

**DONGBU CORPORATION**

FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009  
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 statements of financial position of Dongbu Corporation (the "Company") as of December 31, 2010 and 2009, and the related statements of income, 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, 2010 and 2009, 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).

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.

March 10, 2011

### Notice to Readers

This report is effective as of March 10, 2011, 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  
STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents (Notes 3, 13 and 22)	₩ 10,623	₩ 12,493	\$ 9,327	\$ 10,969
Short-term financial instruments (Notes 3 and 22)	28,365	25,434	24,906	22,332
Available-for-sale securities (Note 5)	4,249	21,645	3,731	19,005
Trade receivables, net of allowance for doubtful accounts of ₩8,365 million in 2010 and ₩1,961 million in 2009 (Notes 4, 11, 13, 14 and 22)	624,791	540,180	548,592	474,300
Short-term loans, net of allowance for doubtful accounts of ₩170 million in 2010 and ₩101 million in 2009 (Notes 14 and 23)	20,176	33,467	17,715	29,385
Accounts receivable-other, net of allowance for doubtful accounts of ₩3,776 million in 2010 and ₩2,978 million in 2009 (Note 14)	112,998	65,690	99,217	57,678
Accrued income	21,030	10,900	18,465	9,571
Advanced payments, net of allowance for doubtful accounts of ₩674 million in 2010 and ₩533 million in 2009 (Note 14)	58,888	38,996	51,706	34,240
Advanced payments for lots	24,414	25,361	21,436	22,268
Prepaid expenses	5,111	6,619	4,488	5,812
Prepaid income taxes	4,124	-	3,621	-
Deferred income tax assets (Note 19)	5,509	1,058	4,837	929
Prepaid construction costs	103,887	118,325	91,217	103,895
Inventories (Notes 2, 7 and 22)	101,704	112,103	89,300	98,431
	1,125,869	1,012,271	988,558	888,815

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DONGBU CORPORATION

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>NON-CURRENT ASSETS:</b>				
Long-term financial instruments (Notes 3 and 22)	₩ 1,762	₩ 5,905	\$ 1,547	\$ 5,185
Available-for-sale securities (Notes 5 and 22)	372,287	353,267	326,883	310,183
Investment securities using the equity method (Notes 6 and 22)	138,569	136,681	121,669	120,012
Long-term trade receivables, net of allowance for doubtful accounts of ₩22 million in 2010 and ₩31 million in 2009	94	1,144	83	1,004
Long-term other receivables, net of allowance for doubtful accounts of ₩504 million in 2010 and 2009 (Note 22)	3,360	6,720	2,950	5,900
Long-term loans, net of allowance for doubtful accounts of ₩24,452 million in 2010 and ₩4,401 million in 2009 (Notes 6 and 23)	181,112	125,613	159,024	110,293
Long-term prepaid expenses	390	698	342	613
Guarantee deposits (Note 14)	50,365	43,995	44,222	38,629
Property, plant and equipment, net (Notes 7, 10, 22 and 27)	346,786	329,682	304,492	289,474
Intangible assets (Notes 8 and 27)	<u>28,351</u>	<u>38,605</u>	<u>24,894</u>	<u>33,897</u>
	<u>1,123,076</u>	<u>1,042,310</u>	<u>986,106</u>	<u>915,190</u>
Total Assets	<u>₩ 2,248,945</u>	<u>₩ 2,054,581</u>	<u>\$ 1,974,664</u>	<u>\$ 1,804,005</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Trade payables (Notes 13 and 14)	₩ 405,995	₩ 469,505	\$ 356,480	\$ 412,244
Short-term borrowings (Notes 9 and 22)	259,700	213,900	228,027	187,813
Accounts payable-other (Note 14)	31,203	30,748	27,398	26,998
Advances from customers (Notes 14 and 17)	79,846	117,556	70,108	103,219
Withholdings	8,146	24,719	7,153	21,704
Accrued expenses (Notes 13 and 14)	25,130	23,619	22,065	20,738
Income tax payable	-	13,430	-	11,793
Current portion of long-term debts, net (Notes 9 and 22)	329,797	258,998	289,575	227,411
Current portion of long-term accounts payable (Notes 9 and 10)	3,178	1,370	2,790	1,203
Current portion of liability from securitization of future receivables (Note 11)	76,633	28,694	67,287	25,194
Interest rate swap liabilities (Note 24)	-	458	-	402
Other current liabilities (Note 17)	15,059	12,848	13,222	11,281
	<u>1,234,687</u>	<u>1,195,845</u>	<u>1,084,105</u>	<u>1,050,000</u>
<b>LONG-TERM LIABILITIES:</b>				
Debentures, net (Notes 9, 14 and 22)	157,672	149,002	138,442	130,830
Long-term borrowings (Notes 9, 13 and 22)	51,284	20,538	45,029	18,033
Long-term accounts payable (Notes 9 and 10)	9,498	4,388	8,340	3,852
Long-term advances from customers	7,510	12,650	6,594	11,108
Liability from securitization of future receivables (Note 11)	41,070	-	36,061	-
Accrued severance indemnities, net (Notes 2 and 12)	10,942	9,434	9,608	8,283
Deferred income tax liabilities (Note 19)	33,992	21,197	29,846	18,612
Other non-current liabilities (Notes 17 and 23)	43,037	22,392	37,788	19,661
	<u>355,005</u>	<u>239,601</u>	<u>311,708</u>	<u>210,379</u>
Total Liabilities	<u>1,589,692</u>	<u>1,435,446</u>	<u>1,395,813</u>	<u>1,260,379</u>

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DONGBU CORPORATION

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>SHAREHOLDERS' EQUITY:</b>				
Capital stock (Note 15)	₩ 125,664	₩ 125,664	\$ 110,338	\$ 110,338
Capital surplus:				
Paid-in capital in excess of par value	36,885	36,885	32,386	32,386
Asset revaluation reserve (Note 15)	106,767	106,767	93,746	93,746
Other capital surplus (Note 15)	110,531	110,531	97,051	97,051
Capital adjustments (Notes 15 and 22)	(3,102)	(3,102)	(2,724)	(2,724)
Accumulated other comprehensive income (loss):				
Valuation gain on investment securities using the equity method (Notes 6 and 16)	42,612	41,482	37,415	36,423
Valuation loss on investment securities using the equity method (Notes 6 and 16)	-	(37)	-	(32)
Valuation loss on available-for-sale securities (Notes 5 and 16)	9,907	(16,623)	8,699	(14,596)
Revaluation gain on property, plant and equipment (Notes 7 and 16)	94,831	84,076	83,265	73,822
Retained earnings:				
Appropriated (Note 15)	99,299	63,704	87,189	55,935
Unappropriated	35,859	69,788	31,486	61,277
Total Shareholders' Equity	<u>659,253</u>	<u>619,135</u>	<u>578,851</u>	<u>543,626</u>
Total Liabilities and Shareholders' Equity	<u>₩ 2,248,945</u>	<u>₩ 2,054,581</u>	<u>\$ 1,974,664</u>	<u>\$ 1,804,005</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
SALES (Notes 14, 17, 26 and 27)	₩ 2,155,915	₩ 2,281,153	\$ 1,892,980	\$ 2,002,944
COST OF SALES (Note 14)	<u>1,958,962</u>	<u>2,081,087</u>	<u>1,720,047</u>	<u>1,827,278</u>
GROSS PROFIT	196,953	200,066	172,933	175,666
SELLING AND ADMINISTRATIVE EXPENSES (Notes 14 and 18)	<u>136,988</u>	<u>118,497</u>	<u>120,281</u>	<u>104,045</u>
OPERATING INCOME (Note 27)	<u>59,965</u>	<u>81,569</u>	<u>52,652</u>	<u>71,621</u>
NON-OPERATING INCOME:				
Interest income	20,798	12,395	18,261	10,883
Dividend income	750	533	659	468
Rent income	1,106	1,705	971	1,497
Gain on foreign currency transactions	525	1,164	461	1,022
Gain on foreign currency translation	76	39	67	34
Commissions	900	227	790	199
Gain on disposal of other current assets	3	254	3	223
Gain on disposal of available-for-sale securities (Note 5)	13,234	32,531	11,620	28,564
Gain on disposal of property, plant and equipment	19,080	8,248	16,753	7,242
Gain on disposal of intangible assets	-	33	-	29
Gain on valuation of investment securities using the equity method (Note 6)	7,194	12,815	6,317	11,252
Reversal of allowance for doubtful accounts	19	3	16	3
Gain on valuation of foreign exchange forward	-	311	-	273
Gain on foreign exchange forward transactions (Note 24)	265	-	233	-
Reversal of impairment loss on available-for- sale securities	-	445	-	391
Others	<u>8,858</u>	<u>5,679</u>	<u>7,777</u>	<u>4,986</u>
	<u>72,808</u>	<u>76,382</u>	<u>63,928</u>	<u>67,066</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions, except per share amount)		(In thousands, except per share amount)	
<b>NON-OPERATING EXPENSES:</b>				
Interest expense	₩ 65,470	₩ 59,219	\$ 57,485	\$ 51,997
Loss on foreign currency transactions	578	562	508	493
Loss on foreign currency translation	35	155	31	136
Loss on disposal of trade receivables (Notes 4 and 11)	6,749	9,843	5,926	8,643
Loss on disposal of available-for-sale securities (Note 5)	16,940	3	14,874	3
Loss on disposal of property, plant and equipment	2,782	3,412	2,443	2,996
Loss on disposal of intangible assets	979	-	860	-
Bad debt expense-other	21,375	1,220	18,768	1,071
Impairment loss on available-for-sale securities (Note 5)	199	-	175	-
Loss on valuation of investment securities using the equity method (Note 6)	3,794	2,786	3,331	2,446
Loss on disposal of investment securities using the equity method	-	6,138	-	5,389
Donations	466	234	409	205
Others (Note 23)	2,439	4,061	2,141	3,566
	<u>121,806</u>	<u>87,633</u>	<u>106,951</u>	<u>76,945</u>
 INCOME BEFORE INCOME TAX EXPENSE	 10,967	 70,318	 9,629	 61,742
 INCOME TAX EXPENSE (Note 19)	 <u>3,349</u>	 <u>17,246</u>	 <u>2,940</u>	 <u>15,143</u>
 NET INCOME (Notes 16 and 26)	 <u>₩ 7,618</u>	 <u>₩ 53,072</u>	 <u>\$ 6,689</u>	 <u>\$ 46,599</u>
 EARNINGS PER COMMON SHARE (Note 20)	 <u>₩ 333</u>	 <u>₩ 2,609</u>	 <u>\$ 0.29</u>	 <u>\$ 2.29</u>

See accompanying notes to financial statements.



