Equity attributable to owners of the parent		*285,594*	*275,019*
Share capital	17	12,000	12,000
Capital surplus	17	24,361	24,361
Reserves	17	26,247	26,103
Retained earnings		226,379	212,556
Accumulated other comprehensive income	17	-3,393	-1
Non-current liabilities		99,997	114,800
Interest-bearing loans and borrowings	18	30,014	37,230
Pension liability	20	14,522	10,003
Other long-term employee benefits	21	1,499	1,421
Other non-current financial liabilities	19	9,529	19,390
Deferred tax liabilities	24	44,433	46,756
Current liabilities		475,410	480,347
Interest-bearing loans and borrowings	18	404,160	412,749
Trade and other payables	22	56,616	53,698
Other current financial liabilities	19	9,861	11,107
Other current liabilities		856	1,611
Income tax payable		3,917	1,182
Total liabilities		575,407	595,147
Total equity and liabilities		862,123	870,166

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER (SEE NOTE 2.3)

	2012	2011
	Thousand USD	Thousand USD
ASSETS		
Non-current assets	471,745	471,697
Property, plant and equipment	394,434	395,356
Investment properties	26,170	26,348
Intangible assets	38,125	44,971
Invest. accounted for using the equity method	1,322	-
Available-for-sale financial investments	6,338	1,858
Other non-current financial assets	2,751	1,593
Deferred tax assets	2,605	1,571
Current assets	336,052	343,636
Inventories	160,224	171,101
Trade and other receivables	94,208	98,701
Income tax receivables	347	340
Other current assets	2,218	3,103
Other current financial assets	2,655	2,090
Cash and cash equivalent	76,400	68,301
Total assets	807,797	815,333
EQUITY AND LIABILITIES		
Equity	268,649	257,690
Non-controlling interests	*1,051*	*-*
Equity attributable to owners of the parent	*267,598*	*257,690*
Share capital	11,244	11,244
Capital surplus	22,826	22,826
Reserves	24,593	24,458
Retained earnings	212,114	199,163
Accumulated other comprehensive income	-3,179	-1
Non-current liabilities	93,697	107,566
Interest-bearing loans and borrowings	28,123	34,884
Pension liability	13,607	9,373
Other long-term employee benefits	1,405	1,331
Other non-current financial liabilities	8,929	18,168
Deferred tax liabilities	41,633	43,810
Current liabilities	445,451	450,077
Interest-bearing loans and borrowings	378,691	386,739
Trade and other payables	53,048	50,314
Other current financial liabilities	9,240	10,407
Other current liabilities	802	1,509
Income tax payable	3,670	1,108
Total liabilities	539,148	557,643
Total equity and liabilities	807,797	815,333

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2012 Million KRW	2011 Million KRW
Sales of goods		679,637	628,972
Cost of sales		-547,638	-536,853
Gross profit		131,999	92,119
Selling and administration costs	23.5	-74,347	-66,962
Operating profit		57,652	25,157
Other income	23.1	8,118	17,128
Other expenses	23.2	-28,623	-19,513
Revaluation gain due to step acquisition	5	-	40,045
Goodwill impairment	28.2	-	-29,657
Share of result from investments accounted for using the equity method	6	40	207
Finance costs	23.6	-37,095	-44,052
Finance income	23.7	24,244	19,554
Profit before tax		24,336	8,869
Income tax expense	24	-3,877	1,164
Profit for the year		20,459	10,033
OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Gain / (loss) on valuation of available-for-sale financial investments	17.4	-218	-1
Gain on valuation of interest rate swap	17.4	99	230
Exchange differences on translation of foreign operation	17.4	-3,273	-18
Actuarial gains and losses on defined benefit plans	17.4	-5,158	-2,689
Total other comprehensive income, net of taxes		-8,550	-2,478
Total comprehensive income		11,909	7,555
Profit of the year attributable to:			
Owners of the parent		20,586	10,033
Non-controlling interests		-127	-
Profit for the year		20,459	10,033
Total comprehensive income attributable to:			
Owners of the parent		12,036	7,555
Non-controlling interests		-127	-
Total comprehensive income		11,909	7,555
Earnings per share		KRW	KRW
▶ Basic / Diluted, profit for the year attributable to ordinary equity holders of the parent	25	858	418

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER (SEE NOTE 2.3)

	2012	2011
	Thousand USD	Thousand USD
Sales of goods	636,809	589,337
Cost of sales	-513,128	-503,023
Gross profit	123,681	86,314
Selling and administration costs	-69,662	-62,742
Operating profit	54,019	23,572
Other income	7,606	16,049
Other expenses	-26,819	-18,283
Revaluation gain due to step acquisition	-	37,522
Goodwill impairment	-	-27,788
Share of result from investments accounted for using the equity method	37	194
Finance costs	-34,757	-41,276
Finance income	22,716	18,322
Profit before tax	22,802	8,312
Income tax expense	-3,633	1,091
Profit for the year	19,169	9,403
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Gain / (loss) on valuation of available-for-sale financial investments	-204	-1
Gain on valuation of interest rate swap	93	216
Exchange differences on translation of foreign operation	-3,067	-17
Actuarial gains and losses on defined benefit plans	-4,833	-2,520
Total other comprehensive income, net of taxes	-8,011	-2,322
Total comprehensive income	11,158	7,081
Profit of the year attributable to:		
Owners of the parent	19,288	9,403
Non-controlling interests	-119	-
Profit for the year	19,169	9,403
Total comprehensive income attributable to:		
Owners of the parent	11,277	7,081
Non-controlling interests	-119	-
Total comprehensive income	11,158	7,081
Earnings per share	USD	USD
▶ Basic / Diluted, profit for the year attributable to ordinary equity holders of the parent	0.80	0.39

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2012

	Attributable to owners of the parent							
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total	Non-controlling interests	Total equity
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
As at January 1, 2011	12,000	24,361	25,959	206,796	-212	268,904	-	268,904
Profit for the period	-	-	-	10,033	-	10,033	-	10,033
Gain / (loss) on available-for-sale financial instruments, net of tax	-	-	-	-	-1	-1	-	-1
Gain / (loss) on valuation of interest rate swap, net of tax	-	-	-	-	230	230	-	230
Foreign currency translation, net of tax	-	-	-	-	-18	-18	-	-18
Actuarial gain / (loss) on pension, net of tax	-	-	-	-2,689	-	-2,689	-	-2,689
Total comprehensive income	-	-	-	7,344	211	7,555	-	7,555
Dividends	-	-	-	-1,440	-	-1,440	-	-1,440
Appropriation to reserves	-	-	144	-144	-	-	-	-
As at December 31, 2011	12,000	24,361	26,103	212,556	-1	275,019	-	275,019

	Attributable to owners of the parent							
	Issued capital	Capital surplus	Reserves	Retained earnings	Accumulated OCI	Total	Non-controlling interests	Total equity
	Million KRW	Million KRW	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
Foreign currency translation, net of tax	-	-	-	-	-3,273	-3,273	-	-3,273
Actuarial gain / (loss) on pension, 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2012 (SEE NOTE 2.3)

	Attributable to owners of the parent							
	Issued capital	**Capital surplus**	**Reserves**	**Retained earnings**	**Accumulated OCI**	**Total**	**Non-controlling interests**	**Total equity**
	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD
As at January 1, 2011	11,244	22,826	24,323	193,764	-199	251,958	-	251,958
Profit for the period	-	-	-	9,403	-	9,403	-	9,403
Gain / (loss) on available-for-sale financial instruments, net of tax	-	-	-	-	-1	-1	-	-1
Gain / (loss) on valuation of interest rate swap, net of tax	-	-	-	-	216	216	-	216
Foreign currency translation, net of tax	-	-	-	-	-17	-17	-	-17
Actuarial gain / (loss) on pension, net of tax	-	-	-	-2,520	-	-2,520	-	-2,520
Total comprehensive income	-	-	-	6,883	198	7,081	-	7,081
Dividends	-	-	-	-1,349	-	-1,349	-	-1,349
Appropriation to reserves	-	-	135	-135	-	-	-	-
As at December 31, 2011	11,244	22,826	24,458	199,163	-1	257,690	-	257,690

	Attributable to owners of the parent							
	Issued capital	**Capital surplus**	**Reserves**	**Retained earnings**	**Accumulated OCI**	**Total**	**Non-controlling interests**	**Total equity**
	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD	Thousand USD
As at January 1, 2012	11,244	22,826	24,458	199,163	-1	257,690	-	257,690
Profit for the period	-	-	-	19,288	-	19,288	-119	19,169
Gain / (loss) on available-for-sale financial instruments, net of tax	-	-	-	-	-204	-204	-	-204
Gain / (loss) on valuation of interest rate swap, net of tax	-	-	-	-	93	93	-	93
Foreign currency translation, net of tax	-	-	-	-	-3,067	-3,067	-	-3,067
Actuarial gain / (loss) on pension, net of tax	-	-	-	-4,833	-	-4,833	-	-4,833
Total comprehensive income	-	-	-	14,455	-3,178	11,277	-119	11,158
Disposal of non-controlling interests				-20	-	-20	1,170	1,151
Dividends	-	-	-	-1,349	-	-1,349	-	-1,349
Appropriation to reserves	-	-	135	-135	-	-	-	-
As at December 31, 2012	11,244	22,826	22,593	212,114	-3,179	267,598	1,051	268,649

