

DONGBU CORPORATION

**SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011
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 financial statements of Dongbu Corporation (the "Company"). The financial statements consist of the separate statements of financial position as of December 31, 2011 and the related separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the year ended December 31, 2011. The Company's management is responsible for the preparation and fair presentation of the separate financial statements and our responsibility is to express an opinion on these separate financial statements based on our audit.

In addition, the non-consolidated financial statements of the Company as of and for the year ended December 31, 2010, were audited by us, as per our report dated March 10, 2011 we expressed an unqualified opinion on those statements. Such financial statements do not reflect the transition effects to Korean International Financial Reporting Standards ("K-IFRS") as described in Note 4 in the accompanying financial statements. However, the separate financial statements of the Company as of and for the year ended December 31, 2010 presented for comparative purposes, in the accompanying financial statements, reflect such transition effects to K-IFRS.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and the results of its operations and its cash flows for the year ended December 31, 2011 in conformity with K-IFRS.

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 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 principles and auditing standards and their application in practice.



March 15, 2012

Notice to Readers

This report is effective as of March 15, 2012, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditor's report.

DONGBU CORPORATION (the “Company”)

**SEPARATE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010,
AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

The accompanying financial statements, including all footnote disclosures, were prepared by and are the responsibility of the Company.

**YOON, DAE GEUN AND LEE, SOON BYUNG
CEO, DONGBU CORPORATION**

DONGBU CORPORATION

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010

<u>ASSETS</u>	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
	(Korean won in millions)		
CURRENT ASSETS:			
Cash and cash equivalents (Notes 6, 7 and 40)	₩ 77,857	₩ 10,623	₩ 12,493
Accounts receivables (Notes 6, 8, 35, 36 and 40)	80,397	475,512	373,124
Other receivables (Notes 6, 8, 36, 38 and 40)	143,776	154,204	110,057
Due from customers for contract work (Note 35)	344,811	260,558	271,026
Available for sale financial assets (Notes 6, 9, 37 and 40)	3,408	4,249	21,645
Other financial assets (Notes 6, 7, 37 and 40)	11,920	28,365	25,434
Inventories (Notes 10 and 37)	48,681	91,926	92,749
Assets for current tax	1,729	4,124	-
Other current assets (Note 11)	157,623	212,672	209,598
Assets held for sale (Note 16)	5,108	-	-
	<u>875,310</u>	<u>1,242,233</u>	<u>1,116,126</u>
NON-CURRENT ASSETS:			
Accounts receivables (Notes 6, 8, 35 and 39)	-	94	1,144
Other receivables (Notes 6, 8, 35, 37 and 40)	177,245	192,947	145,707
Available for sale financial assets (Notes 6, 9, 37 and 40)	222,124	342,098	334,810
Investments in subsidiaries and associates (Note 12)	374,443	113,799	112,816
Other financial assets (Notes 6, 7 and 37)	17,650	5,254	6,449
Investment property (Notes 14 and 37)	56,332	104,260	104,749
Property and equipment, net (Notes 13 and 37)	99,891	251,447	269,093
Intangible assets (Note 15)	33,418	34,925	28,439
Other non-current assets (Note 11)	2,777	16,735	23,308
Deferred income tax assets (Note 33)	26,679	-	-
	<u>1,010,559</u>	<u>1,061,559</u>	<u>1,026,515</u>
TOTAL ASSETS	<u>₩ 1,885,869</u>	<u>₩ 2,303,792</u>	<u>₩ 2,142,641</u>

(Continued)

DONGBU CORPORATION

SEPARATE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
	(Korean won in millions)		
<u>LIABILITIES</u>			
CURRENT LIABILITIES:			
Accounts and other payables (Notes 6, 17, 35 and 40)	₩ 368,251	₩ 468,286	₩ 530,064
Due to customers for contract work (Note 35)	81,890	57,860	88,029
Borrowings and bonds (Notes 6, 18, 37 and 40)	577,558	694,696	556,931
Other financial liabilities (Notes 6, 19, 20 and 40)	74,971	79,811	30,064
Current provisions (Note 22)	7,074	17,225	9,304
Other current liabilities (Note 23)	54,689	40,163	80,184
Liabilities for current tax	-	-	13,430
	<u>1,164,433</u>	<u>1,358,041</u>	<u>1,308,006</u>
NON-CURRENT LIABILITIES:			
Accounts and other payables (Notes 6, 17, 35 and 40)	1,883	1,878	7,035
Borrowings and bonds (Notes 6, 18 and 36)	146,549	208,956	169,540
Other financial liabilities (Notes 6, 19 and 39)	65,698	55,183	11,030
Retirement benefit obligation (Notes 2 and 21)	9,337	14,821	11,683
Non-current provisions (Note 22)	80,214	41,149	19,030
Other non-current liabilities (Note 23)	2,440	7,510	12,652
Deferred income tax liabilities (Note 33)	-	21,786	21,461
	<u>306,121</u>	<u>351,283</u>	<u>252,431</u>
TOTAL LIABILITIES	<u>1,470,554</u>	<u>1,709,324</u>	<u>1,560,437</u>
<u>SHAREHOLDERS' EQUITY</u>			
Common Stock (Note 22)	125,664	125,664	125,664
Other paid-in capital (Notes 25 and 36)	63,163	57,401	57,401
Retained earnings (Note 26)	128,818	303,518	291,363
Other components of equity (Note 27)	<u>97,670</u>	<u>107,885</u>	<u>107,776</u>
TOTAL SHAREHOLDERS' EQUITY	<u>415,315</u>	<u>594,468</u>	<u>582,204</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>₩ 1,885,869</u>	<u>₩ 2,303,792</u>	<u>₩ 2,142,641</u>

See accompanying notes to financial statements.

DONGBU CORPORATION
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
	(Korean won in millions, except per share amounts)	
SALES (Notes 5, 28, 35 and 36)	₩ 1,417,257	₩ 2,154,218
COST OF SALES (Notes 35, 36 and 39)	<u>1,275,443</u>	<u>1,959,396</u>
GROSS PROFIT	<u>141,814</u>	<u>194,822</u>
SELLING AND ADMINISTRATIVE EXPENSES (Notes 29 and 39)	125,109	142,813
OTHER OPERATING INCOME (Notes 14 and 36)	11,604	43,279
OTHER OPERATING EXPENSES (Note 30)	<u>176,609</u>	<u>29,622</u>
OPERATING INCOME (LOSS) (Note 5)	(148,300)	65,666
FINANCIAL INCOME (Note 31)	11,588	24,952
FINANCIAL EXPENSES (Notes 19 and 31)	<u>60,764</u>	<u>64,505</u>
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	(197,476)	26,113
INCOME TAX EXPENSE (Note 36)	<u>(26,148)</u>	<u>5,776</u>
NET INCOME (LOSS)	<u>(171,328)</u>	<u>20,337</u>
OTHER COMPREHENSIVE INCOME (LOSS)	(7,635)	(2,121)
Net change in fair value of available-for-sale (Note 27)	(10,215)	109
Actuarial gain (loss) on defined benefit obligations (Note 20)	<u>2,580</u>	<u>(2,230)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>₩ (178,963)</u>	<u>₩ 18,216</u>
EARNINGS (LOSS) PER COMMON SHARE (Note 34)	₩ (8,451)	₩ 1,010

See accompanying notes to financial statements.

DONGBU CORPORATION

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	(Korean won in millions)				
	Capital stock	Other paid-in capital	Retained earnings	Other components of equity	Total
Balance at January 1, 2010	₩ 125,664	₩ 57,401	₩ 291,363	₩ 107,776	₩ 582,204
Dividends	-	-	(5,952)	-	(5,952)
Net income	-	-	20,337	-	20,337
Changes in valuation gain on available-for-sale financial assets	-	-	-	109	109
Actuarial loss on defined benefit obligations, net	-	-	(2,230)	-	₩ (2,230)
Balance at December 31, 2010	<u>₩ 125,664</u>	<u>₩ 57,401</u>	<u>₩ 303,518</u>	<u>₩ 107,885</u>	<u>₩ 594,468</u>
Balance at January 1, 2011	₩ 125,664	₩ 57,401	₩ 303,518	₩ 107,885	₩ 594,468
Dividends	-	-	(5,952)	-	(5,952)
Net loss	-	-	(171,328)	-	(171,328)
Disposal treasury stocks	-	3,272	-	-	3,272
Stock warrants	-	2,490	-	-	2,490
Changes in valuation gain on available-for-sale financial assets	-	-	-	(10,215)	(10,215)
Actuarial loss on defined benefit obligations, net	-	-	2,580	-	₩ 2,580
Balance at December 31, 2011	<u>₩ 125,664</u>	<u>₩ 63,163</u>	<u>₩ 128,818</u>	<u>₩ 97,670</u>	<u>₩ 415,315</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
	(Korean won in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	₩ (171,328)	₩ 20,337
Adjustments of income or expenses not involving cash flows (Note 41)	165,564	51,297
Change in working capital (Note 41)	191,397	(229,635)
Dividends received	805	-
Payment of income taxes	<u>-</u>	<u>(5,481)</u>
	<u>186,438</u>	<u>(163,482)</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in other financial assets	33,670	30,435
Decrease in other receivables	14,138	67,551
Proceeds from disposal of available for sale financial assets	7,341	41,247
Proceeds from disposal of property and equipment	38	28,569
Proceeds from disposal of intangible assets	112	-
Proceeds from disposal of investment property	-	160
Proceeds from disposal of assets held for sale	25,570	-
Decrease in deposit	36,311	28,826
Interest received	18,239	10,956
Increase in other financial assets	(39,960)	(29,223)
Increase in other receivables	(63,363)	(129,878)
Acquisition of available for sale financial assets	(36,454)	(12,129)
Acquisition of investments in subsidiaries and associates	(16,363)	(1,198)
Acquisition of investment property	-	(6)
Acquisition of property and equipment	(43,279)	(30,688)
Acquisition of intangible assets	(9,207)	(10,466)
Increase in deposits	(38,292)	(24,845)
Decrease due to spin-off	<u>(9,620)</u>	<u>-</u>
Net cash used in investing activities	<u>(121,119)</u>	<u>(30,689)</u>

(Continued)

DONGBU CORPORATION

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
	(Korean won in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings and bonds	₩ 631,643	₩ 487,388
Increase in other financial liabilities	121,820	133,816
Receipt of government subsidy	-	29
Repayment of borrowings and bonds	(617,818)	(311,328)
Payment of dividends	(5,950)	(5,950)
Payment of Interest	(51,794)	(63,989)
Decrease in other financial liabilities	<u>(75,986)</u>	<u>(47,665)</u>
Net cash provided by financial activities	<u>1,915</u>	<u>192,301</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>67,234</u>	<u>(1,870)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,623</u>	<u>12,493</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>₩ 77,857</u>	<u>₩ 10,623</u>

See accompanying notes to financial statements.

DONGBU CORPORATION

NOTES TO SEPARATE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. GENERAL:

In 1969, Miryung Construction Corporation (legacy Dongbu Corporation (the “Company”) was incorporated, in accordance with the Commercial Code of the Republic of Korea, to provide engineering services, and in 1978 was listed on the Korea Exchange. On March 1, 1989, the Company’s name changed to Dongbu Corporation. In 1997 and 2000, the Company merged with Dongbu Express Co., Ltd. and Samsan Housing Construction Co., Ltd., respectively and in 2003, the Company transferred its interest in Dongbu Steel Enterprise to Dongbu, Inc..

On January 1, 2011, the Company spun-off Dongbu Express Co., Ltd. Currently, the Company engages in civil engineering construction and installation of electric facilities and equipments.

As of December 31, 2011, shareholders of the Company are as follows:

Shareholders	Number of shares (shares)	Percentage of ownership (%)
Dongbu CNI Co., Ltd.	4,361,000	20.01
Kim, Junki	2,389,521	10.97
Dongbu Life Insurance Co., Ltd	2,061,880	9.46
Dongbu Insurance Co., Ltd.	1,130,606	5.19
Dongbu Cultural Foundation	1,089,000	5.00
Others	10,758,338	49.37
	<u>21,790,345</u>	<u>100.00</u>

2. SIGNIFICANT ACCOUNTING POLICIES:

The Company maintains its official accounting records in the Korean won and prepares its separate financial statements in conformity with Korean statutory requirements and Korean International Financial Reporting Standards (“K-IFRS”), in the Korean language. Accordingly, these separate financial statements are intended for use by those who are informed about K-IFRS and Korean practices.

The Company has adopted K-IFRS for its annual period beginning on January 1, 2011. In accordance with K-IFRS 1101 *First-time adoption of International Financial Reporting Standards*, the Company’s transition date to K-IFRS is January 1, 2010. Reconciliations of the effects of the Company’s transition to K-IFRS are summarized in Note 4.

(1) Basis of Financial Statement Presentation

1) Basis of Measurement

The financial statements have been prepared on the historical cost basis, except otherwise stated, such as financial instruments

2) Functional and reporting currency

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The Company’s functional currency and the reporting currency for the separate financial statements is Korean won (“won” or “KRW”).

(2) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in income or loss as incurred.

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in income or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

(3) Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency).