DONGBU CORPORATION

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>UNAPPROPRIATED RETAINED EARNINGS:</b>				
Unappropriated retained earnings carried over from prior year	₩ 28,241	₩ 16,554	\$ 24,797	\$ 14,535
Changes of retained earnings from valuation of investment securities using the equity method	-	162	-	143
Net income	<u>7,618</u>	<u>53,072</u>	<u>6,689</u>	<u>46,599</u>
	<u>35,859</u>	<u>69,788</u>	<u>31,486</u>	<u>61,277</u>
<b>APPROPRIATIONS:</b>				
Legal reserve	595	595	523	523
Other reserve	-	35,000	-	30,731
Cash dividends (Note 21)	<u>5,952</u>	<u>5,952</u>	<u>5,226</u>	<u>5,226</u>
	<u>6,547</u>	<u>41,547</u>	<u>5,749</u>	<u>36,480</u>
<b>UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR</b>	<u>₩ 29,312</u>	<u>₩ 28,241</u>	<u>\$ 25,737</u>	<u>\$ 24,797</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won (In millions)					
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Total
Beginning of year (January 1, 2009)	₩ 125,664	₩ 254,183	₩ (3,102)	₩ 80,819	₩ 83,893	₩ 541,457
Dividends	-	-	-	-	(3,635)	(3,635)
Net income	-	-	-	-	53,072	53,072
Changes of retained earnings from valuation of investment securities using the equity method	-	-	-	-	162	162
Changes in valuation gain on investment securities using the equity method	-	-	-	1,197	-	1,197
Changes in valuation loss on available-for-sale securities	-	-	-	28,971	-	28,971
Changes in revaluation gain on property, plant and equipment	-	-	-	(2,089)	-	(2,089)
End of year (December 31, 2009)	<u>₩ 125,664</u>	<u>₩ 254,183</u>	<u>₩ (3,102)</u>	<u>₩ 108,898</u>	<u>₩ 133,492</u>	<u>₩ 619,135</u>
Beginning of year (January 1, 2010)	₩ 125,664	₩ 254,183	₩ (3,102)	₩ 108,898	₩ 133,492	₩ 619,135
Dividends	-	-	-	-	(5,952)	(5,952)
Net income	-	-	-	-	7,618	7,618
Changes in valuation gain on investment securities using the equity method	-	-	-	1,130	-	1,130
Changes in valuation loss on investment securities using the equity method	-	-	-	37	-	37
Changes in valuation loss on available-for-sale securities	-	-	-	26,530	-	26,530
Changes in revaluation gain on property, plant and equipment	-	-	-	10,755	-	10,755
End of year (December 31, 2010)	<u>₩ 125,664</u>	<u>₩ 254,183</u>	<u>₩ (3,102)</u>	<u>₩ 147,350</u>	<u>₩ 135,158</u>	<u>₩ 659,253</u>
Translation into U.S. Dollars (In thousands) (Note 2)	<u>\$ 110,338</u>	<u>\$ 223,183</u>	<u>\$ (2,724)</u>	<u>\$ 129,379</u>	<u>\$ 118,675</u>	<u>\$ 578,851</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	₩ 7,618	₩ 53,072	\$ 6,689	\$ 46,599
Addition of expenses not involving cash outflows:				
Depreciation	15,248	12,849	13,388	11,282
Bad debt expenses	8,629	8,797	7,577	7,724
Provision for severance indemnities	12,739	13,251	11,185	11,635
Amortization of intangible assets	10,369	11,881	9,104	10,432
Bad debt expense-other	21,375	1,220	18,768	1,071
Loss on disposal of trade receivables	6,749	9,843	5,926	8,643
Impairment loss on available-for-sale securities	199	-	175	-
Loss on disposal of available-for-sale securities	16,940	3	14,874	3
Loss on valuation of investment securities using the equity method	3,794	2,786	3,331	2,446
Loss on disposal of investment securities using the equity method	-	6,138	-	5,389
Loss on disposal of property, plant and equipment	2,782	3,412	2,443	2,996
Loss on disposal of intangible assets	979	-	860	-
Loss on foreign currency translation	33	40	29	36
Interest expenses	1,115	1,742	979	1,529
Provision for other losses	2,031	1,785	1,783	1,567
Others	108	201	96	176
	<u>103,090</u>	<u>73,948</u>	<u>90,518</u>	<u>64,929</u>
Deduction of revenues not involving cash inflows:				
Gain on foreign currency translation	(50)	(39)	(44)	(34)
Reversal of allowance for doubtful accounts	(19)	(3)	(16)	(3)
Gain on valuation of investment securities using the equity method	(7,194)	(12,815)	(6,317)	(11,252)
Reversal of impairment loss on available-for- sale securities	-	(445)	-	(391)
Gain on disposal of available-for-sale securities	(13,234)	(32,531)	(11,620)	(28,564)
Gain on disposal of other current assets	(3)	(254)	(3)	(223)
Gain on valuation of foreign exchange forward	-	(311)	-	(273)
Gain on foreign exchange forward transactions	(265)	-	(233)	-
Gain on disposal of property, plant and equipment	(19,080)	(8,248)	(16,753)	(7,242)
Gain on disposal of intangible assets	-	(33)	-	(29)
Others	(113)	(1,155)	(99)	(1,013)
	<u>(39,958)</u>	<u>(55,834)</u>	<u>(35,085)</u>	<u>(49,024)</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
Changes in assets and liabilities resulting from operations:				
Decrease (Increase) in trade receivables	₩ (94,170)	₩ 57,964	\$ (82,685)	\$ 50,895
Increase in accrued income	(10,130)	(4,115)	(8,895)	(3,613)
Decrease (Increase) in accounts receivable-other	(23,135)	2,239	(20,313)	1,966
Decrease (Increase) in advanced payments	(20,034)	7,930	(17,591)	6,963
Decrease in advanced payments for lots	785	1,273	689	1,118
Decrease in prepaid expenses	1,508	228	1,324	200
Increase in prepaid income taxes	(4,124)	-	(3,621)	-
Decrease (Increase) in prepaid construction costs	14,438	(40,351)	12,677	(35,430)
Decrease (Increase) in inventories	12,813	(14,281)	11,250	(12,539)
Increase in long-term trade receivables	(33)	(908)	(29)	(797)
Decrease (Increase) in long-term prepaid expenses	308	(218)	270	(191)
Decrease (Increase) in deferred income tax assets	(4,451)	6,106	(3,908)	5,361
Decrease in trade payables	(63,363)	(26,502)	(55,635)	(23,270)
Increase (Decrease) in accounts payable-other	455	(1,014)	400	(891)
Decrease in advances from customers	(37,711)	(11,959)	(33,112)	(10,500)
Increase (Decrease) in withholdings	(13,889)	1,825	(12,195)	1,602
Increase in accrued expenses	1,512	6,911	1,327	6,068
Increase (Decrease) in income tax payable	(13,430)	5,066	(11,793)	4,448
Increase (Decrease) in other current liabilities	(352)	250	(309)	220
Increase (Decrease) in deferred income tax liabilities	2,318	(6,914)	2,035	(6,071)
Increase in deposits for severance benefits	(4,997)	(1,768)	(4,388)	(1,552)
Decrease in National Pension payments	12	49	11	43
Payment of severance indemnities	(6,246)	(9,879)	(5,484)	(8,674)
Decrease in long-term advances from customers	(5,142)	(5,116)	(4,514)	(4,492)
Dividends from investment securities using the equity method	2,850	3,666	2,502	3,219
Decrease in other non-current liabilities	(6,682)	(3,031)	(5,866)	(2,662)
	<u>(270,890)</u>	<u>(32,549)</u>	<u>(237,853)</u>	<u>(28,579)</u>
	<u>(200,140)</u>	<u>38,637</u>	<u>(175,731)</u>	<u>33,925</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash inflows from investing activities:				
Withdrawal of short-term financial instruments	₩ 25,434	₩ 12,504	\$ 22,332	\$ 10,979
Collection of short-term loans	17,064	15,528	14,983	13,634
Withdrawal of long-term financial instruments	5,000	190	4,390	167
Proceeds from disposal of available-for-sale securities	38,914	119,097	34,168	104,572
Collections of long-term loans	50,486	35,097	44,329	30,817
Withdrawal of guarantee deposits	18,464	44,712	16,212	39,259
Proceeds from disposal of property, plant and equipment	39,329	44,162	34,532	38,776
Proceeds from disposal of intangible assets	-	104	-	91
Others	86	-	76	-
	<u>194,777</u>	<u>271,394</u>	<u>171,022</u>	<u>238,295</u>
Cash outflows from investing activities:				
Acquisition of short-term financial instruments	(28,365)	(25,434)	(24,906)	(22,332)
Extension of short-term loans	(29,029)	(33,304)	(25,489)	(29,242)
Acquisition of long-term financial instruments	(858)	(5,740)	(753)	(5,040)
Acquisition of available-for-sale securities	(10,540)	(80,544)	(9,255)	(70,721)
Repayment of advances from customers related to disposal of available for sale securities	-	(60,498)	-	(53,120)
Acquisition of investment securities using the equity method	(208)	(10,945)	(183)	(9,610)
Extension of long-term loans	(100,849)	(84,036)	(88,549)	(73,787)
Payment of guarantee deposits	(24,845)	(48,246)	(21,815)	(42,362)
Acquisition of property, plant and equipment	(33,791)	(50,877)	(29,670)	(44,672)
Acquisition of intangible assets	(883)	(2,230)	(775)	(1,958)
Settlement of foreign exchange forward	(193)	-	(169)	-
	<u>(229,561)</u>	<u>(401,854)</u>	<u>(201,564)</u>	<u>(352,844)</u>
	<u>(34,784)</u>	<u>(130,460)</u>	<u>(30,542)</u>	<u>(114,549)</u>

(Continued)

DONGBU CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2010	2009	2010	2009
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Cash inflows from financial activities:				
Proceeds from short-term borrowings	₩ 125,200	₩ 213,900	\$ 109,931	\$ 187,813
Proceeds from debentures	338,992	206,653	297,649	181,450
Proceeds from long-term borrowings	2,030	7,500	1,782	6,585
Proceeds from liability from securitization of future receivables	<u>133,817</u>	<u>50,000</u>	<u>117,496</u>	<u>43,902</u>
	<u>600,039</u>	<u>478,053</u>	<u>526,858</u>	<u>419,750</u>
Cash outflows from financial activities:				
Repayment of short-term borrowings	(79,400)	(232,373)	(69,716)	(204,033)
Payment of cash dividends	(5,950)	(3,474)	(5,224)	(3,050)
Redemption of current portion of long-term debts	(421)	(101,267)	(370)	(88,916)
Repayment of current portion of long-term accounts payable-other	(2,858)	(896)	(2,510)	(787)
Repayment of liability from securitization of future receivables	(46,849)	(40,984)	(41,135)	(35,986)
Repayment of debentures	(230,007)	(56,833)	(201,955)	(49,902)
Repayment of long-term borrowings	<u>(1,500)</u>	<u>-</u>	<u>(1,317)</u>	<u>-</u>
	<u>(366,985)</u>	<u>(435,827)</u>	<u>(322,227)</u>	<u>(382,674)</u>
	<u>233,054</u>	<u>42,226</u>	<u>204,631</u>	<u>37,076</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,870)	(49,597)	(1,642)	(43,548)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 25)	<u>12,493</u>	<u>62,090</u>	<u>10,969</u>	<u>54,517</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 25)	<u>₩ 10,623</u>	<u>₩ 12,493</u>	<u>\$ 9,327</u>	<u>\$ 10,969</u>

See accompanying notes to financial statements.

DONGBU CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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.

As of December 31, 2010, 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 CNI 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	<u>10,758,338</u>	<u>49.37</u>
	<u>21,790,345</u>	<u>100.00</u>

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 ₩1,138.90 to US\$ 1.00, the base rate announced by Seoul Money Brokerage Service, Ltd. at December 31, 2010. 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 at the board of directors' meeting on February 25, 2011.

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

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 where trade receivables are transferred or discounted to another party with transferring right and obligation, the amount of receivable is deducted from the trade receivables and the difference between the book value and the proceed from the disposal is charged in current operations as loss on disposal of trade receivables.

