

DONGBU STEEL CO., LTD.

Non-Consolidated Financial Statements

**December 31, 2010 and 2009**

(With Independent Auditors' Report Thereon)

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## **Independent Auditors' Report**

Based on a report originally issued in Korean

The Board of Directors and Stockholders  
Dongbu Steel Co., Ltd.:

We have audited the accompanying non-consolidated statements of financial position of Dongbu Steel Co., Ltd. (the "Company") as of December 31, 2010 and 2009, and the related non-consolidated statements of operations, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dongbu Steel Co., Ltd. as of December 31, 2010 and 2009 and the results of its operations, the appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2(a) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the non-consolidated accompanying financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their applications in practice.

(1) As described in note 10 to the non-consolidated financial statements, the Company changed accounting policy to state the revaluation amount for machinery and equipment under Statement of Korea Accounting Standards ("SKAS") No.5 *Property, Plant and Equipment*. This change resulted in increases of ₩278,605 million in

machinery and equipment, ₩217,312 million in other comprehensive income, ₩25,670 million in depreciation expense and of ₩19,458 million in net loss.

(2) As described in note 10 to the non-consolidated financial statements, the Company changed estimated useful life of machinery and equipment effective January 1, 2010. As a result of this change, depreciation expense decreased by ₩13,047 million and net loss decreased by ₩9,890 million less than it would have been under the previous useful life.

(3) As described in note 31 to the non-consolidated financial statements, the Company separated the CHQ Wire and CD Bar Business located in the Pohang plant and established a new company, Dongbu Special Steel Co., Ltd. on January 1, 2011.

Seoul, Korea  
February 11, 2011

<p>This report is effective as of February 11, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>
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Dongbu Steel Co., Ltd.  
 Non-Consolidated Statements of Financial Position

As of December 31, 2010 and 2009

(In millions of Korean won, except share data)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Cash and cash equivalents	3	₩ 54,627	11,003
Short-term financial instruments	17	313	14,897
Short-term investments	6	2	251
Accounts and notes receivable - trade, less allowance for doubtful accounts of ₩1,003 in 2010 and ₩606 in 2009	4,9,17	424,753	355,954
Accounts and notes receivable - other, less allowance for doubtful accounts of ₩161 in 2010 and 2009	4,9,17	4,620	15,624
Short-term loans		1,000	-
Prepaid expenses		7,865	8,370
Inventories	5,11,14	659,400	442,158
Current deferred tax assets	24	35,921	25,929
Other current assets	7	23,623	12,178
<b>Total current assets</b>		<u>1,212,124</u>	<u>886,364</u>
Non-current financial instruments	3,9	162	1,270
Non-current investments	8,14	218,676	198,942
Property, plant and equipment, net	10,11,14	3,675,049	3,321,579
Intangible assets	12	16,942	10,252
Other non-current assets	9,13	46,850	43,705
<b>Total non-current assets</b>		<u>3,957,679</u>	<u>3,575,748</u>
<b>Total assets</b>		<u>₩ 5,169,803</u>	<u>4,462,112</u>

See accompanying notes to non-consolidated financial statements.

(In millions of Korean won, except share data)

<u>Note</u>	<u>2010</u>	<u>2009</u>
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Dongbu Steel Co., Ltd.  
 Non-Consolidated Statements of Financial Position, Continued