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in income or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks below for hedging accounting policies)

(4) Cash and cash equivalents

Cash and cash equivalents include cash, ordinary deposits and financial instruments which can be easily converted into cash and whose maturities (or date of redemption) is three months or less from acquisition.

(5) Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value, plus direct transaction costs, except for those financial assets classified at fair value through profit or loss ("FVTPL"), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, available-for-sale ("AFS") financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Financial assets at FVTPL

A financial asset is classified as financial assets at FVTPL when it is either held for trading or it is designated as financial asset at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in income or loss.

2) Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective-yield basis.

3) AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL. AFS financial assets are measured at fair value. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

A gain or loss on changes in fair value of AFS financial assets is recognized in other comprehensive income, except for impairment loss and foreign exchange gains and losses on monetary assets. Accumulated other comprehensive income is reclassified to current gain or loss from equity at the time of impairment recognition or elimination of related financial assets. Dividends on an AFS equity instrument are recognized in income or loss when the Company's right to receive payment is established.

4) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

5) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to income or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in income or loss are not reversed through income or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

6) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(6) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are measured on a first-in-first-out basis (materials and supplies) and specific identification method (unsold house, unfinished housing and land), and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Company maintains perpetual inventory records, which are adjusted through periodic physical counts.

The carrying amount of inventories sold in the period and the amount of any write-down of inventories to net realizable value and all losses of inventories in the period; less the amount of any reversal in the period of any write-down of the inventories, arising from an increase in net realizable value, is recognized as expense during the period.

(7) Investments in subsidiaries and associates

The accompanying financial statements are separate financial statements in accordance with K-IFRS 1027 *Consolidated and Separate Financial Statements*, which are financial statements presented by a parent, in which its investments in subsidiaries and associates, are measured based on its direct equity interest rather than on the basis of the reported results and net assets of the associate. In accordance with K-IFRS 1027, the Company accounts for its investments in subsidiaries and associates at cost. Dividends from subsidiaries and associates are recognized in income when the right to receive the dividends are established.

(8) Investment Property

Investment properties are properties held to earn rentals or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 10 to 40 years using the straight-line method.

The Company reviews the depreciation method, the estimated useful lives and residual value of investment property at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimate.

(9) Property and equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of

operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably.

Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Estimated useful lives</u>
Buildings	40~60 years
Structures	10~60 years
Machinery	3~20 years
Vehicles	4~13 years
Others	3~20 years

If each part of an item of property and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property and equipment at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimate.

(10) Intangible Assets

Intangible assets with definite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives of 5 years. The Company reviews the amortization method, the estimated useful lives and residual values of intangible assets at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimate.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not amortized, but tested for impairment at the end of each reporting period.

(11) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(12) Financial Liabilities and Equity Instruments issued by the Company

1) Classification of financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or equity depending on the substance of contract.

2) Equity instruments

An equity instrument is any contract that represents a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized as proceeds received, net of direct issue costs.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

4) Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 *Revenue*.

5) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

6) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in income or loss. The net gain or loss recognized in income or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income.

7) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective interest basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

8) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(13) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period

(14) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for VAT, estimated customer returns, rebates and other similar allowances.

1) Sale of goods

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

2) Rendering of services

Revenue from a contract to provide services is recognized when the service is provided.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(15) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

(16) Lease

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in income or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(17) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in income or loss in the period in which they are incurred.

(18) Retirement benefit obligations

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognized as other comprehensive income in the statement of comprehensive income and reflected as retained earnings in the statement of financial position. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligations as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(19) Income tax

Income tax consists of current tax and deferred tax.

1) Current income tax

The income tax currently payable is based on taxable income for the period. Taxable income differs from income as reported in the separate statement of comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in income or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the

revision and future periods if the revision affects both current and future periods.

The following are the critical assumptions and other sources of estimation uncertainties that may cause the most significant changes on the amounts recognized in the Company's financial statements as of the end of the reporting period.

(1) Fair value measurement of financial instruments

Subsequent to initial recognition, available-for-sale financial assets and derivative financial assets are stated at fair value with any gains or losses arising on remeasurement recognized in income or loss or other comprehensive income. When measuring fair value, if there is quoted price in active market, the Company uses it. But, if quoted prices do not exist, the Company uses valuation techniques that require the management's judgments on the expected future cash flows and discount rates.

(2) Allowance for doubtful accounts of trade or other receivables

Based on the aging of receivables, past experience of bad debt, and economic and industrial factors, the Company estimates bad debt for the period and recognizes an allowance for doubtful accounts.

(3) Measurement of property and equipment, intangible assets

If the Company acquires property and equipment or intangible assets from business combination, it is required to estimate the fair value of these assets at the acquisition date and to estimate the useful lives for depreciation and amortization.

(4) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the impairment loss is recognized immediately in income or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. The reversal of an impairment loss is recognized immediately in income or loss.

(5) Retirement benefit plans

The Company has defined retirement benefit plans. The cost of providing benefits under the plan are determined using an actuarial valuation method that requires management make assumptions on discount rates, expected rate of salary increase and expected rate of return on plan assets. These assumptions involve critical uncertainties as the retirement benefit plans is a long-term plan in its nature.

(6) Deferred tax

Recognizing and measuring of the deferred tax assets and liabilities requires the management's judgments and specially, whether and how deferred tax assets is recognized shall be affected from an assumption and management's judgment of the future situation.

4. Transition to K-IFRS

These are the Company's first separate financial statements prepared in accordance with K-IFRS. The accounting policies set out in Note 2 have been applied in preparing the accompanying separate financial statements. Accordingly, prior year's financial statements presented for comparative purposes have been restated in accordance with K-IFRS 1101 *First-time adoption of IFRS*.

Transition adjustments from previous GAAP (Korean GAAP) to K-IFRS that affected the Company's financial position, financial performance and cash flows are as follows:

(1) K-IFRS 1101 First-time of adoption of IFRS – Optional exemptions

K-IFRS 1101 provides for a number of optional exemptions from the general principle of full retrospective applications. The optional exemptions for first-time adoption of IFRSs of the Company are as follows.

1) Business combination

Business combinations that occurred before the date of transition to K-IFRS, were not retrospectively restated.

2) Deemed cost of investments in subsidiaries and associates

The carrying amount of investments in subsidiaries and associates under Korean GAAP, at the date of transition, is used as its deemed cost under K-IFRS.

3) Fair value or revaluation as deemed cost

The revalued amount under Korean GAAP is used as the deemed cost for certain land at date of transition to K-IFRS; no revaluation on transition date was made.

4) Borrowing costs

Borrowing costs relating to qualifying assets are capitalized when the commencement date for capitalization is on or after the date of transition.

(2) Explanation of transition to K-IFRS

1) Retirement benefit obligations

Under Korean GAAP, the benefit obligation is recorded as the amount that would be payable assuming all eligible employees with more than one year of service were to resign at the end of the reporting period. While, under K-IFRS, the retirement benefit amount is estimated by actuarial assessment using the projected unit credit method.

2) Financial assets – measurement, impairment and derecognition

Under Korean GAAP, expected loss was estimated and set as allowance for doubtful accounts, while under K-IFRS, incurred loss is estimated and recorded as allowance for doubtful account

When transfer of a financial asset, which was recorded as derecognition of the asset under Korean GAAP, does not meet the derecognition criteria of K-IFRS, the financial asset is not derecognized and the related cash proceeds are recorded as a financial liability.

3) Construction contracts

Due from or due to customers for contract work are recognized as an asset or liability under K-IFRS, no such accounting treatments exist under Korean GAAP.

4) Income tax

While deferred tax assets and liabilities were classified as either current or non-current based on the classification of their underlying assets and liabilities under Korean GAAP, deferred tax assets and liabilities are all classified as non-

current on the statement of financial position under K-IFRS.

In addition, the Company recognized deferred income tax effects on the K-IFRS transition adjustments and certain temporary differences for which deferred income taxes were previously not recognized under Korean GAAP.

(3) Explanation of effects of transition to K-IFRS

1) Effects on financial position at January 1, 2010, date of transition, are as follows (Korean won in millions):

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total capital</u>
Based on Korean GAAP	₩ 2,054,582	₩ 1,435,447	₩ 619,135
Adjustments:			
1. Transfer of financial assets (*1)	84,969	84,032	937
2. Deemed cost on land (*2)	25,560	5,623	19,937
3. Recognition of construction contracts (*3)	23,083	26,878	(3,795)
4. Employee benefits and retirement benefit obligation (*4)	-	7,173	(7,173)
5. Financial guarantee contract obligations (*5)	1,874	6,642	(4,768)
6. Allowance for doubtful account for receivables (*6)	(3,146)	-	(3,146)
7. Reclassification of investments in subsidiaries and associates (*7)	(42,197)	-	(42,197)
8. Others (*8)	(2,085)	(5,358)	3,273
	<u>88,058</u>	<u>124,990</u>	<u>(36,932)</u>
Based on K-IFRS	<u>₩ 2,142,640</u>	<u>₩ 1,560,437</u>	<u>₩ 582,203</u>

(*1) Under Korean GAAP, when the Company transferred a financial asset to a financial institution, it was considered that the control over the asset had transferred from Company, as such the related financial asset was derecognized. Under K-IFRS, if the Company retains substantially all the risks and rewards of ownership of the asset, the asset is not derecognized but instead the related cash proceeds are recognized as financial liabilities.

(*2) Deemed cost of land which includes the effects of revaluation under Korean GAAP, at the date of transition, was recognized under K-IFRS.

(*3) Due from or due to customers for contract work are recognized as an asset or liability and the related reserve for warranty is recognized according to the progress of construction under K-IFRS. While any due from or due to amounts or related warranty was recognized at only upon the completion of the construction under Korean GAAP.

(*4) Retirement benefit obligation is appropriated as a defined benefit obligation by actuarial assessment using the projected unit credit method and obligation for short-term compensated absence is recognized in the period when the employee earned it in exchange for services rendered.

(*5) Under K-IFRS, financial guarantees provided are recognized as a liability with an offset to prepaid construction cost for construction costs, as investments in subsidiaries or associates for financial guarantees for subsidiaries or associates, and as current operations loss for other financial guarantees.

(*6) Allowance for doubtful accounts increased due to changes in the estimation method from the expected loss to incurred loss method.

(*7) Investment in Dongbu Steel Co., Ltd was reclassified from investments in associates to available for sale financial assets as the Company no longer has of significant influence under K-IFRS.

(*8) Others relates to impairment losses for intangibles with indefinite useful lives and income tax effects of transition adjustments to K-IFRS.

- 2) Effects on the financial position at December 31, 2010 and total comprehensive income for the year ended December 31, 2010 are as follows (Korean won in millions):

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total capital</u>	<u>Total comprehensive Income</u>
Based on Korean GAAP	₩ 2,248,945	₩ 1,589,692	₩ 659,253	₩ 46,070
Adjustments:				
1. Transfer of financial assets (*1)	106,375	105,199	1,176	240
2. Deemed cost on land (*2)	-	7,753	(7,753)	(19,937)
3. Recognition of construction contracts (*3)	7,717	12,975	(5,258)	(1,463)
4. Employee benefits and retirement benefit obligation (*4)	-	9,049	(9,049)	(1,877)
5. Financial guarantee contract obligations (*5)	938	4,616	(3,678)	1,091
6. Allowance for doubtful account for receivables (*6)	(1,636)	-	(1,636)	1,511
7. Reclassification of investments in subsidiaries and associates (*7)	(51,885)	-	(51,885)	(11,171)
8. Other (*8)	<u>(6,663)</u>	<u>(19,960)</u>	<u>13,298</u>	<u>3,752</u>
	<u>54,846</u>	<u>119,632</u>	<u>(64,785)</u>	<u>(27,854)</u>
Based on K-IFRS	₩ 2,303,791	₩ 1,709,324	₩ 594,468	₩ 18,216

(*1) Under Korean GAAP, when the Company transferred a financial asset to a financial institution, it was considered that the control over the asset had transferred from Company, as such the related financial asset was derecognized. Under K-IFRS, if the Company retains substantially all the risks and rewards of ownership of the asset, the asset is not derecognized but instead the related cash proceeds are recognized as financial liabilities.

(*2) Deemed cost of land which includes the effects of revaluation under Korean GAAP, at the date of transition, was recognized under K-IFRS.

(*3) Due from or due to customers for contract work are recognized as an asset or liability and the related reserve for warranty is recognized according to the progress of construction under K-IFRS. While any due from or due to amounts or related warranty was recognized at only upon the completion of the construction under Korean GAAP.

(*4) Retirement benefit obligation is appropriated as a defined benefit obligation by actuarial assessment using the projected unit credit method and obligation for short-term compensated absence is recognized in the period when the employee earned it in exchange for services rendered.

(*5) Under K-IFRS, financial guarantees provided are recognized as a liability with an offset to prepaid construction cost for construction costs, as investments in subsidiaries or associates for financial guarantees for subsidiaries or associates, and as current operations loss for other financial guarantees.

(*6) Allowance for doubtful accounts increased due to changes in the estimation method from the expected loss to incurred loss method.