Allowance for Doubtful Accounts

The Company provides allowances 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 contracted 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 statement of financial position. The Company maintains perpetual inventory records, which are adjusted through physical counts.

Inventories as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Materials and supplies	₩ 8,803	₩ 10,119
Merchandises	47	200
Land	82,711	92,287
Other inventories	10,143	9,497
	<u>₩ 101,704</u>	<u>₩ 112,103</u>



### Investments Securities Other Than Those Accounted for Using the Equity Method

Securities are initially stated at the market value of consideration given for acquisition (market value of securities acquired if market value of consideration given is not available) plus incidental costs attributable to the acquisition of the securities. Securities are classified into one of the three categories; trading, available-for-sale or held-to-maturity securities depending on the purpose and nature of acquisition. The moving average method for equity securities and the specific identification method for debt securities are used to determine the cost of securities for the calculation of gain (loss) on disposal of those securities.

The following is the specific valuation method applied for debt and equity securities:

#### (1) Trading securities

Securities that are bought and held principally for the purpose of selling them in the near term with active and frequent buying and selling, including securities which consist of a portfolio of securities with the clear objective of generating profits on short-term differences in price, are classified as trading securities. Trading securities are recorded at their fair value and unrealized gains or losses from trading securities are recorded as gain (loss) on valuation of trading securities included in the non-operating income (expense).

#### (2) Held-to-maturity security

Debt securities that have fixed or determinable payments with a fixed maturity are classified as held-to-maturity securities only if the Company has both the positive intent and ability to hold those securities to maturity. However, debt securities, whose maturity dates are due within one year from the end of the reporting date, are classified as current assets.

After initial recognition, held-to-maturity securities are stated at amortized cost in the statements of financial position. When held-to-maturity securities are measured at amortized costs, the difference between their acquisition cost and face value is amortized using the effective interest rate method and the amortization is included in the cost and interest income.

When the possibility of not being able to collect the principal and interest of held-to-maturity securities according to the terms of the contracts is high, the difference between the recoverable amount (the present value of expected cash flows using the effective interest rate upon acquisition of the securities) and book value is recorded as impairment loss on held-to-maturity securities included in the non-operating expense and the held-to-maturity securities are stated at the recoverable amount after impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss is recorded as reversal of impairment loss on held-to-maturity securities included in non-operating income. However, the resulting carrying amount after the reversal of impairment loss shall not exceed the amortized cost that would have been measured, at the date of the reversal, if no impairment loss was recognized.

#### (3) Available-for-sale securities

Debt and equity securities that are not classified as either trading or held-to-maturity securities are categorized and presented as available-for-sale securities. However, if an available-for-sale security matures or it is certain that such security will be disposed of within one year from the end of the reporting period, it is classified as a current asset.

Available-for-sale securities are recorded at fair value. Unrealized gains or losses from available-for-sale securities are presented as gain or loss on valuation of available-for-sale securities included in accumulated other comprehensive income (loss) under shareholders' equity. In addition, accumulated gain or loss on valuation of available-for-sale securities is reflected in either gain or loss on disposal of available-for-sale securities or impairment loss on available-for-sale securities upon disposal or recognition of impairment of the securities. However, available-for-sale equity securities that are not marketable and whose fair value cannot be reliably measured are recorded at acquisition cost.

When there is objective evidence that the available-for-sale securities are impaired and the recoverable amount is lower than the cost (amortized cost for debt securities) of the available-for-sale securities, an impairment loss is recognized as impairment loss on available-for-sale securities in non-operating expense and the related unrealized gain or loss remaining in shareholders' equity is adjusted to the impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss can be recognized up to the previously recorded impairment loss as a reversal of loss on impairment of available-for-sale securities in non-operating income. However, if the fair value increases after the impairment loss is recognized but does not relate to the recovery of impairment loss as described above, the increase in fair value is recorded in shareholders' equity.

#### (4) 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 new book value and unrealized gain or loss up to the reclassification date is included in current operation.

#### Investment Securities Using the Equity Method

Investments in equity securities of companies, over which the Company exercises significant influence, are reported using the equity method of accounting.

##### (1) Accounting for changes in the equity of the investee

Under the equity method of accounting, the Company records changes in its proportionate equity of the net assets of the investee depending on the nature of the underlying changes in the investee as follows; (i) "gain (loss) on valuation of investment securities using the equity method" in the non-operating income (expense) for changes from net income (loss) of the investee; (ii) increase (decrease) in retained earnings for changes in unappropriated retained earnings carried over from prior year of the investee; and (iii) increase (decrease) in equity as "valuation gain (loss) on investment securities using the equity method" in accumulated other comprehensive income (loss) for the other changes in shareholders' equity of the investee.

When the equity method investee's unappropriated retained earnings carried over from prior period changes due to significant error corrections, the Company records the changes in equity as "gain (loss) on valuation of investment securities using the equity method" included in the non-operating income (expense) if the impact of the changes on the Company's financial statements is not significant. If the changes results from the changes in accounting policies of the equity method investee, they are reflected in the unappropriated retained earnings carried over from prior year in accordance with Statement of Korea Accounting Standards ("SKAS") on changes in accounting policy and errors corrections. When the investee declares cash dividends, the dividends to be received are deducted directly from investment securities using the equity method.

##### (2) Treatment of investment difference

Difference between the acquisition cost and the Company's proportionate equity in the fair value of net assets of the investee upon acquisition ("investment difference") is considered as (negative) goodwill and accounted for in accordance with accounting standards for business combination. The goodwill portion is amortized over useful lives within 20 years on a straight line method and the negative goodwill portion is amortized over the weighted average useful lives of depreciable non-monetary assets of the investee. The amortization is included in "gain (loss) on valuation of investment securities using the equity method".

When the Company's equity interest in the investee increases due to an increase (or decrease) in contributed capital with (or without) consideration, the changes in the Company's proportionate equity in the investee are accounted for as investment difference. If the Company's equity interest decreases, the changes are accounted for as "gain (loss) on disposal of investment securities using the equity method". However, if the investee is the Company's subsidiary, those changes are accounted for in the capital surplus or capital adjustments.

(3) Difference between the fair value and book value of net asset of the investee

Upon acquisition of the investment securities using the equity method, the Company's proportionate shares in the differences between the fair values and book values of the identifiable assets and liabilities of the investee are amortized or reversed and included in "gain (loss) on valuation of investment securities using the equity method" in accordance with the investee's methods of accounting for the assets and liabilities.

(4) Elimination of unrealized gain or loss from intercompany transactions

The Company's proportionate share in the gain (loss) arising from transactions between the Company and the investee, which remains in the book value of assets held as of the end of the reporting period, is considered unrealized gain (loss) and adjusted to investment securities using the equity method. If the investee is a subsidiary of the Company, unrealized gain (loss) from sale of an asset by the Company to the investee (downstream transaction) is fully eliminated and adjusted to investment securities using the equity method.

(5) Impairment loss on investment securities using the equity method

When there is objective evidence that the investment securities using the equity method is impaired and the recoverable amount is lower than the carrying amount of the investment securities using the equity method, an impairment loss is recognized as "loss on impairment of investment securities using the equity method" included in non-operating expense and the unamortized investment difference is first reduced. When the recoverable amount is recovered after the recognition of impairment loss, the reversal of impairment loss is recognized as income up to the previously recorded impairment loss. The book value of the investment securities using the equity method after the reversal of the impairment loss cannot exceed the book value calculated as if the impairment loss would not been originally recognized. However, the reversal of the impairment loss recognized against the unamortized investment difference is not allowed.

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, assets that were revalued in accordance with the Assets Revaluation Act or land revalued in accordance with the amended SKAS No. 5 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 (years)</u>
Buildings	40-60
Structures	10-60
Machinery and equipment	3-20
Vehicles	4-13
Others	3-20

Intangible Assets

Intangible assets are stated at cost, net of amortization. Amortization is computed using the straight-line method (unit of production method for mining rights in other intangibles), based on the estimated useful lives of the assets as follows:

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

Provision for Losses on Construction Contracts, Construction Warranties and Others

The Company recognizes provision for losses on construction contracts when expected costs of sales exceed the contract amount. The Company also recognizes provision for construction warranties when warranty expenses are expected after completion of construction. In addition, the Company recognizes provisions 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

Joint Construction Contracts

For joint 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 ₩38,338 million and ₩31,845 million as of December 31, 2010 and 2009, respectively.

Funding for this liability is not required by law; however, the Company has entered into a severance insurance plan or retirement pension 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 or a retirement pension plan of ₩27,280 million and ₩22,282 million as of December 31, 2010 and 2009, respectively, are presented as deductions from accrued severance indemnities.

Before 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, 2010 and 2009, the receivables amounting to ₩116 million and ₩129 million, respectively, are presented as deductions from accrued severance indemnities. Since April 2000, 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.

### 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 substantial 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 substantially all (90% or more) of the fair value of the leased asset; or
- The leased asset is a specialized unit and only the Company can use it without significant 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 lease payment is expensed as incurred. Finance leases are recognized as assets and liabilities at 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 applicable). Any initial direct costs incurred by the Company are added to the amount recognized as an asset. The depreciation method for 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 lease payment 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 end of the reporting period. The balances have been translated using the rate announced by Seoul Money Brokerage Services Ltd., which was ₩1,138.90 and ₩1,167.60 to US\$1.00 at December 31, 2010 and 2009, 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 Company recognizes deferred income tax assets or liabilities for the temporary differences between the carrying amount of an asset and liability for the financial reporting purposes and the amounts used for income tax purposes. A deferred tax liability is generally recognized for all taxable temporary differences with some exceptions and a deferred tax asset is recognized to the extent when it is probable that taxable income will be available against which the deductible temporary difference can be utilized in the future. Deferred income tax asset (liability) is classified as current or non-current asset (liability) depending on the classification of related asset (liability) in the statement of financial position. Deferred income tax asset (liability), which does not relate to specific asset (liability) account in the statement of financial position such as deferred income tax asset recognized for tax loss carryforwards, is classified as current or non-current asset (liability) depending on the expected reversal period. Deferred income tax assets and liabilities in the same tax jurisdiction and in the same current or non-current classification are presented on a net basis. Current and deferred income tax expense are included in income tax expense in the statement of income and additional income tax or tax refunds for the prior periods are included in income tax expense for the current period when recognized. However, income tax resulting from transactions or events, which was directly recognized in shareholders' equity in current or prior periods, or business combinations, is directly adjusted to equity account or goodwill (or negative goodwill).

3. RISTRICTED FINANCIAL INSTRUMENTS:

Restricted deposits as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>	<u>Description</u>
Cash and cash equivalents	₩ 113	₩ 1,303	Collateral for borrowings and others
Short-term financial instruments	28,249	13,128	Collateral for borrowings and others
Long-term financial instruments	-	5,246	Collateral for borrowings and others
"	<u>43</u>	<u>45</u>	Guarantee for checking accounts
	<u>₩ 28,405</u>	<u>₩ 19,722</u>	

4. DISPOSAL OF TRADE RECEIVABLES:

The Company disposed trade receivables of ₩224,025 million and ₩276,245 million in 2010 and 2009, respectively. As a result of the disposal, the Company recognized loss on disposal of trade receivables of ₩4,708 million and ₩5,769 million in 2010 and 2009, respectively. As of December 31, 2010 and 2009, the uncollected portion of the disposed trade receivables is ₩105,199 million and ₩76,648 million, respectively.