As of December 31, 2010 and 2009

<b>Liabilities</b>				
Short-term borrowings	14,17	₩	301,883	262,959
Accounts and notes payable - trade	9,17		1,119,476	1,238,153
Accounts and notes payable - other			6,457	5,145
Accrued expenses	9		29,170	23,236
Current portion of long-term debt, net	14,16		295,954	549,349
Other current liabilities	9,15		4,601	6,978
<b>Total current liabilities</b>			<u>1,757,541</u>	<u>2,085,820</u>
Long-term debt, net	14,16		1,483,353	686,115
Provision for retirement and severance benefits	9,18		16,716	11,806
Financial derivative liabilities			112	-
Non-current deferred tax liabilities	11,24		170,820	115,058
<b>Total non-current liabilities</b>			<u>1,671,001</u>	<u>812,979</u>
<b>Total liabilities</b>			<u>3,428,542</u>	<u>2,898,799</u>
<b>Stockholders' equity</b>				
Common stock of ₩5,000 par value				
Authorized: 150,000,000 shares				
(including preferred stock)				
Issued and outstanding - 50,638,615 shares in				
2010 and 50,638,463 shares in 2009	20	₩	253,193	253,192
Preferred stock of ₩5,000 par value				
Issued and outstanding - 2,565,350 shares in				
2010 and 2009	20		67,827	67,827
Capital surplus				
Premium on capital stock			98,205	98,204
Revaluation reserves			382,182	385,610
Other capital surplus			6,803	6,374
Treasury stock	14,21		(22,340)	(22,340)
Accumulated other comprehensive income			822,770	604,435
Retained earnings	22		132,621	170,011
<b>Total stockholders' equity</b>			<u>1,741,261</u>	<u>1,563,313</u>
<b>Total liabilities and stockholders' equity</b>		₩	<u>5,169,803</u>	<u>4,462,112</u>

See accompanying notes to non-consolidated financial statements.

Dongbu Steel Co., Ltd.  
Non-consolidated Statements of Operations

For the years ended December 31, 2010 and 2009

(In millions of Korean won, except earnings per share)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Revenue	9 ₩	3,664,182	2,613,615
Cost of sales	9	<u>3,369,694</u>	<u>2,444,245</u>
<b>Gross profit</b>		294,488	169,370
Selling, general and administrative expenses	9,23,28	<u>197,603</u>	<u>161,762</u>
<b>Operating income</b>		96,885	7,608
Interest income		6,900	7,534
Interest expense		(148,194)	(70,510)
Gain on sale of equity method accounted investments		-	20,569
Foreign currency translation gain, net	17	6,878	12,964
Foreign currency transaction gain (loss), net		(17,653)	32,881
Dividend income		1,040	4
Equity in net income of equity method accounted investments, net		3,634	5,071
Loss on sale of accounts and notes receivable - trade		(12,043)	(10,905)
Gain on transactions of currency forward, net		-	234
Gain on sale of property, plant and equipment, net		2	6,086
Gain on conversion of convertible bonds		10,188	-
Reversal of allowance for doubtful accounts		-	6,165
Other, net		<u>6,208</u>	<u>2,579</u>
<b>Other income (expense)</b>		<u>(143,040)</u>	<u>12,672</u>
<b>Income (loss) before income taxes</b>		(46,155)	20,280
Income taxes benefit	24	<u>(19,161)</u>	<u>(29,889)</u>
<b>Net income (loss)</b>	₩	<u>(26,994)</u>	<u>50,169</u>
<b>Earnings (loss) per share</b>			
Basic earnings (loss) per share	25 ₩	<u>(564)</u>	<u>1,492</u>
Diluted earnings (loss) per share	25 ₩	<u>(564)</u>	<u>1,462</u>

See accompanying notes to non-consolidated financial statements.

Dongbu Steel Co., Ltd.

Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2010 and 2009

Date of Appropriation for 2010: March 25, 2011

Date of Appropriation for 2009: March 25, 2010

(In millions of Korean won)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>Unappropriated retained earnings</b>			
Balance at beginning of year	₩	72	21
Changes in retained earnings of equity method investments		-	(82)
Net income (loss)		(26,994)	50,169
<b>Balance at end of year before appropriation</b>		<u>(26,922)</u>	<u>50,108</u>
<b>Transfer from voluntary reserve</b>			
Voluntary reserve		35,700	-
<b>Unappropriated retained earnings available for appropriation</b>		<u>8,778</u>	<u>50,108</u>
<b>Appropriation of retained earnings</b>			
Legal reserve		859	1,040
Voluntary reserve		-	38,600
Dividends	26	7,829	10,396
		<u>8,688</u>	<u>50,036</u>
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	₩	<u>90</u>	<u>72</u>

See accompanying notes to non-consolidated financial statements.