(*7) Investment in Dongbu Steel Co., Ltd was reclassified from investments in associates to available for sale financial assets as the Company no longer has of significant influence under K-IFRS.

(*8) Others relates to impairment losses for intangibles with indefinite useful lives and income tax effects of transition adjustments to K-IFRS.

(4) Explanation of the effects of transition adjustments in the statement of cash flows

Under K-IFRS, interest received, interest paid, and income tax paid which were not presented separately in the statement of cash flows under Korean GAAP, are now separately presented and the related income (expense) and assets (liabilities) have been adjusted. In addition, the effects of foreign currency translation of cash and cash equivalents, which were classified as operating cash flows in accordance with Korean GAAP, are now stated separately from operating, investing and financing cash flows, as part of the effects of foreign exchange rate changes on the balance of cash held in foreign currencies under K-IFRS.

5. SEGMENT INFORMATION

(1) Sales and operating income (loss) by segment

Details of the sales and operating income (loss) by segment for the years ended December 31, 2011 and 2010, are as follows (Korean won in millions):

	<u>Sales</u>		<u>Operating income (loss)</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Construction	₩ 1,417,257	₩ 1,513,133	₩ (148,300)	₩ 70,558
Transport and logistics (*1)	-	641,085	-	(4,892)
Income from continuing operations (loss)	<u>₩ 1,417,257</u>	<u>₩ 2,154,218</u>	<u>(148,300)</u>	<u>65,666</u>
Financial income			11,588	24,952
Financial expenses			<u>60,764</u>	<u>64,505</u>
Income before income (loss) tax			<u>(197,476)</u>	<u>26,113</u>
Net income (loss)			<u>₩ (171,328)</u>	<u>₩ 20,337</u>

(*1) On January 1, 2011, the Company spun-off Dongbu Express Co., Ltd., as such, there is no transportation and logistics segment activity for the year ended December 31, 2011.

Income (loss) by segment presents income or loss from each segment without allocating financial income, financial expense and income tax expense. Income (loss) by segment is information reported to the Company's management to allocate resources and evaluate performances of each segment.

(2) Assets by segment

Details of the assets by segment as of December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>Dec.31,2011</u>	<u>Dec.31,2010</u>
Construction	₩ 1,885,869	₩ 1,644,701
Transport and logistics (*1)	-	659,901
Total assets by segment	1,885,869	2,303,792
Unallocated assets	-	-
Total assets	<u>₩ 1,885,869</u>	<u>₩ 2,303,792</u>

(*1) On January 1, 2011, the Company spun-off Dongbu Express Co., Ltd., as such, there is no transportation and logistics segment activity for the year ended December 31, 2011.

(3) Other information

The Company's revenue solely from domestic customers and most of related non-current assets are located in Korea. Accordingly, the Company has not presented separate analysis by location. In addition, the Company has no single customer who makes up more than 10 percent of the Company's sales for the years ended December 31, 2011 and 2010.

6. FINANCIAL INSTRUMENTS

(1) Financial assets

Details of financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

		Dec. 31, 2011					
<u>Accounts</u>		<u>FVTPL</u>	<u>Loans and receivables</u>	<u>AFS</u>	<u>Total</u>	<u>Current</u>	<u>Non- Current</u>
Cash and cash equivalents		₩ -	₩ 77,857	₩ -	₩ 77,857	₩ 77,857	₩ -
Account Receivables	Receivables from construction contracts and others	-	80,397	-	80,397	80,397	-
Other receivables	Loans	-	169,758	-	169,758	4,355	165,403
	Accounts receivable-other	-	125,847	-	125,847	125,847	-
	Accrued income	-	13,574	-	13,574	13,574	-
	Deposits	-	11,841	-	11,841	-	11,842
		-	321,020	-	321,020	143,776	177,245
Other financial instruments	Financial instruments	-	29,558	-	29,558	11,920	17,638
	Conversion privilege	12	-	-	12	-	12
		12	29,558	-	29,570	11,920	17,650
Available for sale financial assets		-	-	225,532	225,532	3,408	222,124
		₩ 12	₩ 508,832	₩ 225,532	₩ 734,376	₩ 317,358	₩ 417,019

		Dec. 31, 2010					
<u>Accounts</u>		<u>FVTPL</u>	<u>Loans and receivables</u>	<u>AFS</u>	<u>Total</u>	<u>Current</u>	<u>Non- current</u>
Cash and cash equivalents		₩ -	₩ 10,623	₩ -	₩ 10,623	₩ 10,623	₩ -
Accounts Receivables	Receivables from construction contracts and others	-	475,606	-	475,606	475,512	94
Other receivables	Loans	-	189,746	-	189,746	20,176	169,570
	Accounts receivable-other	-	116,358	-	116,358	112,998	3,360
	Accrued income	-	21,030	-	21,030	21,030	-
	Deposits	-	20,018	-	20,018	-	20,017
		-	347,152	-	347,152	154,204	192,947
Other financial instruments	Financial instruments	-	30,128	-	30,128	28,365	1,763
	Conversion privilege	3,491	-	-	3,491	-	3,491
		3,491	30,128	-	33,619	28,365	5,254
Available for sale financial assets		-	-	346,347	346,347	4,249	342,098
		₩ 3,491	₩ 863,509	₩ 346,347	₩ 1,213,347	₩ 672,953	₩ 540,393

		Jan. 1, 2010					
Accounts		FVTPL	Loans and receivables	AFS	Total	Current	Non-current
Cash and cash equivalents		₩ -	₩ 12,493	₩ -	₩ 12,493	₩ 12,493	₩ -
Accounts Receivables	Receivables from construction contracts	-	374,268	-	374,268	373,124	1,144
Other receivables	Loans	-	148,827	-	148,827	33,467	115,360
	Accounts receivable-other	-	72,410	-	72,410	65,690	6,720
	Accrued income	-	10,900	-	10,900	10,900	-
	Deposits	-	23,628	-	23,628	-	23,628
		-	255,765	-	255,765	110,057	145,708
Other financial instruments	Financial instruments	-	31,339	-	31,339	25,434	5,905
	Conversion privilege	544	-	-	544	-	544
		544	31,339	-	31,883	25,434	6,449
Available for sale financial assets		-	-	356,455	356,455	21,645	334,810
		₩ 544	₩ 673,865	₩ 356,455	₩1,030,864	₩ 542,753	₩ 488,111

(2) Financial liabilities

Financial liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

		Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
Accounts		Current	Non-current	Current	Non-current	Current	Non-current
Trade notes and accounts payable	Trade payables	₩ 347,577	₩ -	₩ 405,995	₩ -	₩ 469,505	₩ -
	Other payables	11,614	-	31,203	-	30,748	-
	Accrued expenses	6,500	-	30,300	-	28,542	-
	Deposits withheld	2,560	1,883	788	1,878	1,269	7,035
		368,251	1,883	468,286	1,878	530,064	7,035
Borrowings and bonds	Borrowings	218,154	10,733	370,263	51,284	336,049	20,538
	Bonds	359,404	39,889	324,433	157,672	220,882	149,002
	Bonds with stock warrants	-	95,927	-	-	-	-
Sub-total		577,558	146,549	694,696	208,956	556,931	169,540
Other financial liabilities	ABS liabilities	74,971	51,200	76,633	41,070	28,694	-
	Financial guarantee obligations	-	14,498	-	4,616	-	6,642
	Finance lease liabilities	-	-	3,178	9,498	1,370	4,388
		74,971	65,698	79,811	55,184	30,064	11,030
		₩1,020,780	₩ 214,130	₩1,242,793	₩ 266,018	₩1,117,059	₩ 187,605

The Company considers the carrying value of financial assets or liabilities which are measured at amortized costs to approximate fair value. In addition, financial instruments which do not have an active market and where their fair values cannot be measured reliably are measured as costs in the statement of financial position.

7. RESTRICTED DEPOSITS

As of December 31, 2011, December 31, 2010 and January 1, 2010, the following deposits are subject to withdrawal restriction as collateral for borrowings or guarantee for checking accounts (Korean won in millions):

Accounts	Institutions	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Description
Cash and cash equivalents	Shinhan Bank	₩ 15	₩ 113	₩ 1,303	Collateral for borrowings and others
Other current financial assets	Woori Bank, etc.	10,790	28,249	13,128	Collateral for borrowings and others
Other non-current financial assets	Woori Bank, etc.	17,500	-	5,246	Collateral for borrowings and others
	Hana Bank, etc.	18	43	45	Guarantee for checking accounts
		<u>₩ 28,308</u>	<u>₩ 28,405</u>	<u>₩ 19,722</u>	

8. ACCOUNTS AND OTHER RECEIVABLES

(1) The Company's accounts and other receivables as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

		Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
Accounts		Current	Non-current	Current	Non-current	Current	Non-current
Trade receivables	Nominal value	₩ 82,978	₩ -	₩ 485,512	₩ 116	₩ 378,231	₩ 1,175
	Allowance	(2,581)	-	(10,000)	(22)	(5,107)	(31)
	Net value	<u>80,397</u>	<u>-</u>	<u>475,512</u>	<u>94</u>	<u>373,124</u>	<u>1,144</u>
Loans	Nominal value	7,199	238,515	20,346	205,564	33,568	130,014
	Allowance	(2,845)	(58,324)	(170)	(24,452)	(101)	(4,400)
	Present value discount	-	(14,788)	-	(11,542)	-	(10,254)
	Net value	<u>4,354</u>	<u>165,403</u>	<u>20,176</u>	<u>169,570</u>	<u>33,467</u>	<u>115,360</u>
Accrued income	Accrued income	<u>13,574</u>	<u>-</u>	<u>21,030</u>	<u>-</u>	<u>10,900</u>	<u>-</u>
Other receivables	Nominal value	140,695	504	116,774	3,864	68,668	-
	account	(14,848)	(504)	(3,776)	(504)	(2,978)	-
	Net value	<u>125,847</u>	<u>-</u>	<u>112,998</u>	<u>3,360</u>	<u>65,690</u>	<u>6,720</u>
Deposits	Nominal value	-	12,851	-	21,020	-	25,012
	Present value discount	-	(1,010)	-	(1,002)	-	(1,384)
	Net value	<u>-</u>	<u>11,841</u>	<u>-</u>	<u>20,018</u>	<u>-</u>	<u>23,628</u>
		<u>₩ 224,172</u>	<u>₩ 177,244</u>	<u>₩ 629,716</u>	<u>₩ 193,042</u>	<u>₩ 483,181</u>	<u>₩ 146,852</u>

(2) Credit risk and allowance accounts

Account receivables are classified as loans and receivable and measured at amortized cost. The Company measures allowance for doubtful accounts for overdue account receivable individually based on past bad debt experience and analysis on current financial status of the customer.

Account receivables includes the receivables that the Company expects to be collectible based on no significant changes in credit rate of the counterparty and past bad debt experience of the customer. In addition, the Company does not hold collaterals or any other guarantees provided, and does not have legal right to offset them with the Company's payables.

The aging schedule of the Company's overdue but not impaired and overdue and impaired account receivables is as follows (Korea won in millions):

	Overdue but not impaired trade receivables	Overdue but impaired trade receivables
Less than 180 days	₩ 59,395	₩ -
Less than 1 year	8,933	-
Less than 2 years	357	-
Less than 3 years	682	377
More than 3 years	11,030	2,204
	<u>₩ 80,397</u>	<u>₩ 2,581</u>

(3) Changes in allowance for doubtful accounts of account receivables and other receivables for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011		
	Trade receivables	Loans	Other receivables
Beginning balance	₩ 10,023	₩ 24,623	₩ 4,280
Changes due to spin-off	(7,699)	(171)	(622)
Bad debt expense	376	56,334	13,416
Reversal of allowance for doubtful accounts	(119)	(89)	(970)
Write off	-	(19,528)	(752)
Ending balance	<u>₩ 2,581</u>	<u>₩ 61,169</u>	<u>₩ 15,352</u>

	2010		
	Trade receivables	Loans	Other receivables
Beginning balance	₩ 5,138	₩ 4,502	₩ 7,379
Bad debt expense	7,119	20,121	1,254
Reversal of allowance for doubtful accounts	(19)	-	-
Write off	(2,215)	-	(4,353)
Ending balance	<u>₩ 10,023</u>	<u>₩ 24,623</u>	<u>₩ 4,280</u>

To determine the collectability of receivables, the Company considers changes in credit rates of the customers subsequent to the credit grant date. As the Company has many unrelated customers, the Company believes its credit risk due to concentration is limited.