5. AVAILABLE-FOR-SALE SECURITIES:

(1) Available-for-sale securities as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Marketable equity securities	₩ 49,262	₩ 39,525
Non-marketable securities	281,368	298,374
Government and municipal bonds	32,099	27,427
Other bonds	<u>13,807</u>	<u>9,586</u>
	376,536	374,912
Less: Current portion	<u>(4,249)</u>	<u>(21,645)</u>
	<u>₩ 372,287</u>	<u>₩ 353,267</u>

(2) Marketable equity securities among available-for-sale securities as of December 31, 2010 and 2009 are as follows (Won in millions):

	2010		2009	
	Acquisition cost	Fair value (*1)	Acquisition cost	Fair value (*1)
Dongbu HiTek Co., Ltd. (*2)	₩ 120,428	₩ 48,911	₩ 147,125	₩ 39,089
KL-Net Corp.	19	46	19	52
SSangyong Motor Co., Ltd.	233	261	344	344
Others	30	44	29	40
	<u>₩ 120,710</u>	<u>₩ 49,262</u>	<u>₩ 147,517</u>	<u>₩ 39,525</u>

(\*1) For the above marketable securities, the Company recognized loss on valuation of available-for-sale securities amounting to ₩71,448 million and ₩107,992 million as accumulated other comprehensive loss (before net of deferred income taxes) as of December 31, 2010 and 2009, respectively.

(\*2) The Company disposed some of Dongbu HiTek Co., Ltd.'s stock and recognized loss on disposal of available-for-sale securities of ₩16,549 million in 2010.

(3) Non-marketable securities among available-for-sale securities as of December 31, 2010 and 2009 are as follows (Won in millions):

	Share(%)	2010		2009	
		Acquisition cost	Book value	Net assets or fair value	Book value
Manwolsan Tunnel Co., Ltd. (*3)	-	₩ -	₩ -	₩ -	₩ 17,770
Kongju Environment Co., Ltd. (*3)	-	-	-	-	2,971
Kangnam Circulation Road Co., Ltd.	1.01	1,026	1,026	912	1,026
Incheon Northport SOC	100.00	55,001	55,001	52,408	55,001
Shinbundangsun Railroad	5.00	10,460	10,460	8,928	10,460
Yongma Tunnel Co., Ltd.	12.03	1,680	1,680	1,377	1,146
Keongki Highway Co., Ltd.	13.33	32,212	32,212	23,554	32,212
Korea Construction Financial Cooperative (*2)	0.20	10,115	15,666	15,666	15,255
Electric Contractors' Financial Cooperative (*2)	0.01	50	91	91	89
Information & Communication Financial Cooperative (*2)	0.06	46	116	116	110
Engineering Financial Cooperative (*2)	0.02	12	45	45	42
Second Seohaean Express	2.49	3,016	3,016	3,016	2,135
Seoul Express Bus T/M Co., Ltd. (*1)	11.11	57,227	129,351	129,351	128,313
The 2nd Youngdong Highway Co., Ltd.	16.00	4,048	4,048	3,350	4,048
Korea Express Busan Container T/M Co., Ltd. (*1)	9.01	424	4,408	5,708	4,497
Pyeongtaek port (*1)	16.60	251	597	597	523
Distripark Pusan Co., Ltd.	-	-	-	-	1,200
Dongbu NTS Co., Ltd.	80.10	4,150	4,150	2,257	4,150
Daesung Transportation Co, Ltd.	100.00	6,696	6,696	441	6,696
Others (*1,4)		13,784	12,805	12,351	10,730
		<u>₩ 200,198</u>	<u>₩ 281,368</u>	<u>₩260,168</u>	<u>₩ 298,374</u>

The Company recognized gain on valuation of available-for-sale securities (accumulated other comprehensive income) of ₩81,886 million (net of deferred income taxes) and cumulative impairment loss of ₩716 million as of December 31, 2010.

(\*1) Some of above non-listed equity securities are recorded at fair value and the difference between acquisition cost and fair value is accounted for as accumulated other comprehensive income. The Company estimated the fair value of those non-listed equity securities with assistance of external specialists. The details of estimated fair value as of December 31, 2010 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 Bus T/M	Income approach	₩ 303,436	₩ 129,351
Pyeongtaek port	Income approach	23,799	597
Korea Express Busan Container T/M	Asset approach	75,256	4,408
Others	-	-	498

(\*2) Equity securities of financial cooperatives are recorded at fair value based on per share value provided by each cooperative.

(\*3) The Company disposed non-listed securities of Manwolsan Tunnel Co., Ltd. and Kongju Environment Co., Ltd. and recognized gain on disposal of available-for-sale securities of ₩12,923 million in 2010.

(\*4) The Company recognized impairment loss on available-for-sale securities of ₩199 million in 2010.

(4) Government and municipal bonds among available-for-sale securities as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>		<u>2009</u>	
	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Acquisition cost</u>	<u>Fair value</u>
Government bonds	₩ 33,882	₩ 32,099	₩ 30,329	₩ 27,427
Less: Current portion		(4,249)		(904)
		<u>₩ 27,850</u>		<u>₩ 26,523</u>

The Company recognized loss on valuation of available-for-sale securities (accumulated other comprehensive loss) of ₩1,783 million and ₩2,902 million (net of deferred income taxes) as of December 31, 2010 and 2009, respectively.

(5) Details of other bonds among available-for-sale securities as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>		<u>2009</u>	
	<u>Acquisition cost</u>	<u>Book value</u>	<u>Acquisition cost</u>	<u>Book value</u>
Convertible bond of Dongbu HiTek Co., Ltd.	₩ 9,011	₩ 13,057	₩ 9,011	₩ 9,586
Subordinated bonds (*1)	1,500	750	750	-
	<u>₩ 10,511</u>	<u>₩ 13,807</u>	<u>₩ 9,761</u>	<u>₩ 9,586</u>

(\*1) The Company recognized cumulative impairment loss on available-for-sale securities of ₩750 million as of December 31, 2010 and 2009, respectively.

The Company recognized gain on valuation of available-for-sale securities (accumulated other comprehensive income) of ₩4,046 million and ₩575 million (net of deferred income taxes) as of December 31, 2010 and 2009, respectively.

(6) Maturities of bonds among available-for-sale securities as of December 31, 2010 are as follows (Won in millions):

	<u>Government and municipal bonds</u>	<u>Convertible bond</u>	<u>Others</u>	<u>Total</u>
Less than 1 year	₩ 4,249	₩ -	₩ -	₩ 4,249
1 ~ 5 years	27,549	13,057	750	41,356
More than 5 years	301	-	-	301
	<u>₩ 32,099</u>	<u>₩ 13,057</u>	<u>₩ 750</u>	<u>₩ 45,906</u>



6. INVESTMENT SECURITIES USING THE EQUITY METHOD:

(1) Investments in affiliates subject to equity method as of December 31, 2010 and 2009 are as follows (Won in millions):

	Percentage of ownership (%)	2010		2009	
		Acquisition cost	Book value	Acquisition cost	Book value
Dongbu Steel Co., Ltd. (*1)	8.89	₩ 27,582	₩ 90,676	₩ 27,582	₩ 95,065
Dongbu Engineering Co., Ltd.	100.00	5,000	21,826	5,000	16,639
Dongbu World Co., Ltd.	25.25	-	-	-	-
Dongbu Co., Ltd. (*1)	7.43	663	2,044	663	1,575
Dongbu Pusan Container Terminal Co., Ltd.	65.00	6,500	19,737	6,500	19,265
Dongbu Australia	100.00	1,668	2,808	1,668	2,215
DSD Sky Land Co., Ltd.	25.00	1,250	-	1,250	-
Fine Advantas PFV Company, Ltd. (*1)	19.00	950	-	950	-
Daesung T.L.S Co., Ltd.	80.83	3,072	1,478	3,072	1,922
		<u>₩ 46,685</u>	<u>₩ 138,569</u>	<u>₩ 46,685</u>	<u>₩ 136,681</u>

(\*1) The Company used the equity method for Dongbu Steel Co., Ltd., Dongbu Co., Ltd. and Fine Advantas PFV Company, Ltd. as the Company has voting power in the investee's board of directors' meeting.

(2) Details of valuation using the equity method in 2010 and 2009 are as follows (Won in millions):

	2010					
	Beginning balance	Acquisition	Gain (Loss) on valuation using the equity method	Other comprehensive income	Others (*1)	Ending balance
Dongbu Steel Co., Ltd.	₩ 95,065	₩ -	₩ (3,315)	₩ (174)	₩ (900)	₩ 90,676
Dongbu Engineering Co., Ltd.	16,639	-	4,303	884	-	21,826
Dongbu Co., Ltd.	1,575	-	469	-	-	2,044
Dongbu Pusan Container Terminal Co., Ltd.	19,265	-	2,422	-	(1,950)	19,737
Dongbu Australia	2,215	208	(35)	420	-	2,808
Daesung T.L.S Co., Ltd.	1,922	-	(444)	-	-	1,478
	<u>₩ 136,681</u>	<u>₩ 208</u>	<u>₩ 3,400</u>	<u>₩ 1,130</u>	<u>₩ (2,850)</u>	<u>₩ 138,569</u>
	2009					
	Beginning balance	Acquisition	Gain (Loss) on valuation using the equity method	Other comprehensive income	Others (*1)	Ending balance
Dongbu Steel Co., Ltd.	₩ 86,383	₩ 10,945	₩ 4,258	₩ 48	₩ (6,569)	₩ 95,065
Dongbu Engineering Co., Ltd.	12,247	-	4,392	-	-	16,639
Dongbu Co., Ltd.	-	-	244	844	487	1,575
Dongbu Pusan Container Terminal Co., Ltd.	18,594	-	3,921	-	(3,250)	19,265
Dongbu Australia	1,654	-	(88)	500	149	2,215
DSD Sky Land Co., Ltd.	-	-	(1,800)	-	1,800	-
Daesung T.L.S Co., Ltd.	2,820	-	(898)	-	-	1,922
	<u>₩ 121,698</u>	<u>₩ 10,945</u>	<u>₩ 10,029</u>	<u>₩ 1,392</u>	<u>₩ (7,383)</u>	<u>₩ 136,681</u>

(\*1) Others comprise increase (decrease) in transfer from available-for-sale securities, changes in ownership percentage, dividends from investees, changes in retained earnings and others.

