



DONGBU CORPORATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
AND INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of
Dongbu Corporation:

We have audited the accompanying balance sheets of Dongbu Corporation (the "Company") as of December 31, 2008 and 2007, and the related statements of operations, appropriations of retained earnings, changes in shareholders' equity and 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations, changes in its retained earnings and its shareholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

Without qualifying our opinion, we draw attention to the asset revaluation. As discussed in Note 2 to the accompanying financial statements, the Company adopted the amendment of the Statement of Korea Accounting Standards ("SKASs") No. 5 "Property, Plant and Equipment", which permits certain items of its land to be revalued after acquisition date, applying the revaluation models permitted under SKASs No. 5. As a result of this adoption, the total assets and net assets increased by ₩162,769 million and ₩126,928 million as of December 31, 2008, respectively.

Our audits also comprehended the translation of Korean Won amounts into U.S. Dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. Dollar amounts are presented solely for the convenience of readers outside of the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. 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 financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Deloitte Anjin LLC.

March 2, 2009

Notice to Readers

This report is effective as of March 2, 2009, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

DONGBU CORPORATION

BALANCE SHEETS

AS OF DECEMBER 31, 2008 AND 2007

<u>ASSETS</u>	<u>Korean Won</u>		<u>Translation into</u> <u>U.S. Dollars (Note 2)</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>(In millions)</u>		<u>(In thousands)</u>	
CURRENT ASSETS:				
Cash and cash equivalents (Notes 3 and 13)	₩ 62,090	₩ 16,570	\$ 49,376	\$ 13,177
Short-term financial instruments (Notes 3 and 22)	12,504	16,219	9,944	12,898
Short-term investment securities (Note 5)	13,370	2,216	10,632	1,762
Trade receivables, net of allowance for doubtful accounts of ₩1,842 million in 2008 and ₩1,940 million in 2007 (Notes 4, 10, 13 and 14)	612,451	400,160	487,039	318,219
Short-term loans, net of allowance for doubtful accounts of ₩107 million in 2008 and ₩39 million in 2007 (Notes 7 and 23)	22,356	8,670	17,778	6,895
Accounts receivable-other, net of present value discount of nil in 2008 and ₩51 million in 2007, and allowance for doubtful accounts of ₩2,564 million in 2008 and ₩4,246 million in 2007 (Notes 13, 14 and 23)	68,529	78,632	54,496	62,530
Accrued income	6,785	4,713	5,395	3,748
Advanced payments, net of allowance for doubtful accounts of ₩431 million in 2008 and ₩350 million in 2007	47,176	38,737	37,516	30,804
Advanced payment for lots	26,890	-	21,384	-
Prepaid expenses	6,848	5,691	5,445	4,526
Deferred income tax assets (Note 19)	7,164	12,454	5,697	9,904
Prepaid construction costs	77,975	55,900	62,008	44,453
Foreign exchange forward assets	-	68	-	54
Inventories (Notes 2, 8 and 22)	123,764	120,082	98,421	95,493
	<u>1,087,902</u>	<u>760,112</u>	<u>865,131</u>	<u>604,463</u>

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DONGBU CORPORATION
BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
NON-CURRENT ASSETS:				
Long-term financial instruments (Notes 3 and 22)	₩ 355	₩ 405	\$ 282	\$ 322
Available-for-sale securities (Notes 5 and 22)	329,912	362,541	262,355	288,303
Investment securities using the equity method (Notes 6 and 22)	121,698	91,413	96,778	72,694
Long-term trade receivables, net of allowance for doubtful accounts of ₩83 million in 2008 and ₩43 million in 2007	251	-	200	-
Long-term other receivables, net allowance for doubtful accounts of ₩504 million in 2008 and 2007 (Note 22)	10,080	-	8,016	-
Long-term loans, net of allowance for doubtful accounts of ₩2,481 million in 2008 and ₩1,113 million in 2007 (Notes 6 and 23)	76,823	94,475	61,092	75,129
Long-term prepaid expenses	480	-	382	-
Guarantee deposits	40,461	41,352	32,175	32,884
Deferred income tax assets (Note 19)	-	9,293	-	7,390
Property, plant and equipment, net (Notes 8, 11, 22 and 27)	299,340	191,728	238,044	152,468
Intangible assets (Notes 9 and 27)	47,967	57,090	38,145	45,400
	<u>927,367</u>	<u>848,297</u>	<u>737,469</u>	<u>674,590</u>
Total Assets	<u>₩ 2,015,269</u>	<u>₩ 1,608,409</u>	<u>\$ 1,602,600</u>	<u>\$ 1,279,053</u>

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DONGBU CORPORATION
BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
<u>LIABILITIES AND SHAREHOLDERS'</u>				
<u>EQUITY</u>				
CURRENT LIABILITIES:				
Trade payables (Notes 13 and 14)	₩ 496,027	₩ 314,816	\$ 394,455	\$ 250,351
Short-term borrowings (Notes 10 and 22)	232,373	151,300	184,790	120,318
Accounts payable-other	31,763	22,388	25,259	17,804
Advances from customers	190,014	170,876	151,105	135,885
Withholdings	22,894	15,346	18,206	12,204
Accrued expenses (Note 13)	16,709	14,850	13,287	11,809
Income tax payable	8,364	10,551	6,651	8,390
Current portion of long-term debt, net (Notes 10 and 22)	104,110	207,019	82,791	164,627
Current portion of long-term accounts payable (Notes 10 and 22)	686	366	545	291
Current portion of liability from securitization of future receivables (Note 12)	9,773	10,037	7,772	7,982
Other current liabilities (Note 23)	<u>36,610</u>	<u>48,366</u>	<u>29,113</u>	<u>38,462</u>
	<u>1,149,323</u>	<u>965,915</u>	<u>913,974</u>	<u>768,123</u>
LONG-TERM LIABILITIES:				
Debentures, net (Notes 10 and 22)	218,141	149,660	173,472	119,014
Long-term borrowings (Notes 10, 13 and 22)	48,296	17,329	38,406	13,781
Long-term accounts payable (Notes 10 and 11)	2,642	1,640	2,101	1,304
Long-term advances from customers	17,767	23,070	14,128	18,346
Liability from securitization of future receivables (Note 12)	8,923	18,923	7,096	15,048
Interest swap liabilities (Note 24)	769	-	612	-
Accrued severance indemnities, net (Note 2)	7,781	9,089	6,188	7,228
Deferred income tax liabilities (Note 19)	<u>20,170</u>	<u>-</u>	<u>16,040</u>	<u>-</u>
	<u>324,489</u>	<u>219,711</u>	<u>258,043</u>	<u>174,721</u>
Total Liabilities	<u>1,473,812</u>	<u>1,185,626</u>	<u>1,172,017</u>	<u>942,844</u>

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DONGBU CORPORATION

BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
SHAREHOLDERS' EQUITY:				
Capital stock (Note 15)	₩ 125,664	₩ 125,664	\$ 99,932	\$ 99,932
Capital surplus:				
Paid-in capital in excess of par value	36,885	36,885	29,332	29,332
Asset revaluation reserve (Note 15)	106,767	106,767	84,904	84,904
Other capital surplus (Note 15)	110,531	110,531	87,897	87,897
Capital adjustments (Note 15)	(3,102)	(3,701)	(2,467)	(2,943)
Accumulated other comprehensive income (loss):				
Valuation gain on investment securities using the equity method (Notes 6 and 16)	40,285	440	32,036	350
Valuation loss on investment securities using the equity method (Notes 6 and 16)	(37)	(49)	(29)	(39)
Valuation loss on available-for-sale securities (Notes 5 and 16)	(45,594)	(29,998)	(36,258)	(23,855)
Revaluation gain on property, plant and equipment (Notes 8 and 16)	86,165	-	68,521	-
Retained earnings (Accumulated deficit):				
Appropriated (Note 15)	63,341	107,166	50,371	85,221
Unappropriated (Before disposition)	<u>20,552</u>	<u>(30,922)</u>	<u>16,344</u>	<u>(24,590)</u>
Total Shareholders' Equity	<u>541,457</u>	<u>422,783</u>	<u>430,583</u>	<u>336,209</u>
 Total Liabilities and Shareholders' Equity	 <u>₩ 2,015,269</u>	 <u>₩ 1,608,409</u>	 <u>\$ 1,602,600</u>	 <u>\$ 1,279,053</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>Korean Won</u>		<u>Translation into U.S. Dollars (Note 2)</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(In millions)		(In thousands)	
SALES (Notes 14, 17, 26 and 27)	₩ 2,349,286	₩ 1,606,253	\$ 1,868,219	\$ 1,277,339
COST OF SALES (Note 14)	<u>2,130,827</u>	<u>1,479,514</u>	<u>1,694,494</u>	<u>1,176,552</u>
GROSS PROFIT	218,459	126,739	173,725	100,787
SELLING AND ADMINISTRATIVE EXPENSES (Note 18)	<u>112,814</u>	<u>107,257</u>	<u>89,713</u>	<u>85,294</u>
OPERATING INCOME (Note 27)	<u>105,645</u>	<u>19,482</u>	<u>84,012</u>	<u>15,493</u>
NON-OPERATING INCOME:				
Interest income	9,744	14,684	7,749	11,677
Dividend income	998	2,889	794	2,297
Rent income	1,898	1,607	1,509	1,278
Gain on foreign currency transactions	1,372	226	1,091	180
Gain on foreign currency translation	396	24	315	19
Commissions	1,177	475	936	378
Gain on disposal of other non-current assets	568	1,345	452	1,070
Gain on disposal of available-for-sale securities	1,539	53,208	1,224	42,312
Gain on disposal of property, plant and equipment	1,493	1,847	1,187	1,469
Gain on valuation of investment securities using the equity method (Note 6)	9,220	13,422	7,332	10,674
Reversal of allowance for doubtful accounts	18	14	14	11
Gain on foreign exchange forward transactions (Note 24)	100	-	80	-
Gain on valuation of foreign exchange forward	-	68	-	54
Gain on assets contributed	-	184	-	146
Others	<u>8,434</u>	<u>5,693</u>	<u>6,706</u>	<u>4,525</u>
	<u>36,957</u>	<u>95,686</u>	<u>29,389</u>	<u>76,092</u>