9. INVESTMENT SECURITIES

Investment securities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Equity securities:						
Marketable equity securities	₩ -	₩ 59,832	₩ -	₩ 94,123	₩ -	₩ 39,525
Non-marketable securities	-	77,800	-	200,810	-	259,175
Bonds:						
Government and municipal bonds	3,408	26,934	4,249	32,099	21,645	26,524
Subordinated bonds	-	48,232	-	750	-	-
Convertible bonds	-	9,325	-	14,316	-	9,586
	<u>₩ 3,408</u>	<u>₩ 222,123</u>	<u>₩ 4,249</u>	<u>₩ 342,098</u>	<u>₩ 21,645</u>	<u>₩ 334,810</u>

10. INVENTORIES

Inventories as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011			Dec. 31, 2010			Jan. 1, 2010		
	Acquisition Cost	Reserve for valuation	Book value	Acquisition Cost	Reserve for valuation	Book value	Acquisition Cost	Reserve for valuation	Book value
Materials and supplies	₩ 8,448	₩ -	₩ 8,448	₩ 8,803	₩ -	₩ 8,803	₩ 10,119	₩ -	₩ 10,119
Goods	-	-	-	47	-	47	200	-	200
Land	40,752	(519)	40,233	81,572	-	81,572	81,571	-	81,572
Finished goods	-	-	-	1,504	-	1,504	858	-	858
	<u>₩ 49,200</u>	<u>₩ (519)</u>	<u>₩ 48,681</u>	<u>₩ 91,926</u>	<u>₩ -</u>	<u>₩ 91,926</u>	<u>₩ 92,748</u>	<u>₩ -</u>	<u>₩ 92,749</u>

Cost of inventories recognized as cost of sales for the year ended December 31, 2011 is ₩ 237,813 million.

11. OTHER ASSETS

Other assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

Accounts	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Advanced payments	₩ 24,775	₩ -	₩ 58,888	₩ -	₩ 38,996	₩ -
Advanced payments on land	24,414	-	24,414	-	25,361	-
Prepaid expenses	11,552	2,777	13,420	16,735	15,205	23,308
Prepaid construction costs	96,882	-	115,950	-	130,036	-
	<u>₩ 157,623</u>	<u>₩ 2,777</u>	<u>₩ 212,672</u>	<u>₩ 16,735</u>	<u>₩ 209,598</u>	<u>₩ 23,308</u>

12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(1) Investments in subsidiaries and associates as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Investments in subsidiaries	₩ 358,868	₩ 110,373	₩ 109,390
Investments in associates	15,575	3,425	3,425
	<u>₩ 374,443</u>	<u>₩ 113,798</u>	<u>₩ 112,815</u>

(2) The details of investments in subsidiaries and associates as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

Description	Company	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
		Share (%)	Book value	Share (%)	Book value	Share (%)	Book value
Subsidiaries	Dongbu Express Co., Ltd. (*2)	100	₩ 337,393	-	₩ -	-	₩ -
	Dongbu Engineering Co., Ltd.	100	16,639	100	16,639	-	16,639
	Dongbu Australia Pty, Ltd.	100	4,786	100	2,423	-	2,215
	FINE-ADVANTAS AMC Corporation Co., Ltd.	100	50	100	50	100	50
	Dongbu Pusan Container Terminal Co., Ltd. (*2)	-	-	65	19,264	100	19,264
	Daesung (*2)	-	-	81	1,922	100	1,922
	Incheon Northport SOC (*2)	-	-	100	55,415	100	55,414
	Dongbu Gwangyang Logistics Center (*2)	-	-	80	739	100	739
	Dongbu NTS Co., Ltd. (*2)	-	-	80	4,150	100	4,150
	Dongbu express marine (*2)	-	-	70	140	100	140
	Dongbu Complex Logistics (*2)	-	-	80	800	100	800
	Dongbu Express India Logistic Private Limited (*2)	-	-	100	348	100	348
	Daesung T.L.S (*2)	-	-	100	6,698	100	6,699
	Dongbu Gwangyang Steel Distribution Center (*2)	-	-	88	800	100	800
	Dongbu Express Shanghai (*2)	-	-	100	831	100	210
	Dongbu Haiminh Logistics Co, Ltd (*2)	-	-	51	154	-	-
Associates	DongBu Inc. (*1)	7	1,575	7	1,575	7	1,575
	Dongbu World Inc.	25	-	25	-	25	-
	Sky Land Co., Ltd	25	-	25	-	25	-
	Fine Advantas PFV Company, Ltd. (*1)	19	-	19	-	19	-
	DCT (*2)	-	-	33	500	33	500
Joint venture	Dongbu Power Dangjin Corporation	48	14,000	-	-	-	-
	Busan Multipurpose Terminal Company (*2)	-	-	50	1,350	50	1,350
			<u>₩ 374,443</u>		<u>₩ 113,798</u>		<u>₩ 112,815</u>

(*1) The Company classified its investments in Dongbu Inc. and Fine Advantas PFV Company, Ltd as investments in associates as the Company has significant influence through voting power in the investee's board of directors' meeting.

(*2) On January 1, 2011, the Company spun-off the transportation and logistics division and established Dongbu Express Co., Ltd and recognized its 100% ownership in Dongbu Express Co., Ltd as investments in subsidiaries. Also, all subsidiaries held by the transportation and logistics divisions were spun-off were restructured under Dongbu Express Co., Ltd.

The Company recognized the carrying amount of investments in subsidiaries and associates under Korean GAAP, as of date of transition, as deemed cost according to K-IFRS 1101 *First-time of adoption of IFRS – Optional exemptions*.

(3) Changes in investments in subsidiaries for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

Company	Share (%)	2011				Ending balance
		Beginning balance	Acquisition	Other (*2)		
Dongbu Express (*1)	100	₩ -	₩ 337,393	₩ -		₩ 337,393
Dongbu Engineering Co., Ltd.	100	16,639	-	-		16,639
Dongbu Australia Pty, Ltd.	100	2,423	2,363	-		4,786
FINE-ADVANTAS AMC Corporation Co., Ltd.	100	50	-	-		50
Dongbu Pusan Container Terminal Co., Ltd.	-	19,264	-	(19,264)		-
Daesung T.L.S Co., Ltd.	-	1,922	-	(1,922)		-
Incheon Northport SOC	-	55,414	-	(55,414)		-
Dongbu Gwangyang Logistics Center	-	739	-	(739)		-
Dongbu NTS Co., Ltd.	-	4,150	-	(4,150)		-
Dongbu express marine	-	140	-	(140)		-
Dongbu Complex Logistics	-	800	-	(800)		-
Dongbu Express India Logistic Private Limited	-	348	-	(348)		-
DAESUNG	-	6,699	-	(6,699)		-
Dongbu Gwangyang Steel Distribution Center	-	800	-	(800)		-
Dongbu Express Shanghai	-	831	-	(831)		-
Dongbu Haiminh Logistics Co, Ltd	-	154	-	(154)		-
Dongbu World Inc.	25	-	-	-		-
Sky Land Co., Ltd	25	-	-	-		-
Fine Advantas PFV Company, Ltd.	19	-	-	-		-
		<u>₩ 110,373</u>	<u>₩ 339,756</u>	<u>₩ (91,261)</u>		<u>₩ 358,868</u>

(*1) On January 1, 2011, the Company spun-off the transportation and logistics division and established Dongbu Express Co., Ltd, a subsidiary 100% owned by the Company. Subsequent to the spin-off, the Company's investments in Dongbu Express Co., Ltd. increased by ₩1.6 billion due recognition of financial guarantee obligations.

(*2) Other relates to the spin-off of Dongbu Express Co., Ltd.

Company	Share (%)	2010				Ending balance
		Beginning balance	Acquisition	Other		
Dongbu Engineering Co., Ltd.	100	₩ 16,639	₩ -	₩ -	₩ -	₩ 16,639
Dongbu Australia Pty, Ltd.	100	2,215	208	-	-	2,423
FINE-ADVANTAS AMC Corporation Co., Ltd.	100	50	-	-	-	50
Dongbu Pusan Container Terminal Co., Ltd.	65	19,264	-	-	-	19,264
Daesung T.L.S Co., Ltd.	100	1,922	-	-	-	1,922
Incheon Northport SOC	100	55,414	-	-	-	55,414
Dongbu Gwangyang Logistics Center	80	739	-	-	-	739
Dongbu NTS Co., Ltd.	80	4,150	-	-	-	4,150
Dongbu express marine	70	140	-	-	-	140
Dongbu Complex Logistics	80	800	-	-	-	800
Dongbu Express India Logistic Private Limited	100	348	-	-	-	348
DAESUNG	100	6,699	-	-	-	6,699
Dongbu Gwangyang Steel Distribution Center	88	800	-	-	-	800
Dongbu Express Shanghai	100	210	621	-	-	831
Dongbu Haiminh Logistics Co, Ltd	51	-	154	-	-	154
Dongbu World Inc.	25	-	-	-	-	-
Sky Land Co., Ltd	25	-	-	-	-	-
Fine Advantas PFV Company, Ltd.	19	-	-	-	-	-
		₩ 109,390	₩ 983	₩ -	₩ -	₩ 110,373

13. PROPERTY AND EQUIPMENT

(1) Property and equipment as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011			Dec. 1, 2010		Jan. 1, 2010
	Acquisition cost	Accumulated depreciation	Book value	Book value	Book value	Book value
Land	₩ 17,870	₩ -	₩ 17,870	₩ 136,071	₩ 147,452	
Building	31,503	(6,996)	24,506	46,746	50,966	
Structure	-	-	-	4,188	4,739	
Machinery	10,479	(1,514)	8,965	20,927	22,253	
Vehicles	554	(211)	344	20,798	11,705	
Others	7,194	(5,703)	1,491	4,195	5,946	
Construction in progress	46,715	-	46,715	18,522	26,032	
	₩ 114,315	₩ (14,424)	₩ 99,891	₩ 251,447	₩ 269,093	

(2) Changes in property and equipment for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

2011							
	Beginning	Acquisition	Disposal	Depreciation	downspin-off	Other (*1)	Ending
Land	₩ 136,071	₩ -	₩ -	₩ -	₩ (108,422)	₩ (9,779)	₩ 17,870
Building	46,746	-	(92)	(788)	(20,908)	(452)	24,506
Structure	4,188	-	-	-	(4,188)	-	-
Machinery	20,927	10,479	-	(1,514)	(20,927)	-	8,965
Vehicles	20,798	137	-	(102)	(20,489)	-	344
Other	4,195	889	(39)	(711)	(2,843)	-	1,491
Construction in progress	18,522	31,774	-	-	(108)	(3,473)	46,715
	<u>₩ 251,447</u>	<u>₩ 43,279</u>	<u>₩ (131)</u>	<u>₩ (3,115)</u>	<u>₩ (177,885)</u>	<u>₩ (13,704)</u>	<u>₩ 99,891</u>

2010							
	Beginning	Acquisition	Disposal	Depreciation	Other (*2)		Ending
Land	₩ 147,452	₩ -	₩ (26,593)	₩ -	₩ 15,212	₩	136,071
Building	50,966	3,166	(1,655)	(12,286)	6,555		46,746
Structure	4,739	185	(314)	(393)	(29)		4,188
Machinery	22,253	1,458	(429)	(3,185)	830		20,927
Vehicles	11,705	18,637	(209)	(6,951)	(2,384)		20,798
Other	5,946	923	(55)	(2,685)	66		4,195
Construction in progress	26,032	6,319	-	-	(13,829)		18,522
	<u>₩ 269,093</u>	<u>₩ 30,688</u>	<u>₩ (29,255)</u>	<u>₩ (25,500)</u>	<u>₩ 6,421</u>		<u>₩ 251,447</u>

(*1) Other changes relate to transfers to other accounts, including reclassifications of assets held for sale of ₩5.1 billion.

(*2) Other changes relate to transfers to other accounts.

14. INVESTMENT PROPERTY

(1) Investment properties as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011			Dec. 31, 2010	Jan. 1, 2010
	Acquisition Cost	Accumulated depreciation	Book value	Book value	Book value
Land	₩ 7,008	₩ -	₩ 7,008	₩ 95,763	₩ 95,758
Building	49,726	(402)	49,324	8,497	8,991
	<u>₩ 56,734</u>	<u>₩ (402)</u>	<u>₩ 56,332</u>	<u>₩ 104,260</u>	<u>₩ 104,749</u>

(2) Changes in investment properties for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

2011						
	Beginning	Acquisition	Decrease	Depreciation	Spin off	Ending
Land	₩ 95,763	₩ -	₩ (4,699)	₩ -	₩ (84,056)	₩ 7,008
Building	8,497	48,134	-	(40)	(7,268)	49,324
	<u>₩ 104,260</u>	<u>₩ 48,134</u>	<u>₩ (4,699)</u>	<u>₩ (40)</u>	<u>₩ (91,324)</u>	<u>₩ 56,332</u>

2010						
	Beginning	Acquisition	Decrease	Depreciation	Other	Ending
Land	₩ 95,757	₩ 21,283	₩ -	₩ -	₩ (21,277)	₩ 95,763
Building	8,991	-	-	(371)	(123)	8,497
	<u>₩ 104,748</u>	<u>₩ 21,283</u>	<u>₩ -</u>	<u>₩ (371)</u>	<u>₩ (21,400)</u>	<u>₩ 104,260</u>

- (3) Rental revenue from investment properties for the years ended December 31, 2011 and 2010 is ₩ 348 million and ₩ 1,428 million, respectively.
- (4) Fair value of investment properties was appraised on the basis of market price on December 31, 2008 by an independent appraisal company under Korean GAAP and the Company used such value as deemed cost upon transition to K-IFRS. The Company's management believes that changes in fair value for the investment properties are not material since the appraisal date.