- (3) Changes in investment differences (differences between the cost of acquisition and the Company's share of the fair value of the affiliates) for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	2010			
	Beginning balance	Amortization	Others	Ending balance
Dongbu Steel Co., Ltd.	₩ (24,422)	₩ 1,704	₩ -	₩ (22,718)
Dongbu World Co., Ltd.	1,824	(112)	-	1,712
Dongbu Co., Ltd.	5	(1)	-	4
DSD Sky Land Co., Ltd.	3,992	(1,331)	-	2,661
Fine Advantas PFV Company, Ltd.	482	(161)	-	321
Daesung T.L.S Co., Ltd.	542	(180)	-	362
	<u>₩ (17,577)</u>	<u>₩ (81)</u>	<u>₩ -</u>	<u>₩ (17,658)</u>

  

	2009			
	Beginning balance	Amortization	Others	Ending balance
Dongbu Steel Co., Ltd.	₩ (30,090)	₩ 5,668	₩ -	₩ (24,422)
Dongbu World Co., Ltd.	1,937	(113)	-	1,824
Dongbu Co., Ltd.	-	-	5	5
DSD Sky Land Co., Ltd.	5,323	(1,331)	-	3,992
Fine Advantas PFV Company, Ltd.	642	(160)	-	482
Daesung T.L.S Co., Ltd.	603	(209)	148	542
	<u>₩ (21,585)</u>	<u>₩ 3,855</u>	<u>₩ 153</u>	<u>₩ (17,577)</u>

- (4) Adjusted unrealized intercompany gains between the Company and the affiliates subject to equity method as of December 31, 2010 and 2009 are as follows (Won in millions):

	2010	2009	Description
Dongbu Steel Co., Ltd.	₩ 5,798	₩ 5,472	Property, plant and equipment and others
Dongbu World Co., Ltd.	5,380	5,489	Construction services and others
Dongbu Co., Ltd.	382	393	Property, plant and equipment and others
	<u>₩ 11,560</u>	<u>₩ 11,354</u>	

- (5) Changes and cumulative changes in net assets, not recognized on investments in affiliates for which the equity method had ceased due to the book value of the investment being zero, are as follows (Won in millions):

	Changes in 2010	Cumulative changes up to 2009	Total
Dongbu World Co., Ltd.	₩ 2,013	₩ 20,229	₩ 22,242
DSD Sky Land Co., Ltd. (*1)	12,345	12,816	25,161
Fine Advantas PFV Company, Ltd.	1,960	3,790	5,750
	<u>₩ 16,318</u>	<u>₩ 36,835</u>	<u>₩ 53,153</u>

- (\*1) As of December 31, 2010, the Company recorded additional allowance for long-term loans of ₩1,800 million in addition to above unrecognized decrease in net asset value for the affiliate who is subject to the equity method.

- (6) Key financial figures of affiliates subject to the equity method as of and for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	2010			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
Dongbu Steel Co., Ltd.	₩ 5,169,803	₩ 3,428,542	₩ 3,664,182	₩ (26,994)
Dongbu Engineering Co., Ltd.	43,663	22,684	95,664	4,762
Dongbu World Co., Ltd.	205,387	296,396	8,978	(7,962)
Dongbu Co., Ltd.	73,989	41,380	72,727	6,202
Dongbu Pusan Container Terminal Co., Ltd.	58,639	28,274	57,896	5,239
Dongbu Australia	2,684	24	4	(34)
DSD Sky Land Co., Ltd.	439,273	557,760	-	(42,286)
Fine Advantas PFV Company, Ltd.	194,335	226,286	-	(9,485)
Daesung T.L.S Co., Ltd.	14,833	13,452	13,574	(145)
	<u>₩ 6,202,606</u>	<u>₩ 4,614,798</u>	<u>₩ 3,913,025</u>	<u>₩ (70,703)</u>

	2009			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
Dongbu Steel Co., Ltd.	₩ 4,344,646	₩ 2,872,303	₩ 2,613,615	₩ (13,859)
Dongbu Engineering Co., Ltd.	40,428	23,789	84,303	4,392
Dongbu World Co., Ltd.	218,289	283,896	8,742	(8,480)
Dongbu Co., Ltd.	75,923	49,491	66,380	3,161
Dongbu Pusan Container Terminal Co., Ltd.	67,729	38,091	56,432	6,031
Dongbu Australia	2,228	13	1	(18)
DSD Sky Land Co., Ltd.	401,264	475,695	-	(29,253)
Fine Advantas PFV Company, Ltd.	182,584	205,070	-	(12,090)
Daesung T.L.S Co., Ltd.	16,006	14,298	12,220	(682)
	<u>₩ 5,349,097</u>	<u>₩ 3,962,646</u>	<u>₩ 2,841,693</u>	<u>₩ (50,798)</u>

- (7) Shares of Dongbu Steel Co., Ltd. are marketable securities, whose stock prices are ₩ 9,970 and ₩ 11,750 per share at December 31, 2010 and 2009, respectively.
- (8) The Company used draft financial statements as of December 31, 2010 for all affiliates, except for Dongbu Australia for which the audited financial statements were used. The Company adjusted net assets of certain affiliates in complying with accounting policies of the Company as follows:

	<u>2010</u>	<u>Adjustments</u>
Dongbu Steel Co., Ltd.	₩ (338,737)	Reversal of capitalized interest expenses
Dongbu Engineering Co., Ltd.	847	Valuation of available-for-sales securities
Dongbu World Co., Ltd.	17,440	Revaluation of land
	<u>₩ (320,450)</u>	

7. PROPERTY, PLANT AND EQUIPMENT:

- (1) As of December 31, 2010, the value of the Company-owned land according to prices officially announced by the Ministry of Land, Transportation & Maritime Affairs is ₩286,421 million (including land classified as inventories of ₩154,827 million) with book value of ₩ 304,767 million (including land classified as inventories of ₩82,711 million).

(2) Changes in property, plant and equipment for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	2010						
	<u>Beginning</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Transfer</u>	<u>Depreciation</u>	<u>Other(*1)</u>	<u>Ending</u>
Land	₩ 198,295	₩ 2,967	₩ (21,382)	₩ 16,616	₩ -	₩ 25,560	₩ 222,056
Buildings	59,957	3,166	(12,415)	6,592	(2,001)	-	55,299
Less: Grants	-	(56)	-	-	1	-	(55)
Structures	4,739	185	(314)	-	(392)	-	4,218
Less: Grants	-	(30)	-	-	1	-	(29)
Machinery	22,253	2,288	(429)	-	(3,185)	-	20,927
Vehicles	11,705	27,584	(11,540)	-	(6,952)	-	20,797
Other	7,067	921	(54)	203	(3,086)	-	5,051
Less: Grants	(366)	-	-	-	366	-	-
Construction in progress	26,032	6,455	(82)	(13,883)	-	-	18,522
	<u>₩ 329,682</u>	<u>₩ 43,480</u>	<u>₩ (46,216)</u>	<u>₩ 9,528</u>	<u>₩ (15,248)</u>	<u>₩ 25,560</u>	<u>₩ 346,786</u>

(\*1) Other changes are the effect of the revaluation of land, which is transferred from inventories.

	2009						
	<u>Beginning</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Transfer</u>	<u>Depreciation</u>	<u>Ending</u>	
Land	₩ 196,049	₩ 957	₩ (27,646)	₩ 28,935	₩ -	₩ 198,295	
Buildings	62,955	412	(1,478)	-	(1,932)	59,957	
Structures	4,764	299	(21)	85	(388)	4,739	
Machinery	13,258	3,231	(75)	8,883	(3,044)	22,253	
Vehicles	12,001	12,762	(10,291)	1,717	(4,484)	11,705	
Other	9,494	1,223	(49)	17	(3,618)	7,067	
Subsidy	(983)	-	-	-	617	(366)	
Construction in progress	1,802	35,318	(26)	(11,062)	-	26,032	
	<u>₩ 299,340</u>	<u>₩ 54,202</u>	<u>₩ (39,586)</u>	<u>₩ 28,575</u>	<u>₩ (12,849)</u>	<u>₩ 329,682</u>	

(3) As of December 31, 2010 and 2009, the Company's property, plant and equipment are insured up to ₩9,170 million and ₩49,614 million, respectively, with Dongbu Insurance Co., Ltd. and others. The Company also carries commercial general liability insurance and automobile insurance for its vehicles and machinery.

(4) The Company adopted the revaluation method to determine book value of its land after the acquisition date. The land was revalued at December 31, 2008 or December 31, 2010 and the amount of revaluated land and book value using the cost model are ₩222,056 million and ₩100,478 million, respectively. The Company recorded revaluation gain on property, plant and equipment of ₩94,831 million as other accumulated other comprehensive income, net of deferred income taxes of ₩26,747 million.

Changes in accumulated other comprehensive income including tax effects for the year ended December 31, 2010 are as follows (Won in millions):

	<u>Beginning</u>	<u>Disposal</u>	<u>Revaluation</u>	<u>Ending</u>
Land	₩ 107,791	₩ (11,773)	₩ 25,560	₩ 121,578

8. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2010 and 2009 are as follows (Won in millions):

	2010			2009		
	Acquisition cost	Cumulative amortization	Book value	Acquisition cost	Cumulative amortization	Book value
Beneficiary rights	₩ 70,930	₩ 48,455	₩ 22,475	₩ 72,283	₩ 43,407	₩ 28,876
Mining right	19	-	19	19	-	19
Development cost	25,178	20,223	4,955	24,084	17,144	6,940
Others	2,873	1,971	902	6,114	3,344	2,770
	<u>₩ 99,000</u>	<u>₩ 70,649</u>	<u>₩ 28,351</u>	<u>₩ 102,500</u>	<u>₩ 63,895</u>	<u>₩ 38,605</u>

(\*1) Others comprise goodwill of ₩231 million and ₩1,705 million, and software of ₩671 million and ₩1,065 million as of December 31, 2010 and 2009, respectively.

(2) Changes in intangible assets for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	2010					
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Beneficiary rights	₩ 28,876	₩ -	₩ (224)	₩ -	₩ (6,177)	₩ 22,475
Mining right	19	-	-	-	-	19
Development cost	6,940	883	-	211	(3,079)	4,955
Others	2,770	-	(755)	-	(1,113)	902
	<u>₩ 38,605</u>	<u>₩ 883</u>	<u>₩ (979)</u>	<u>₩ 211</u>	<u>₩ (10,369)</u>	<u>₩ 28,351</u>

  

	2009					
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Beneficiary rights	₩ 35,245	₩ -	₩ -	₩ -	₩ (6,369)	₩ 28,876
Mining right	19	-	-	-	-	19
Development cost	9,134	2,130	(71)	107	(4,360)	6,940
Others	3,569	100	-	253	(1,152)	2,770
	<u>₩ 47,967</u>	<u>₩ 2,230</u>	<u>₩ (71)</u>	<u>₩ 360</u>	<u>₩ (11,881)</u>	<u>₩ 38,605</u>

(3) Ordinary development costs expensed for the years ended December 31, 2010 and 2009 are ₩32,876 million and ₩33,627 million, respectively.