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DONGBU CORPORATION

STATEMENTS OF OPERATIONS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions, except per share amount)		(In thousands, except per share amount)	
NON-OPERATING EXPENSES:				
Interest expense (Note 4)	₩ 51,936	₩ 45,424	\$ 41,301	\$ 36,123
Loss on foreign currency transactions	1,185	129	942	103
Loss on foreign currency translation	394	20	313	16
Loss on disposal of trade receivables (Notes 4 and 12)	4,365	3,701	3,471	2,943
Loss on disposal of available-for-sale securities (Note 5)	19,375	97,194	15,408	77,291
Loss on disposal of property, plant and equipment	534	458	425	364
Loss on revaluation of property, plant and equipment (Note 8)	143	-	114	-
Bad debt expense-other	2,133	425	1,696	338
Loss on valuation of interest swap (Note 24)	769	-	612	-
Impairment loss on available-for-sale securities (Note 5)	17	167	14	133
Loss on disposal of other non-current assets	-	196	-	156
Loss on valuation of investments securities using the equity method (Note 6)	15,050	1,625	11,968	1,292
Loss on disposal of investment securities using the equity method	1,957	-	1,556	-
Donations	162	480	129	382
Others	<u>6,698</u>	<u>5,332</u>	<u>5,326</u>	<u>4,240</u>
	<u>104,718</u>	<u>155,151</u>	<u>83,275</u>	<u>123,381</u>
INCOME (LOSS) BEFORE INCOME TAX	37,884	(39,983)	30,126	(31,796)
INCOME TAX EXPENSE (BENEFITS) (Note 19)	<u>14,089</u>	<u>(7,399)</u>	<u>11,204</u>	<u>(5,884)</u>
NET INCOME (LOSS) (Note 16)	<u>₩ 23,795</u>	<u>₩ (32,584)</u>	<u>\$ 18,922</u>	<u>\$ (25,912)</u>
EARNINGS (LOSS) PER COMMON SHARE (Note 20)	<u>₩ 1,159</u>	<u>₩ (1,720)</u>	<u>\$ 0.92</u>	<u>\$ (1.37)</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
UNAPPROPRIATED RETAINED EARNINGS (ACCUMULATED DEFICIT BEFORE DISPOSITION):				
Unappropriated retained earnings carried over from prior year	₩ 1,160	₩ 2,332	\$ 923	\$ 1,854
Changes of retained earnings from valuation of investment securities using the equity method	(4,403)	(670)	(3,501)	(532)
Net income (loss)	<u>23,795</u>	<u>(32,584)</u>	<u>18,922</u>	<u>(25,912)</u>
	<u>20,552</u>	<u>(30,922)</u>	<u>16,344</u>	<u>(24,590)</u>
TRANSFERS FROM VOLUNTARY RESERVES:				
Discretionary appropriated retained earnings	=	<u>45,000</u>	=	<u>35,785</u>
APPROPRIATIONS:				
Legal reserve	363	1,175	289	934
Cash dividends (Note 21)	<u>3,635</u>	<u>11,743</u>	<u>2,891</u>	<u>9,338</u>
	<u>3,998</u>	<u>12,918</u>	<u>3,180</u>	<u>10,272</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ 16,554</u>	<u>₩ 1,160</u>	<u>\$ 13,164</u>	<u>\$ 923</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won (In millions)					
	Capital Stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Total
Beginning of year (January 1, 2007)	₩ 125,664	₩ 248,045	₩ (10,150)	₩ (32,014)	₩ 117,647	₩ 449,192
Dividends	-	-	-	-	(8,149)	(8,149)
Net loss	-	-	-	-	(32,584)	(32,584)
Changes of retained earnings from valuation of investment securities using the equity method	-	-	-	-	(670)	(670)
Gain on disposal of preferred treasury stock	-	6,138	-	-	-	6,138
Disposal of preferred treasury stock	-	-	6,449	-	-	6,449
Changes in capital surplus on investments using the equity method	-	-	-	2,672	-	2,672
Changes in valuation loss on available-for-sale securities	-	-	-	(265)	-	(265)
End of year (December 31, 2007)	<u>₩ 125,664</u>	<u>₩ 254,183</u>	<u>₩ (3,701)</u>	<u>₩ (29,607)</u>	<u>₩ 76,244</u>	<u>₩ 422,783</u>
Beginning of year (January 1, 2008)	₩ 125,664	₩ 254,183	₩ (3,701)	₩ (29,607)	₩ 76,244	₩ 422,783
Dividends	-	-	-	-	(11,743)	(11,743)
Net income	-	-	-	-	23,795	23,795
Changes of retained earnings from valuation of investment securities using the equity method	-	-	-	-	(4,403)	(4,403)
Changes in capital surplus on investments using the equity method	-	-	-	39,857	-	39,857
Changes in valuation loss on available-for-sale securities	-	-	-	(15,596)	-	(15,596)
Changes in revaluation gain on property, plant and equipment	-	-	-	86,165	-	86,165
Changes in of capital adjustments due to tax rate change	-	-	599	-	-	599
End of year (December 31, 2008)	<u>₩ 125,664</u>	<u>₩ 254,183</u>	<u>₩ (3,102)</u>	<u>₩ 80,819</u>	<u>₩ 83,893</u>	<u>₩ 541,457</u>
Translation into U.S. Dollars (In thousands) (Note 2)	<u>\$ 99,932</u>	<u>\$ 202,133</u>	<u>\$ (2,467)</u>	<u>\$ 64,270</u>	<u>\$ 66,715</u>	<u>\$ 430,583</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	₩ 23,795	₩ (32,584)	\$ 18,922	\$ (25,912)
Addition of expenses not involving cash outflows:				
Depreciation	12,645	13,326	10,056	10,598
Bad debt expenses	2,108	380	1,676	302
Provision for severance indemnities	12,742	10,603	10,133	8,432
Amortization of intangible assets	11,471	10,740	9,122	8,541
Bad debt expense-other	2,133	425	1,696	338
Loss on disposal of trade receivables	4,365	3,701	3,471	2,943
Impairment loss on available-for-sale securities	17	167	14	133
Loss on disposal of available-for-sale securities	19,375	97,194	15,408	77,291
Loss on valuation of investment securities using the equity method	15,050	1,625	11,968	1,292
Loss on disposal of investment securities using the equity method	1,957	-	1,556	-
Loss on disposal of property, plant and equipment	534	458	425	364
Loss on revaluation of property, plant and equipment	143	-	114	-
Loss on disposal of other non-current assets	-	196	-	156
Loss on foreign currency translation	255	1	202	1
Interest expenses	804	512	639	407
Loss on valuation of interest swap	769	-	612	-
Other non-operating expenses	-	4,994	-	3,971
	<u>84,368</u>	<u>144,322</u>	<u>67,092</u>	<u>114,769</u>
Deduction of revenues not involving cash inflows:				
Gain on foreign currency translation	396	14	315	11
Interest income	51	-	40	-
Reversal of allowance for doubtful accounts	18	14	14	11
Gain on valuation of investment securities using the equity method	9,220	13,422	7,332	10,674
Gain on disposal of available-for-sale securities	1,539	53,208	1,224	42,312
Gain on disposal of other non-current assets	568	1,345	452	1,070
Gain on valuation of foreign exchange forward	-	68	-	54
Gain on foreign exchange forward transactions	100	-	80	-
Gain on assets contributed	-	184	-	146
Gain on disposal of property, plant and equipment	1,493	1,847	1,187	1,469
Others	2,694	101	2,142	80
	<u>(16,079)</u>	<u>(70,203)</u>	<u>(12,786)</u>	<u>(55,827)</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
Changes in assets and liabilities resulting from operations:				
Increase in trade receivables	₩ (220,901)	₩ (105,043)	\$ (175,667)	\$ (83,533)
Increase in accrued income	(2,071)	(716)	(1,647)	(569)
Increase in accounts receivable-other	(20,410)	(16,421)	(16,231)	(13,058)
Increase in advanced payments	(8,542)	(23,427)	(6,793)	(18,630)
Increase in advanced payments for lots	(2,476)	-	(1,969)	-
Increase in prepaid expenses	(1,636)	(1,879)	(1,301)	(1,494)
Decrease (Increase) in prepaid construction costs	(22,815)	6,869	(18,143)	5,462
Increase in inventories	(8,582)	(2,293)	(6,825)	(1,824)
Decrease (Increase) in long-term trade receivables	(292)	3	(232)	2
Decrease (Increase) in deferred income tax assets	15,177	(8,696)	12,070	(6,915)
Increase in trade payables	181,205	67,594	144,100	53,753
Increase in accounts payable-other	9,375	37	7,455	29
Increase in advances from customers	19,138	120,870	15,219	96,119
Increase (Decrease) in withholdings	11,317	(1,555)	9,000	(1,237)
Increase in accrued expenses	1,922	2,736	1,528	2,176
Increase in dividends payable	4	-	3	-
Decrease in other current liabilities	(9,066)	(12,714)	(7,210)	(10,111)
Increase (Decrease) in income tax payable	(2,187)	5,984	(1,739)	4,759
Decrease in deferred income tax liabilities	(12,299)	(9,417)	(9,781)	(7,489)
Decrease in deposits for severance benefits	(5,935)	(2,797)	(4,719)	(2,224)
Contribution to National Pension Plan	54	165	43	131
Payment of severance indemnities	(8,169)	(7,075)	(6,496)	(5,626)
Decrease in long-term advances from customers	(5,302)	(4,311)	(4,216)	(3,428)
Dividends from investment securities using the equity method	10,768	5,330	8,563	4,239
	<u>(81,723)</u>	<u>13,244</u>	<u>(64,988)</u>	<u>10,532</u>
	<u>10,361</u>	<u>54,779</u>	<u>8,240</u>	<u>43,562</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash inflows from investing activities:				
Withdrawal of short-term financial instruments	₩ 10,633	₩ 1,880	\$ 8,455	\$ 1,495
Collection of short-term loans	67,509	22,969	53,685	18,266
Withdrawal of long-term financial instruments	216	-	172	-
Proceeds from disposal of available-for-sale securities	8,811	88,551	7,007	70,418
Collections of long-term loans	60,279	2,743	47,936	2,181
Withdrawal of guarantee deposits	59,354	147,779	47,200	117,518
Proceeds from disposal of property, plant, and equipment	5,717	3,956	4,546	3,146
Settlement of foreign exchange forward	168	-	134	-
	<u>212,687</u>	<u>267,878</u>	<u>169,135</u>	<u>213,024</u>
Cash outflows from investing activities:				
Acquisition of short-term financial instruments	6,736	4,980	5,357	3,960
Extension of short-term loans	79,948	34,014	63,576	27,049
Acquisition of long-term financial instruments	347	130	276	103
Acquisition of available-for-sale securities	22,525	21,229	17,913	16,882
Acquisition of investment securities using the equity method	3,071	2,200	2,443	1,749
Extension of long-term loans	44,244	34,225	35,184	27,217
Payment of guarantee deposits	58,165	157,558	46,254	125,295
Acquisition of property, plant, and equipment	16,078	17,023	12,786	13,537
Acquisition of intangible assets	962	7,738	765	6,154
	<u>232,076</u>	<u>279,097</u>	<u>184,554</u>	<u>221,946</u>
	<u>(19,389)</u>	<u>(11,219)</u>	<u>(15,419)</u>	<u>(8,922)</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In millions)		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash inflows from financial activities:				
Proceeds from short-term borrowings	₩ 630,407	₩ 143,500	\$ 501,318	\$ 114,115
Proceeds from bonds payable	180,000	60,000	143,141	47,714
Proceeds from government subsidy	-	1,200	-	954
Proceeds from liability from securitization of future receivables	-	28,960	-	23,030
Proceeds from long-term prepaid expenses	1,688	-	1,342	-
Proceeds from disposal of treasury stock	-	14,916	-	11,862
Proceeds from long-term borrowings	-	25,400	-	20,199
	<u>812,095</u>	<u>273,976</u>	<u>645,801</u>	<u>217,874</u>
Cash outflows from financial activities:				
Repayment of short-term borrowings	549,334	170,600	436,846	135,666
Payment of cash dividends	11,743	8,147	9,339	6,478
Redemption of current portion of long-term debt	182,092	87,864	144,805	69,872
Repayment of current portion of long-term accounts payable-other	367	366	291	292
Repayment of liability from securitization of future receivables	11,815	9,361	9,396	7,444
Commissions of bonds payable	2,196	265	1,746	211
Repayment of long-term borrowings	-	27,975	-	22,246
	<u>757,547</u>	<u>304,578</u>	<u>602,423</u>	<u>242,209</u>
	<u>54,548</u>	<u>(30,602)</u>	<u>43,378</u>	<u>(24,335)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,520	12,958	36,199	10,305
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 25)	<u>16,570</u>	<u>3,612</u>	<u>13,177</u>	<u>2,872</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 25)	<u>₩ 62,090</u>	<u>₩ 16,570</u>	<u>\$ 49,376</u>	<u>\$ 13,177</u>