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2012 Million KRW	2011 Million KRW
Profit for the year		20,459	10,033
Adjustments total	33	46,861	46,554
Changes in operating assets and liabilities	33	28,875	-35,349
Interest received		624	665
Receipt of dividends		7	-
Payment of income tax		-2,827	-2,178
Net cash flow from operating activities		93,999	19,725
Proceeds from sale of property, plant and equipment		336	1,028
Proceeds from sale of intangible assets		-	221
Purchase of property, plant and equipment	8	-24,055	-33,700
Purchase of investment properties	9	-	-2
Purchase of intangible assets	10	-796	-288
Purchase of available-for-sale financial instruments		-5,000	-
Acquisition of a subsidiary, net of cash acquired		-	-4,460
Acquisition of a Joint Venture	6	-1,498	-
Proceeds from the sale of non-controlling interests	5	1,228	-
Decrease of other financial assets		-1,715	3,096
Net cash flow from investing activities		-31,500	-34,105
Proceeds from borrowings (current)		1,896,180	1,728,926
Repayment of borrowings (current)		-1,909,846	-1,686,657
Proceeds from interest bearing borrowings (non-current)		3,560	41,824
Decrease in other financial liabilities		-10,367	-1,015
Interest paid		-23,219	-22,907
Dividends paid	17.3	-1,440	-1,440
Net cash flow from financing activities		-45,132	58,731
Increase in cash and cash equivalent		17,367	44,351
Net foreign exchange difference		-8,724	-1,500
Cash and cash equivalent at January 1	16	72,895	30,044
Cash and cash equivalent at December 31	16	81,538	72,895

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER (SEE NOTE 2.3)

	2012	2011
	Thousand USD	Thousand USD
Profit for the year	19,169	9,403
Adjustments total	43,909	43,620
Changes in operating assets and liabilities	27,055	-33,121
Interest received	585	623
Receipt of dividends	7	-
Payment of income tax	-2,649	-2,041
Net cash flow from operating activities	88,076	18,484
Proceeds from sale of property, plant and equipment	315	963
Proceeds from sale of intangible assets	-	207
Purchase of property, plant and equipment	-22,539	-31,576
Purchase of investment properties	-	-2
Purchase of intangible assets	-746	-270
Purchase of available-for-sale financial instruments	-4,685	-
Acquisition of a subsidiary, net of cash acquired	-	-4,179
Acquisition of a Joint Venture	-1,404	-
Proceeds from the sale of non-controlling interests	1,151	-
Decrease of other financial assets	-1,607	2,901
Net cash flow from investing activities	-29,515	-31,956
Proceeds from borrowings (current)	1,776,690	1,619,976
Repayment of borrowings (current)	-1,789,495	-1,580,370
Proceeds from interest bearing borrowings (non-current)	3,336	39,188
Decrease in other financial liabilities	-9,714	-951
Interest paid	-21,756	-21,463
Dividends paid	-1,349	-1,349
Net cash flow from financing activities	-42,288	55,031
Increase in cash and cash equivalent	16,273	41,559
Net foreign exchange difference	-8,174	-1,409
Cash and cash equivalent at January 1	68,301	28,151
Cash and cash equivalent at December 31	76,400	68,301

1. CORPORATE INFORMATION

The organization and business of Songwon Industrial Co. Ltd. (the "company") and its consolidated subsidiaries (collectively, the "Group") are described below.

1.1 COMPANY

Songwon Industrial Co. Ltd. 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 three manufacturing plants are located in Ulsan (two plants) and Suwon (one plant), 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 SUBSIDIARIES AND JOINT VENTURES

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table. The table includes also Joint Ventures which are accounted for using the equity method.

		December 31, 2012		December 31, 2011	
Name	**Location**	**Status**	**Equity interest**	**Status**	**Equity interest**
Songwon Industrial Co. Ltd.	Korea	Parent		Parent	
Chemservice Asia Ltd.	Korea	JV	50%	JV	50%
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	60%	Subsidiary	100%
Songwon ATG GmbH	Germany	Subsidiary	60%	Subsidiary	100%
Songwon Additive Technologies-Americas Inc.	USA	Subsidiary	60%	-	-
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	China	JV	30%	-	-

In 2012 the Group sold 40% of the shares of Songwon Additive Technologies AG without losing control of the subsidiary (see Note 5.3). As interests of the Group in Songwon ATG GmbH and Songwon Additive Technologies-Americas Inc. are held through Songwon Additive Technologies AG, equity interest in these subsidiaries decreased as well by 40% without losing control of the respective subsidiaries.

As the control of the subsidiaries remains with the Group, the subsidiaries are fully consolidated as of December 31, 2012 and non-controlling interests are presented in the statement of financial position within equity.

The summarized statements of financial position and the summarized statements of comprehensive income of the consolidated subsidiaries are as follows (Korean won in millions):

	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, 2012						
Songwon International-Japan KK	27,926	26,019	1,907	82,261	762	762
Songwon China Ltd.	8,658	8,031	627	14,054	591	591
Songwon Trading Co. Ltd.	2,925	1,728	1,197	7,394	277	277
Songwon Chemicals Co. Ltd.	2,190	166	2,025	1,189	-15	-15
Songwon International-India Pvt. Ltd.	1,764	1,067	697	4,228	497	497
Songwon International-Americas Inc.	52,696	50,724	1,972	137,761	1,429	1,429
Songwon Holdings AG	14,031	9,918	4,113	-	1,391	1,391
Songwon International AG	92,898	84,573	8,325	201,485	1,522	217
Songwon Additive Technologies AG	15,110	12,189	2,921	-	-901	-901
Songwon ATG GmbH	4,505	1,537	2,968	30,166	868	868
Songwon Additive Technologies-Americas Inc.	4,034	2,439	1,595	-	-28	-28
AS AT DECEMBER 31, 2011						
Songwon International-Japan KK	27,424	25,909	1,515	86,372	505	505
Songwon China Ltd.	5,981	6,134	-153	3,672	136	136
Songwon Trading Co. Ltd.	3,295	2,296	999	9,329	710	710
Songwon Chemicals Co. Ltd.	2,501	306	2,194	429	37	37
Songwon International-India Pvt. Ltd.	2,286	2,023	262	3,575	119	119
Songwon International-Americas Inc.	68,294	67,610	684	126,940	-412	-412
Songwon Holdings AG	12,700	9,876	2,824	-	2,413	2,413
Songwon International AG	74,170	61,522	12,649	149,815	3,247	3,118
Songwon Additive Technologies AG	12,467	9,267	3,200	-	212	212
Songwon ATG GmbH	6,802	4,541	2,262	3,166	-67	-67

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 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 consolidate the parent company and the other companies in which the parent company has a controlling influence.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

Changes in a parent's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

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 1,067.25 to US $1, the exchange rate in effect on December 31, 2012. 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 recognised 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 recognised in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised 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 recognised 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 A JOINT VENTURE

Joint ventures are defined as companies over which Songwon, through partnership agreements with one or more parties, exercises a joint controlling influence over the operational and financial control. Songwon recognises its interest in the joint venture using the equity method. The financial statements of the joint venture are prepared for the same reporting period as the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is recognized using the equity method until the date on which the Group ceases to have joint control over the joint venture.

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 includes 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 recognised in the income statement when the asset is derecognised.

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 recognised 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 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

Songwon classifies the property to earn rentals or for capital appreciation or both as investment properties. As investment properties are accounted for using 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 to the Group substantially 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 bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The Group is not entered into finance lease 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 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 recognised 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 recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the income statement.

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

Goodwill

Goodwill is tested for impairment annually, 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 are 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 recognised. 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 at 31 December 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 EQUIVALENT

Cash and cash equivalent 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 measures the entitlements of the defined benefit plans by applying the projected unit credit method. The approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered. Actuarial gains and losses for the defined benefit plans are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds) less past service costs and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognised is restricted to the sum of any past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The pension expenses are recognised 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 all the past service cost and actuarial variances is 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 bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised 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 recognised 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. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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 realised 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 recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised 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

Financial assets
All financial assets are recognised 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; or
- 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 recognised 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 recognised 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 unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised 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 recognised in the income statement.

Financial liabilities

All financial liabilities are recognised 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; and
- 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 method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) 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 recognised 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 recognised 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 recognised in other comprehensive income. Amounts recognised 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 recognised.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised 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 recognised 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, 2012:

K-IFRS 1012 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in K-IFRS 1040 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in K-IFRS 1016 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012 and has had no effect on the Group's financial position, performance or its disclosures.

K-IFRS 1017 Financial Instruments: Disclosures (Amendment) — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after July 1, 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

K-IFRS 1001 Presentation of financial statements (Amendment) –Operating profit

The amendment to K-IFRS 1001 presents operating profit as revenue less cost of sales and selling and administrative expenses on the statement of comprehensive income. The amendment becomes effective for annual periods ending on or after December 31, 2012.
The Group's prior year's operating profit, prepared in accordance with management's accounting policies for the presentation of financial statements, was calculated as revenue less cost of sales and selling and administrative expenses, less other income and other expenses. As a result of the amendment to K-IFRS 1001 stated above, the presentation of the Group's operating profit increased by 20,505 Million KRW for the year ended December 31, 2012 compared to the Group's presentation method in the prior year. Furthermore, the comparative period presented for the current year was restated resulting in an increase of 2,385 Million KRW for the year ended December 31, 2011 in accordance to the amendment.

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
8, 9, 10	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 budget for the next five 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 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.
10	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.
20, 21	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.
24.2	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.
27	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.

K-IFRS 1001 Presentation of Items of Other Comprehensive Income - Amendments to K-IFRS 1001
The amendments to K-IFRS 1001 change the 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 (for example, 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) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment becomes effective for annual periods beginning on or after July 1, 2012, and will therefore be applied in the Group's first annual report after becoming effective.

K-IFRS 1019 Employee Benefits (Revised)
The KASB has issued numerous amendments to K-IFRS 1019. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

K-IFRS 1028 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new K-IFRS 1111 Joint Arrangements, and K-IFRS 12 Disclosure of Interests in Other Entities, K-IFRS 1028 Investments in Associates, has been renamed K-IFRS 1028 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after January 1, 2013.

K-IFRS 1032 Offsetting Financial Assets and Financial Liabilities - Amendments to K-IFRS 1032
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the K-IFRS 1032 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments become effective for annual periods beginning on or after January 1, 2014.