9. BORROWINGS AND LONG-TERM ACCOUNTS PAYABLE:

(1) Short-term borrowings as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>Financial institutions</u>	Annual interest rate (%)	<u>2010</u>	<u>2009</u>
General term loans	Hana Bank	7.78	₩ 22,000	₩ 22,000
	Kookmin Bank	6.97~7.94	59,500	59,500
	Suhyup Bank	6.47~6.67	15,000	15,000
	Nonghyup Bank	8.18	10,000	10,000
	Jeonbuk Bank	7.90	10,000	10,000
	Industrial Bank of Korea	6.92	30,000	30,000
	The Korea Securities Finance Corp.	7.20	19,000	-
	Kwangju Bank	8.50	10,000	10,000
	Korea Construction Financial Coop.	3.63	6,800	-
	Commercial paper (CP)	Shinhan Bank	7.90	17,400
Hana Bank		8.30~8.48	40,000	40,000
Tong Yang Securities Inc.		8.65	20,000	-
			<u>₩ 259,700</u>	<u>₩ 213,900</u>

(2) Long-term borrowings as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>Financial institutions</u>	Annual interest rate (%)	<u>2010</u>	<u>2009</u>
General term loans	Korea Development Bank	7.70~7.93	₩ 34,000	₩ 34,000
	Hana Bank	-	-	4
	Woori Bank	4.20	2,250	5,250
Operation loans	Korea Housing Guarantee Co., Ltd.	1.00	11,807	11,807
Long term loans	Korea Resources Corporation	5.00	53	93
Policy loans	Suhyup Bank	3.28	8,538	7,500
			56,648	58,654
Less: Current portion			(5,364)	(38,116)
			<u>₩ 51,284</u>	<u>₩ 20,538</u>

(3) Debentures as of December 31, 2010 and 2009 are as follows (Won in millions):

	Date of issue	Maturity date	Annual interest rate (%)	2010		2009	
				₩		₩	
190 <sup>th</sup> debenture	2007.03.16	2010.03.16	6.61	₩	-	₩	50,000
196 <sup>th</sup> debenture	2008.06.02	2010.06.02	8.00		-		3,368
197 <sup>th</sup> debenture	2008.06.13	2011.06.13	8.23		10,000		10,000
198 <sup>th</sup> debenture	2008.06.23	2010.06.23	7.50		-		40,000
199 <sup>th</sup> debenture	2008.06.27	2011.06.27	7.96		60,000		60,000
200 <sup>th</sup> debenture	2008.07.11	2010.07.11	8.20		-		30,000
201 <sup>st</sup> debenture	2008.07.14	2010.07.14	7.97		-		20,000
202 <sup>nd</sup> debenture	2009.02.17	2010.02.17	9.00		-		10,000
203 <sup>rd</sup> debenture	2009.03.13	2010.03.23	8.61		-		30,000
204 <sup>th</sup> debenture	2009.05.14	2010.11.14	10.30		-		8,010
205 <sup>th</sup> debenture	2009.07.24	2010.07.24	9.90		-		30,000
207 <sup>th</sup> debenture	2009.10.08	2011.04.08	9.90		40,000		40,000
208 <sup>th</sup> debenture	2009.11.24	2011.05.24	9.50		40,000		40,000
209 <sup>th</sup> debenture	2010.02.17	2011.02.17	8.50		10,000		-
210-1 <sup>st</sup> debenture	2010.03.11	2011.09.11	8.90		60,000		-
210-2 <sup>nd</sup> debenture	2010.03.11	2013.03.11	8.90		10,000		-
211 <sup>st</sup> debenture	2010.03.23	2011.03.23	9.13		30,000		-
212 <sup>nd</sup> debenture	2010.06.14	2012.06.14	8.90		50,000		-
213 <sup>rd</sup> debenture	2010.07.09	2012.07.09	8.30		30,000		-
214 <sup>th</sup> debenture	2010.07.09	2012.07.09	8.30		30,000		-
215 <sup>th</sup> debenture	2010.07.14	2011.07.14	6.13		20,000		-
216 <sup>th</sup> debenture	2010.08.12	2012.08.12	8.90		6,000		-
217 <sup>th</sup> debenture	2010.10.05	2011.10.05	8.50		20,000		-
218 <sup>th</sup> debenture	2010.10.19	2012.10.19	9.20		8,000		-
219 <sup>th</sup> debenture	2010.11.05	2011.11.05	8.30		16,500		-
220 <sup>th</sup> debenture	2010.11.05	2011.11.05	8.20		8,500		-
221 <sup>st</sup> debenture	2010.11.18	2012.05.18	8.70		9,000		-
222 <sup>nd</sup> debenture	2010.11.30	2011.11.30	8.30		5,000		-
223 <sup>rd</sup> debenture	2010.12.14	2013.12.14	6.63		15,000		-
224 <sup>th</sup> debenture	2010.12.28	2011.12.28	8.30		5,000		-
					<u>483,000</u>		<u>371,378</u>
Less: Discounts on debentures issued					(895)		(1,494)
					<u>482,105</u>		<u>369,884</u>
Less: Current portion					(325,000)		(221,378)
Add: Current portion of discounts on debentures issued					567		496
					<u>₩ 157,672</u>		<u>₩ 149,002</u>

(4) Long-term accounts payable as of December 31, 2010 and 2009 are as follows (Won in millions):

	2010	2009
Yongsan ICD allotment	₩ 907	₩ 1,274
Capital lease payables	11,754	4,449
Others	<u>15</u>	<u>35</u>
	12,676	5,758
Less: Current portion	(3,178)	(1,370)
	<u>₩ 9,498</u>	<u>₩ 4,388</u>

(5) Repayment schedule of long-term debts as of December 31, 2010 is as follows (Won in millions):

	<u>Long-term borrowings</u>	<u>Debentures</u>	<u>Long-term accounts payable</u>	<u>Total</u>
2011	₩ 5,364	₩ 325,000	₩ 3,178	₩ 333,542
2012	37,101	133,000	4,975	175,076
2013	3,081	25,000	3,975	32,056
2014 and thereafter	<u>11,102</u>	<u>-</u>	<u>548</u>	<u>11,650</u>
	<u>₩ 56,648</u>	<u>₩ 483,000</u>	<u>₩ 12,676</u>	<u>₩ 552,324</u>

10. LEASE:

(1) The Company has capital lease agreements with Lotte Capital Co., Ltd. and others for certain machinery and vehicles. As of December 31, 2010, details of assets under finance leases are as follows (Won in millions):

<u>Lease assets</u>	<u>Lease period</u>	<u>Interest rate (%)</u>	<u>Acquisition cost</u>	<u>Depreciation in 2010</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
Module trailers	2008.10.16~2011.10.16	9.90	₩ 1,716	₩ 286	₩ 548	₩ 1,168
Grabs and other machinery	2009.05.14~2013.11.25	7.10~8.29	2,564	131	182	2,382
Vehicles	2009.08.19~2014.01.25	7.20~9.55	<u>10,538</u>	<u>1,543</u>	<u>1,654</u>	<u>8,884</u>
			<u>₩ 14,818</u>	<u>₩ 1,960</u>	<u>₩ 2,384</u>	<u>₩ 12,434</u>

The future annual payments under capital lease agreement as of December 31, 2010 are as follows (Won in millions):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	₩ 2,797	₩ 809	₩ 3,606
2012 (*1)	4,700	502	5,202
2013 (*1)	3,791	142	3,933
2014	<u>466</u>	<u>3</u>	<u>469</u>
	11,754	<u>₩ 1,456</u>	<u>₩ 13,210</u>
Less: Current portion	<u>(2,797)</u>		
	<u>₩ 8,957</u>		

(\*1) These annual payments include payments for transferring ownership of module trailers and grabs. The Company recorded the capital lease payables as long-term accounts payable or current portion of long-term accounts payable in accordance with the payment schedule.

(2) The Company carries operating lease contracts of vehicles with KDB Capital Corporation and others. The payment schedule of operating leases as of December 31, 2010 is as follows (Won in millions):

	<u>Lease expenses</u>
2011	₩ 19,297
2012	5,820
2013 and thereafter	<u>3,141</u>
	<u>₩ 28,258</u>



11. LIABILITY FROM SECURITIZATION OF RECEIVABLES:

The Company trusted its receivables and future receivables to Korea Development Bank and other financial institutions. These financial institutions issued primary and secondary beneficiary certificates based on the receivables and the Company has securitized the primary beneficiary certificate via a special purpose company (“SPC”) and recorded the amount raised from securitization of future receivables as a liability. The details of securitization and related liability as of December 31, 2010 are as follows (Won in millions):

Description	Dongbu Express 2 <sup>nd</sup> Securitization	Dongbu Metal Factory project receivables	Resource Recovery Facilities receivables
	Assets Backed Securities (ABS)	Asset Backed Commercial Papers (ABCP)	Asset Backed Loans (ABL)
Trust period	2010.05.06 ~ 2013.05.06	2010.10.19~2011.08.16	2010.11.24~2012.10.23
Initial trust amount	₩ 54,000	₩59,986	₩20,000
Trustee	Korea Development Bank	KTB Investment & Securities	Gyeonggi Solomon Mutual Saving Bank
Trusted assets	Future receivables	Future receivables	Future receivables
Initial amount raised	₩ 54,000 from primary beneficiary certificate	₩ 59,986 from primary beneficiary certificate	₩ 20,000 from primary beneficiary certificate
Repaid amount	₩ 13,032	₩ -	₩ 3,251
Balances of liability	₩ 40,968	₩ 59,986	₩ 16,749

The differences between the trade receivables collected and repaid corresponding liabilities are recognized as loss on disposal of trade receivables, amounting to ₩2,041 million and ₩4,074 million in 2010 and 2009, respectively.

12. ACCRUED SEVERANCE INDEMNITIES:

Changes in accrued severance indemnities for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	2010	2009
Beginning balance	₩ 31,845	₩ 28,473
Provision for severance indemnities	12,739	13,251
Payments of severance indemnities	<u>(6,246)</u>	<u>(9,879)</u>
Ending balance	<u>₩ 38,338</u>	<u>₩ 31,845</u>

13. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are as follows (Won in millions, foreign currencies in thousands):

	2010		2009	
	Foreign currencies	Equivalent in Korean Won	Foreign currencies	Equivalent in Korean Won
<b>Assets:</b>				
Cash and cash equivalents	US\$ 748	₩ 852	US\$ 640	₩ 747
Trade receivables	US\$ 1,656	<u>1,886</u>	US\$ 1,577	<u>1,841</u>
		<u>₩ 2,738</u>		<u>₩ 2,588</u>
<b>Liabilities:</b>				
Trade payables	US\$ 1,551	₩ 2,167	US\$ 771	₩ 973
Accrued expenses	US\$ 22	25	US\$ 12	14
Long-term borrowings	US\$ 35	40	US\$ 53	62
		<u>₩ 2,232</u>		<u>₩ 1,049</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>Approved limit</u>	<u>2010</u>	<u>2009</u>
Directors	8	₩ 2,100	₩ 920	₩ 578
Auditors and audit committee	3	-	99	69

(2) Significant transactions with related parties in 2010 and 2009, and the related receivables and payables as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>			
	<u>Sales and other revenues</u>	<u>Purchases and other expenses</u>	<u>Receivables</u>	<u>Payables</u>
Dongbu Engineering	₩ 503	₩ 7,179	₩ 35	₩ 690
Dongbu Pusan Container Terminal Co., Ltd.	1,191	6,687	209	1,224
Daesung T.L.S Co., Ltd.	916	4,888	4,306	265
Dongbu Steel Co., Ltd.	161,345	18,559	16,613	9,484
Dongbu World Co., Ltd.	279	745	26,069	-
Dongbu Co., Ltd.	29,567	24,518	4,522	3,021
Dongbu HiTek Co., Ltd.	28,586	107	10,223	96
Dongbu Metal Co., Ltd.	187,788	857	54,547	750
Dongbu Insurance Co., Ltd.	4,474	4,141	2,722	2,513
Dongbu Life Insurance Co., Ltd.	78	-	6	664
Dongbu CNI Co., Ltd.	1,604	20,002	296	5,024
Dongbu Securities Co., Ltd.	332	70	46	3,200
Incheon Northport SOC	9,360	-	24,741	105
Others	2,114	9,348	8,258	1,955
	<u>₩ 428,137</u>	<u>₩ 97,101</u>	<u>₩ 152,593</u>	<u>₩ 28,991</u>

In addition to the above transactions, the Company disposed its land and building to Dongbu Life Insurance Co., Ltd. at ₩35,867 million with gain and loss on disposal of property, plant and equipment of ₩17,457 million and ₩1,592 million, respectively.