15. INTANGIBLES

- (1) Intangibles as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011				Dec. 31, 2010	Jan. 1, 2010
	Acquisition Cost	Accumulated depreciation	Accumulated impairment losses	Book value	Book value	Book value
Mining rights	₩ 19	₩ -	₩ -	₩ 19	₩ 19	₩ 19
Development costs	13,705	(12,046)	-	1,658	4,955	6,940
Membership	31,600	-	-	31,601	29,049	18,710
Software	140	-	-	140	-	-
Other	-	-	-	-	902	2,770
	<u>₩ 45,464</u>	<u>₩ (12,046)</u>	<u>₩ -</u>	<u>₩ 33,418</u>	<u>₩ 34,925</u>	<u>₩ 28,439</u>

- (2) Changes in intangibles for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

2011							
	Beginning balance	Acquisition	Disposal	Amortization	Other	Spin-off	Ending balance
Mining rights	₩ 19	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 19
Development costs	4,955	287	-	(1,124)	(140)	(2,320)	1,658
Membership	-	-	-	-	140	-	140
Software	29,049	8,920	(112)	-	-	(6,255)	31,601
Other	902	-	-	-	-	(902)	-
	<u>₩ 34,925</u>	<u>₩ 9,207</u>	<u>₩ (112)</u>	<u>₩ (1,124)</u>	<u>₩ -</u>	<u>₩ (9,477)</u>	<u>₩ 33,418</u>

2010							
	Beginning balance	Acquisition	Disposal	Amortization	Impairment losses	Other	Ending balance
Mining rights	₩ 19	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 19
Development costs	6,940	1,094	-	(3,079)	-	-	4,955
Membership	18,710	9,583	-	-	-	755	29,049
Other	2,770	-	-	(1,113)	-	(755)	902
	<u>₩ 28,439</u>	<u>₩ 10,677</u>	<u>₩ -</u>	<u>₩ (4,192)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 34,925</u>

16. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale as of December 31, 2011 and 2010 and January 1, 2010 are as follows (Korean won in millions):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Land	₩ 381	₩ -	₩ -
Construction in progress	<u>4,727</u>	<u>-</u>	<u>-</u>
	<u>₩ 5,108</u>	<u>₩ -</u>	<u>₩ -</u>

On July 1, 2011, the Company established Dongbu Power Dangjin Corporation and recorded it as investments in associates. The Company plans to dispose land and construction in progress which the Company previously acquired for electric power business to Dongbu Power Dangjin Corporation. Accordingly, the Company reclassified them into assets held for sale. No impairment losses have been recognized for the assets as of December 31, 2011.

17. ACCOUNTS AND OTHER PAYABLES

Accounts and other payable as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	<u>Dec. 31, 2011</u>		<u>Dec. 31, 2010</u>		<u>Jan. 1, 2010</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Account payables	₩ 347,577	₩ -	₩ 405,995	₩ -	₩ 469,505	₩ -
Other payables	11,614	-	31,203	-	30,748	-
Accrued expenses	6,500	-	30,300	-	28,542	-
Deposit withheld	<u>2,560</u>	<u>1,883</u>	<u>788</u>	<u>1,878</u>	<u>1,269</u>	<u>7,035</u>
	<u>₩ 368,251</u>	<u>₩ 1,883</u>	<u>₩ 468,286</u>	<u>₩ 1,878</u>	<u>₩ 530,064</u>	<u>₩ 7,035</u>

18. BORROWINGS AND BONDS:

(1) Short-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

Type of loan	Financial institution	Rate (%)	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
General loans	Hana bank	8.45	₩ 10,000	₩ 22,000	₩ 22,000
	Kookmin bank	7.81	3,500	59,500	59,500
	Suhyup bank	6.88	15,000	15,000	15,000
	Nonghyup bank	8.29	10,000	10,000	10,000
	Jeonbuk bank	8.15	10,000	10,000	10,000
	Industrial bank of Korea	8.68	24,000	30,000	30,000
	Korea securities finance	7.30	11,100	19,000	-
	Kwangju bank	9.02	10,000	10,000	10,000
	Kyongnam bank	7.45	10,000	-	-
	Daewoo securities	8.55	9,000	-	-
	Korea construction financial coop.	1.65~4.20	17,200	6,800	-
	Korea exchange bank	7.00~7.10	5,300	-	-
	Shinhan bank	8.65	17,400	17,400	17,400
Commercial paper (CP)	Hana bank	-	-	40,000	40,000
	Tongyang securities	-	-	20,000	-
	SK securities	8.60	12,500	-	-
	Lotte capital	7.50	20,000	-	-
	Woori bank	8.85	20,000	-	-
Loans secured by receivables	Jeonbuk bank, etc.	7.34	5,060	105,198	84,033
			₩ 210,060	₩ 364,898	₩ 297,933

(2) Long-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

Type of loan	Financial institution	Rate (%)	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
General loans	Korea development bank	7.93	₩ 7,000	₩ 34,000	₩ 34,004
	Woori bank	4.20	-	2,250	5,250
Operation loans	Korea housing guarantee	1.00	11,807	11,807	11,807
Long term loans	Korea resources corporation	5.00	20	53	93
Policy loans	Suhyup bank	-	-	8,538	7,500
			18,827	56,648	58,654
Less: Current portion			(8,094)	(5,364)	(38,116)
			₩ 10,733	₩ 51,284	₩ 20,538

(3) Bonds as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

Type of loan	Date of issue	Maturity date	Rate (%)	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
190 th debenture	2007.03.16	2010.03.16	6.61	₩ -	₩ -	₩ 50,000
196 th debenture	2008.06.02	2010.06.02	8.00	-	-	3,368
197 th debenture	2008.06.13	2011.06.13	8.23	-	10,000	10,000
198 th debenture	2008.06.23	2010.06.23	7.50	-	-	40,000
199 th debenture	2008.06.27	2011.06.27	7.96	-	60,000	60,000
200 th debenture	2008.07.11	2010.07.11	8.20	-	-	30,000
201 st debenture	2008.07.14	2010.07.14	4.92	-	-	20,000
202 nd debenture	2009.02.17	2010.02.17	9.00	-	-	10,000
203 rd debenture	2009.03.23	2010.03.23	8.61	-	-	30,000
204 th debenture	2009.05.14	2010.11.14	10.30	-	-	8,010
205 th debenture	2009.07.24	2010.07.24	9.90	-	-	30,000
207 th debenture	2009.10.08	2011.04.08	9.90	-	40,000	40,000
208 th debenture	2009.11.24	2011.05.24	9.50	-	40,000	40,000
209 th debenture	2010.02.17	2011.02.17	8.50	-	10,000	-
210-1 st debenture	2010.03.11	2011.09.11	8.90	-	60,000	-
210-2 nd debenture	2010.03.11	2013.03.11	8.90	4,900	10,000	-
211 st debenture	2010.03.23	2011.03.23	9.13	-	30,000	-
212 nd debenture	2010.06.14	2012.06.14	8.90	50,000	50,000	-
213 rd debenture	2010.07.09	2012.07.09	8.30	-	30,000	-
214 th debenture	2010.07.09	2012.07.09	8.30	-	30,000	-
215 th debenture	2010.07.14	2011.07.14	6.13	-	20,000	-
216 th debenture	2010.08.12	2012.08.12	8.90	-	6,000	-
217 th debenture	2010.10.05	2011.10.05	8.50	-	20,000	-
218 th debenture	2010.10.19	2012.10.19	9.20	8,000	8,000	-
219 th debenture	2010.11.05	2011.11.05	8.30	-	16,500	-
220 th debenture	2010.11.05	2011.11.05	8.20	-	8,500	-
221 st debenture	2010.11.18	2012.05.18	8.70	9,000	9,000	-
222 nd debenture	2010.11.30	2011.11.30	8.30	-	5,000	-
223 rd debenture	2010.12.14	2013.12.14	6.63	15,000	15,000	-
224 th debenture	2010.12.28	2011.12.28	8.30	-	5,000	-
225 th debenture	2011.01.26	2012.07.26	8.70	40,000	-	-
226 th debenture	2011.01.27	2012.01.27	8.30	2,000	-	-
227 th debenture	2011.02.11	2012.08.11	8.70	6,000	-	-
228 th debenture	2011.02.17	2012.08.17	8.70	9,000	-	-
229 th debenture	2011.03.24	2012.09.24	8.70	60,000	-	-
230 th debenture	2011.03.29	2014.03.29	7.10	20,000	-	-
231 th debenture	2011.05.24	2012.11.24	8.70	40,000	-	-
232 th debenture	2011.06.27	2012.06.27	8.61	60,000	-	-
233 th debenture	2011.07.14	2012.07.14	7.51	7,000	-	-
234 th debenture	2011.09.07	2012.09.07	8.70	50,000	-	-
236 th debenture	2011.11.07	2012.11.07	8.60	7,000	-	-
237 th debenture	2011.11.08	2012.11.08	8.95	4,376	-	-
238 th debenture	2011.11.15	2012.11.15	8.95	2,600	-	-
239 th debenture	2011.11.17	2012.11.17	8.95	2,500	-	-
240 th debenture	2011.11.22	2012.11.22	8.95	2,550	-	-
				399,926	483,000	371,378
Less: Discounts on debentures issued				(633)	(895)	(1,494)
				399,293	482,105	369,884
Less: Current portion				(360,026)	(325,000)	(171,378)
Add: Current portion of discounts on debentures issued				622	567	496
				₩ 39,889	₩ 157,672	₩ 199,002

(4) The repayment schedule of long-term borrowings and bonds as of December 31, 2011 is as follows (Korean won in millions):

Date	Long-term borrowings	Bonds	Total
2012.12.31	₩ 8,094	₩ 360,026	₩ 368,120
2013.12.31	1,073	19,900	20,973
2014.12.31	1,073	20,000	21,073
2015.12.31	1,073	-	1,073
2016.12.31	7,514	-	7,514
	<u>₩ 18,827</u>	<u>₩ 399,926</u>	<u>₩ 418,753</u>

19. BONDS WITH STOCK WARRANTS

(1) The detail of bonds with stock warrants as of December 31, 2011 is as follows (Korean won in millions):

Category	Outstanding	Stock warrants adjustment	Book value
Bonds With Stock Warrants	₩ 100,000	₩ 14,551	₩ 97,859

(2) The detail of payment terms of bond with stock warrants is as follows:

Category	Description
1) Type of bonds	Domestic, blank, non-guaranteed coupon bonds with stock warrants
2) Total amounts	₩ 100,000 million
3) Rate of Bonds	Coupon rate : 4% Maturity rate : 7% Effective rate : 8.7%
4) Maturity of bonds	November 4, 2014
5) Repayment of interest period	A quarter of the annual coupon interest will be paid every 3 months for the period from issuance date up to the maturity date. Interest will be paid quarterly from February 4, 2012 to November 4, 2012.
6) Repayment of principal period	The principal of bonds with stock warrants are to be repaid on November 4, 2014 at 109.8188 percent of the principal amount.
7) Stock warrants	The stock warrants are detachable from the bonds with exercise rate of 100 percent and stock warrants have the right to receive a stock per security. Exercise price is ₩ 5,000 per stock and the exercisable period is from December 4, 2011 to October 4, 2014.

(3) The book value of stock warrants as of December 31, 2011 is as follows (Korean won in millions):

	Amounts
Issue price	₩ 100,000
Call premium	9,919
Stock warrants adjustment	(13,992)
Book value	<u>₩ 95,927</u>

20. OTHER FINANCIAL LIABILITIES

(1) Other financial liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Finance lease Liabilities	₩ -	₩ -	₩ 3,178	₩ 9,497	₩ 1,370	₩ 4,388
Liability from securitization of future receivables	74,971	51,200	76,633	41,070	28,694	-
Financial guarantee liabilities	-	14,498	-	4,616	-	6,642
	<u>₩ 74,971</u>	<u>₩ 65,698</u>	<u>₩ 79,811</u>	<u>₩ 55,183</u>	<u>₩ 30,064</u>	<u>₩ 11,030</u>

All finance lease receivables and payables were transferred to Dongbu Express Co., Ltd and no finance lease asset or payables remain as of December 31, 2011.