K-IFRS 1107 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to K-IFRS 1107
These amendments require an entity to disclose information about rights to set-off 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 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with K-IFRS 1032. These amendments become effective for annual periods beginning on or after January 1, 2013.

K-IFRS 1110 Consolidated Financial Statements, K-IFRS 1027 Separate Financial Statements
K-IFRS 1110 replaces the portion of K-IFRS 1027 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in K-IFRS 2012 Consolidation - Special Purpose Entities.

K-IFRS 1110 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by K-IFRS 1110 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in K-IFRS 1027. Meanwhile, the revised K-IFRS 1027 stipulates accounting treatments and disclosures only related to separate financial statements which are included in the current K-IFRS 1027. This standard becomes effective for annual periods beginning on or after January 1, 2013.

K-IFRS 1111 Joint Arrangements
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 must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application.

K-IFRS 1112 Disclosure of Interests in Other Entities
K-IFRS 1112 includes all of the disclosures that were previously in K-IFRS 1027 related to consolidated financial statements, as well as all of the disclosures that were previously included in K-IFRS 1031 and K-IFRS 1028. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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 when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.

K-IFRS 2120 Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013.

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. BUSINESS COMBINATIONS AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS

5.1 BUSINESS COMBINATIONS IN 2012

During 2012 there was no business combination.

5.2 BUSINESS COMBINATIONS IN 2011

5.2.1 ACQUISITION OF SONGWON HOLDINGS AG, SWITZERLAND

On January 3, 2011, the Group acquired 100% of the voting shares of Songwon Holdings AG (former Mantenere Holding AG), an unlisted company based in Switzerland and holding the remaining 40% interest in Songwon International AG. Accordingly, Songwon International AG became a subsidiary of the parent company while it was accounted for as a joint venture until December 31, 2010.

The assets, liabilities and contingent liabilities of acquired companies are valued at fair value on the date of acquisition. If the cost exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the balance is reported as goodwill.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Songwon Holdings AG as well as Songwon International AG at the date of acquisition were (figures represent a 100% interest):

	Fair value recognised on acquisition
	Million KRW
ASSETS	
Property, plant and equipment	126
Intangible assets	39,829
Other non-current financial assets	297
Deferred tax assets	135
Inventories	50,450
Trade and other receivables	58,692
Cash and cash equivalent	18,169
Total assets	167,698
LIABILITIES	
Pension liability	675
Deferred tax liabilities	6,365
Income tax payable	1,673
Trade and other payables	99,412
Other current financial liabilities	1,581
Other current liabilities	3,520
Total liabilities	113,226
Identifiable net assets at fair value	54,472
Goodwill arising on acquisition	31,604
Fair value of net liabilties acquired and goodwill arising	86,076
Consideration satisfied by:	
Cash paid on acquisition of remaining 40% shareholding in 2011	12,427
Deferred consideration	25,310
Cash consideration	37,737
Fair value of 60% in Songwon Holdings AG	48,339
Total cost of acquisition	86,076

The fair value of the trade and other receivables amounts to 58,692 Million KRW. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of 31,604 Million KRW comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. Goodwill is allocated entirely to the parent company and acquired entities.

None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition as of January 3, 2011, through December 31, 2011, the acquired companies have contributed 260,316 Million KRW of revenue and 2,846 Million KRW to the net profit before tax of the Group. If the business combination had taken place at January 1, 2011, revenue from continuing operations would have not been material different.

Revaluation of previously held interest

The Group held an equity interest immediately before the acquisition date of Songwon International AG of 60%. In this business acquisition achieved in stages, the Group re-measured its previously held equity interest in the acquired entity. The resulting gain of 39,589 Million KRW is included in the statement of comprehensive income.

5.2.2 ACQUISITION OF SONGWON CHEMICALS CO. LTD., CHINA

The remaining 40% of the voting shares of Songwon Chemicals Co. Ltd. have been acquired on October 1, 2011. Accordingly, Songwon Chemicals Co. Ltd. (former Shanghai Songwon Brilliant Chemicals Co. Ltd.) became a subsidiary of the parent company while it was accounted for as a joint venture until September 30, 2011.

The assets, liabilities and contingent liabilities of acquired companies are valued at fair value on the date of acquisition. If the cost exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the balance is reported as goodwill.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Songwon Chemicals Co. Ltd. as at the date of acquisition were (figures represent a 100% interest):

	Fair value recognised on acquisition
	Million KRW
ASSETS	
Property, plant and equipment	319
Intangible assets	687
Deferred tax assets	16
Inventories	247
Trade and other receivables	880
Cash and cash equivalent	918
Total assets	3,067
LIABILITIES	
Deferred tax liabilities	180
Trade and other payables	154
Other current financial liabilities	23
Other current liabilities	1
Total liabilities	358
Identifiable net assets at fair value	2,709
Goodwill arising on acquisition	215
Fair value of net liabilties acquired and goodwill arising	2,924
Consideration satisfied by:	
Cash paid on acquisition of remaining 40% shareholding	1,167
Cash consideration	1,167
Fair value of 60% interest in Songwon Chemicals Co. Ltd.	1,757
Total cost of acquisition	2,924

The fair value of the trade and other receivables amounts to 880 Million KRW. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of 215 Million KRW comprises the value of expected synergies arising from the acquisition and specific process technology knowledge, which is not separately recognised. Goodwill is allocated entirely to the group of CGU's in China.

None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, through December 31, 2011, Songwon Chemicals Co. Ltd. has contributed 429 Million KRW of revenue and 37 Million KRW to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been 630,394 Million KRW and the profit from continuing operations for the Group would have been 10,227 Million KRW.

Revaluation of previously held interest

The Group held an equity interest immediately before the acquisition date of Songwon Chemicals Co. Ltd. of 60%. In this business acquisition achieved in stages, the Group re-measured its previously held equity interest in the acquired entity. The resulting gain is 456 Million KRW and is included in the statement of comprehensive income.

5.2.3 ACQUISITION OF ATG ADDITIVES TECHNOLOGY GREIZ GMBH, GERMANY

On December 1, 2011 the Group acquired 100% of the German company Additives Technology Greiz GmbH (now Songwon ATG GmbH) to expand its offerings in the 'one pack systems' market. The Group plans to scale up its offerings in OPS products, which combine several additives into an integrated, dust free pellet for compounders and polymer producers.

Assets acquired and liabilities assumed

In July 2012 the valuation was completed and the final acquisition date fair value of assets acquired is unchanged to the provisional fair values. The fair value of the identifiable assets and liabilities of Additives Technology Greiz GmbH as at the date of acquisition had the following effect on the Group's assets and liabilities. The figures in the table below represent a 100% interest:

	Fair value recognised on acquisition
	Million KRW
ASSETS	
Property, plant and equipment	5,851
Intangible assets	7
Inventories	2,874
Trade and other receivables	676
Other current assets	749
Cash and cash equivalent	860
Total assets	11,017
LIABILITIES	
Deferred tax liabilities	1,171
Interest-bearing loans and borrowings	483
Other non-current financial liabilities	2
Income tax payable	438
Trade and other payables	3,632
Other current financial liabilities	192
Total liabilties	5,918
Identifiable net assets at fair value	5,099
Goodwill arising on acquisition	5,714
Fair value of net liabilties acquired and goodwill arising = Cost of acquisition	10,813

The fair value of the trade and other receivables amounts to 676 Million KRW. None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of 5,714 Million KRW comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the parent company and to the CGU's of the previous Songwon International AG Group, which has been acquired during 2011.

None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, through December 31, 2011, Additives Technology Greiz GmbH has contributed 3,166 Million KRW of revenue and a loss of 60 Million KRW to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations of the Group would have been 663,625 Million KRW and the profit from continuing operations for the Group would have been 10,828 Million KRW.

5.3 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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 summarised as follows:

	December 31, 2012	December 31, 2011
	Million KRW	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	-

6. INTEREST IN JOINT VENTURES

The Group has jointly control over the following entities:

Company name	December 31, 2012	December 31, 2011	Purpose of the entity
Chemservice Asia Ltd.	50%	50%	Compliance services
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	30%	-	Manufacturing

In 2011, only Chemservice Asia Ltd. is accounted for using the equity method. In 2012, the Group entered into an additional joint venture agreement sharing the control of Songwon Baifu Chemicals (Tangshan) Co. Ltd.'s operations.

The joint ventures have no contingent liabilities or capital commitments as at 31 December 2012 and 2011.

Summarized statement of financial position and summarized statement of comprehensive income of the Group which are prepared using equity method on the above joint ventures are as follows:

Share of the JV's statement of financial position:	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Carrying amount of the joint ventures
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Chemservice Asia Ltd.	17	2	18	3	-2	-
December 31, 2011	17	2	18	3	-2	-
Chemservice Asia Ltd.	24	-	5	4	15	15
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	1,292	749	644	-	1,396	1,396
December 31, 2012	1,316	749	649	4	1,411	1,411

Share of the JV's revenue and profit:	Revenue	Profit before tax	Income tax expenses	Profit for the year	Other comp. income	Total comp. income
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Chemservice Asia Ltd.	47	-	-	-	-	-
FY2011	47	-	-	-	-	-
Chemservice Asia Ltd.	55	19	-1	18	-	18
Songwon Baifu Chemicals (Tangshan) Co., Ltd.	2,022	34	-9	25	-	25
FY2012	2,077	53	-10	43	-	43

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

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

	As of January 1, 2011	Addition	Business combination	Dividends	As of December 31, 2011
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Chemservice Asia Ltd.	-	-	-	-	-
Songwon Chemicals Co. Ltd.	1,094	207	-1,301	-	-
Songwon International AG	8,750	-	-8,750	-	-
	9,844	207	-10,051	-	-

7. 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 segment.