	<u>2009</u>			
	<u>Sales and other revenues</u>	<u>Purchases and other expenses</u>	<u>Receivables</u>	<u>Payables</u>
Dongbu Engineering	₩ 350	₩ 13,315	₩ 179	₩ 7,904
Dongbu Pusan Container Terminal Co., Ltd.	951	6,018	308	3,008
Daesung T.L.S Co., Ltd.	984	5,057	3,275	1,265
Dongbu Steel Co., Ltd.	206,689	9,668	48,733	2,651
Dongbu World Co., Ltd.	224	685	15,014	3
Dongbu Co., Ltd.	21,522	20,631	9,569	2,661
Dongbu HiTek Co., Ltd.	25,565	1,140	6,810	432
Dongbu Metal Co., Ltd.	18,898	-	13,081	1
Dongbu Fine Chemical Co., Ltd.	2,045	-	669	2
Dongbu Insurance Co., Ltd.	30,319	7,319	2,726	1,917
Dongbu Life Insurance Co., Ltd.	118	119	1	-
Dongbu CNI Co., Ltd.	300	22,092	220	6,679
Dongbu Securities Co., Ltd.	200	-	18	10,000
Incheon Northport SOC	9,155	165	13,665	195
Others	1,347	8,732	8,521	1,533
	<u>₩ 318,667</u>	<u>₩ 94,941</u>	<u>₩ 122,789</u>	<u>₩ 38,251</u>

15. SHAREHOLDERS' EQUITY:

(1) Capital Stock

The Company has authorized 100,000,000 shares of ₩5,000 par value and issued common stock and preferred stock as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>Outstanding shares</u>	<u>Capital stock</u>
Common stock	21,790,345 shares	₩ 108,952
Preferred stock	3,342,365 shares	<u>16,712</u>
		<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. Of the revaluation gain of ₩109,412 million, ₩106,767 million was transferred to asset revaluation reserve after deducting related taxes.

Details of other capital surplus as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Capital surplus from merger	₩ 86,914	₩ 86,914
Gain on disposal of treasury stock fund	417	417
Gain on disposal of treasury stock received without consideration	17,051	17,051
Gain on disposal of treasury preferred stock	6,138	6,138
Other capital surplus	<u>11</u>	<u>11</u>
	<u>₩ 110,531</u>	<u>₩ 110,531</u>

(3) Capital Adjustments

Details of capital adjustments as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Treasury stock	₩ 706	₩ 706
Tax on treasury stock	<u>2,396</u>	<u>2,396</u>
	<u>₩ 3,102</u>	<u>₩ 3,102</u>

Details of treasury stock as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>		<u>2009</u>	
	<u>Number of shares</u> (shares)	<u>Amount</u>	<u>Number of shares</u> (shares)	<u>Amount</u>
Common stock	1,818,974	₩ -	1,818,974	₩ -
Preferred stock	<u>145,690</u>	<u>706</u>	<u>145,690</u>	<u>706</u>
	<u>1,964,664</u>	<u>₩ 706</u>	<u>1,964,664</u>	<u>₩ 706</u>

The number of common stock above represents the remaining shares out of the initially obtained 4,758,974 shares from Junki Kim, the chairman and founder of Dongbu group, without consideration. 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, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Legal reserve	₩ 22,134	₩ 21,539
Other reserve:		
Reserve for business rationalization	9,779	9,779
Reserve for financial structure improvement	12,386	12,386
Voluntary reserve	<u>55,000</u>	<u>20,000</u>
	<u>₩ 99,299</u>	<u>₩ 63,704</u>

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

16. COMPREHENSIVE INCOME STATEMENTS:

The comprehensive income reflecting the changes in accumulated other comprehensive income to net income for the years ended December 31, 2010 and 2009 is as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Net income	₩ 7,618	₩ 53,072
Other comprehensive income (loss):		
Changes in valuation gain and loss on investment securities using the equity method	1,167	1,197
Changes in valuation gain on available-for-sale securities	26,530	28,971
Changes in revaluation gain on property, plant and equipment	<u>10,755</u>	<u>(2,089)</u>
Comprehensive income	<u>₩ 46,070</u>	<u>₩ 81,151</u>

17. CONSTRUCTION CONTRACTS:

Changes in construction contracts in progress for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Beginning balance	₩ 4,959,955	₩ 4,816,472
New contracts signed or changes in contracts	878,133	1,794,309
Less: Revenue recognized	<u>(1,426,248)</u>	<u>(1,650,826)</u>
Ending balance	<u>₩ 4,411,840</u>	<u>₩ 4,959,955</u>

In connection with the above contracts, the Company recorded provision for losses on construction contracts of ₩16,678 million and ₩23,699 million as other current and non-current liabilities as of December 31, 2010 and 2009, respectively.

In addition, for completed construction contracts, the Company recorded provision for construction warranties of ₩ 11,318 million and ₩9,304 million as other current liabilities as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, Korea Construction Financial Cooperative and others provides the Company with a payment guarantee amounting to ₩2,234,937 million and the Company pledges the guarantee to its customers for advances from customers, fulfilment of construction projects and others.

18. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Salaries	₩ 46,499	₩ 32,092
Provision for severance indemnities	3,703	4,523
Employee benefits	5,183	4,547
Travel	1,515	1,050
Communications	246	257
Utilities	339	352
Office consumables	322	282
Taxes and dues	3,990	3,486
Rent	2,878	2,642
Depreciation	1,625	1,763
Amortization of intangibles	3,257	4,520
Repairs and maintenance	72	71
Insurance	436	410
Advertising	7,028	1,943
Transportation	3	3
Commissions	11,809	11,759
Vehicle maintenance	742	740
Printing	475	445
Employee development	2,150	2,199
Bad debt	8,628	8,797
Ordinary development	32,876	33,627
Conferences	609	584
Others	2,603	2,405
	<u>₩ 136,988</u>	<u>₩ 118,497</u>

19. INCOME TAX EXPENSE:

(1) Income tax expense for the years ended December 31, 2010 and 2009 is as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Corporate income tax and resident surcharges	₩ 5,483	₩ 17,892
Changes in deferred income taxes	8,344	7,133
Changes in deferred income taxes adjusted to shareholders' equity	(10,478)	(7,779)
Income tax expense	<u>₩ 3,349</u>	<u>₩ 17,246</u>

- (2) A reconciliation between income before income tax and income tax expense for the years ended December 31, 2010 and 2009 is as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Income before income tax (A)	₩ 10,967	₩ 70,318
Tax amounts applying statutory tax rate	2,627	16,992
Adjustments:		
Non-taxable income or non-deductible loss	833	221
Tax effect of temporary differences excluded from deferred income taxes	(871)	(677)
Additional income tax or tax refunds	907	1,541
Others	(147)	(831)
Income tax expense (B)	<u>₩ 3,349</u>	<u>₩ 17,246</u>
Effective tax rate (C=B/A)	30.5%	24.5%

- (3) Accumulated temporary differences and deferred income tax assets (liabilities) as of December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>	<u>2009</u>
Accumulated temporary differences	₩ (132,672)	₩ (93,324)
Statutory tax rate (*1)	24.2 / 22.0%	24.2 / 22.0%
Deferred income taxes	<u>₩ (28,483)</u>	<u>₩ (20,139)</u>
Deferred income tax assets (current assets)	₩ 5,509	₩ 1,058
Deferred income tax liabilities (long-term liabilities)	(33,992)	(21,197)
	<u>₩ (28,483)</u>	<u>₩ (20,139)</u>

(\*1) As new statutory tax rates were announced in 2009, the tax rates applied for deferred tax assets and liabilities are 24.2 percent in 2011 and 22 percent in 2012 and thereafter.

## 20. EARNINGS PER COMMON SHARE:

Earnings per common share for the years ended December 31, 2010 and 2009 is calculated as follows (Won in millions, except per share amounts):

	<u>2010</u>	<u>2009</u>
Net income	₩ 7,618	₩ 53,072
Less: preferred stock dividends	(959)	(959)
Net income for common share	₩ 6,659	₩ 52,113
Weighted-average number of shares outstanding (shares)	<u>19,971,371</u>	<u>19,971,371</u>
Earnings per common share	<u>₩ 333</u>	<u>₩ 2,609</u>

21. DIVIDENDS:

The detail of the dividends for the years ended December 31, 2010 and 2009 is as follows:

	2010		2009	
	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 for dividends (shares)	<u>19,970,619</u>	<u>3,196,674</u>	<u>19,970,619</u>	<u>3,196,674</u>
Dividend per share	₩ 250	₩ 300	₩ 250	₩ 300
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Dividend rate	<u>5%</u>	<u>6%</u>	<u>5%</u>	<u>6%</u>
Total dividends (Won in millions)	₩ 4,993	₩ 959	₩ 4,993	₩ 959
Net income (Won in millions)	₩ 7,618	₩ 7,618	₩ 53,072	₩ 53,072
Dividend propensity	<u>65.5%</u>	<u>12.6%</u>	<u>9.4%</u>	<u>1.8%</u>
Stock price as of the end of the reporting period	₩ 7,906	₩ 4,445	₩ 8,460	₩ 4,080
Dividends to stock price ratio	3.2%	6.7%	3.0%	7.4%

22. PLEGGED ASSETS AND GUARANTEES:

(1) The following assets are pledged as collateral for short-term borrowings and long-term debts as of December 31, 2010 (Won in millions):

Debts			Pledged assets		
Financial institutions	Description	Amount	Description	Book value	Amount pledged
Korea Exchange Bank (*1)	Overdrafts (limit)	₩ 6,730	Land	₩ 2,799	₩ 3,400
	General loan	9,900	Inventories	37,756	4,500
			Available-for-sale ("AFS") securities	13,774	13,774
			Investment securities using the equity method	887	-
			Financial instruments	2,660	2,660
Hana Bank	Overdrafts (limit)	8,000	Inventories	49,754	60,000
	General loan	22,000	Land	3,977	9,000
	Debentures subscribed	20,000	Land & buildings	6,097	12,900
	CP	40,000	AFS securities	3,412	3,387
			Financial instruments	2,700	2,700
Woori Bank	Overdrafts (limit)	13,000	Inventories and building	64,131	124,000
	CP (limit)	27,600	Land & building	21,289	15,240
	Debentures subscribed	90,000	Inventories	6,948	26,000
	Industrial equipment general loan	2,250	Investment securities using the equity method	54,999	-
			AFS securities	298	298
			Financial instruments	6,050	6,050
			Long-term other receivables-other	3,360	3,360
Shinhan Bank	Overdrafts (limit)	9,000	Land, building & inventories	10,171	12,000
	CP	17,400	Financial instruments	1,280	1,280
	Debentures subscribed	60,000	AFS securities	129,351	-
Industrial Bank of Korea ("IBK")	General loan	30,000	Financial instruments	10,000	10,000

Debts			Pledged assets		
Financial institutions	Description	Amount	Description	Book value	Amount pledged
Kookmin Bank	Overdrafts (limit)	₩ 7,000	Inventories	₩ 5,894	₩ 5,850
	General loan	59,500	Land & buildings	137,249	50,523
			Financial instruments	3,550	3,550
			AFS securities	238	231
Korea Development Bank ("KDB")	General loan	34,000	Vehicles	-	-
	Overdrafts (limit)	2,000	Land & buildings	54,225	42,100
			AFS securities	5,047	5,047
			Financial instruments	959	959
			Treasury stock	-	-
Korea Securities Finance Corp.	Secured loan of Treasury stock	19,000	Treasury stock	-	-
			Investment securities using the equity method	38,832	-
Korea Construction Financial Coop.	General loan (limit)	17,000	AFS securities	7,117	7,117
				Land & buildings	7,725
Dongbu Insurance		-	Financial instruments	50	50
Nonghyup Bank		-	Machinery	9,769	9,750
Suhyup Bank	Policy loans	8,538	Financial instruments	113	113
Shinhan Mutual Saving Bank	Debentures subscribed	12,000	Receivables	-	18,948
				Land	156
Hankook Tire		-	Financial instruments	1,000	1,000
POSCO		-			
		<u>₩514,918</u>		<u>₩ 703,617</u>	<u>₩ 456,147</u>

(\*1) In relation to the debts, the Company is provided with repayment guarantee of ₩7,500 million from Junki Kim, the chairman and founder of Dongbu group.