See accompanying notes to financial statements.

DONGBU CORPORATION
NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. GENERAL:

Dongbu Corporation (the "Company") was incorporated in 1969 as Miryung Construction Corporation under the Commercial Code of the Republic of Korea to provide engineering services and changed its name to Dongbu Corporation on February 28, 1989. The Company merged with Dongbu Express Co., Ltd. and Samsan Housing Construction Co., Ltd. in 1997 and 2000, respectively.

In addition, Junki Kim, the major shareholder and chairman, and other related parties hold 50.63% of the common stock of the Company as of December 31, 2008.

As of December 31, 2008, shareholders of the Company are as follows:

Shareholders	Number of shares (shares)	Percentage of ownership (%)
Dongbu Insurance Co., Ltd.	2,991,606	13.73
Dongbu Fine Chemicals Co., Ltd.	2,500,000	11.47
Kim, Junki	2,389,521	10.97
Dongbu Life Insurance Co., Ltd.	2,061,880	9.46
Dongbu Cultural Foundation	1,089,000	5.00
Others	10,758,338	49.37
	21,790,345	100.00

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language financial statements.

The accompanying financial statements are stated in Korean Won, the currency of the country in which the Company is incorporated and operates. The translation of Korean Won into U.S. Dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,257.50 to US\$ 1.00, the base rate announced by Seoul Money Brokerage Service, Ltd. as of December 31, 2008. Such translations should not be construed as representations that the Korean Won amounts could be converted into U. S. Dollars at that or any other rate.

The Company's financial statements to be presented to the shareholders' meeting were approved by the board of directors on March 2, 2009.

Significant accounting policies followed by the Company in preparing the accompanying financial statements are summarized as follows:

Adoption of Newly Adopted Statements of Korea Accounting Standards

The Company adopted the revaluation method for land based on SKAS No. 5-“Property, Plant and Equipment” revised and announced in the current period. As a result of adopting the amended standards, land, investment securities using the equity method and net assets increased by ₩ 110,325 million, ₩52,444 million and ₩126,928 million, respectively, and net income before income tax decreased by ₩ 143 million for the year ended December 31, 2008. [See notes 6(2) and 8(2)]

Cash and Cash Equivalents

Cash equivalents include securities and short-term financial instruments where fluctuation of the fair values is not significant as interest rate changes and have maturities of three months or less from the acquisition date.

Financial Instruments

Short-term financial instruments are financial instruments traded by financial institutions, which are held for short-term cash management purposes or will mature within one year, which include time deposits and instalment savings deposits. Long-term financial instruments are instruments not included in current assets.

Transfer or Discount of Trade Receivables

In cases when trade receivables are transferred or discounted to another party with transferring right and obligation, the transferred or discounted amounts are deducted from the trade receivables and the loss is charged in current operations.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the management’s estimate of the collectibility of individual accounts and historical bad debts experience.

Prepaid Construction Costs

Prepaid construction costs directly related to construction contracts and paid before contracts are recorded as assets when related costs can be identified and measured reliably, and possibility of related contract is high. Prepaid construction costs are expensed when related construction works begin.

Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined using the following method:

	<u>Method</u>
Merchandises	Moving average
Materials and supplies	First-in, first-out
Other inventories	Specific identification

If the net realizable value of inventories is lower than the acquisition cost, the acquisition cost is adjusted to net realizable value and the difference between the original acquisition cost and revalued amount is charged to current operations and equivalent amount is recorded as provision for inventories in the balance sheet. The Company maintains perpetual inventory records, which are adjusted through physical counts.

Inventories as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Materials and supplies	₩ 6,604	₩ 3,096
Merchandises	174	-
Land	107,529	107,529
Other inventories	<u>9,457</u>	<u>9,457</u>
	<u>₩ 123,764</u>	<u>₩ 120,082</u>

Investments Securities Other Than Those Accounted for Using the Equity Method

(1) Classification of Securities

At acquisition, the Company classifies securities into one of the three categories: trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed and determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified either as held-to-maturity securities or trading securities. Trading securities are classified as short-term investment securities, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investments securities, except for those whose maturity dates or whose likelihood of being disposed of are within one year from the balance sheet date, which are classified as short-term investment securities.

(2) Valuation of Securities

Securities are recognized initially at cost (determined by the moving average method for equity securities and specific identification method for debt securities), which includes the market value of the consideration given and incidental expenses.

After initial recognition, held-to-maturity securities are valued at amortized cost. The difference between their acquisition costs and face values (referred to as “discounts” or “premiums” on debt securities) is amortized over the remaining term of the securities by applying the effective interest rate method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sale securities are also valued at fair value, with unrealized gains or losses included in accumulated other comprehensive income (loss), until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of accumulated other comprehensive income (loss) is reflected in current operations. However, available-for-sale securities that are not traded in an active market (“non-marketable securities”) and whose fair values cannot be reliably estimated are accounted for at their acquisition costs.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

(3) Reclassification of Securities

Trading securities cannot be reclassified into available-for-sale or held-to-maturity securities, except when certain trading securities lose their marketability. When trading securities are reclassified into available-for-sale or held-to-maturity securities, fair value at the reclassification date is recognized as a cost and unrealized gain or loss up to the reclassification date is included in current operation.

Investment Securities Using the Equity Method

Equity securities held for investments in companies in which the Company is able to exercise significant influence over the investees are accounted for using the equity method. The Company's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to accumulated other comprehensive income (loss).

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Assets acquired from investment-in-kind, by donation or free of charge in other ways are stated at fair value. However, certain assets, for which the revaluation method in accordance with the Korean Assets Revaluation Act or revaluation model in accordance with the amendment SKAS No. 5 is elected, are recorded at revalued amounts.

Routine maintenance and repairs are expensed as incurred. Expenditures incurred after the acquisition of the property, plant and equipment that increase the future economic benefits beyond the property's most recently measured performance are capitalized as additions to property, plant and equipment.

In addition, interest expense and other financing charges for borrowings (that were used for the manufacture, purchase, or construction of property, plant and equipment) incurred prior to the completion of the asset are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	<u>Useful lives</u>
Buildings	10-60 years
Structures	3-60 years
Machinery and equipment	2-20 years
Vehicles	4-13 years
Others	2-20 years

Intangible Assets

Intangible assets are stated at cost, net of amortization. Amortization is computed using the straight-line method, based on the estimated useful lives of the assets as follows:

	<u>Estimated useful lives</u>
Beneficiary right	5-30 years
Development costs	5 years
Other intangibles	5 years

Provision for Losses

The Company recognizes provision for losses on construction contracts as other current liabilities when expected costs of sales exceed the contract amount. The Company also recognizes provision for losses as other current liabilities when all of the following conditions are met:

- a. The Company has a present obligation (legal or constructive) as a result of a past event
- b. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- c. A reliable estimate can be made of the amount of the obligation

Combined Construction Contracts

For combined construction contract, the Company recognizes its portion of revenue, cost, assets and liabilities of the construction based on ratio of contracts.

Accrued Severance Indemnities

Employees with more than one year of service are entitled to receive severance indemnities, based on their length of service and rate of pay, upon termination of their employment. The severance indemnities that would be payable assuming all eligible employees were to resign amount to ₩28,473 million and ₩23,900 million as of December 31, 2008 and 2007, respectively.

Funding for this liability is not required by law; however, the Company has entered into a severance insurance plan in accordance with the Labor Standard Law of Korea. This plan restricts severance payment directly to the eligible employees and directors, and meets funding requirement for additional tax deduction purposes. The amounts funded under the severance insurance plan of ₩20,514 million and ₩14,579 million as of December 31, 2008 and 2007, respectively, are presented as deductions from accrued severance indemnities.

By March 2000, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of employees' 6 percent and is paid back at the termination of service by offsetting the receivable against the severance payment. As of December 31, 2008 and 2007, the receivables amounting to ₩178 million and ₩232 million, respectively, are presented as deductions from accrued severance indemnities. Since April 1999, the Company and its employees each pay 4.5 percent of monthly pay to the National Pension Fund under the revised National Pension Law of Korea.

Changes in accrued severance indemnities in 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Beginning of the year	₩ 23,900	₩ 20,372
Provision for severance indemnities	12,742	10,603
Payment of severance indemnities	<u>(8,169)</u>	<u>(7,075)</u>
End of the year	<u>₩ 28,473</u>	<u>₩ 23,900</u>

Lease

A lease is classified as a finance lease or an operating lease depending on the extent of transfer to the Company of the risks and rewards incidental to ownership. If a lease meets any one of the following criteria, it is accounted for as a finance lease:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a bargain price and it is certain that the option will be exercised;
- The lease term is for the major part (75% or more) of the economic life of the asset even if title is not transferred;
- At the date of lease commencement the present value of the minimum lease payments amounts to at least substantially all (90% or more) of the fair value of the leased asset; or
- The leased assets are of such a specialized nature that only the Company can use them without major modifications.