7.1 PRODUCT INFORMATION

	2012	2011
	Million KRW	Million KRW
Alkylphenol and Intermediates	29,115	28,698
Plasticizers	8,898	9,375
Polyester Diol	17,238	13,153
Polymer Stabilizers (AOX and Uvs)	394,928	333,674
Polyurethanes	45,117	43,493
PVC Stabilizers	54,825	57,308
SAP and Flocculants	22,356	26,651
Tin Intermediates	80,719	104,242
Others	26,441	12,378
Total revenue per consolidated income statement	679,637	628,972

7.2 GEOGRAPHIC INFORMATION

Revenue from external customers

	2012	2011
	Million KRW	Million KRW
Korea	215,846	208,198
Rest of Asia	158,257	180,713
Europe	145,029	97,671
North and South America	127,598	117,297
Australia	2,470	1,763
Middle East and Africa	30,437	23,330
Total revenue per consolidated income statement	679,637	628,972

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

	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Korea	444,750	450,490
Rest of Asia	1,270	1,362
Europe	38,967	42,312
North and South America	4,594	3,897
Total	489,581	498,061

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Structures	Machinery	Other	Construction-in-progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
COST							
At January 1, 2011	151,203	53,615	61,361	349,411	11,431	7,963	634,984
Additions	1,003	302	-	81	585	31,728	33,700
Acquisition of a subsidiary	-	48	-	5,539	546	163	6,296
Disposals	-712	-	-51	-1,305	-657	-	-2,724
Reclassification	-	3,151	1,953	24,135	205	-35,061	-5,617
Net exchange differences	-	-1	-	10	10	-1	18
At December 31, 2011	151,495	57,115	63,263	377,871	12,120	4,792	666,657
Additions	-	39	34	130	650	23,202	24,055
Acquisition of a subsidiary	-	-	-	-	-	-	-
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
DEPRECIATION AND IMPAIRMENT							
At January 1, 2011	-	-10,332	-15,736	-188,565	-8,745	-	-223,378
Depreciation charge for the year	-	-1,413	-3,055	-17,630	-1,103	-	-23,201
Disposals	-	-	12	1,217	646	-	1,874
Net exchange differences	-	-	-	4	-10	-	-6
At December 31, 2011	-	-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
NET BOOK VALUE							
At December 31, 2012	151,373	45,100	41,360	176,853	2,472	3,803	420,962
At December 31, 2011	151,495	45,370	44,484	172,897	2,908	4,792	421,945

There was no impairment in the reported financial years.

In 2011, 4,905 Million KRW has been expensed as maintenance (repair) cost and 712 Million KRW has been capitalized as construction in progress as an intangible assets (REACH) (see Note 10).

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 2012 and 2011.

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

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 12.2).

9. INVESTMENT PROPERTIES

	Land	Buildings	Structures	Total
	Million KRW	Million KRW	Million KRW	Million KRW
COST				
At January 1, 2011	21,319	8,686	349	30,354
Net exchange differences	-	9	-	9
Additions	2	-	-	2
At December 31, 2011	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
DEPRECIATION				
At January 1, 2011	-	-1,965	-101	-2,066
Net exchange differences	-	-4	-	-4
Depreciation	-	-164	-10	-175
At December 31, 2011	-	-2,133	-112	-2,245
Net exchange differences	-	11	-	11
Depreciation	-	-164	-10	-174
At December 31, 2012	-	-2,286	-122	-2,408
NET BOOK VALUE				
At December 31, 2012	21,316	6,387	227	27,930
At December 31, 2011	21,321	6,562	237	28,120

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.

	2012	2011
	Million KRW	Million KRW
Rental income	1,607	1,738
Operational expenses	821	826

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 74 Million KRW.

10. INTANGIBLE ASSETS

	Industrial rights	Software	Membership	Customer relationship	Non-compete contracts	Capitalisation Process Technology	Goodwill	Construction-in-progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
COST									
At January 1, 2011	1,803	1,935	1,895	-	-	-	-	-	5,633
Additions	9	39	-	-	-	-	-	240	288
Acquisition of a subsidiary	-	45	-	25,639	14,152	687	37,532	-	78,056
Disposals	-221	-	-	-	-	-	-	-	-221
Reclassification	-	-	-	-	-	-	-	712	712
Net exchange differences	-	7	-	-	-	-	-	-	7
At December 31, 2011	1,591	2,027	1,895	25,639	14,152	687	37,532	952	84,475
Additions	1	444	-	-	-	-	-	351	796
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
AMORTIZATION									
At January 1, 2011	-53	-1,051	-	-	-	-	-	-	-1,104
Additions	-159	-237	-	-2,965	-2,322	-29	-	-	-5,712
Net exchange differences	-	-7	-	-	-	-	-	-	-7
Impairment	-	-	-	-	-	-	-29,657	-	-29,657
At December 31, 2011	-212	-1,294	-	-2,965	-2,322	-29	-29,657	-	-36,479
Additions	-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
NET BOOK VALUE									
At December 31, 2012	1,221	918	1,895	18,611	8,948	525	7,268	1,303	40,689
At December 31, 2011	1,379	733	1,895	22,674	11,830	658	7,875	952	47,996

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. An impairment test was carried out for Goodwill items on the basis of fair value less cost to sale. For further details of the impairment test please see Note 28.

The intangible asset with indefinite useful lives are tested for impairement on an annual basis. No impairment was identified.

10.1 ACQUISITION DURING THE YEAR

In 2012, no business combination took place that lead to a capitalisation of intangible assets.

In 2011, Songwon acquired a majority stake in Songwon International AG, Songwon International-India Pvt. Ltd. and Songwon International-Americas Inc.. Due to the purchase price allocation intangible assets customer relationship with a gross value of 25,639 Million KRW and non-compete contracts with a gross value of 14,152 Million KRW has been identified.

The purchase price allocation in respect of the acquisition of Songwon Chemicals Co. Ltd. resulted in capitalisation of process technology with an amount of 687 Million KRW.

10.2 DETAILS OF INDIVIDUALLY SIGNIFICANT INTANGIBLE ASSETS

Description	**Remark**	**December 31, 2012**	**December 31, 2011**	**Remaining life**
		Million KRW	Million KRW	
Industrial rights	REACH	1,123	1,265	7.8 years
Software	ERP	462	645	1.5 years
Membership	Hanyang Country	389	389	Indefinite
Membership	New Seoul Country	778	778	Indefinite
Goodwill	Acqu. of SWI Subgroup	1,834	1,946	Indefinite
Goodwill	Acqu. of Songwon Chemicals Co. Ltd.	210	215	Indefinite
Goodwill	Acqu. of ATG Additive Technology Greiz GmbH	5,224	5,714	Indefinite
Intangible assets acquired in a business combination	Customer relationship	18,611	22,674	7.0 years
Intangible assets acquired in a business combination	Non-compete contracts	8,948	11,830	4.0 years
Intangible assets acquired in a business combination	Capitalisation Process Technology	525	658	4.8 years
Construction in progress	REACH	1,303	952	n/a
Significant intangible assets total		39,407	47,066	

11. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	As per December 31, 2012			Book value	
Description	**Number of shares**	**% to equity**	**Cost**	**December 31, 2012**	**December 31, 2011**
			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	100	100
Hybrid Tier 1 (Korea Exchange Bank)	-	-	400	417	433
Subordinated bonds (Citibank)	-	-	100	100	100
Public Bonds (Korea Land & Housing Corporation)	-	-	5,000	4,796	-
Total			6,950	6,764	1,983

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, 2012 and 2011.

12. OTHER FINANCIAL ASSETS

	December 31, 2012		December 31, 2011	
Description	Non-current	Current	Non-current	Current
	Million KRW		Million KRW	
Bank deposits (> 3 months)	2,878	2,126	1,648	2,013
Loans	1	-	2	-
Derivative financial assets (Note 26)	-	257	-	-
Guarantee deposits	57	450	50	218
Total	2,936	2,833	1,700	2,231

12.1 LOANS

Details of loans as of December 31, 2012 and 2011 are as follows:

Description	Annual interest rate (%)	December 31, 2012	December 31, 2011
	Million KRW	Million KRW	Million KRW
Loans for employees	6.50	1	2
Total		1	2

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, 2012 and 2011 are as follows:

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Bank deposits - Current	2,300	2,969
Total	2,300	2,969

13. INVENTORIES

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Raw materials and supplies	17,537	21,301
Finished goods	128,643	138,034
Goods in transit	24,688	22,799
Consignment stocks	132	471
Total inventories at the lower of cost and net realisable value	170,999	182,605

As of December 31, 2012 inventory write-off amounted to 2,220 Million KRW for raw material and finished goods (December 31, 2011: 2,156 Million KRW).