(2) The Company trusted its receivables and future receivables to Korea Development Bank and other financial institutions and securitized such receivables. Details the Company securitization of receivables as of December 31, 2011 are as follows (Korean won in millions):

Description	Samcheok Plant Future AR	Resource Recovery Facilities AR	Honam Express Way Construction Future AR	Yong-in Shinbong Construction Future AR	Pohang- Samcheok Railroad Future AR
	Asset Backed Loans (ABL)	Asset Backed Loans (ABL)	Asset Backed Loans (ABL)	Asset Backed Loans (ABL)	Asset Backed Loans (ABL)
Trust period	2011.9.6 ~ 2014.4.30	2010.11.24 ~ 2012.10.23	2011.10.27 ~ 2013.4.30	2011.12.23 ~ 2012.11.22	2011.11.9 ~ 2014.6.12
Initial trust amount	₩60,000 million	₩20,000 million	₩30,000 million	₩25,000 million	₩20,000 million
Trustee	Hana bank	Gyeonggi saving bank	Korea development bank	Choungun credit union	Korea development bank
SPC	Dongbu Samcheok the 1st Securitization Specialty Ltd.	Dongbu Resource the 1st Securitization Specialty Ltd.	Dongbu Honam the 1st Securitization Specialty Ltd.	Sinbong Centreville the 1st Securitization Specialty Ltd.	Dongbu East Sea the 1st Securitization Specialty Ltd.
Repaid amount	₩16,000 million	₩12,829 million	-	-	-
Balances of liability	₩44,000 million	₩7,171 million	₩30,000 million	₩25,000 million	₩20,000 million

(3) Financial guarantee liabilities

Changes in financial guarantee liabilities for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011					
		Changes				Classification of liability	
		Jan. 1, 2011	Increase	Decrease	Dec. 31, 2011	Current	Non-current
Financial guarantee liabilities	₩	4,616	₩ 13,242	₩ (3,359)	₩ 14,498	₩ -	₩ 14,498

		2010					
		Changes				Classification of liability	
		Jan. 1, 2010	Increase	Decrease	Dec. 31, 2010	Current	Non-current
Financial guarantee liabilities	₩	6,642	₩ -	₩ (2,027)	₩ 4,616	₩ -	₩ 4,616

21. RETIREMENT BENEFIT OBLIGATIONS

(1) Retirement benefit obligations as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Present value of defined benefit obligations	₩ 29,154	₩42,217	₩34,094
Fair value of plan assets	(19,784)	(27,280)	(22,282)
National pension fund	(33)	(116)	(129)
Net liabilities	₩ 9,337	₩ 14,821	₩ 11,683

(2) Changes in defined benefit obligations for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Beginning balance	₩ 42,217	₩ 34,094
Decrease in spin-off	(14,469)	-
Current service cost	7,873	10,494
Interest expense	935	1,800
Actuarial gain or loss	(2,862)	1,074
Benefit paid	(4,540)	(5,245)
Ending balance	₩ 29,154	₩ 42,217

(3) Changes in plan assets for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Beginning balance	₩ 27,280	₩ 22,282
Decrease in spin-off	(10,278)	-
Contributions by employer directly to plan assets	4,300	7,329
Expected return on plan assets	850	1,051
Actuarial gain or loss	(283)	(156)
Benefit payment	(2,085)	(3,226)
Ending balance	₩ 19,784	₩ 27,280

(4) Expenses recognized in profit and loss for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Current service cost	₩ 7,873	₩ 10,494
Interest cost	935	1,800
Expected return on plan assets	(850)	(1,051)
	<u>₩ 7,958</u>	<u>₩ 11,243</u>

(5) Principal actuarial assumptions as of December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
Discount rate for defined benefit obligations	4.33	4.90~5.62
Expected rate of return on plan assets	4.65	4.08
Expected rate of salary increase	Experienced rate	Experienced rate

Current service cost and interest expense are expensed in the statement of comprehensive income (loss).

The Company recognized ₩ 4,588 million and ₩ 5,245 million for the year ended December 31, 2011 and 2010, respectively, as cost of sales and the remaining was recognized as selling and administrative expenses.

22. PROVISIONS

Changes in provisions for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011				Classification of liability	
	Beginning balance	Changes		Ending balance	Current	Non-current
		Increase	Decrease			
Provisions for other loss (*1)	₩ 30,000	₩ 68,200	₩ (30,00)	₩ 68,200	₩ -	₩ 68,200
Provisions for construction warranties (*2)	<u>28,374</u>	<u>2,887</u>	<u>(12,173)</u>	<u>19,088</u>	<u>7,074</u>	<u>12,014</u>
	<u>₩ 58,374</u>	<u>₩ 71,087</u>	<u>₩ (42,173)</u>	<u>₩ 87,288</u>	<u>₩ 7,074</u>	<u>₩ 80,214</u>

(*1) As of December 31, 2011, the Company is a defendant in 34 lawsuits of which total claim amount is ₩ 13,414 million. The Company records provisions for expected losses from lawsuits; there is no provisions for expected losses in as of December 31, 2011.

The Company records expected expenses of construction warranties for construction projects as provisions for construction warranties. The Company does not consider the provision's present value effect to be material, as such; the provision is not discounted to present value.

	2010				Classification of liability	
	Beginning balance	Changes		Ending balance	Current	Non-current
		Increase	Decrease			
Provisions for other losses	₩ 1,786	₩ 30,000	₩ (1,786)	₩ 30,000	₩ -	₩ 30,000
Provisions for construction warranties	<u>26,549</u>	<u>15,821</u>	<u>(13,996)</u>	<u>28,374</u>	<u>17,225</u>	<u>11,149</u>
	<u>₩ 28,335</u>	<u>₩ 45,821</u>	<u>₩ (15,782)</u>	<u>₩ 58,374</u>	<u>₩ 17,225</u>	<u>₩ 41,149</u>

23. OTHER LIABILITIES

Other liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Unearned revenue	₩ 175	₩ -	₩ 289	₩ -	₩ 776	₩ -
Advanced receipt from customers	44,477	2,441	34,582	7,509	62,860	12,651
Withholdings	8,477	-	4,030	-	7,458	-
Value added tax withheld	1,488	-	1,213	-	8,586	-
Other	72	-	49	-	503	-
	<u>₩ 54,689</u>	<u>₩ 2,441</u>	<u>₩ 40,163</u>	<u>₩ 7,509</u>	<u>₩ 80,183</u>	<u>₩ 12,651</u>

24. 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, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Outstanding shares	Capital stock
Common stock	21,790,345 shares	₩ 108,952
Preferred stock	3,342,365 shares	16,712
		<u>₩ 125,664</u>

25. OTHER PAID-IN CAPITAL

(1) Other paid-in capital as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Paid-in capital in excess of par value	₩ 36,885	₩ 36,885	₩ 36,885
Other capital surpluses:			
Gains on sale of treasury stock	417	417	417
Gain on disposal of treasury stock received without consideration	19,926	17,051	17,051
Gain on disposal of treasury preferred stock	6,138	6,138	6,138
Stock warrants	2,491	-	-
Other capital surpluses	11	11	11
	<u>28,983</u>	<u>23,617</u>	<u>23,617</u>
Treasury stocks	(706)	(706)	(706)
Tax paid on treasury stocks	(1,999)	(2,396)	(2,396)
	<u>₩ 63,163</u>	<u>₩ 57,400</u>	<u>₩ 57,400</u>

(2) Treasury stocks as of December 31, 2011, December 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
	(shares)		(shares)		(shares)	
Common stock	1,379,475	₩ -	1,818,974	₩ -	1,818,974	₩ -
Preferred stock	145,690	706	145,690	706	145,690	706
	<u>1,525,165</u>	<u>₩ 706</u>	<u>1,964,664</u>	<u>₩ 706</u>	<u>1,964,664</u>	<u>₩ 706</u>

26. RETAIN EARNINGS

(1) Retail earnings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Legal reserve (*1)	₩ 22,730	₩ 22,134	₩ 21,539
Appropriated retained earnings for financial structure improvement	9,779	9,779	9,779
Business rationalization reserve	12,386	12,386	12,386
Other	55,000	55,000	20,000
Unappropriated retained earnings (*2)	28,923	204,219	227,659
	<u>₩ 128,818</u>	<u>₩ 303,518</u>	<u>₩ 291,363</u>

(2) Changes in retain earnings for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Beginning balance	₩ 303,518	₩ 291,363
Net income (loss)	(171,328)	20,337
Actuarial gain (loss)	2,580	(2,230)
Payment of dividends	(5,952)	(5,952)
Ending balance	<u>₩ 128,818</u>	<u>₩ 303,518</u>

(3) Statement of appropriation of retained earnings (Korean won in millions):

	2011	2010
UNAPPROPRIATED RETAINED EARNINGS:		
Unappropriated retained earnings carried over from prior year (*2)	₩ 197,672	₩ 186,112
Actuarial gain (loss)	2,580	(2,231)
Net income (loss)	(171,328)	20,337
	<u>28,923</u>	<u>204,219</u>
TRANSFER FROM VOLUNTARY RESERVES:		
Voluntary reserves	<u>55,000</u>	-
	<u>55,000</u>	-
SUBTOTAL	<u>83,923</u>	<u>204,219</u>
APPROPRIATIONS:	83,923	6,547
Legal reserve (*1)	-	595
Other reserve (*2)	83,923	-
Cash dividends	-	<u>5,952</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ -</u>	<u>₩ 197,672</u>

(*1) 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.

(*2) The Company revalued its land in accordance with the Asset Revaluation Law and the Company's retained earning includes asset revaluation gain of ₩ 106,767 million under Korean GAAP which was carried over as deemed cost under K-IFRS. As the revaluation gain is not available for cash dividend and only can be credited to paid-in capital or offset against accumulated deficits, the Company appropriated it to other reserve.

27. OTHER COMPONENTS OF EQUITY

(1) Other components of equity as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Korean won in millions):

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
Gain on valuation of AFS financial assets	₩ 97,670	₩ 107,885	₩ 107,776

(2) Changes in gain (loss) on valuation of AFS financial assets for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Beginning balance	₩ 107,885	₩ 107,776
Gain (loss) on valuation of AFS financial assets	(13,476)	143
Tax effect of gain (loss) from AFS financial assets	3,261	(35)
Ending balance	<u>₩ 97,670</u>	<u>₩ 107,885</u>

28. REVENUE

The details of sales except for other operating income and financial income (Notes 30 and 31) for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Construction revenue	₩ 1,202,126	₩ 1,424,551
Transport and logistics revenue	-	644,519
Revenue from supplementary business (*1)	215,131	85,148
	<u>₩ 1,417,257</u>	<u>₩ 2,154,218</u>

(*1) Revenue from supplementary business includes proceeds from sale of the Company's inventory (land) to Dongbu Life Insurance Co., Ltd. of ₩127.2 billion.

29. SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Salary and employee benefits	₩ 41,856	₩ 51,929
Retirement benefits	3,377	3,329
Rent	9,940	10,239
Depreciation	818	1,727
Amortization of intangibles	1,117	3,257
Advertising expenses	4,386	7,028
Commission	9,355	11,809
Taxes and dues	3,301	3,990
Entertainment expenses	1,937	2,576
Insurance fee	576	436
Training	1,493	2,150
Bad debt expenses	1,040	7,119
Other	45,913	37,224
	<u>₩ 125,109</u>	<u>₩ 142,813</u>

30. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Other operating income :		
Gain on disposal of property and plant or intangibles	₩ 17	₩ 7,308
Gain on valuation of financial assets at FVTPL	-	2,947
Gain on disposal of AFS financial assets	-	19,601
Reversal of allowance for doubtful accounts	1,737	113
Rental and commission income	348	2,328
Financial guarantee revenue	2,503	1,614
Others	6,999	9,368
	<u>₩ 11,604</u>	<u>₩ 43,279</u>
Other operating expenses :		
Loss on disposal property, equipment and intangibles	112	3,537
Other bad debt expenses	69,750	21,375
Transfer to reserve for other loss	68,200	-
Loss on valuation of financial assets at FVTPL	3,479	-
Financial guarantee expenses	7,395	361
Impairment loss of investments in associates	3,359	-
Others	24,313	4,349
	<u>₩ 176,609</u>	<u>₩ 29,622</u>

Under Korean GAAP the above income and expense were classified as other non-operating income and expenses. While, under K-IFRS, these are classified as other operating income and expenses.

31. FINANCIAL INCOME

(1) Financial income for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Interest income	₩ 10,783	₩ 21,087
Dividend income	805	3,600
Gains on derivatives transactions	-	265
	<u>₩ 11,588</u>	<u>₩ 24,952</u>

(2) The details of financial income by category for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Loans and receivables	₩ 10,783	₩ 19,399

32. FINANCIAL EXPENSES

(1) Financial expenses for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Interest expenses of borrowings, etc.	₩ 22,756	₩ 32,489
Interest expenses of bonds	40,680	33,800
	63,466	66,289
Less : capitalized interest expenses (*1)	(1,459)	(1,784)
	61,977	64,505
Amortization of present value discount of deposits, etc.	(1,213)	-
	<u>₩ 60,764</u>	<u>₩ 64,505</u>

(*1) The Company capitalizes or recognizes construction costs for interest expenses directly attributable to qualifying assets. The Company's weighted average borrowing interest rate is 8.26% and 8.11% for the year ended December 31, 2011 and 2010, respectively.

(2) The detail of financial expenses by category for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Borrowings and bonds	₩ 57,161	₩ 54,772

33. INCOME TAX EXPENSE

(1) Income tax expense for the years ended December 31, 2011 and 2010 is as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Income tax and resident surcharges	₩ -	₩ 9,449
Changes in deferred income taxes from temporary differences	(48,465)	(325)
Changes in deferred income taxes from deficit carried over	18,252	-
Changes in deferred income taxes directly adjusted to shareholders' equity	4,065	(3,348)
	<u>₩ (26,148)</u>	<u>₩ 5,776</u>

(2) Reconciliations between income before income tax expense and income tax expense for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Income before income (loss) tax expense (A)	₩ (197,476)	₩ 26,113
Tax amounts applying statutory tax rate	(47,790)	6,318
Adjustments:		
Non-taxable income or non-deductible loss	14,526	833
Changes in deferred income tax	(1,723)	-
Additional income tax (tax refunds)	(743)	908
Others	9,583	(2,282)
	<u>21,644</u>	<u>(541)</u>
Income tax expense (revenue) (B)	<u>₩ (26,147)</u>	<u>₩ 5,777</u>
Effective tax rate (C=B/A)	(*1)	22.1%

(*1) Effective tax rate is not calculated due to the occurrence of tax revenue.