All other leases are treated as operating leases.

For operating leases, lease payments excluding guaranteed residual value are recognized as an expense on a straight-line basis over the lease term and contingent rent is expensed as incurred. Finance leases are recognized as assets and liabilities at the lower of fair value of the leased property or the present value of the minimum lease payments discounted using the implicit interest rate of the lessor (or the Company's incremental borrowing rate if the implicit interest rate is not practicable to determine). Any initial direct costs incurred by the Company are added to the amount recognized as an asset. The depreciation policy for depreciable leased assets is consistent with that for the similar depreciable assets that are owned by the Company. Annual minimum lease payments excluding guaranteed residual value is allocated to interest expense, which is calculated using the effective interest rate, and finance lease repayment amount. Contingent rent relating to finance lease is charged as expenses in the periods in which they are incurred, however, if the amount is material, it is allocated to principal and interest, respectively, over the remaining lease term.

Derivative Instruments

The Company records rights and obligations arising from derivative instruments in assets and liabilities, which are stated at fair value. Gains and losses that result from the changes in the fair value of derivative instruments are recognized in current earnings. However, for derivative instruments that cash flow hedge accounting applies to, the effective portion of the gain or loss on the derivatives instruments are recorded as gain (loss) on valuation of derivatives included in accumulated other comprehensive income (loss).

Accounting for Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing exchange rate on the transaction date. Monetary assets and liabilities with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rate prevailing at the balance sheet date. The balances have been translated using the rate announced by Seoul Money Brokerage Services Ltd., which was ₩1,257.50 and ₩938.20 to US\$1.00 at December 31, 2008 and 2007, respectively, and the translation gains or losses are reflected in current operations.

Revenue Recognition

Revenue from construction contracts and sales projects for housing in lots are recognized using the percentage-of-completion method. When there are circumstances that the percentage-of-completion method cannot be applied because the outcome of a construction contract cannot be estimated reliably or it is uncertain to collect the revenue, contract revenue is recognized only to the extent of contract costs incurred that are probable of being recovered and contract costs are recognized as expenses in the period incurred.

Income Tax Expense

The provision for income tax is the corporate income tax and resident surcharges currently payable plus the changes in deferred income taxes for the year. The Company recognizes deferred income taxes arising from temporary differences between amounts reported for financial accounting and income tax purposes. Deferred income taxes will be offset against those incurred in the future, if any. Deferred income taxes are recalculated based on the actual tax rate in effect at each balance sheet date.

The Company classifies its deferred income tax assets or liabilities as either current or non-current consistent with the classification of the related asset or liability. A deferred income tax asset or liability, which is not related to an asset or liability for financial reporting purposes, such as the deferred income tax consequences related to net operating loss carryforward, is classified based on the expected reversal of utilization date. Deferred income tax assets or liabilities are presented as net amount in each current or non-current classification after offsetting against deferred income tax liabilities or assets in each classification.

3. R I S T R I C T E D F I N A N C I A L I N S T R U M E N T S:

Restricted deposits as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>	<u>Description</u>
Cash and cash equivalents	₩ 1,303	₩ -	Attached deposits
Short-term financial instruments	12,498	11,239	Collateral for borrowings and others
Long-term financial instruments	-	360	Collateral for borrowings and others
"	45	45	Guarantee for checking accounts
	<u>₩ 13,846</u>	<u>₩ 11,644</u>	

4. DISPOSAL OF TRADE RECEIVABLES:

The Company transferred trade receivables of ₩159,854 million and ₩172,511 million in 2008 and 2007, respectively. As a result of this disposal, the Company recognized loss on disposal of trade receivables of ₩2,815 million and ₩3,425 million in 2008 and 2007, respectively. As of December 31, 2008 and 2007, the uncollected securitized trade receivables are ₩21,448 million and ₩11,817 million, respectively.

5. AVAILABLE-FOR-SALE SECURITIES:

(1) Available-for-sale securities as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Marketable equity security	₩ 20,933	₩ 61,063
Unmarketable security	288,341	276,008
Government and municipal bonds	22,328	15,085
Other bonds	<u>11,680</u>	<u>12,601</u>
	343,282	364,757
Less: Current portion	<u>(13,370)</u>	<u>(2,216)</u>
	<u>₩ 329,912</u>	<u>₩ 362,541</u>

(2) Marketable equity securities among available-for-sale securities as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>		<u>2007</u>	
	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Acquisition cost</u>	<u>Fair value</u>
Dongbu HiTek Co., Ltd.	₩ 146,747	₩ 20,899	₩ 168,956	₩ 61,010
KTIC Global Co., Ltd.	15	3	15	2
Others	<u>24</u>	<u>31</u>	<u>25</u>	<u>51</u>
	<u>₩ 146,786</u>	<u>₩ 20,933</u>	<u>₩ 168,996</u>	<u>₩ 61,063</u>

For the above marketable securities, the Company recognized loss on valuation of available-for-sale securities (accumulated other comprehensive loss) amounting to ₩98,164 million as accumulated other comprehensive loss, net of deferred income taxes amounting to ₩27,689 million as of December 31, 2008. The Company disposed some of Dongbu HiTek Co., Ltd.'s stock and recognized loss on disposal of available-for-sale securities of ₩18,899 million in 2008.

- (3) Unmarketable securities among available-for-sale securities as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008				2007
	<u>Share(%)</u>	<u>Acquisition cost</u>	<u>Book value</u>	<u>Net assets</u>	<u>Book value</u>
Manwolsan Tunnel	30.00	₩ 10,050	₩ 10,050	₩ 8,478	₩ 10,050
Incheon International Airport Railroad Co., Ltd.	7.81	72,706	72,706	37,925	72,706
Kongju Environment Co., Ltd.	41.00	2,095	2,095	1,945	2,095
Kangnam Circulation Road Co., Ltd.	1.47	1,026	1,026	915	1,026
Incheon Northport SOC	100.00	55,001	55,001	47,698	55,001
Shinbundangsun Railroad	7.14	11,114	11,114	10,050	10,312
Yongma Tunnel Co., Ltd.	6.00	228	228	133	228
Keongki Highway Co., Ltd.	13.33	32,212	32,212	30,799	31,859
Dongbu Co., Ltd.	7.43	310	322	1,742	322
Korea Construction Financial Cooperative	0.20	10,115	10,115	10,136	10,115
Electric Contractor's Financial Cooperative	0.01	50	50	55	50
Information & Communication Financial Cooperative	0.06	46	46	131	46
Engineering Financial Cooperative	0.02	12	12	34	12
Seoul Express T/M (*1)	6.17	218	63,020	63,020	60,396
Shinseondae Container T/M (*1)	9.01	424	5,289	5,289	6,415
Pyeongtaek port (*1)	16.60	251	2,199	2,199	3,435
Distripark Pusan Co., Ltd.	20.65	1,200	1,200	1,131	1,200
Dongbu NTS Co., Ltd.	80.10	4,150	4,150	271	-
Deasung Transportation Co, Ltd.	100.00	6,696	6,696	1,447	-
Others (*1)		<u>12,091</u>	<u>10,810</u>	<u>8,851</u>	<u>10,740</u>
		<u>₩ 219,995</u>	<u>₩ 288,341</u>	<u>₩232,249</u>	<u>₩ 276,008</u>

The Company recognized gain on valuation of available-for-sale securities (accumulated other comprehensive income) of ₩54,059 million, net of deferred income taxes of ₩15,248 million as of December 31, 2008.

- (*1) Some of above non-listed equity securities are recorded at fair value according to [2006-5] "Accounting for valuation on non-listed equity securities" and the difference between acquisition cost and fair value is accounted for as accumulated other comprehensive income. The Company relied on outside public-trusted and independent specialists to estimate the fair value. The details of estimated fair value as of December 31, 2008 are as follows (Won in millions except per shares amounts):

	<u>Valuation method</u>	<u>Per share amount</u>	<u>Fair value</u>
Seoul Express T/M	Asset approach	₩ 532,060	₩ 63,020
Shinseondae Container T/M	Profit approach	90,297	5,289
Pyeongtaek port	Profit approach	87,723	2,199
Others	Asset approach	-	441

- (4) Government and municipal bonds among available-for-sale securities as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008		2007	
	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Acquisition cost</u>	<u>Fair value</u>
Government bonds	₩ 24,924	₩ 22,328	₩ 17,899	₩ 15,085
Less: Current portion		(1,690)		(601)
		<u>₩ 20,638</u>		<u>₩ 14,484</u>

The Company recognized loss on valuation of available-for-sale securities (accumulated other comprehensive loss) of ₩2,025 million, net of deferred income taxes of ₩571 million as of December 31, 2008.

- (5) Details of other bonds among available-for-sale securities as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008		2007	
	Acquisition cost	Book value	Acquisition cost	Book value
Dongbu HiTek Co., Ltd. CB	₩ 9,964	₩ 10,651	₩ 9,964	₩ 9,765
Subordinated bonds (*1)	750	-	2,050	1,292
Container Quayside Development	1,029	1,029	1,544	1,544
	11,743	11,680	13,558	12,601
Less : Current portion	(10,993)	(11,680)	(1,615)	(1,615)
	₩ 750	₩ -	₩ 11,943	₩ 10,986

(*1) The Company recognized impairment loss on available-for-sale securities of ₩17 million in 2008.

The Company recognized gain on valuation of available-for-sale securities (accumulated other comprehensive income) of ₩536 million, net of deferred income taxes of ₩151 million as of December 31, 2008.