14. TRADE ACCOUNTS RECEIVABLE AND OTHER ACCOUNTS RECEIVABLES

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Trade accounts and notes receivable (net)	96,543	104,288
Other accounts receivable (net) – third parties	3,308	960
Other accounts receivable (net) – related parties	617	-
Accrued income	75	91
Total	100,543	105,339

Other accounts 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, 2011	-1,063	-302	-1,365
Charge for the year	-	-13	-13
Business acquisition	-21	-	-21
Unused amounts reversed	456	53	509
December 31, 2011	-628	-262	-890
Charge for the year	-	-4	-4
Business acquisition	-	-	-
Utilised	21	-	21
Unused amounts reversed	52	207	259
December 31, 2012	-555	-59	-614

The ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			‹ 30 days	30–90 days	90-120 days	120-180 days	› 180 days
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
December 31, 2012	100,543	90,882	7,347	1,306	119	91	799
December 31, 2011	105,339	94,274	6,119	3,734	182	42	988

See Note 32.2 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, 2012 and 2011 consist of the following:

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Advance payments	424	1,649
Prepaid expenses	1,142	1,494
VAT refundables	801	169
Total	2,367	3,312

16. CASH AND CASH EQUIVALENT

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Cash on hand	61	73
Bank accounts	81,182	72,491
Time deposit (‹ 3 months)	295	331
Total	81,538	72,895

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 per share. As of December 31, 2012 and 2011, 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, 2012 and 2011, 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, 2012	December 31, 2011
	Million KRW	Million KRW
Legal reserve	432	288
Asset revaluation surplus	25,815	25,815
Total	26,247	26,103

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 2012 and 2011, amounted to 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, 2012 and 2011 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, 2012	December 31, 2011
Subject to the year	2011	2010
Dividends on ordinary shares in KRW	1,440,000,000	1,440,000,000
Number of shares	24,000,000	24,000,000
Dividends per share in KRW	60	60

17.4 ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of tax as of December 31, 2012 and 2011 is composed of the following:

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Available-for-sale financial investments	-187	31
Exchange differences on translation of foreign operation	-3,206	68
Interest rate swap	-	-99
Total	-3,393	-1

Detail of other comprehensive income for the years ended December 31, 2012 and 2011 are as follows:

Description	2012	2011
	Million KRW	Million KRW
PRETAX AMOUNTS		
Gain / (loss) on valuation of available-for-sale financial assets	-266	-1
Reclassification adjustment of loss on valuation of interest rate swap	-	257
Gain / (loss) on valuation of interest rate swap	127	39
Exchange differences on translation of foreign operations	-3,273	-18
Actuarial gains / (losses)	-6,371	-3,426
Pretax amounts total	-9,784	-3,149
TAX EFFECTS:		
Gain / (loss) on valuation of available-for-sale financial assets	48	-
Gain / (loss) on valuation of interest rate swap	-28	-65
Exchange differences on translation of foreign operations	-	-
Actuarial gains / (losses)	1,213	736
Tax effects total	1,233	671
NET AMOUNTS:		
Gain / (loss) on valuation of available-for-sale financial assets	-218	-1
Gain / (loss) on valuation of interest rate swap	99	230
Exchange differences on translation of foreign operations	-3,273	-18
Actuarial gains / (losses)	-5,158	-2,689
Net amounts total	-8,550	-2,478

18. INTEREST BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings as of December 31, 2012 and 2011 are as follows:

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Long-term privately placed corporate bonds	5,000	5,000
Long-term borrowings	25,014	32,230
Non-current bank loans and bonds	30,014	37,230
Current portion of borrowings	10,584	33,030
Current portion of privately placed corporate bonds	-	20,000
Short-term privately placed corporate bonds	35,000	35,000
Short-term borrowings	358,575	324,719
Current loans and borrowings	404,160	412,749
Total	434,174	449,979

Details of **long-term borrowings** as of December 31, 2012 and 2011 are as follows:

Banks	Description	Annual interest rate	December 31, 2012	December 31, 2011
		(%)	Million KRW	Million KRW
Woori Bank	General Loan	-	-	22,375
Korea Development Bank	General Loan	2.00-3.00	21,798	22,454
Busan Bank	General Loan	5.66	5,000	10,000
Hana Bank	General Loan	5.16	5,000	10,000
NRW Bank	General Loan	6.03	325	431
Pan Gulf Holding Company W.L.L.	General Loan	6.642	2,172	-
Polysis Industries	General Loan	6.642	1,303	-
Sub-total			35,599	65,260
Less current portion			-10,584	-33,030
Non-current portion			25,014	32,230

Details of **privately placed bonds** as of December 31, 2012 and 2011 are as follows:

Banks	Issuance date	Maturity date	Annual interest rate	December 31, 2012	December 31, 2011
			(%)	Million KRW	Million KRW
Woori Bank	02.20.12	02.20.13	5.82	5,000	25,000
Woori Bank	05.11.12	05.10.13	5.80	20,000	-
Korea Development Bank	01.27.11	01.27.14	5.76	5,000	5,000
Korea Standard Chartered Bank	06.18.10	06.18.12	-	-	20,000
Gyeong Nam Bank	07.09.12	07.07.13	5.64	10,000	10,000
Sub-total				40,000	60,000
Less short-term bonds				-35,000	-35,000
Less current portion				-	-20,000
Non-current portion				5,000	5,000

Details for short-term borrowings are as follows:

Banks	Description	Annual interest rate	December 31, 2012	December 31, 2011
		(%)	Million KRW	Million KRW
Woori Bank	Gen. & trade loans	1.69-5.86	102,806	98,362
Hana Bank	Trade loans	2.42-5.58	19,772	26,745
Citibank	Gen. & trade loans	2.31-5.85	36,925	34,994
Korea Development Bank	Gen. & trade loans	1.89-5.72	51,188	48,789
Busan Bank	Trade loans	2.22-5.93	11,501	14,085
Korea Standard	Trade loans	5.85-5.87	30,000	10,000
Chartered Bank	Trade loans	5.20	10,000	10,000
Suhyup Bank	Trade loans	1.90-5.64	31,255	12,843
Gyeong Nam Bank	Trade loans	2.50-6.11	60,858	64,265
Korea Exchange Bank	Trade loans	3.09	4,269	4,635
Total			358,575	324,719

19. OTHER FINANCIAL LIABILITIES

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

	December 31, 2012		December 31, 2011	
Description	**Non-current**	**Current**	**Non-current**	**Current**
	Million KRW	Million KRW	Million KRW	Million KRW
Other specific payables (see Note 29.3)	8,212	8,212	17,176	8,581
Other withholdings	51	-	252	-
Long-term deposits received	1,266	-	1,962	-
Derivative liabilities (see Note 26)	-	394	-	802
Accrued interest expenses	-	1,254	-	1,722
Unpaid dividends	-	2	-	2
Total	9,529	9,861	19,390	11,107

20. PENSIONS LIABILITY

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.

20.1 NET BENEFIT EXPENSE

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
December 31, 2012			
Current service cost	-1,982	-596	-2,578
Interest cost on benefit obligation	-1,283	-360	-1,643
Expected return on plan assets	608	358	966
Net benefit expense	-2,657	-598	-3,255
Actual return on plan assets	539	168	707
December 31, 2011			
Current service cost	-1,636	-436	-2,072
Interest cost on benefit obligation	-1,260	-323	-1,584
Expected return on plan assets	606	293	899
Net benefit expense	-2,290	-466	-2,756
Actual return on plan assets	556	148	704

20.2 DEFINED BENEFIT OBLIGATION

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
Defined benefit obligation as of January 1, 2011	21,006	-	21,006
Business combination	-	9,855	9,855
Current service cost	1,636	436	2,072
Interest cost on benefit obligation	1,260	323	1,584
Benefits paid / received	-2,557	670	-1,888
Employee contributions	-	344	344
Actuarial losses	3,232	-	3,232
Exchange differences	-	309	309
Defined benefit obligation as of December 31, 2011	24,576	11,937	36,513
Current service cost	1,982	596	2,578
Interest cost on benefit obligation	1,283	360	1,643
Benefits paid / received	-1,172	1,844	672
Employee contributions	-	458	458
Plan amendment	-	300	300
Actuarial losses	4,864	1,248	6,112
Exchange differences	-	-693	-693
Defined benefit obligation as of December 31, 2012	31,533	16,051	47,584

20.3 PLAN ASSETS

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
Fair value of plan assets as of January 1, 2011	13,831	-	13,831
Business combination	-	9,181	9,181
Expected return on plan assets	606	293	899
Employer contributions	2,000	616	2,616
Employee contributions	-	344	344
Benefits paid / received	-1,436	670	-766
Actuarial gains / (losses) on plan assets	-51	-144	-195
Exchange differences	-	294	294
Fair value of plan assets as of December 31, 2011	14,951	11,254	26,205
Expected return on plan assets	608	358	966
Employer contributions	4,200	641	4,841
Employee contributions	-	458	458
Benefits paid / received	-600	1,844	1,244
Actuarial gains / (losses) on plan assets	-69	-190	-259
Exchange differences	-	-688	-688
Fair value of plan assets as December 31, 2012	19,090	13,677	32,767

20.4 PENSION LIABILITY

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
Defined benefit obligation as per January 1, 2010	17,567	-	17,567
Fair value of plan assets as per January 1, 2010	-11,044	-	-11,044
Prepayment to the NPS as per January 1, 2010	-355	-	-355
Net pension obligation as per January 1, 2010	6,168	-	6,168
Defined benefit obligation as per December 31, 2010	21,006	-	21,006
Fair value of plan assets as per December 31, 2010	-13,831	-	-13,831
Prepayment to the NPS as per December 31, 2010	-339	-	-339
Net pension obligation as per December 31, 2010	6,836	-	6,836
Defined benefit obligation as per December 31, 2011	24,576	11,937	36,513
Fair value of plan assets as per December 31, 2011	-14,951	-11,254	-26,205
Prepayment to the NPS as per December 31, 2011	-305	-	-305
Net pension obligation as per December 31, 2011	9,320	683	10,003
Defined benefit obligation as per December 31, 2012	31,533	16,051	47,584
Fair value of plan assets as per December 31, 2012	-19,090	-13,677	-32,767
Prepayment to the NPS as per December 31, 2012	-296	-	-296
Net pension obligation as per December 31, 2012	12,147	2,374	14,522

The actuarial gains and losses recognized in the statement of comprehensive income were losses of 6,371 Million KRW (2011: losses of 3,426 Million KRW), pre-tax. The total amount at December 31, 2012 of accumulated loss included in retained earnings are -9,774 Million KRW (2011: accumulated loss of 4,616 Million KRW), net of tax.

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

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

	Determining net expense		Determining pension benefit obligation	
	2012	2011	December 31, 2012	December 31, 2011
	%	%	%	%
Discount rate:				
Korean Plan	5.40%	6.30%	4.20%	5.40%
Swiss Plan	2.75%	2.75%	1.75%	2.75%
Expected rate of return on assets:				
Korean Plan	4.20%	4.50%	n/a	n/a
Swiss Plan	2.00%	2.875%	n/a	n/a
Future salary increases:				
Korean Plan	5.00%	5.00%	5.00%	5.00%
Swiss Plan	2.00%	2.00%	2.00%	2.00%

The Group expects to contribute a comparable amount as in 2012 to its defined benefit pension plan in 2013.