(2) Collaterals or guarantees, which the Company had provided for others as of December 31, 2010, are as follows (Won in millions):

Provided to	Assets provided	Amount pledged	Related liabilities	Financial institutions
Dongbu Hitek Co., Ltd.	Available-for-sale ("AFS") securities	₩ 20,714	Second syndicated loan	KDB and others
Incheon Northport	AFS securities	55,001	Project financing	Kookmin Bank and others
Kyngki highway	AFS securities	32,212	Project financing	Shinhan Bank
Shinbundang Railroad Co., Ltd.	AFS securities	10,305	Project financing	KDB
Chungjung Wonju Co., Ltd.	AFS securities	408	Project financing	Kookmin Bank and others
Kangnam Beltway	AFS securities	1,026	Project financing	KDB and others
Second Seohaean Express	AFS securities	3,016	Project financing	IBK and others
Sangah academy Co., Ltd.	AFS securities	374	Project financing	KDB and others
Andong Art Center	AFS securities	744	Project financing	Hyundai Marine and others
Yongma Tunnel Co., Ltd.	AFS securities	1,680	Project financing	Kookmin Bank and others
BILTECH Co., Ltd.	Land & buildings	8,612	Secured loan	Suhyup Bank
Daesung Transportation Co., Ltd.	AFS securities	140	Loan for industrial equipment	IBK



<u>Provided to</u>	<u>Assets provided</u>	<u>Amount pledged</u>	<u>Related liabilities</u>	<u>Financial institutions</u>
Busan Multipurpose Terminal Company	Land & buildings	₩ 5,850	Borrowings	Suhyup Bank
Daesung T.L.S Co., Ltd.	Land	2,100	Borrowings for construction	IBK
Dongbu Co., Ltd.	-	101,839	Joint guarantee of fulfillment of construction & others	Korea Specialty Contractor Financial Cooperative
		<u>₩ 244,021</u>		

In addition, the Company has provided SPCs with available-for-sale securities for pledges and entered into the capital supplementation agreement amounting to ₩36.0 billion. The Company also provided joint guarantee of ₩161.6 billion for loans to local residents for construction projects and repayment guarantee of borrowings to Project Financail Vehicle (“PFV”) for constructing apartment and public work amounting to ₩536.0 billion and ₩28.0 billion, respectively, as of December 31, 2010.

### 23. COMMITMENTS AND CONTINGENCIES:

- (1) Credit lines provided by financial institutions as of December 31, 2010 are as follows (Won in millions, US\$ in thousands):

	<u>Financial institutions</u>	<u>Credit lines</u>
Overdraft	Woori Bank and others	₩ 47,730
General loans	Kookmin Bank and others	₩ 261,541
Debentures subscriptions	Woori Bank and others	₩ 243,000
CP	Hana Bank and others	₩ 67,600
Discounting notes and disposal of trade receivables	Lotte Capital and others	₩ 121,400
Electronic notes	Hana Bank and others	₩ 165,000
Usance	Korea Exchange Bank and others	US\$ 7,200
		EUR 280
Operating lease	IBK Capital and others	₩ 92,481
Finance lease	KDB Capital and others	₩ 13,816

- (2) The Company has pledged 45 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 fulfilment of construction projects.
- (3) As of December 31, 2010, the Company is contingently liable for guarantees of fulfilment of construction by other companies amounting to ₩ 3,308,150 million.
- (4) The Company has provided repayment guarantee for loans to local residents of reconstruction projects from financial institutions. In addition, the Company lends money to reconstruction cooperatives and related short-term and long-term loans as of December 31, 2010 are ₩ 115,646 million.

- (5) As of December 31, 2009, the Company is a defendant in 33 lawsuits of which total claim amount is ₩ 45,933 million. The Company records provisions for expected losses from lawsuits and others. Changes in such provisions for the year ended December 31, 2010 are as follows (Won in millions):

	Beginning balances	Increase	Decrease	Ending balances
Lawsuit	₩ 1,786	₩ -	₩ (1,786)	₩ -
Others	-	30,000	-	30,000
	<u>₩ 1,786</u>	<u>₩ 30,000</u>	<u>₩ (1,786)</u>	<u>₩ 30,000</u>

The Company fulfilled its guarantee obligation provided to HoSeong Housing Co. Ltd. and assumed their borrowings of ₩30 billion on January 24, 2011. The Company recorded the amount in other liabilities as of December 31, 2010. In connection with this liability acceptance, the Company obtained a refund receivable for the sales proceeds of land, of which the Company collected ₩2.7 billion in cash and recorded accounts receivable-other of ₩25.3 billion at December 31, 2010. As a result, the Company recorded the difference of ₩2 billion between the assumed liability of ₩30 billion and obtained receivable of ₩28 billion as loss for the year ended December 31, 2010. .

- (6) As of December 31, 2010, the Company has provided the financial investors with put options to repurchase the financial investors' interest for several Social Overhead Capital("SOC") projects, such as Sangam DMC Landmark Project, Second Seohaean Express and Shinbundangsun Railroad, when certain special conditions addressed in SOC contracts are satisfied.

#### 24. DERIVATIVE INSTRUMENTS:

In 2009, the Company entered into an interest rate swap contract, which exchanges variable-rate interest with fixed-rate interest. The Company recognized interest swap liabilities of ₩458 million as of December 31, 2009. The contract was settled and the Company recognized gain on foreign exchange forward transactions amounting to ₩265 million in 2010.

#### 25. STATEMENTS OF CASH FLOWS:

Transactions not involving cash flows for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	2010	2009
Transfer of construction in progress to other property, plant and equipment or intangible assets	₩ 14,046	₩ 11,062
Transfer of advanced payments to construction in progress	162	-
Transfer of long-term debts to current portion	219,524	260,580
Transfer of long-term other-receivables to current portion	3,360	3,360
Transfer of inventories to land	9,576	28,935
Transfer of available-for-sale securities to current portion	4,242	21,645
Acquisition of property, plant and other equipment by capital lease	9,776	3,325
Transfer of liability from securitization of future receivables to current portion	29,670	8,923
Recognition of revaluation gain on land	25,560	-

#### 26. 4<sup>th</sup> QUARTER'S FINANCIAL INFORMATION:

The Company's financial information for the three months ended December 31, 2010 and 2009 (unaudited) is as follows (Won in millions, except per share amount).

	<u>2010</u>	<u>2009</u>
Sales	₩ 610,897	₩ 608,742
Net income (loss)	(12,429)	29,720
Net income (loss) per share	(610)	1,464

27. SEGMENT INFORMATION:

Segment information as of and for the years ended December 31, 2010 and 2009 is as follows (Won in millions):

	<u>2010</u>			
	<u>Construction</u>	<u>Transport and logistics</u>	<u>Others</u>	<u>Total</u>
Sales:				
External transactions	₩ 1,426,248	₩ 644,519	₩ 85,148	₩ 2,155,915
Internal transactions	-	2,749	40	2,789
Operating income (loss)	69,078	(13,239)	4,126	59,965
Property, plant and equipment and intangible assets	58,086	281,876	35,176	375,138
Depreciation and amortization	2,512	17,129	5,976	25,617
	<u>2009</u>			
	<u>Construction</u>	<u>Transport and logistics</u>	<u>Others</u>	<u>Total</u>
Sales:				
External transactions	₩ 1,650,826	₩ 541,742	₩ 88,585	₩ 2,281,153
Internal transactions	-	4,902	-	4,902
Operating income (loss)	86,775	(18,367)	13,161	81,569
Property, plant and equipment and intangible assets	73,998	250,149	44,140	368,287
Depreciation and amortization	3,625	14,969	6,136	24,730

28. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for calculation of value added for the years ended December 31, 2010 and 2009 are as follows (Won in millions):

	<u>2010</u>		<u>2009</u>	
	<u>Cost of sales</u>	<u>Selling and administrative expenses</u>	<u>Cost of sales</u>	<u>Selling and administrative expenses</u>
Salaries	₩ 96,354	₩ 46,499	₩ 95,562	₩ 32,092
Provision for severance indemnities	9,036	3,703	8,728	4,523
Employee benefits	29,150	5,183	25,045	4,547
Rent	58,404	2,878	62,480	2,642
Depreciation	13,623	1,625	11,086	1,763
Taxes and dues	7,135	3,990	6,653	3,486
	<u>₩ 213,702</u>	<u>₩ 63,878</u>	<u>₩ 209,554</u>	<u>₩ 49,053</u>

29. SUBSEQUENT EVENTS:

- (1) By the resolution of the board of directors on October 8, 2010, the Company decided to spin off its transport and logistics segments to diversify its business risk and to improve management efficiency. The spin-off was approved by the shareholders' meeting on November 18, 2010 and Dongbu Express Co., Ltd. , a wholly owned subsidiary of the Company, was newly incorporated on January 3, 2011.
- (2) As explained in Note 23, the Company fulfilled guarantee obligation provided to HoSeong Housing Co. Ltd. and assumed borrowings of ₩30 billion on January 24, 2011. Accordingly, the Company recognized a liability of ₩30 billion and acquired receivables as well as collaterals.
- (3) The Company issued the 225<sup>th</sup> non-guaranteed debentures of ₩40 billion on January 26, 2011 with maturity date of July 26, 2012 and interest rate of 8.70 percent. Dongbu Securities Co., Ltd., a related party, subscribed ₩20 billion out of ₩40 billion.
- (4) The Company entered into an agreement to sell part of its land inventory and buildings to Dongbu Life Insurance Co., Ltd., a related party. The total proceed from the disposal is ₩127.2 billion and the Company recognized gain on disposal of property, plant and equipment of ₩89.3 billion in 2011.

30. EFFECT OF ADOPTING K-IFRS:

The Company plans to adopt the Korean International Financial Reporting Standards (the "K-IFRS") and prepare its financial statements in accordance with K-IFRS from 2011. The Company organized a special task force team to assess the impact that the adoption of K-IFRS might have on its financial statements and to train related employees. In addition, the task force team regularly reports the introduction plan and progress to the management of the Company.

The major differences between the K-IFRS and the current accounting standards, which are expected to have significant impact on the Company's financial statements, are summarized below. These differences do not represent all differences and may be subject to change according to subsequent assessment.

	<u>K-IFRS</u>	<u>Current Accounting Standards</u>
Employee benefits	The present value calculated using the actuarial valuation method according to the projected unit credit method is recorded as a defined benefit liability.	The payable assuming all eligible employees were to resign at the end of reporting period is recorded as accrued severance indemnities.
Revenue recognition of subscription sale	As subscription sale is not a specifically negotiated contract, revenue is recognized when delivered.	Revenue of subscription sale is recognized by the percentage of completion method.
Financial guarantees	Fair value of financial guarantees is recognized as a financial liability.	Financial guarantees are disclosed as a note to financial statements.
Capitalization of borrowing cost	Borrowing cost is capitalized.	Borrowing cost can be either capitalized or expensed.

# **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, 2010. 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, 2010, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2010, 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, 2010, and we did not review its IACS subsequent to December 31, 2010. 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.

March 10, 2011