- (6) Maturities of bonds among available-for-sale securities as of December 31, 2008 are as follows (Won in millions):

	Government and municipal bonds	CB	Others	Total
Less than 1 year	₩ 1,690	₩ 10,651	₩ 1,029	₩ 13,370
1 ~ 5 years	19,288	-	-	19,288
More than 5 years	1,350	-	-	1,350
	₩ 22,328	₩ 10,651	₩ 1,029	₩ 34,008

6. INVESTMENT SECURITIES USING THE EQUITY METHOD:

- (1) Investments in affiliates subject to equity method as of December 31, 2008 and 2007 are as follows (Won in millions):

	Percentage of ownership(%)	2008		2007	
		Acquisition cost	Book value	Acquisition cost	Book value
Dongbu Steel Co., Ltd.	9.78	₩ 16,637	₩ 86,383	₩ 16,637	₩ 55,245
Dongbu Engineering	100.00	5,000	12,247	5,000	13,043
Dongbu World Co., Ltd.	25.25	-	-	-	-
Dongbu Pusan Container Terminal Co., Ltd.	65.00	6,500	18,594	6,500	19,449
Dongbu Australia	100.00	1,520	1,654	1,520	1,476
DSD Sky Land Co., Ltd.	25.00	1,250	-	1,250	1,250
Fine Advantas PFV Company, Ltd.	19.00	950	-	950	950
Deasung TLS Co., Ltd.	80.83	3,072	2,820	-	-
		₩ 34,929	₩ 121,698	₩ 31,857	₩ 91,413

(2) Details of valuation using the equity method in 2008 and 2007 are as follows (Won in millions):

	2008				
	Beginning balance	Gain (loss) on valuation using the equity method	Other comprehensive income (*1)	Others (*2)	Ending balance
Dongbu Steel Co., Ltd.	₩ 55,245	₩ (11,356)	₩ 45,143	₩ (2,649)	₩ 86,383
Dongbu Engineering	13,043	(809)	13	-	12,247
Dongbu World Co., Ltd.	-	-	4,403	(4,403)	-
Dongbu Pusan Container Terminal Co., Ltd.	19,449	9,220	-	(10,075)	18,594
Dongbu Australia	1,476	(28)	206	-	1,654
DSD Sky Land Co., Ltd.	1,250	(1,250)	-	-	-
Fine Advantas PFV Company, Ltd.	950	(1,355)	-	405	-
Deasung TLS Co., Ltd.	-	(252)	-	3,072	2,820
	<u>₩ 91,413</u>	<u>₩ (5,830)</u>	<u>₩ 49,765</u>	<u>₩ (13,650)</u>	<u>₩ 121,698</u>

	2007				
	Beginning balance	Gain (loss) on valuation using the equity method	Other comprehensive income(loss)	Others (*2)	Ending balance
Dongbu Steel Co., Ltd.	₩ 39,774	₩ 7,922	₩ 7,933	₩ (384)	₩ 55,245
Dongbu Hannong Chemical Co., Ltd.	74,074	4,845	(3,646)	(75,273)	-
Dongbu Engineering	12,410	655	(22)	-	13,043
Dongbu World Co., Ltd.	-	-	-	-	-
Dongbu Pusan Container Terminal Co., Ltd.	25,624	(1,625)	-	(4,550)	19,449
Dongbu Australia	1,496	-	(20)	-	1,476
DSD Sky Land Co., Ltd.	-	-	-	1,250	1,250
Fine Advantas PFV Company, Ltd.	-	-	-	950	950
	<u>₩ 153,378</u>	<u>₩ 11,797</u>	<u>₩ 4,245</u>	<u>₩ (78,007)</u>	<u>₩ 91,413</u>

(*1) The Company adopted the revaluation model to measure the land and applied the same revaluation model for the affiliates subject to equity method, which increased investment securities using the equity method amounting to ₩ 52,444 million as of December 31, 2008.

(*2) Others are increase (decrease) from changes in ownership percentage, dividends from investees, changes in retained earnings and others.

(3) Changes in investment difference (difference between the cost of acquisition and the Company's share of the fair value of the invested company) for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	2008			
	Beginning balance	Amortization	Others	Ending balance
Dongbu Steel Co., Ltd.	₩ (32,648)	₩ 2,558	₩ -	₩ (30,090)
DSD Sky Land Co., Ltd.	7,500	(1,331)	-	6,169
Fine Advantas PFV Company, Ltd.	802	(160)	-	642
Deasung TLS Co., Ltd.	-	(151)	754	603
	<u>₩ (24,346)</u>	<u>₩ 916</u>	<u>₩ 754</u>	<u>₩ (22,676)</u>

	2007			
	Beginning balance	Amortization	Others	Ending balance
Dongbu Steel Co., Ltd.	₩ (35,178)	₩ 2,530	₩ -	₩ (32,648)
Dongbu Hannong Chemical Co., Ltd.	(614)	17	597	-
DSD Sky Land Co., Ltd.	-	-	7,500	7,500
Fine Advantas PFV Company, Ltd.	-	-	802	802
	<u>₩ (35,792)</u>	<u>₩ 2,547</u>	<u>₩ 8,899</u>	<u>₩ (24,346)</u>

- (4) Adjusted unrealized intercompany gains between the Company and the invested companies as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008	2007	Description
Dongbu Steel Co., Ltd.	₩ 5,599	₩ 1,933	Property, plant and equipment, and others

- (5) Change in net asset value not recognized due to the discontinuance of the equity method of accounting due to the respective book value of the investment account balance being zero are as follows (Won in millions):

	Changes in 2008	Cumulative changes up to 2007	Total
Dongbu World Co., Ltd.	₩ 4,757	₩ 9,668	₩ 14,425
DSD Sky Land Co., Ltd.	5,701	-	5,701
Fine Advantas PFV Company, Ltd. (*1)	1,017	-	1,017
	<u>₩ 11,475</u>	<u>₩ 9,668</u>	<u>₩ 21,143</u>

(*1) The Company recorded ₩ 405 million of unrecorded losses on investment security using the equity method as additional allowances for doubtful account for long-term loans.

- (6) The key financial figures of investees accounted for using the equity method as of and for the year ended December 31, 2008 are as follows (Won in millions):

	Total assets	Total liabilities	Sales	Net income (loss)
Dongbu Steel Co., Ltd.	₩ 3,835,701	₩ 2,481,931	₩ 3,134,237	₩ (118,733)
Dongbu Engineering	21,665	9,418	56,621	(809)
Dongbu World Co., Ltd.	220,124	277,251	4,039	(18,041)
Dongbu Pusan Container Terminal Co., Ltd.	71,365	42,759	63,729	15,550
Dongbu Australia	1,676	22	1	(14)
DSD Sky Land Co., Ltd.	313,386	357,479	-	(22,480)
Fine Advantas PFV Company, Ltd.	169,179	180,044	530	(11,642)
Deasung TLS Co., Ltd.	13,601	10,859	5,379	(125)
	<u>₩ 4,646,697</u>	<u>₩ 3,359,763</u>	<u>₩ 3,264,536</u>	<u>₩ (156,294)</u>

- (7) Stock prices of marketable investment securities using the equity method as of December 31, 2008 and 2007 are as follows (Won per share):

	2008	2007
Dongbu Steel Co., Ltd.	₩ 7,100	₩ 15,300

- (8) The Company used draft financial statements as of December 31, 2008 for Dongbu Steel Co., Ltd., Dongbu Engineering, Dongbu World Co., Ltd., Dongbu Pusan Container Terminal Co., Ltd., DSD Sky Land Co., Ltd. and Fine Advantas PFV Company, Ltd., Deasung TLS Co., Ltd., and audited financial statements as of December 31, 2007 for Dongbu Australia. The Company adjusted net assets from the drafts of financial statements as follows to agree with the Company's accounting policies:

	<u>2008</u>
Dongbu Steel Co., Ltd.	₩ (27,079)
Dongbu World Co., Ltd.	<u>17,440</u>
	<u>₩ (4,639)</u>

7. SHORT-TERM LOANS:

Short-term loans to employees as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>		<u>2007</u>
Short-term loans to employees	₩ -		₩ 3

8. PROPERTY, PLANT AND EQUIPMENT:

(1) Changes in property, plant and equipment for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>						
	<u>Beginning</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Transfer</u>	<u>Depreciation</u>	<u>Other(*1)</u>	<u>Ending</u>
Land	₩ 85,781	₩ 5	₩ (62)	₩ -	₩ -	₩ 110,325	₩ 196,049
Buildings	64,846	73	-	-	(1,964)	-	62,955
Structures	4,672	234	-	232	(374)	-	4,764
Machinery	11,249	3,722	(1)	495	(2,207)	-	13,258
Vehicles	15,362	5,728	(4,677)	1,378	(5,790)	-	12,001
Other	9,695	1,702	(20)	627	(2,510)	-	9,494
Subsidy	(1,183)	-	-	-	200	-	(983)
Construction in progress	<u>1,306</u>	<u>4,614</u>	<u>-</u>	<u>(4,118)</u>	<u>-</u>	<u>-</u>	<u>1,802</u>
	<u>₩ 191,728</u>	<u>₩ 16,078</u>	<u>₩ (4,760)</u>	<u>₩ (1,386)</u>	<u>₩ (12,645)</u>	<u>₩ 110,325</u>	<u>₩ 299,340</u>

(*1) Other changes are due to the Company's adoption of the revaluation model for its land.

	<u>2007</u>						
	<u>Beginning</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Transfer</u>	<u>Depreciation</u>	<u>Ending</u>	
Land	₩ 83,664	₩ -	₩ (47)	₩ 2,164	₩ -	₩ 85,781	
Buildings	64,420	1,285	-	1,081	(1,940)	64,846	
Structures	4,285	647	(9)	90	(341)	4,672	
Machinery	8,401	4,061	(5)	531	(1,739)	11,249	
Vehicles	24,001	999	(2,289)	-	(7,349)	15,362	
Vessels	203	-	(185)	-	(18)	-	
Other	5,271	3,365	(32)	3,047	(1,956)	9,695	
Subsidy	-	(1,200)	-	-	17	(1,183)	
Construction in progress	<u>691</u>	<u>6,665</u>	<u>-</u>	<u>(6,050)</u>	<u>-</u>	<u>1,306</u>	
	<u>₩ 190,936</u>	<u>₩ 15,822</u>	<u>₩ (2,567)</u>	<u>₩ 863</u>	<u>₩ (13,326)</u>	<u>₩ 191,728</u>	

- (2) The Company adopted the revaluation model to value its land after the date of acquisition. Date of revaluation is December 31, 2008 and the amount of revaluated land and book value using cost model are ₩196,049 million and ₩85,724 million, respectively. The Company recorded revaluation gain on property, plant and equipment amounting to ₩ 86,165 million as other accumulated other comprehensive income, net of deferred income taxes amounting to ₩ 24,303 million and recorded loss on revaluation of property, plant and equipment amounting to ₩ 143 million in non-operating expenses.
- (3) As of December 31, 2008, the value of the Company-owned land according to prices officially announced by the Ministry of Land, Transportation & Maritime Affairs is ₩278,570 million with book value of ₩303,578 million (including land classified as inventories of ₩107,529 million).
- (4) As of December 31, 2008 and 2007, property, plant and equipment are insured for ₩40,019 million and ₩45,556 million, respectively, with Dongbu Insurance Co., Ltd. and others. The Company also carries commercial general liability insurance and automobile insurance for its vehicles.