21. OTHER LONG TERM EMPLOYEE BENEFITS

Description	
	Million KRW
As of January 1, 2011	1,386
Current service cost	150
Interest cost	88
Actuarial loss	-10
Total payment	-193
As of December 31, 2011	1,421
Current service cost	152
Interest cost	74
Actuarial loss	-
Total payment	-147
As of December 31, 2012	1,499

	December 31, 2012	**December 31, 2011**
Discount rate	4.20%	5.4%
Compensation increase	5.00%	5.0%
Compensation per day for vacation	KRW 51,760 – 113,140	KRW 53,000
Rate of increase in gold price	6.10%	6.80%
Gold price per 3.75 gram	KRW 213,700	KRW 218,700

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 all the past service cost and actuarial variances is recognized immediately in profit or loss.

22. TRADE AND OTHER PAYABLES

Description	**December 31, 2012**	**December 31, 2011**
	Million KRW	Million KRW
Trade payables	30,228	29,257
Trade payables (related parties)	324	-
Other accounts payables	13,026	14,445
Other accounts payables (related parties)	7	7
Withholdings	326	419
Accrued expenses	12,684	9,551
Guarantee deposits	21	19
Total	**56,616**	**53,698**

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

23. OPERATING PROFIT AND OTHER INCOME/EXPENSES

23.1 OTHER INCOME

Description	2012	2011
	Million KRW	Million KRW
Fee income	223	10
Miscellaneous income	472	706
Gains on foreign exchange transaction	5,170	9,588
Gains on foreign exchange translation	468	4,669
Gain on disposal of property, plant and equipment	175	304
Rendering of services	-	31
Rental income (third parties)	1,609	1,818
Rental income (related parties)	1	2
Total	8,118	17,128

23.2 OTHER EXPENSES

Description	2012	2011
	Million KRW	Million KRW
Loss on capacity variance	-10,864	-7,564
Miscellaneous operating expenses	-2,204	-871
Loss on disposal of property,plant and equipment	-	-126
Loss on foreign exchange transaction	-8,671	-8,347
Loss on foreign exchange translation	-6,884	-2,605
Total other expenses	-28,623	-19,513

23.3 EXPENSES CLASSIFIED BY NATURE

Description	2012	2011
	Million KRW	Million KRW
Purchased material	-424,109	-438,749
Personnel expenses	-61,218	-45,274
Depreciation and amortization	-30,348	-29,009
Changes in inventories of finished goods and supplies	4,828	34,216
Other expenses	-139,761	-144,512
Total	-650,608	-623,328
Thereof recorded in cost of sales	-547,638	-536,853
Thereof recorded in selling and administration costs	-74,347	-66,962
Thereof recorded in other expenses	-28,623	-19,513
Total	-650,608	-623,328

23.4 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of 1,456 Million KRW (2011: 1,400 Million KRW) are recorded in the income statement. Development expenses are not capitalized because the conditions for capitalization have not been met.

23.5 SELLING AND ADMINISTRATION COST

Description	2012	2011
	Million KRW	Million KRW
Personnel expenses	-22,957	-17,756
Travelling	-3,945	-2,679
Depreciation and amortization	-6,358	-6,156
Insurance	-775	-443
Entertainment	-540	-554
Advertising	-885	-727
Administration expenses	-35,972	-35,571
Sales commission	-1,739	-2,698
Vehicle expenses	-568	-403
Rental expenses	-576	-464
Bad debt loss	255	496
Others	-287	-7
Total	-74,347	-66,962

23.6 FINANCE COSTS

Description	2012	2011
	Million KRW	Million KRW
Interest on borrowings	-23,125	-23,422
Total interest cost	-23,125	-23,422
Loss on foreign exchange	-13,425	-18,865
Loss on derivative transaction	-114	-643
Loss on valuation of derivatives	-304	-675
Bank charges	-127	-447
Total finance costs	-37,095	-44,052

23.7 FINANCE INCOME

Description	2012	2011
	Million KRW	Million KRW
Interest on loans and receivables	603	562
Gain on foreign exchange	20,985	17,229
Gain on derivative transaction	2,296	1,099
Gains on valuation of derivatives	257	653
Interest on loans and receivables (related parties)	-	11
Other	103	-
Total finance income	24,244	19,554

23.8 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, 2012 and 2011 are as follows (Korean won in millions):

Description	2012	2011
	Million KRW	Million KRW
Financial assets measured at fair value through profit or loss	2,135	-125
Loans and receivables	127	3,104
Available-for-sales financial assets	97	41
Financial liabilities measured at amortised cost	-15,082	-27,071
Total	-12,724	-24,051
Finance costs	-37,095	-44,052
Finance income	24,244	19,554
Bank charges	127	447
Total	-12,724	-24,051

24. INCOME TAX

The major components of income tax expense for the years ended December 31, 2012 and 2011 are:

24.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Description	2012	2011
	Million KRW	Million KRW
Current income tax charge	-5,739	-1,217
Adjustments in respect of current income tax of previous year	-41	-10
Deferred income taxes relating to changes of temporary differences, net	5,162	7,859
Deferred income taxes relating to tax loss carry forwards	-4,059	-5,048
Deferred income taxes from tax credits	2,033	251
Deferred income taxes recognized directly to other comprehensive income	-1,233	-671
Income tax expense reported in the income statement	-3,877	1,164

Description	2012	2011
	Million KRW	Million KRW
Accounting profit before income tax	24,336	8,869
At parents company's statutory income tax rate of 22.71% (2011: 23.95%)	-5,527	-2,124
Increase / (decrease) in income taxes resulting from:		
Adjustments in respect to current income tax of previous years	-41	-10
Non temporary differences	-202	-231
Other (reassessment of impaired deferred tax assets etc.)	3,880	-
Other non-taxable income due to step acquisition	-	9,665
Non deductible impairment of goodwill	-	-7,103
Other non-deductible expenses - others	-10	-237
Effect of different tax rates in tax jurisdiction	-1,977	1,204
At the effective income tax rate 15.93% (2011: -13.12%)	-3,877	1,164

24.2 DEFERRED TAX

Deferred tax relates to the following:

Description	Consolidated statement of financial position: December 31, 2012	Consolidated statement of financial position: December 31, 2011	Consolidated income statement: 2012	Consolidated income statement: 2011
	Million KRW	Million KRW	Million KRW	Million KRW
Pension obligation	1,498	663	-667	847
Other long term employment benefits	330	313	17	8
Trade accounts receivables	-	-	-	-248
Inventories	2,810	1,940	870	1,206
Fixed assets	-23,283	-25,827	2,544	981
Gain on revaluation of land	-24,014	-24,025	11	110
Loss on currency forwards	67	128	-61	-31
Other withholdings (governmental grant)	55	55	-	18
Accrued income	-161	-35	-126	18
Gain on foreign exchange	-1,478	-1,227	-251	-1,059
Loss on foreign exchange	1,683	1,330	353	1,141
Prepaid expenses	-	-163	163	27
Other current liabilities	75	-	75	10
Other current provisions	69	-	69	14
Other non-current provisions	2	40	-38	40
Gain on valuation of available-for-sale investments	41	-7	-	-
Gain on currency forwards	-57	-	-57	42
Loss on interest rate swap	-	28	-	-
Investments accounted for using the equity method	-	-	-	2,168
Intangible assets	-2,984	-4,011	1,027	2,541
Losses available for offsetting against future taxable income	-	4,059	-4,059	-5,048
Tax credits carry forwards	3,694	1,661	2,033	-405
Deferred tax income / (expense)	-	-	1,903	2,381
Net deferred tax assets / (liabilities)	-41,653	-45,079		
Reflected in the statement of financial position as follows:				
Deferred tax assets	2,780	1,677		
Deferred tax liabilities	44,433	46,756		

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.

Reconciliation of deferred tax liabilities, net:

Description	2012	2011
	Million KRW	Million KRW
Opening balance as of January 1	-45,079	-41,352
Tax income / (expense) during the period recognized in total comprehensive income	3,136	3,062
Deferred taxes acquired in business combination	-	-7,565
Exchange differences	290	776
Closing balance as of December 31	-41,653	-45,079

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 forward and tax credit carry forward no deferred tax assets as of December 31, 2012 and 2011 are as follows (Korean won in millions) were recognized:

Description	December 31, 2012	December 31, 2011
	Million KRW	Million KRW
Temporary differences	131	121
Tax loss carry forwards	-	-
Tax credit carry forwards	-	2,245
Total	131	2,366

Expected timing of expiration of recognized and unrecognized dedectible temporary differences, tax loss carry forwards and tax credit carry forwards as of December 31, 2012 and 2011 are as follows:

	Recognized deferred tax assets		Unrecognized deferred tax assets	
	Tax loss carry forwards	Tax credit carry forwards	Tax loss carry forwards	Tax credit carry forwards
December 31, 2012	Million KRW	Million KRW	Million KRW	Million KRW
less 1 year	-	824	-	-
1-5 years	-	2,821	-	-
5 years and later	-	49	-	-
Total	-	3,694	-	-
December 31, 2011	Million KRW	Million KRW	Million KRW	Million KRW
less 1 year	2,249	565	-	1,680
1-5 years	1,810	1,096	-	565
5 years and later	-	-	-	-
Total	4,059	1,661	-	2,245

25. 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 by the average number of ordinary shares outstanding during the year.

There is no difference between basic and diluted earnings per share in 2011 and 2012.