(3) Accumulated temporary differences and deferred income tax assets (liabilities) as of December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Accumulated temporary differences	₩ 110,245	₩ (217,813)
Statutory tax rate	24.2%	22%, 24.2%
Deferred income taxes	<u>₩ 26,679</u>	<u>₩ (21,786)</u>

34. EARNING PER SHARES

Earnings per common share for the years ended December 31, 2011 and 2010 are calculated as follows (Korean won in millions, except per share amounts):

	<u>2011</u>	<u>2010</u>
Net income (loss)	₩ (171,328)	₩ 20,337
Less: preferred stock dividends	<u>-</u>	<u>167</u>
Net income for common share	(171,328)	20,170
Weighted-average number of shares outstanding (shares)	<u>20,272,398</u>	<u>19,971,371</u>
Earnings (loss) per common share	<u>₩ (8,451)</u>	<u>₩ 1,010</u>

35. CONSTRUCTION CONTRACTS:

(1) Construction contracts in progress and construction receivables as of December 31, 2011 and 2010 are as follows (Korean won in millions):

	<u>2011</u>	<u>2010</u>
Accumulated costs	₩ 4,444,987	₩ 4,589,815
Add : accumulated gain	591,214	667,390
Less : accumulated loss	<u>(107,292)</u>	<u>(89,703)</u>
Accumulated contract revenue	4,928,909	5,167,502
Less : construction receivables	<u>4,665,986</u>	<u>4,964,803</u>
	<u>₩ 262,923</u>	<u>₩ 202,699</u>
Due from customers under construction contracts	₩ 344,812	₩ 260,558
Due to customers under construction contracts	₩ 81,889	₩ 57,859

Advances from construction contracts as of December 31, 2011 and 2010 are ₩ 18,481 million and ₩ 8,312 million.

(2) Changes in construction contracts in progress for the year ended December 31, 2011 are as follows (Korean won in millions):

	<u>2011</u>
Beginning balance	₩ 4,400,202
New contracts signed or modified contracts	726,831
Less: Revenue recognized	<u>(1,202,126)</u>
Ending balance	<u>₩ 3,924,907</u>

(3) As of December 31, 2011, Korea Construction Financial Cooperative and others provided the Company with a payment guarantee amounting to ₩ 2,648,351 million and the Company pledged the guarantee to its customers related to construction warranties.

36. RELATED PARTY TRANSACTIONS

(1) The nature of the relationship as of December 31, 2011, is as follows:

The nature of the relationship	Related parties
Subsidiaries	Dongbu Express Co., Ltd., Dongbu Engineering Co., Ltd., FINE-ADVANTAS AMC Corporation Co., Ltd., Dongbu AUSTRALIA, Dongbu Pusan Container Terminal Co., Ltd., Daesung T.L.S Co., Ltd., Dongbu Incheon Multipurpose Terminal Co., Ltd., Dongbu Gwangyang Logistics Center, Baeksan ITs Co., Ltd, Dongbu Express Marine, Dongbu Complex Logistics, Dongbu Express India, Daesung, Dongbu Gwangyang Steel Distribution Center, Dongbu Shanghai, Dongbu Vietnam
Associate company	Dongbu World Inc., Sky Land Co., Ltd, Fine Advantas PFV, Dongbu Inc., DCT, Dongbu Power Corporation
Joint venture	Busan Multipurpose Terminal Company

(2) Significant transactions with related parties in 2011 and 2010 are as follows (Korean won in millions):

	Sales and other revenues		Purchases and other expenses	
	2011	2010	2011	2010
Dongbu Express Co., Ltd.	₩ 172	₩ -	₩ 1,752	₩ -
Dongbu Engineering Co., Ltd.	-	503	1,682	7,179
Dongbu Pusan Container Terminal Co., Ltd.	-	1,191	-	6,687
Daesung T.L.S	-	916	-	4,888
Subsidiaries total	<u>172</u>	<u>2,610</u>	<u>3,434</u>	<u>18,754</u>
Fine Advantas PFV	50,224	-	393	-
Dongbu World Inc.	1,029	279	1,248	745
DongBu Inc.	18,751	29,567	17,114	24,518
Dongbu Power Dangjin Corporation	<u>8,059</u>	-	-	-
Associates total	<u>78,063</u>	<u>29,846</u>	<u>18,755</u>	<u>25,263</u>
Busan Multipurpose Terminal Company	-	312	-	5,801
Dongbu Incheon Multipurpose Terminal Co., Ltd.	-	9,360	-	-
Dongbu Gwangyang Logistics Center	-	76	-	-
Dongbu Complex Logistics	-	98	-	-
Baeksan ITs Co., Ltd	-	271	-	2,578
DAESUNG	-	10	-	162
Subsidiaries of Dongbu Express and joint venture total	<u>-</u>	<u>10,127</u>	<u>-</u>	<u>8,541</u>
	<u>₩ 78,235</u>	<u>₩ 42,583</u>	<u>₩ 22,189</u>	<u>₩ 52,558</u>

(3) The related receivables and payables as of December 31, 2011 and 2010 are as follows (Korean won in millions):

	Receivables		Payables	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Dongbu Express Co., Ltd.	₩ 374	₩ -	₩ 34	₩ -
Dongbu Engineering Co., Ltd.	-	35	2,110	690
Dongbu Pusan Container Terminal Co., Ltd.	-	209	-	1,224
Daesung T.L.S	-	4,306	-	265
Dongbu Incheon Multipurpose Terminal Co. Ltd.	-	24,741	-	105
Dongbu Gwangyang Logistics Center	-	2,862	-	-
Dongbu Complex Logistics	-	1,394	-	-
Dongbu Express Marine	-	1,150	-	6
Baiksang ITs Co., Ltd.	-	785	-	662
Dongbu Power Dangjin Corporation	-	928	-	375
Subsidiaries total	<u>374</u>	<u>36,410</u>	<u>2,144</u>	<u>3,327</u>
Sky Land Co., Ltd.	1,800	-	-	-
Fine Advantas PFV	48,216	-	-	-
Dongbu World Inc.	29,054	26,069	-	-
DongBu Inc.	1,435	4,522	2,577	3,021
Dongbu Power Dangjin Corporation	26,391	-	1,012	-
Associate company total	<u>106,896</u>	<u>30,591</u>	<u>3,589</u>	<u>3,021</u>
Busan Multipurpose Terminal Company	-	137	-	863
Joint venture of Dongbu Express total	-	137	-	863
Chairman	-	934	-	-
Other relations subtotal	-	934	-	-
	<u>₩ 107,270</u>	<u>₩ 68,072</u>	<u>₩ 5,733</u>	<u>₩ 7,211</u>

(4) Guarantees provided for related parties by the Company as of December 31, 2011 are as follows (Korean won in millions):

Provider	Asset pledged		Nature of payment guarantee	
	Description	Amounts	Liabilities	Creditor
Dongbu Inc.	Guarantee of construction and warranty	₩ 78,507	Guarantee of construction and warranty	Construction Guarantee
Dongbu Express	Guarantee of borrowings	174,040	Borrowings and bonds	Shinhan Bank.
		<u>₩ 252,547</u>		

(5) In connection with its borrowings, the Company is provided with repayment guarantee of ₩7,500 million from Junki Kim, the Chairman and founder of Dongbu group.

(6) Total compensations for key management personnel for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Salaries	₩ 809	₩ 920
Postemployment benefits	50	33
	<u>₩ 859</u>	<u>₩ 953</u>

37. PLEDGED ASSETS

(1) The following assets are pledged as collateral for short-term and long-term debt as of December 31, 2011 (Won in millions):

Debts			Pledged assets		
Financial institutions	Description	Amount	Description	Amount pledged	Book value
Hana Bank	Overdrafts (limit)	₩ 5,000	Land	₩ 60,000	₩ 11,900
	General loan	10,000	Financial instruments	3,130	3,130
	Privately placed bonds	7,000	AFS securities	2,817	2,817
Korea Exchange Bank	Overdrafts (limit)	5,000	AFS securities	14,344	14,344
	General loan	3,200	AFS securities	-	264
		2,100	Financial instruments	1,660	1,660
Woori Bank	Overdrafts (limit)	10,000	Investment property	26,000	5,557
	Privately placed bonds	60,000	Land & buildings	15,240	20,834
	CP	20,000	Financial instruments	5,000	5,000
			AFS securities	-	16,375
			Land	85,000	26,375
Korea Development Bank	General loan	7,000	AFS securities	5,045	5,045
Industrial Bank of Korea ("IBK")	General loan	24,000	Financial instruments	5,000	5,000
Kyongnam Bank	General loan	10,000	Land	13,000	13,000
Shinhan Bank	Overdrafts (limit)	8,000	Land & buildings	12,000	7,686
	CP	17,400	Land	-	1,958
Korea Securities Finance Corp.	Secured loan of treasury stock	11,100	Treasury stock	-	5,981
			AFS securities	-	2,799
			AFS securities	-	10,320
Korea Construction Financial Coop.	General loan (limit)	7,000	AFS securities	7,106	7,106
Dongbu Securities Co., Ltd.	Privately placed bonds	7,000	Investment in subsidiaries	-	3,328
				₩ 255,342	₩ 170,479

Collaterals or guarantees, which the Company provides for others as of December 31, 2011, are as follows (Korean won in millions):

Provided to	Assets provided	Amount pledged	Related liabilities	Financial institutions
Dongbu Hitek Co., Ltd.	AFS securities	₩ 20,714	Second syndicated loan	KDB and others
Kyungki 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
Kangnam Beltway	AFS securities	1,026	Project financing	KDB
Second Seohaean Express	AFS securities	3,016	Project financing	IBK
Sangah academy Co., Ltd.	AFS securities	374	Project financing	Hana Bank
Andong Art Center	AFS securities	744	Project financing	Hyundai Marine
Yongma Tunnel Co., Ltd.	AFS securities	1,680	Project financing	Kookmin Bank
BILTECH Co., Ltd.	Land & buildings	9,010	Secured loan	Suhyup Bank and others
		₩ 79,489		

In addition, the Company also provides joint guarantees of ₩278.6 billion for loans to local residents for construction projects. As of December 31, 2011, the Company also provides repayment guarantee for borrowings to Project Financing Vehicle ("PFV") for construction projects as follow:

Details of assumption of debt contracts as of December 31, 2011 and 2010 are as follows (Korean won in millions):

PF type	Dec. 31, 2011	Dec. 31, 2010
ABCP	₩ 343,800	₩ 370,000
Other PF Loan	241,200	194,000
	<u>₩ 585,000</u>	<u>₩ 564,000</u>

38. COMMITMENTS AND CONTINGENCIES

(1) Credit lines provided by financial institutions as of December 31, 2011 are as follows (Korean won in millions):

Financial institutions	Bank overdrafts (limit)	General loan (limit)	Privately placed Bonds	CP
Woori Bank	₩ 10,000	₩ -	₩ 60,000	₩ 20,000
Hana Bank	5,000	10,000	7,000	-
Kookmin Bank	5,000	3,500	-	-
KDB	-	7,000	-	-
IBK	-	24,000	-	-
KEB	5,000	3,200	-	-
Shinhan Bank	8,000	17,400	-	-
Suhyup Bank	-	15,000	-	-
Nonghyup	2,000	10,000	-	-
Kwangju Bank	-	10,000	-	-
Kyongnam Bank	-	10,000	-	-
Jeonbuk Bank	-	10,000	-	-
Korea Housing Guarantee Co., Ltd.	-	11,807	-	-
Construction Guarantee	-	17,200	-	-
TongYang Securities	-	-	21,000	-
The Korea Securities Finance Corporation	-	11,100	-	-
Solomon Investment & Securities	-	-	8,000	-
SK Securities	-	-	-	12,500
Dongbu Securities	-	-	39,026	-
LOTTE Capital	-	-	-	20,000
Korea Investment & Securities Co., Ltd.	-	-	20,000	-
KORES Co., Ltd.	-	20	-	-
	<u>₩ 35,000</u>	<u>₩ 160,227</u>	<u>₩ 155,026</u>	<u>₩ 52,500</u>

(2) The Company has pledged 28 blank checks and notes as collateral for repayments of borrowings and guarantees for the Company's fulfillment of construction projects.

(3) As of December 31, 2011, the Company is contingently liable for guarantees of fulfillment of construction by other companies amounting to ₩ 2,679,092 million.