9. INTANGIBLE ASSETS:

- (1) Intangible assets as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008			2007		
	Acquisition cost	Amortization	Book value	Acquisition cost	Amortization	Book value
Beneficiary rights	₩ 72,283	₩ 37,038	₩ 35,245	₩ 71,894	₩ 30,605	₩ 41,289
Mining right	19	-	19	19	-	19
Development cost	21,929	12,795	9,134	20,583	8,796	11,787
Others	5,761	2,192	3,569	5,816	1,821	3,995
	<u>₩ 99,992</u>	<u>₩ 52,025</u>	<u>₩ 47,967</u>	<u>₩ 98,312</u>	<u>₩ 41,222</u>	<u>₩ 57,090</u>

- (2) Changes in intangible assets for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	2008				
	Beginning balance	Acquisition	Transfer	Amortization	Ending balance
Beneficiary rights	₩ 41,289	₩ 388	₩ -	₩ (6,432)	₩ 35,245
Mining right	19	-	-	-	19
Development cost	11,787	156	1,190	(3,999)	9,134
Others	3,995	418	196	(1,040)	3,569
	<u>₩ 57,090</u>	<u>₩ 962</u>	<u>₩ 1,386</u>	<u>₩ (11,471)</u>	<u>₩ 47,967</u>

	2007				
	Beginning balance	Acquisition	Transfer	Amortization	Ending balance
Beneficiary rights	₩ 47,673	₩ -	₩ -	₩ (6,384)	₩ 41,289
Mining right	19	-	-	-	19
Development cost	11,213	3,593	445	(3,464)	11,787
Others	742	4,145	-	(892)	3,995
	<u>₩ 59,647</u>	<u>₩ 7,738</u>	<u>₩ 445</u>	<u>₩ (10,740)</u>	<u>₩ 57,090</u>

- (3) Ordinary development costs expensed for the years ended December 31, 2008 and 2007 are ₩16,206 million and ₩25,066 million, respectively.

10. BORROWINGS AND LONG-TERM ACCOUNTS PAYABLE:

(1) Short-term borrowings as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>Financial institutions</u>	Annual interest rate (%)	<u>2008</u>	<u>2007</u>
General term loans	Hana Bank	9.19	₩ 22,000	₩ 22,000
	Kookmin Bank	7.43~8.49	59,500	49,300
	Nonghyup Bank	6.25	10,000	10,000
	Jeonbuk Bank	8.26	10,000	10,000
	Industrial Bank of Korea	7.37	30,000	30,000
	The Korea Securities Finance Corp.	7.80	4,000	10,000
	Kwangju Bank	10.00	10,000	-
Commercial paper (CP)	IBK Capital	14.00	5,000	-
	Woori Bank	6.60	-	20,000
	Shinhan Bank	7.60~8.95	20,000	-
	Hana Bank	9.51	40,000	-
Loans collateralized by receivables (*1)	Busan HK Mutual Savings Bank	15.00	2,000	-
	Solomon Mutual Savings Bank	15.00	9,854	-
	Shilla Mutual Savings Bank	15.00	2,000	-
	HK Mutual Savings Bank	15.00	3,000	-
	Prime Mutual Savings Bank	15.00	5,019	-
			<u>₩ 232,373</u>	<u>₩ 151,300</u>

(*1) Trade receivables provided as collateral by the Company are ₩ 56,152 million in 2008. Related borrowings are ₩21,873 million as of December 31, 2008 and interest expense recorded is ₩ 1,400 million in 2008.

(2) Long-term borrowings as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>Financial institutions</u>	Annual interest rate (%)	<u>2008</u>	<u>2007</u>
General term loans	Korea Development Bank	7.08~8.50	₩ 34,000	₩ 35,537
	Hana Bank	5.00	21	42
	Woori Bank	5.79	6,460	6,460
Operation loans	Korea Housing Guarantee Co., Ltd.	1.00	11,807	11,807
Long term loans	Korea Resources Corporation	5.00	<u>138</u>	<u>150</u>
			52,426	53,996
Less: Current portion			<u>(4,130)</u>	<u>(36,667)</u>
			<u>₩ 48,296</u>	<u>₩ 17,329</u>

(3) Debentures as of December 31, 2008 and 2007 are as follows (Won in millions):

	Date of issue	Maturity date	Annual interest rate (%)	2008		2007	
				₩		₩	
180 th debenture	06.02.09	09.02.09	6.63	₩	50,000	₩	50,000
181 st debenture	06.03.22	09.03.22	6.50		50,000		50,000
182 nd debenture	06.04.26	08.04.26	6.10		-		20,000
183 rd debenture	06.04.26	08.04.26	6.00		-		5,000
184 th debenture	06.06.19	08.06.19	5.89		-		20,000
185 th debenture	06.06.27	08.06.27	6.21		-		50,000
187 th debenture	06.07.28	08.07.28	6.10		-		30,000
190 th debenture	07.03.16	10.03.16	6.61		50,000		50,000
191 st debenture	07.06.01	08.06.01	6.60		-		10,000
192 nd debenture	07.07.12	08.07.12	6.95		-		20,000
193 rd debenture	07.09.17	08.09.17	7.00		-		13,000
194 th debenture	07.09.17	08.09.17	6.72		-		2,500
196 th debenture	08.06.02	10.06.02	8.00		10,000		-
197 th debenture	08.06.13	11.06.13	8.23		10,000		-
198 th debenture	08.06.23	10.06.23	7.50		40,000		-
199 th debenture	08.06.27	11.06.27	7.96		60,000		-
200 th debenture	08.07.11	10.07.11	8.20		30,000		-
201 st debenture	08.07.14	10.07.14	7.97		20,000		-
					<u>320,000</u>		<u>320,500</u>
Less: Discounts on debentures issued					<u>(1,879)</u>		<u>(487)</u>
					318,121		320,013
Less: Current portion					<u>(100,000)</u>		<u>(170,500)</u>
Add: Discounts on debentures issued of current portion					<u>20</u>		<u>147</u>
					<u>₩ 218,141</u>		<u>₩ 149,660</u>

(4) Long-term accounts payable as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008		2007	
	₩		₩	
Yangsan ICD allotment	₩	1,640	₩	2,006
Lease payment payables under capital lease		<u>1,688</u>		-
		3,328		2,006
Less: Current portion		<u>(686)</u>		<u>(366)</u>
		<u>₩ 2,642</u>		<u>₩ 1,640</u>

(5) Repayment schedule of long-term debts as of December 31, 2008 is as follows (Won in millions):

	Long-term borrowings		Long-term accounts payable		Total
	₩	₩	₩	₩	₩
2009	₩	4,130	₩	686	₩ 104,816
2010		38,118		718	188,836
2011		1,569		1,353	72,922
2012		1,096		275	1,371
2013 and thereafter		<u>7,513</u>		<u>296</u>	<u>7,809</u>
		<u>₩ 52,426</u>		<u>₩ 3,328</u>	<u>₩ 375,754</u>

11. LEASE:

- (1) The Company has capital lease agreement with Lotte Capital Co., Ltd. for certain machinery. As of December 31, 2008, details of assets under finance leases are as follows (Won in millions):

<u>Lease assets</u>	<u>Lease period</u>	<u>Rate (%)</u>	<u>Acquisition</u>	<u>Depreciation</u>	<u>Accumulated</u>	<u>Book value</u>
Module trailer	2008.10.16~ 2011.10.16	9.90	₩ 1,746	₩ 29	₩ 29	₩ 1,717

The future annual payments under capital lease agreement as of December 31, 2008 are as follows (Won in millions):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	₩ 319	₩ 153	₩ 472
2010	352	120	472
2011	<u>1,017</u>	<u>72</u>	<u>1,089</u>
Total	1,688	<u>₩ 345</u>	<u>₩ 2,033</u>
Less: Current portion	<u>(319)</u>		
	<u>₩ 1,369</u>		

- (2) The Company carries operating lease contracts of vehicles with Hana Capital Co., Ltd. and others. The payment schedule of operating leases as of December 31, 2008 is as follows (Won in millions):

	<u>Lease expenses</u>
2009	₩ 39,441
2010	29,885
2011	<u>8,964</u>
	<u>₩ 78,290</u>

12. LIABILITY FROM SECURITIZATION OF FUTURE RECEIVABLES:

The Company trusted its future receivables to Korea Development Bank's issued primary and secondary beneficiary certificates based on the receivables. The Company has securitized the primary beneficiary certificate via SPC and recorded the amount raised as liability from securitization of future receivables. The details of securitization and related liability as of December 31, 2008 are as follows (Won in millions):

	<u>Dongbu Express 1st Securitization</u>
Description	Assets Backed Securities (ABS)
Period trusted	2007.11.22 ~ 2010.11.22
Initial trust amount	₩ 30,000
Trustee	Korea Development Bank
Trust property	Future receivables
Initial amount raised	₩ 30,000 from primary beneficiary certificate
Repaid amount	₩ 11,304
Balance of liability from securitization of future receivables	₩ 18,696

The differences between the trade receivables collected and repaid corresponding liabilities are recognized as loss on disposal of trade receivables, amounting to ₩1,550 million and ₩276 million in 2008 and 2007, respectively.

13. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2008 and 2007 are as follows (Won in millions, foreign currencies in thousands):

	2008		2007	
	<u>Foreign currencies</u>	<u>Equivalent in Korean Won</u>	<u>Foreign currencies</u>	<u>Equivalent in Korean Won</u>
Assets:				
Cash and cash equivalents	US\$ 2	₩ 3	US\$ 110	₩ 104
Trade receivables	US\$ 3,860	4,853	-	-
Accounts receivable-other	-	-	US\$ 1,623	1,523
		<u>₩ 4,856</u>		<u>₩ 1,627</u>
Liabilities:				
Trade payables	US\$ 892	1,122	-	-
Accrued expenses	US\$ 17	22	-	-
Long-term borrowings	US\$ 71	89	US\$ 89	83
		<u>₩ 1,233</u>		<u>₩ 83</u>

14. RELATED PARTY TRANSACTIONS:

(1) Summary of compensations to directors and internal auditors of the Company is as follows (Won in millions):

	<u>Numbers of persons</u>	<u>Total payments</u>	<u>Approved limit</u>	<u>Average payments per person</u>
Directors	8	₩ 844	₩ 3,000	₩ 106
Auditors	2	82	200	41

(2) Significant transactions with related parties in 2008 and 2007, and the related receivables and payables as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008			
	<u>Sales and other revenues</u>	<u>Purchases and other expenses</u>	<u>Receivables</u>	<u>Payables</u>
Dongbu Engineering	₩ 330	₩ 3,545	₩ 173	₩ 279
Dongbu Pusan Container Terminal Co., Ltd.	755	7,676	115	917
Dongbu Steel Co., Ltd.	357,155	16,345	156,470	10,473
Dongbu World Co., Ltd.	4,375	122	14,499	-
Deasung TLS Co., Ltd.	216	60	2,445	266
Dongbu HiTek Co., Ltd.	38,793	420	11,464	109
Dongbu Metal Co., Ltd.	39,036	-	794	40
Dongbu Fine Chemical Co., Ltd.	2,525	-	563	-
Dongbu Co., Ltd.	33,614	23,546	4,121	3,209
Dongbu Insurance Co., Ltd.	7,458	3,517	3,514	4,706
Dongbu Life Insurance Co., Ltd.	217	217	12	-
Dongbu CNI Co., Ltd.	196	20,608	1,876	3,931
Dongbu Securities Co., Ltd.	181	-	17	10,000
Incheon Northport SOC	16,049	707	9,031	11
Others	1,275	11,479	6,310	1,354
	<u>₩ 502,175</u>	<u>₩ 88,242</u>	<u>₩ 211,404</u>	<u>₩ 35,295</u>

	2007			
	<u>Sales and other revenues</u>	<u>Purchases and other expenses</u>	<u>Receivables</u>	<u>Payables</u>
Dongbu Engineering	₩ 409	₩ 3,202	₩ 164	₩ 431
Dongbu Pusan Container Terminal Co., Ltd.	843	7,561	105	1,397
Dongbu Steel Co., Ltd.	97,072	10,264	29,378	10,925
Dongbu World Co., Ltd.	38,014	-	1,974	2,493
Dongbu HiTek Co., Ltd.	47,279	368	21,173	2,751
Dongbu Fine Chemical Co., Ltd.	1,963	-	450	-
Dongbu Co., Ltd.	31,080	17,039	20,629	3,309
Dongbu Insurance Co., Ltd.	365	8,095	11,338	776
Dongbu Life Insurance Co., Ltd.	146	-	4,241	-
Dongbu CNI Co., Ltd.	103	23,254	347	3,230
Dongbu Securities Co., Ltd.	125	-	14	10,000
Incheon Northport SOC	46,335	183	7,391	8
Others	180	6,034	1,923	660
	<u>₩ 263,914</u>	<u>₩ 76,000</u>	<u>₩ 99,127</u>	<u>₩ 35,980</u>

15. SHAREHOLDERS' EQUITY:

- (1) The Company has authorized 100,000,000 shares of ₩5,000 par value and issued common stocks and preferred stocks as of December 31, 2008 and 2007 as follows (Won in millions except par value):

	<u>Outstanding shares</u>	<u>Par value</u>	<u>Amount</u>
Common stock	21,790,345 shares	₩ 5,000	₩ 108,952
Preferred stock	3,342,365 shares	₩ 5,000	16,712
			<u>₩ 125,664</u>

(2) Capital Surplus

In accordance with the Asset Revaluation Law of the Republic of Korea, the Company revaluated substantial portion of its property, plant and equipment on January 1, 1993 and June 1, 1998. The revaluation gain of ₩109,412 million was transferred to asset revaluation reserve of ₩106,767 million after deducting related taxes.

Details of other capital surplus as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Surplus from merger	₩ 86,914	₩ 86,914
Gain on disposal of treasury stock fund	417	417
Gain on disposal of treasury stock received without compensation	17,051	17,051
Gain on disposal of treasury preferred stock	6,138	6,138
Other capital surplus	11	11
	<u>₩ 110,531</u>	<u>₩ 110,531</u>

(3) Capital Adjustments

Details of capital adjustments as of December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Treasury stock	₩ (706)	₩ (706)
Tax of treasury stock	(2,396)	(2,995)
	<u>₩ (3,102)</u>	<u>₩ (3,701)</u>

Details of treasury stock as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008		2007	
	Shares (shares)	Amount	Shares (shares)	Amount
Common stock	1,818,974	₩ -	1,818,974	₩ -
Preferred stock	145,690	706	145,690	706
	<u>1,964,664</u>	<u>₩ 706</u>	<u>1,964,664</u>	<u>₩ 706</u>

Shares of common stock are remaining balance of 4,758,974 shares obtained from Junki Kim without consideration, the major shareholder and chairman. The shares of preferred stock were acquired through the merger and 1,331,764 shares were disposed in 2007.

(4) Retained Earnings

Details of appropriated retained earnings as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008	2007
Legal reserve	₩ 21,176	₩ 20,001
Other reserve:		
Reserve for business rationalization	9,779	9,779
Reserve for financial structure improvement	12,386	12,386
Voluntary reserve	20,000	65,000
	<u>₩ 63,341</u>	<u>₩ 107,166</u>

The legal reserve is not available for cash dividends; however, this reserve may be credited to paid-in capital or offset against any accumulated deficits by resolution of the shareholders.

16. COMPREHENSIVE INCOME (LOSS) STATEMENTS:

The comprehensive income (loss) reflecting the changes in accumulated other comprehensive income (loss) to net income (loss) for the years ended December 31, 2008 and 2007 is as follows (Won in millions):

	2008	2007
Net income (loss)	₩ 23,795	₩ (32,584)
Other comprehensive income (loss):		
Changes in valuation gain and loss on investments using the equity method	39,857	2,671
Changes in valuation loss on available-for-sale securities	(15,596)	(265)
Changes in revaluation gain on property, plant and equipment	86,165	-
Comprehensive income (loss)	<u>₩ 134,221</u>	<u>₩ (30,178)</u>

17. CONSTRUCTION CONTRACTS:

Changes in construction contracts in progress for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	2008	2007
Beginning balance	₩ 4,483,693	₩ 4,848,578
New contracts signed	1,960,472	714,201
Less: Revenue recognized	(1,627,692)	(1,079,086)
Ending balance	<u>₩ 4,816,473</u>	<u>₩ 4,483,693</u>

In connection with the above contracts, the Company recorded expected construction losses of ₩25,024 million and ₩29,176 million as other current liabilities as of December 31, 2008 and 2007, respectively.

In addition, for completed construction contracts, the Company recorded construction warranty liabilities of ₩9,823 million and ₩7,913 million as other current liabilities as of December 31, 2008 and 2007, respectively.

As of December 31, 2008, the Company has provided payment guarantee of Korea Construction Financial Cooperative and others amounting to ₩1,894,673 million to its clients.

18. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Salaries	₩ 40,557	₩ 36,595
Provision for severance indemnities	3,073	3,013
Employee benefits	5,450	4,964
Travel	1,479	1,369
Communications	264	241
Utilities	339	264
Office consumables	572	664
Taxes and dues	5,315	4,214
Rent	1,461	1,377
Depreciation	1,911	1,853
Amortization of intangibles	4,105	3,669
Repairs and maintenance	156	104
Insurance	432	381
Advertising	8,883	6,243
Transportation	1	3
Commissions	11,176	9,070
Vehicle maintenance	807	890
Printing	657	581
Employee development	4,110	2,738
Bad debt	2,108	380
Ordinary development	16,206	25,066
Conferences	855	899
Others	<u>2,897</u>	<u>2,679</u>
	<u>₩ 112,814</u>	<u>₩ 107,257</u>

19. INCOME TAX EXPENSE (BENEFITS):

(1) Income tax expense (benefits) and effective tax rates for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Corporate income tax	₩ 11,467	₩ 13,043
Changes in deferred income taxes	34,753	(17,184)
Changes in deferred income taxes adjusted to shareholders' equity	(32,730)	(3,258)
Changes in deferred income taxes adjusted to tax of treasury stock	599	-
Income tax expense (benefits)	<u>₩ 14,089</u>	<u>₩ (7,399)</u>
Income before income tax	<u>₩ 37,884</u>	<u>₩ (39,983)</u>
Effective tax rate (%)	<u>37.2</u>	<u>-</u>

- (2) Accumulated temporary differences and deferred income tax assets (liabilities) as of December 31, 2008 and 2007 are as follows (Won in millions):

	2008	2007
Accumulated temporary differences	₩ (62,082)	₩ 79,080
Statutory tax rate (*1)	24.2 / 22.0%	27.5%
Deferred income taxes	₩ (13,006)	₩ 21,747
Deferred income tax assets (current assets)	₩ 7,164	₩ 12,454
Deferred income tax assets (non-current assets)	-	9,293
Deferred income tax liabilities (long-term liabilities)	(20,170)	-
	₩ (13,006)	₩ 21,747

- (*1) As new statutory tax rates were announced in 2008, the tax rates applied for deferred tax assets and liabilities are 24.2 percent in 2009 and 22 percent in 2010 and thereafter.

20. EARNINGS (LOSS) PER COMMON SHARE:

Earnings (Loss) per common share for the years ended December 31, 2008 and 2007 is calculated as follows (Won in millions, except per share amounts):

	2008	2007
Net income (loss)	₩ 23,795	₩ (32,584)
Less: preferred stock dividends	(639)	(1,758)
Net income (loss) for common share	23,156	(34,342)
Weighted-average number of shares outstanding	19,971,371	19,971,371
Earnings (Loss) per common share	₩ 1,159	₩ (1,720)

21. DIVIDENDS:

The basis of the computation of the dividends for the years ended December 31, 2008 and 2007 is as follows:

	2008		2007	
	Common stock	Preferred stock	Common stock	Preferred stock
Issued stock (shares)	21,790,345	3,342,365	21,790,345	3,342,365
Treasury stock (shares)	(1,818,974)	(145,690)	(1,818,974)	(145,690)
Odd-lot stock (shares)	(752)	(1)	(752)	(1)
Stocks outstanding (shares)	19,970,619	3,196,674	19,970,619	3,196,674
Dividend per share	₩ 150	₩ 200	₩ 500	₩ 550
Dividend rate	3%	4%	10%	11%
Total dividend (Won in millions)	₩ 2,996	₩ 639	₩ 9,985	₩ 1,758
Net income (loss) (Won in millions)	₩ 23,795	₩ 23,795	₩ (32,584)	₩ (32,584)
Dividend propensity	12.6%	2.7%	-	-
Stock price at balance sheet date	₩ 5,570	₩ 2,561	₩ 23,750	₩ 10,350
Dividends to stock price ratio:	2.7%	7.8%	2.1%	5.3%

22. PLEGDED ASSETS AND GUARANTEES:

(1) The following assets are pledged as collateral for short-term borrowings and long-term debts as of December 31, 2008 (Won in millions):