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

Description	**2012**	**2011**
	KRW	KRW
Net profit attributable to ordinary equity holders of the parent	20,585,707,165	10,032,758,907
Weighted average number of ordinary shares	24,000,000	24,000,000
Earnings per share (basic / diluted)	858	418

26. DERIVATIVES FINANCIAL INSTRUMENTS

	December 31, 2012		December 31, 2011	
Description	**Assets**	**Liabilities**	**Assets**	**Liabilities**
	Million KRW		Million KRW	
Forward foreign exchange contracts (current portion)	257	304	-	581
Interest rate swaps (current portion)	-	90	-	221
Total	257	394	-	802

26.1 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, 2012 and 2011 are as follows:

AS PER DECEMBER 31, 2012

Contractual party	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Citibank	EUR 9,900,000	2013.01.25 – 2013.03.25	1,410.30 – 1,435.70
Citibank	JPY 320,000,000	2013.02.25 – 2013.03.25	1,266.70 – 1,321.50
Korea Standard Chartered Bank	JPY 160,000,000	2013.01.25	1,384.00
Korea Standard Chartered Bank	CHF 1,000,000	2013.01.02	1,234.70
Contractual party	**Contract amount**	**Maturity dates**	**Contracted exchange rate (Swiss francs)**
Korea Standard Chartered Bank	EUR 5,008,347	2013.01.02	1.20

AS PER JANUARY 1, 2011

Contractual party	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Woori Bank	JPY 700,000,000	2012.01.25 -2012.05.25	1,406.30 - 1,417.20

26.2 INTEREST RATE SWAP

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

As of December 31, 2011 interest rate swap contracts which the Group has entered into in order to hedge the risk of interest rate fluctuation arising from the unsecured privately - placed bonds (Korea Standard Chartered Bank) is as follows:

AS PER DECEMBER 31, 2011

Description	Bonds contract	Interest rate swap contract
Contract date	June 18, 2010	June 18, 2010
Maturity date	June 18, 2012	June 18, 2012
Contract amount KRW	20,000,000,000	20,000,000,000
Fixed interest rate	n/a	6.00%
Floating interest rate	3MCD+1.2%	3MCD+1.2%

The Group applies cash flow hedge accounting on interest rate swap, currently in 2012 there is no interest rate swap designated as cash flow hedge. The balances included in accumulated other comprehensive income are 0 Million KRW as of December 31, 2012 and -99 Million KRW as of December 31, 2011, respectively (see Note 17.4), net of income tax. The income tax effects are 0 KRW as of December 31, 2012 and 28 Million KRW as of December 31, 2011, respectively.

27. 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.

	Carrying amount		Fair value	
Description	**December 31, 2012**	**December 31, 2011**	**December 31, 2012**	**December 31, 2011**
	Million KRW	Million KRW	Million KRW	Million KRW
Financial assets at fair value through profit and loss	257	-	257	-
Other financial assets (Derivatives)	257	-	257	-
Thereof Current	257	-	257	-
Thereof Non-Current	-	-	-	-
Loans and receivables	187,593	182,165	187,593	182,165
Other financial assets	5,512	3,931	5,512	3,931
Thereof Current	2,576	2,231	2,576	2,231
Thereof Non-Current	2,936	1,700	2,936	1,700
Trade accounts receivables	100,543	105,339	100,543	105,339
Thereof Current	100,543	105,339	100,543	105,339
Thereof Non-Current	-	-	-	-
Cash and cash equivalent	81,538	72,895	81,538	72,895
Thereof Current	81,538	72,895	81,538	72,895
Thereof Non-Current	-	-	-	-
Available-for-sale financial assets	6,764	1,983	6,764	1,983
Thereof Current	-	-	-	-
Thereof Non-Current	6,764	1,983	6,764	1,983
Total	194,614	184,148	194,614	184,148

	Carrying amount		Fair value	
Description	**December 31, 2012**	**December 31, 2011**	**December 31, 2012**	**December 31, 2011**
	Million KRW	Million KRW	Million KRW	Million KRW
Financial liabilities at fair value through profit and loss	394	581	394	581
Other financial liabilities (Derivatives)	394	581	394	581
Thereof Current	394	581	394	581
Thereof Non-Current	-	-	-	-
Financial liabilities measured at amortized costs	509,786	533,372	509,786	533,372
Interest bearing loans and borrowings	434,173	449,979	434,173	449,979
Thereof Current	404,160	412,749	404,160	412,749
Thereof Non-Current	30,014	37,230	30,014	37,230
Other financial liabilities	18,996	29,695	18,996	29,695
Thereof Current	9,467	10,305	9,467	10,305
Thereof Non-Current	9,529	19,390	9,529	19,390
Trade and other payables	56,616	53,698	56,616	53,698
Thereof Current	56,616	53,698	56,616	53,698
Thereof Non-Current	-	-	-	-
Deriv. designated as hedge instrument				
Other financial liabilities (Derivatives)	-	221	-	221
Thereof Current	-	221	-	221
Thereof Non-Current	-	-	-	-
Total	510,180	534,174	510,180	534,174

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 accounts receivables, other accounts 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 27.1).

27.1 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 at 31 December 2012 and as at 31 December 2011, the Group held the following financial instruments carried at fair value on the statement of financial position:

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				
Derivatives	257	-	257	-
Available-for-sale financial assets	6,764	-	5,213	-
Public Bonds	4,796	-	4,796	
Hybrid Tier 1	417	-	417	-
Others (at costs)	1,550	-	-	-
LIABILITIES MEASURED AT FAIR VALUE				
Financial liabilities at fair value through profit or loss				
Derivatives	394	-	394	-

Description	December 31, 2011	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				
Derivatives	-	-	-	-
Available-for-sale financial assets	1,983	-	432	-
Hybrid Tier 1	432	-	432	-
Others (at costs)	1,550	-	-	-
LIABILITIES MEASURED AT FAIR VALUE				
Financial liabilities at fair value through profit or loss				
Derivatives	581	-	581	-
Derivatives designated as hedge instrument				
Derivatives	221	-	221	-

During the reporting period ending 31 December 2012 and 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

28. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

28.1 IMPAIRMENT TEST ON INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

There is no impairment loss recognized during 2012 and 2011 according to the impairment test on membership. The recoverable amount of membership is the higher of membership's fair value less costs to sell and its value in use. The Group uses fair value information available at first, otherwise determines fair value less costs to sell or value in use through the best estimation.

28.2 GOODWILL

Goodwill acquired through business combinations has been allocated to Group of Cash Generating Unit expected to benefit from acquisitions. The Goodwill acquired during the acquisition of Songwon Holdings AG and ATG Additive Technology Greiz GmbH are allocated to the Group of CGU's comprising the acquired entities and the parent company, which correspond almost to the entire Group. Insignifiancant Cash Generating Units were not included.

The recoverable amount of the Group of Cash Generating Units to which goodwill is allocated has been determined based on a fair value less cost to sell calculation. Methods used to determine the fair value less costs to sell include methods that use quoted stock market prices as a basis. Key assumptions on which management has based its determination of fair value less costs to sell include control premium of 30% and the cost to sell of 1%. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.

The Group performed its annual impairment test as of December 31, 2012.

There is no impairment loss recognized in 2012 resulting from the impairment test as of December 31, 2012. In 2011, an impairment charge of 29,657 Million KRW against goodwill has been recognized, which has been recorded within goodwill impairment in the income statement.

28.3 KEY ASSUMPTIONS USED IN CALCULATION OF FAIR VALUE LESS COST TO SELL

The calculation of fair value less cost to sell is most sensitive to the following assumptions:

- **Share Price**
- **Control Premium**
- **Cost to sell**

▶ **Share Price**

Share Price represents the current quoted market price of the company.

▶ **Control Premium**

Control Premium is an amount that a buyer is usually willing to pay over the current market price of a publicly traded company. The market price of a single share of common stock and the associated market capitalization of a reporting unit with publicly traded equity securities may not be representative of the fair value of the reporting unit as a whole. Substantial value may arise from the abilitiy to take advantage of synergies and other benefits that result from control over a company.

▶ **Cost to sell**

The cost to sell has to be taken into consideration when determining the fair falue less cost to sell of a group of cash generating units.

28.4 SENSITIVITY TO CHANGES IN ASSUMPTIONS USED FOR 2012 IMPAIRMENT TEST

With regard to the assessment of fair value less cost to sell, management believes that no reasonably possible change in any of the above key assumptions would a further impairment charge to the carrying amount of the group of CGU's to which goodwill is allocated:

- **Change in Share Price**
  Based on the fact that the share market price has a direct impact to the calculation of the recoverable amount of the Group of CGU's a change in share market price would have a direct impact on the recoverable amount and consequently in the impairment charge recognized.

The share price could decrease by 19% and no impairment charge would be necessary, if all other assumptions remain stable.

- **Change in Control Premium Assumption**
  Determination of control premium has been determined using observable transaction in the market. Changing this assumption would have a direct impact on the recoverable amount and consequently in the impairment expenses recognized.

The control premium could be reduced to 5% and no impairment charge would be necessary, if all other assumptions remain stable.

- **Cost to sell**
  Determination of cost to sell is based on observable transaction in the market and the cost arose in such transactions. A change in the assumption of cost to sell would have a direct impact on the recoverable amount and consequently in the impairment expense recognised.

The cost to sell could be increased to 9% of the total estimated fair value and no impairment charge would be necessary, if all other assumptions remain stable.

29. RELATED PARTY DISCLOSURES

The financial statements includes those subsidiaries which are disclosed in the "Basis for Consolidation" in Note 2.2.