(4) The Company provides repayment guarantees for loans to local residents of reconstruction projects from financial institutions. In addition, the Company has given loans in the amount of ₩ 184,545 million to reconstruction cooperatives as of December 31, 2011

- (5) In relation to the second Seohaean Expressway and Sangam DMC landmark building construction projects, the Company provided the financial investors with put options which can be exercised when certain conditions are met. Under the put option, the Company is required to repurchase the investment at certain prices when conditions are met. The Company also provided a put options to the financial investors in relation to the Shinbundang Railroad project, which can be exercised when the construction contract is cancelled, at which point the Company is required to repurchase the investment at the invested price plus an annual interest 7.9 percent.

39. EXPENSES BY NATURE

Expenses by nature for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011		
	Cost of sales	Selling & administrative expenses	Total
Used raw materials	₩ 304,280	₩ -	₩ 304,280
Salaries	101,202	45,233	146,435
Outsourcing	629,590	-	629,590
Equipment costs	23,224	-	23,224
Utilities expenses	5,778	95	5,873
Taxes and dues	3,067	3,301	6,368
Rent	4,567	9,940	14,507
Depreciation	1,637	818	2,455
Amortization	5,562	1,117	6,679
Insurance	11,338	576	11,914
Development costs	409	41,224	41,633
Commission	73,162	9,355	82,517
Bad debt expenses	-	1,040	1,040
Other	111,627	12,410	124,037
	₩ 1,275,443	₩ 125,109	₩ 1,401,416

	2010		
	Cost of sales	Selling & administrative expenses	Total
Used raw materials	₩ 281,758	₩ -	₩ 281,758
Salaries	144,484	55,257	199,741
Outsourcing	752,453	-	752,453
Equipment costs	15,871	-	15,871
Utilities expenses	6,442	339	6,781
Taxes and dues	3,049	3,990	7,039
Rent	75,991	10,239	86,230
Depreciation	13,654	1,727	15,381
Amortization	7,112	3,257	10,369
Insurance	14,181	436	14,617
Development costs	4	32,876	32,880
Commission	478,815	11,809	490,624
Bad debt expenses	-	7,119	7,119
Other	165,582	15,765	181,347
	₩ 1,959,396	₩ 142,814	₩ 2,102,210

40. RISK MANAGEMENT:

(1) Capital risk management

The Company performs capital management to maintain its ability to continuously provide profits to shareholders and parties in interest and to maintain optimum capital structure to reduce capital expenses. To maintain or change the Company's capital structure, the Company establishes policies to control dividends, reduce capital, increase paid-in capital, or dispose assets and others. Items managed as capital by the Company as of December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011		2010
Total borrowings (included liabilities from securitization of receivables)	₩ 850,279		₩ 1,021,355
Less: Cash and cash equivalents	(77,857)		(10,623)
Borrowings, net	772,422		1,010,732
Total equity	₩ 415,315		₩ 594,468
Debt ratio	54%		59%

(2) Financial risk management:

The Company is exposed to various financial risks such as market risk (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk related to financial instruments. The purpose of risk management of the Company is to identify potential risks related to financial performance and reduce, eliminate and evade those risks to a degree acceptable to the Company. Overall financial risk management policy of the Company is the same as the prior period.

1) Interest rate risk

The Company is exposed to interest rate risk due to its borrowing with floating interest rates. Book value of financial liabilities which are exposed to interest rate risk is ₩ 178,800 million and ₩ 178,000 million as of December 31, 2011 and 2010, respectively.

A sensitivity to a 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and decrease in interest rates as of December 31, 2011 and 2010 is as follows (Korean won in millions):

	1% increase	1% decrease
2011	₩ (1,395)	₩ 1,395
2010	(1,388)	1,388

2) Price risk

The Company is exposed to equity price risk arising from its equity investments. Equity investments are held for strategic purposes rather than trading purposes. The Company's book value of available for sale financial assets which are to be measured at fair value is ₩ 137,631 million. When all the other variables are constant and when the price of equity instrument fluctuates by 10%, the value of the Company's equity investments would fluctuate ₩ 10,432 million.

3) Credit risk

Credit risk means a risk that a counter party will default on a contractual obligation resulting in financial loss on the Company. Credit risk arises not only from receivables which have default risk of the counterparties but also from cash and cash equivalent or bank deposits. The Company does not have significant credit risk exposure in relation to financial institutions because the Company has transactions with financial institutions with good credit ratings.

For the other general counterparties other than financial institutions, the Company considers credit ratings of customers based on its financial status, past experience and other factors. The Company does not have separate credit limit policy for each individual counterparty.

As of December 31, 2011, the maximum exposed amounts of credit risk for financial assets maintained by the Company are as follows.

	Dec. 31, 2011	Dec. 31, 2010
Cash and cash equivalents	₩ 77,857	₩ 10,623
Trade receivables	82,978	485,628
Other receivables	413,339	347,152
Other financial assets	29,570	33,619
AFS financial assets	225,531	346,347
Financial guarantee contract (*1)	815,336	1,101,781

(*1) The maximum exposure of financial guarantee contracts is the maximum amount that the Company should pay when the guarantee is exercised. The Company recorded financial guarantee liability of ₩ 14,498 million and ₩ 4,616 million as of December 31, 2011 and 2010, respectively, in relation to the guarantee contracts.

4) Liquidity risk

The Company establishes short-term and long-term fund management plans. The Company analyzes and reviews actual cash outflow and its budget to correspond the maturity of financial liabilities to that of its financial assets. The Company's management believes that financial liabilities can be repaid with the cash flows from operating activities and the financial assets which the Company needs to.

The Company's financial assets by residual contractual maturity as of December 31, 2011 are classified as follows (Korean won in millions):

	Less than 1 year	1~5 years	More than 5 years	Total
Cash and cash equivalents	₩ 77,857	₩ -	₩ -	₩ 77,857
Other financial assets	11,920	17,650	-	29,570
AFS financial assets	3,408	222,124	-	225,532
Trade and other receivables	224,173	177,244	-	401,417
	<u>₩ 317,358</u>	<u>₩ 417,018</u>	<u>₩ -</u>	<u>₩ 734,376</u>

The Company's financial liabilities by residual contractual maturity as of December 31, 2011 are classified as follows (Korean won in millions):

	Less than 1 year	1~5 years	More than 5 years	Total
Borrowings and bonds	₩ 576,936	₩ 160,552	₩ -	₩ 737,488
Trade and other payables	368,251	2,054	-	370,305
Liabilities from securitization of receivables	74,971	51,200	-	126,171
Financial guarantee contracts	815,336	-	-	815,336
	<u>₩ 1,835,494</u>	<u>₩ 213,806</u>	<u>₩ -</u>	<u>₩ 2,049,300</u>

These amounts include all cash inflows such as interests and do not reflect allowance for doubtful accounts.

(3) Fair value risk

The fair value of the Company's actively-traded financial instruments (i.e. financial assets AFS, etc.) is the based on the traded market-price as of the end of the reporting period.

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

For accounts receivables and payables, the Company considers the carrying value net of impairment as fair value. While for disclosure purposes, the fair value of financial liabilities is estimated by discounting a financial instruments with similar contractual cash flows based on the effective interest method.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2, or 3, based on the degree to which the fair value is observable.

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3	Inputs that are not based on observable market data.

Fair values of financial instruments by hierarchy level for the ended December 31, 2011 are as follows (Won in millions):

Type	Level 1	Level 2	Level 3	Fair value
Marketable securities	₩ 59,844	₩ -	₩ -	₩ 59,844
Non-marketable securities	-	74,846	2,954	77,800
Debt securities	39,667	-	48,232	87,899
	<u>₩ 99,511</u>	<u>₩ 74,846</u>	<u>₩ 51,186</u>	<u>₩ 225,543</u>

41. STATEMENTS OF CASH FLOWS:

(1) Non-cash transactions in operating activities for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Gain on foreign currency transaction	₩ -	₩ (50)
Gain on disposal of PP&E and intangibles	(17)	(7,310)
Reversal of allowance for doubtful accounts	(1,737)	-
Gain on disposal of AFS securities	-	(19,601)
Gain on valuation of FVTPL	-	(2,947)
Financial guarantee income	(2,503)	(1,614)
Interest expenses	4,636	5,613
Loss on foreign currency transaction	-	33
Loss on disposal of PP&E and intangibles	112	2,782
Depreciation and amortization	4,279	30,063
Provision for retirement benefits	8,808	13,294
Allowance for doubtful accounts	70,790	27,761
Impairment loss on associated securities	3,359	-
Financial guarantee expenses	7,395	361
Transfer to provision for other loss	68,200	2,031
Salary	2,874	-
Impairment loss on investment property	13,089	-
Other	(13,722)	882
	<u>₩ 165,564</u>	<u>₩ 51,297</u>

(2) SChanges in assets and liabilities in operating activities for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Decrease (increase) in trade receivables	₩ 255,943	₩ (91,667)
Decrease (increase) in due from customers under construction contracts	(84,253)	10,467
Increase in other receivables	(25,500)	(23,135)
Decrease (increase) in other current assets	30,523	(3,970)
Decrease (increase) in inventories	(13,467)	9,850
Increase (decrease) in trade payables	42,706	(63,363)
Increase (decrease) in due to customers under construction contracts	24,030	(30,170)
Increase (decrease) in other payables	23,283	(8,597)
Decrease in other liabilities	(1,248)	(10,421)
Decrease in provision for other loss	(30,000)	(1,673)
Decrease in provisions for construction warranties	(9,287)	(6,095)
Retirement benefit payment	(4,823)	(12,387)
Other	(16,510)	(14,286)
	<u>₩ 191,397</u>	<u>₩ (245,447)</u>

(3) Transactions not involving cash flows for the years ended December 31, 2011 and 2010, are as follows (Korean won in millions):

	2011	2010
Transfer property and equipment to non-current assets held for sale	₩ 20,271	₩ -
Transfer long-term investment securities to current portion	3,431	4,248
Transfer long-term borrowings and bonds to current portion	229,020	214,836
Transfer long-term liabilities from securitization of receivables to current portion	70,911	29,670
Decrease in net assets for drop down	<u>₩ 335,829</u>	<u>₩ -</u>

42. SPIN-OFF:

To diversify business risk and to enhance the efficiency of management, on January 1, 2011, the Company spun-off its transportation and logistics division and established a new company which it wholly owns.

The spin-off plan was approved by the shareholders' meeting on November 11, 2010 and the procedures were completed on January 3, 2011; the legal split-off is deemed to have occurred as of January 1, 2011. The name of the newly incorporated company is Dongbu Express Co., Ltd.

Details of the spin-off are as follows:

- (1) The legacy Company spun off its transportation and logistics division and established a new company and the Company acquired the total number of shares of the company newly incorporated (spun-off entity).
- (2) The spin-off was approved by the shareholders' meeting in accordance with the Commercial Act of Republic of Korea. By the same Act, both the legacy Company and the company newly incorporated (spun-off entity) are jointly and severally liable to satisfy the debts of the legacy Company before the spin-off.
- (3) Regarding all properties, rights and obligations and facts relevant to economic value within the Company to be divided, if those are related with the newly incorporated company, they are transferred to the new company and if those are related with the other part, they are subject to the company which continue to exist.
- (4) In relation to the business of the legacy Company to be divided, if payables are determined after the date of division due to event occurred prior to dividend and the event is related with the new company, the payable will be subject to the new company. Otherwise the event will be subject to the continuing Company.

- (5) All employees working within the transportation and logistics division and their salaries are transferred to the new company (spun-off entity).
- (6) Statement of financial position of the Company before and after the spin-off are as follows:

	Before spin-off	After spin-off
	Dongbu Construction	Dongbu Construction Dongbu Express
ASSETS		
CURRENT ASSETS:	¥ 1,242,233	¥ 1,045,892 ¥ 198,444
NON-CURRENT ASSETS:		
Investment property	104,260	12,936 91,324
Property and equipment, net	251,447	73,562 177,885
Intangible assets	34,925	25,448 9,280
Other non-current assets	670,927	757,738 249,210
	1,061,559	869,684 527,699
TOTAL ASSETS	¥ 2,303,792	¥ 1,915,576 ¥ 726,143
LIABILITIES		
CURRENT LIABILITIES:	¥ 1,352,132	¥ 1,069,445 ¥ 278,133
NON-CURRENT LIABILITIES:	351,543	235,602 112,181
TOTAL LIABILITIES	1,703,675	1,305,047 390,314
SHAREHOLDERS' EQUITY		
Common Stock	125,665	125,665 30,000
Other paid-in capital	57,401	57,401 305,829
Other components of equity	108,810	108,810 -
Retained earnings	308,241	318,653 -
TOTAL SHAREHOLDERS' EQUITY	600,117	610,529 335,829
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥ 2,303,792	¥ 1,915,576 ¥ 726,143

43. SUBSEQUENT EVENTS:

The Company issued the 241st non-guaranteed debentures of ₩40 billion on February 3, 2012 with maturity date of February 3, 2013 and interest rate of 8.90 percent. Dongbu Securities Co., Ltd., a related party, subscribed ₩20 billion out of the ₩40 billion issued.

Internal Accounting Control System (IACS) Review Report

English Translation of a Report Originally Issued in Korean

To the Chief Executive Officer
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, 2011. 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, 2011, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2011, 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.

The 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 K-IFRS, 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, 2011, and we did not review its IACS subsequent to December 31, 2011. 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 15, 2012