Debts			Pledged assets		
Financial institutions	Description	Amount	Description	Book value	Amount pledged
Korea Exchange Bank	Overdrafts	₩ 6,730	Land & buildings	₩ 27,507	₩ 26,000
	General loan	26,000	Inventories	36,368	4,500
Hana Bank			Land	2,799	3,400
			Available-for-sale securities	2,795	2,981
			Investment securities using the equity method	1,278	-
			Financial instruments	2,660	2,660
			Inventories	48,366	60,000
Woori Bank			Land	3,977	9,000
			Land & buildings	6,063	9,600
			Available-for-sale securities	3,770	3,982
			Financial instruments	2,700	2,700
Shinhan Bank			Inventories	77,424	150,000
			Land & building	22,198	15,240
			Investment securities using the equity method	85,104	-
			Available-for-sale securities	259	298
Kookmin Bank			Financial instruments	1,050	1,050
			Long-term other receivables-other	13,440	13,440
			Inventories	9,207	2,600
			Land & building	7,710	12,000
Korea Development Bank			Financial instruments	1,264	1,264
			Available-for-sale securities	63,020	-
			Inventories	5,894	5,850
Korea Securities Finance Corp.			Land & buildings	138,247	51,659
			Financial instruments	3,550	3,550
			Available-for-sale securities	209	231
Construction Guarantee			Vehicles	616	616
			Land & buildings	17,040	12,100
			Available-for-sale securities	2,918	3,520
			Financial instruments	1,224	1,224
			Available-for-sale securities	1,029	1,029
			Treasury stock	-	-
Nonghyup Bank			Inventories	9,629	30,000
			Treasury stock	-	-
Dongbu Insurance			Available-for-sale securities	7,459	8,161
			Financial instruments	50	50
			Land & building	7,806	260
		<u>₩469,711</u>		<u>₩ 614,630</u>	<u>₩ 438,965</u>

(2) Collaterals provided to others as of December 31, 2008 are as follows (Won in millions):

<u>Provided to</u>	<u>Account</u>	<u>Shares</u>	<u>Amounts</u>	<u>Related liabilities</u>	<u>Financial institutions</u>
Dongbu Hitek Co., Ltd	Available-for-sale securities	4,142,719	₩ 20,714	Second syndicated loan	KDB and others
Manwalsan Tunnel	Available-for-sale securities	2,010,000	10,050	Project financing	KDB and others
Kongju Environment Co., Ltd.	Available-for-sale securities	419,020	2,095	Project financing	Shinhan Bank
Incheon Northport	Available-for-sale securities	11,000,200	55,001	Project financing	Kookmin Bank and others
Incheon International Airport Railroad Co., Ltd.	Available-for-sale securities	14,541,212	72,706	Project financing	KDB and others
Kyungki highway	Available-for-sale securities	6,442,309	32,212	Project financing	Shinhan Bank
Chungjung Wonju Co., Ltd.	Available-for-sale securities	81,520	408	Project financing	Kookmin Bank and others
Dongbu Pusan Container Terminal Co., Ltd.	Investment securities using the equity method	1,300,000	18,594	Project financing	Suhyup Bank
Dongbu Co., Ltd.	Payment guarantee of borrowings	-	62,544	Joint guarantee	Union of Construction
Others	Payment guarantee of borrowings	-	11,500	Joint guarantee, undertaking liabilities	Woori Bank and others
			<u>₩ 285,824</u>		

In addition, the Company provided SPCs with available-for-sale securities for pledges and entered into the capital supplementation agreement amounting to ₩72.5 billion. The Company also provided joint guarantee of ₩441.9 billion for loans to local residents for construction projects and payment guarantee of borrowings to PFV amounting to ₩587.9 billion as of December 31, 2008.

23. COMMITMENTS AND CONTINGENCIES:

(1) Credit line provided by financial institutions as of December 31, 2008 are as follows (Won in millions, US\$ in thousands):

	<u>Financial institutions</u>	<u>Limit</u>
Overdraft	Hana Bank and others	₩ 47,730
General loans	"	₩ 238,926
Privately placed bonds	"	₩ 160,000
CP	"	₩ 115,000
Discounting notes	"	₩ 41,874
Electronic notes	"	₩ 94,500
Usance	"	US\$ 7,200
Operating lease	"	₩ 131,205
Finance lease	"	₩ 1,688

(2) Provision for other losses

In 2004, the Company, Dongbu Steel Co., Ltd., Dongbu Hannong Chemical Co., Ltd. and Junki Kim entered into a stock transaction contract with Hana Bank. The Company recognized provision for the Company's portion of expected losses related to the contract, which amount to ₩6,713 million as of December 31, 2007.

Hana Bank exercised its right against the Company and Dongbu Steel Co., Ltd. in December 2007 and extended the terms of contract with Dongbu Hitek Co., Ltd. and Junki Kim until the end of 2008. The Company and Dongbu Steel Co., Ltd. gave an additional guarantee to Hana Bank in connection with this extended contract. In addition, the Company and Dongbu Steel Co., Ltd. entered into a contract with Dongbu Hitek Co., Ltd. and Junki Kim which provides that the Company and Dongbu Steel Co., Ltd. have no responsibility associated with the further exercise of Hana Bank's right to sell the stocks of Dongbu HiTek Co., Ltd.

As Hana Bank subsequently exercised its right against Dongbu Hitek Co., Ltd. and Junki Kim on January 30, 2009 and requested to the Company to perform the guarantee obligation as a joint guarantor, the Company paid ₩2,467 million and recorded this amount as receivable due from Dongbu Hitek Co., Ltd. and Junki Kim.

(3) Stock Transaction Contract

In 2000 and 2001, the Company, Dongbu Steel Co., Ltd., Dongbu Hannong Chemical Co., Ltd. and Junki Kim entered into a stock transaction contract with the Korea Development Bank ("KDB"). The contract grants the KDB the right to sell the stocks of Dongbu Electronics Co., Ltd. held by the KDB at the contracted price to any party above in case Dongbu Electronics Co., Ltd. discontinues its business, goes bankrupt or corporate reorganization.

- (4) The Company has pledged 60 blank checks and notes, and 4 checks and notes amounting to ₩695 million as collateral for repayments of borrowings and guarantees on the Company's performance of construction projects.
- (5) As of December 31, 2008, the Company is contingently liable for guarantees of performance of construction by other companies amounting to ₩3,328,928 million.
- (6) The Company has provided payment guarantee for loans to local residents for reconstruction projects and related loans as of December 31, 2008 are ₩58,055 million.
- (7) As of December 31, 2008, the Company is a defendant in 21 lawsuits involving claims of ₩46,532 million and the Company recognized provision for lost cases amounting to ₩1,559 million as of December 31, 2008.

24. DERIVATIVE INSTRUMENTS:

The Company has a interest rate swap contract to hedge against the risk of fluctuation of foreign exchange rate and the Company recognized interest swap liabilities and loss on valuation of interest swap of ₩769 million in 2008, respectively. As of December 31, 2008, detail of the above interest rate swap is as follows (Won in millions):

<u>Counter party</u>	<u>Contract period</u>	<u>Receive (%)</u>	<u>Pay (%)</u>	<u>Contract amount</u>	<u>Fair value</u>	<u>Loss on valuation</u>
Shinhan Bank	2008.11.11~ 2010.07.12	CD + 2.78	7.90	₩ 30,000	₩ 30,769	₩ (769)

25. STATEMENTS OF CASH FLOWS:

Transactions not involving cash flows for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	<u>2008</u>	<u>2007</u>
Transfer of assets under construction to other property, plant and equipment or intangible assets	₩ 4,118	₩ 6,051
Transfer of long-term debts to current portion	79,556	171,881
Transfer of long-term other receivables to current portion	-	5,867
Transfer of other receivables to long-term other receivables	10,080	-
Transfer of available-for-sale securities to current portion	13,379	2,216
Transfer of liability from securitization of future receivables to current portion	9,773	-
Transfer of investments using the equity method to available-for-sale securities	-	74,206
Recognition of revaluation gain on property, plant and equipment	110,468	-

26. 4th QUARTER'S FINANCIAL INFORMATION:

The Company's financial information for the three months ended December 31, 2008 and 2007 (unaudited) is as follows (Won in millions, except per share amount).

	<u>2008</u>	<u>2007</u>
Sales	₩ 741,787	₩ 495,582
Net income	7,677	34,299
Net income per share	362	1,695

27. SEGMENT INFORMATION:

Segment information as of December 31, 2008 and 2007, and for the years then ended is as follows (Won in millions):

	<u>2008</u>			
	<u>Construction</u>	<u>Transport and logistics</u>	<u>Others</u>	<u>Total</u>
Sales:				
External transactions	₩ 1,627,692	₩ 630,864	₩ 90,730	₩ 2,349,286
Internal transactions	-	1,428	-	1,428
Operating income (loss)	111,789	(18,469)	12,325	105,645
Tangible and intangible assets	56,305	243,807	47,195	347,307
Depreciation and amortization	3,559	14,551	6,006	24,116
	<u>2007</u>			
	<u>Construction</u>	<u>Transport and logistics</u>	<u>Others</u>	<u>Total</u>
Sales:				
External transactions	₩ 1,079,085	₩ 461,569	₩ 65,599	₩ 1,606,253
Internal transactions	-	3,251	-	3,251
Operating income (loss)	20,876	(5,521)	4,127	19,482
Tangible and intangible assets	40,761	156,336	51,721	248,818
Depreciation and amortization	3,344	14,713	6,009	24,066

28. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for calculation of value added for the years ended December 31, 2008 and 2007 are as follows (Won in millions):

	2008		2007	
	Cost of sales	Selling and administrative expenses	Cost of sales	Selling and administrative expenses
Salaries	₩ 99,990	₩ 40,557	₩ 115,630	₩ 36,595
Provision for severance indemnities	9,669	3,073	7,590	3,013
Fringe benefits	23,143	5,450	23,942	4,964
Rent	52,289	1,461	23,749	1,377
Depreciation	10,734	1,911	11,473	1,853
Taxes and dues	4,698	5,315	4,091	4,214
	₩ 200,523	₩ 57,767	₩ 186,475	₩ 52,016

Independent Accountant's Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Dongbu Corporation:

We have reviewed the accompanying report on the management's assessment of IACS (the "Management's Report") of Dongbu Corporation (the "Company") as of December 31, 2008. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2008, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2008, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2008, and we did not review its IACS subsequent to December 31, 2008. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC.

March 2, 2009

Report on the Assessment of Internal Accounting Control System ("IACS")

To the Board of Directors and Audit Committee of
Dongbu Corporation

I, as the Internal Accounting Control Officer ("IACO") of Dongbu Corporation ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2008.

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2008, in all material respects, in accordance with the IACS Framework.

February 11, 2009

Jae In Yoo, Internal Accounting Control Officer



Dong Il Yim, Chief Executive Officer