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, 2012	2011
Songwon Chemicals Co. Ltd. (Joint venture; Business combination as of October 1, 2011)	Sales	-	620
	Purchase	-	215
	Other income	-	-
	Other expenses	-	-
	Finance income	-	-
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Sales	-	-
	Purchase	3,148	-
	Other income	-	-
	Other expenses	-	-
	Finance income	-	-
Chemservice Asia Ltd. (Joint venture)	Sales	-	-
	Purchase	-	-
	Other income	1	2
	Other expenses	73	92
	Finance income	-	11
Total	Sales	-	620
	Purchase	3,148	215
	Other income	1	2
	Other expenses	73	92
	Finance income	-	11

Related party	Description	December 31, 2012	December 31, 2011
Songwon Baifu Chemicals (Tangshan) Co., Ltd. (Joint venture)	Other receivables	617	-
	Trade payables	324	-
	Other payables	-	-
Chemservice Asia Ltd. (Joint venture)	Other receivables	-	8
	Trade payables	-	-
	Other payables	7	7
Total	Other receivables	617	8
	Trade payables	324	-
	Other payables	7	7

29.1 THE ULTIMATE PARENT

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

29.2 TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: 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.

29.3 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Since January 3, 2011, the Group holds 100% of Songwon International AG's share both directly (60% equity interest), and indirectly by acquiring 100% share of Songwon Holdings AG (40% 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.

An amount of 14 Million CHF of the total acquisition cost of Songwon Holdings AG is still outstanding as of December 31, 2012, and scheduled to be paid in portions of 7 Million CHF on January 2013 and 2014 together with an interest earned. The annual interest rate of 2.25% is determined by Swiss Federal Tax Authority.

29.4 COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

Description	2012		2011	
	Million KRW		Million KRW	
	Registered - The parent	Others	Registered - The parent	Others
Short term employee benefits	468	6,871	618	6,952
Post-employment benefits	57	638	114	540
Other long-term benefits	-	762	-	794
Total compensation paid to key management personnel	525	8,271	732	8,286

The amounts disclosed in the table are the amounts recognised 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.

29.5 OTHER RELATED PARTIES

Other related parties are Songwon Moolsan Co. Ltd (Korea) which has significant incluence on the Group due to the interest held in the share capital of the parent company of 23.88%. Further Kyungshin Industrial Co., Ltd. is identified as other related party of the Group. As of December 31, 2011 identified other related party Hyun gallery Co., Ltd. determined to close business in 2012 and is therefor no longer considerd as other related party.

30. COMMITMENTS AND CONTINGENCIES

30.1 CONTINGENT LIABILITY

There are no current proceedings of 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.

30.2 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, 2012	December 31, 2011
	Million KRW	Million KRW
Within one year	-686	-618
After one year but not more than five years	-1,149	-1,287
More than five years	-590	-695
Total	-2,425	-2,600

30.3 OTHER COMMITMENTS

As part of the ordinary business, the subsidiaries 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 at December 31, 2012 and 2011 no such commitments were entered.

The Group has provided two checks amounting to 22 Million KRW to Honam Petrochemical 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, 2012 due to bankruptcy declared by the issuers of check.

Details of the Group's available short-term credit line facilities (excluding general loans) as of December 31, 2012 are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	15,300	10,672	4,628
	Million KRW	10,000	-	10,000
D/A and D/P	Thousand USD	150,500	110,342	40,158
	Million KRW	24,000	15,925	8,075
Trade loans	Million KRW	164,300	132,179	32,121
B2B etc.	Million KRW	5,300	-	5,300
Overdraft	Million KRW	6,000	-	6,000
L/G for import	Thousand USD	1,000	300	700
Other foreign currency guarantees	Thousand USD	4,000	4,000	-
	Total Million KRW	209,600	148,104	61,496
	Total Thousand USD	170,800	125,314	45,486

31. ASSETS PLEDGED AS COLLATERAL AND GUARANTEES RECEIVED

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, 2012 and 2011, expressed in the maximum value registered to Korean court, are as follows:

Pledged to	Pledged assets	December 31, 2012	December 31, 2011
		Million KRW	Million KRW
PROPERTY, PLANT AND EQUIPMENT			
Woori Bank	Land, buildings and machinery	210,000	210,000
Korea Exchange Bank	Land, buildings and machinery	36,200	36,200
Korea Development Bank	Land, buildings and machinery	57,000	57,000
Citibank	Land, buildings and machinery	13,000	13,000
INVESTMENT PROPERTIES			
Hana Bank	Land and buildings	25,000	25,000
Total		341,200	341,200

Additionally, items of property, plant and equipment belonging to Songwon ATG GmbH (Germany) with a total value of 324 Million KRW are pledged as a collateral for interest-bearing loans and borrowings as of December 31, 2012.

Investment properties pledged by the Group as collateral in connection with repayment of leasehold deposits received as of December 31, 2012 and 2011 amounted to 200 Million KRW.

The Group has received land and buildings as collateral provided by related parties, Songwon Moolsan Co., Ltd. and Kyungshin Ind. Co., Ltd, in connection with the Group's borrowings from Busan Bank, to the extent of 27,000 Million KRW as of as of December 31, 2012.

The Group has received payment guarantee amounting to 518,205 Million KRW and 104 Million USD provided by Jong-Ho Park, CEO of the Group, in connection with the Group's borrowings from banks as of December 31, 2012.

For further details regarding other financial assets pledged as collateral please see Note 12.2.

32. 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 and other 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.

32.1 MARKET RISK

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

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

Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December in 2012 and 2011.

32.1.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings and bank deposits with floating interest rates.

The Group's exposure to the risk of changes in market interest rates relates substantially to the Group's interest-bearing loans and borrowings with floating interest rates, which makes the Group expose to cash flows risk. Responsively, the Group is minimizing the risk partially through interest rate swap contract or choosing the best favorable financing instruments by switching to the loans with more favorable conditions or improving the Group's credit rating.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings 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
2012	1.00	-124
	-1.00	124
2011	1.00	-108
	-1.00	108

32.1.2 FOREIGN CURRENCY RISK

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities. The risk of foreign exchange primarily relates to 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, 2012 and 2011 are as flows:

	December 31, 2012		December 31, 2011	
Currency	**10% increase**	**10% decrease**	**10% increase**	**10% decrease**
	Million KRW	Million KRW	Million KRW	Million KRW
USD	673	-673	-405	405
EUR	2,384	-2,384	699	-699
JPY	-1,017	1,017	-2,381	2,381
CHF	2,693	-2,693	2,435	-2,435
Total	4,733	-4,733	348	-348

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

32.2 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 trade relationship only with the customers with high credit rating assessed by credit assessment considering their financial position, past experience of defaults and other indicators of default. If a customer became worsen in its credit rating, the Group set an individual credit limit on that customer and intensively manage its credit risk. In addition, the Group minimized the credit risk by maintaining the exposure to the credit risk at insignificant level through ongoing management including periodical reviews on all the customers.

The Group is also exposed to the credit risk in 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 the financial institutions with high credit ratings.

32.3 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to the unfavorable economy of the industry or financial 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 including overdraft to respond to unexpected shortage in liquidity. The Group manages funding schedules and ongoing review procedures considering the appropriate mix of long-term and short-term loans and borrowings, to maintain the consistency and flexibility to obtain liquidity and stable financing responding to the expansion of the business.

The details of maturity profile of the Group's financial liabilities, excluding financial derivative instruments, based on contractual undiscounted payments as of December 31, 2012 and 2011 are as follows (based on contractual undiscounted payments):

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
	209,380	96,597	164,266	37,334	2,209	509,786

As of 31 December 2011	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	198,378	50,390	164,067	30,691	6,453	449,979
Other financial liabilities	10,305	-	-	19,390	-	29,695
Trade and other payables	51,755	1,924	19	-	-	53,698
	260,438	52,314	164,086	50,081	6,453	533,372

32.4 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 provided 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 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 regulary. The debt ratio as of December 31, 2012 and 2011 is 201% and 216%, respectively.

On a monthly basis all subsidiaries have to report key performance Indicators which also include capital management information. On Group level the equity / liability ratio is reviewed regulary.

33. 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, 2012 and 2011 are as follow:

Description		2012	2011
	Notes	Million KRW	Million KRW
ADJUSTMENTS			
Depreciation and impairment of property, plant and equipment	8	24,298	23,201
Depreciation and impairment of investment properties	9	174	175
Amortization and impairment of intangible assets except for goodwill	10	5,876	5,712
Gain on disposal of property, plant and equipment, net	23.5	-175	-178
Maintenance expense	8	-	4,905
Fair value adjustments due to step acquisition	5	-	-40,045
Goodwill impairment	10	-	29,657
Share of result from investments accounted for using the equity method	6	-40	-207
Finance income	23.7	-24,244	-19,554
Finance costs	23.6	37,095	44,052
Provision for (benefit from) income taxes	24	3,877	-1,164
Total		46,861	46,554

Description	2012	2011
	Million KRW	Million KRW
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Trade receivables	11,166	103,103
Other receivables	-3,055	12,864
Other current assets	823	-2,119
Other current financial assets	-257	174
Inventories	5,306	-31,157
Trade payables	15,560	-120,062
Other payables	2,422	3,449
Other current financial liabilities	-359	145
Other current liabilities	-651	-832
Pension liabilities	-2,158	-949
Other long term employment benefits	78	35
Total	28,875	-35,349

34. EVENTS AFTER THE REPORTING PERIOD

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. 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 bank. 40% of the 3 year term loan will be repaid by installments during the loan period. The interest rates are base rate (3 year AAA Bank bond) + 2.02% for the term loan and base rate (1 year AAA Bank bond) + 1.99% for the RCF. This syndicated loan will replace existing loans by that amount as being withdrawn subsequently.

The consolidated financial statements for the year ended December 31, 2012 were approved by the Board of Directors of the parent company on February 19, 2013.

SECTION 4

ERNST & YOUNG

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, 2012 and 2011, 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 of December 31, 2012 and 2011 and the results of its financial performance, and its cash flows for the years then ended in accordance with Korea 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 2.4 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

March 5, 2013

This audit report is effective as of March 5, 2013, 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 audit report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

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SALIENT

From the Latin Verb 'salire' to leap or leaping.
As an adjective, meaning the most noticeable, prominent or important.

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