Dongbu Steel Co., Ltd.  
Non-Consolidated Statements of Changes in Equity

For the years ended December 31, 2010 and 2009

<i>(In millions of Korean won)</i>		Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
<b>Balance at January 1, 2009</b>	₩	209,642	462,905	(2)	583,612	124,692	1,380,849
Cash dividends		-	-	-	-	(4,767)	(4,767)
Issuance of common stocks for cash		110,000	25,302	-	-	-	135,302
Net income		-	-	-	-	50,169	50,169
Conversion of convertible bonds		1,294	2,062	-	-	-	3,356
Decrease of consideration for conversion rights		-	(425)	-	-	-	(425)
Exercise of bonds with stock purchase warrants		83	79	-	-	-	162
Considerations for bonds with stock purchase warrants		-	265	-	-	-	265
Purchase of treasury stocks		-	-	(22,338)	-	-	(22,338)
Change in gain on valuation of available-for-sale securities		-	-	-	18,244	-	18,244
Change in loss on valuation of available-for-sale securities		-	-	-	5,683	-	5,683
Change in equity of equity method investee		-	-	-	2,875	-	2,875
Change in revaluation surplus of land		-	-	-	(5,979)	-	(5,979)
Change in equity method retained earnings		-	-	-	-	(83)	(83)
<b>Balance at December 31, 2009</b>	₩	<u>321,019</u>	<u>490,188</u>	<u>(22,340)</u>	<u>604,435</u>	<u>170,011</u>	<u>1,563,313</u>

See accompanying notes to non-consolidated financial statements.

<i>(In millions of Korean won)</i>	Capital stock	Capital surplus	Capital adjustments	Accumulated other	Retained earnings	Total stockholders'
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Dongbu Steel Co., Ltd.  
 Non-Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2010 and 2009

					comprehensive income		equity
<b>Balance at January 1, 2010</b>	₩	321,019	490,188	(22,340)	604,435	170,011	1,563,313
Cash dividends		-	-	-	-	(10,396)	(10,396)
Net loss		-	-	-	-	(26,994)	(26,994)
Exercise of bonds with stock purchase warrants		1	1	-	-	-	2
Considerations for bonds with stock purchase warrants		-	429	-	-	-	429
Change in revaluation reserve		-	(3,428)	-	-	-	(3,428)
Change in gain on valuation of available-for-sale securities		-	-	-	(559)	-	(559)
Change in loss on valuation of available-for-sale securities		-	-	-	3,201	-	3,201
Change in loss on valuation of interest rate swaps		-	-	-	(87)	-	(87)
Change in equity of equity method investee		-	-	-	(1,532)	-	(1,532)
Change in revaluation surplus of machinery and equipment		-	-	-	217,312	-	217,312
<b>Balance at December 31, 2010</b>	₩	<u>321,020</u>	<u>487,190</u>	<u>(22,340)</u>	<u>822,770</u>	<u>132,621</u>	<u>1,741,261</u>

See accompanying notes to non-consolidated financial statements.

Dongbu Steel Co., Ltd.  
Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(In millions of Korean won)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Net income (loss)	₩ (26,994)	50,169
Adjustments for:		
Depreciation	142,311	85,320
Amortization	2,090	1,866
Allowance for doubtful accounts	1,478	-
Accrual for retirement and severance benefits	8,286	6,770
Equity in net income of equity method accounted investments	(3,634)	(5,071)
Gain on sale of property, plant and equipment, net	(2)	(6,086)
Loss (gain) on sale of investments, net	5	(505)
Foreign currency translation gain, net	(6,878)	(12,964)
Amortization of discount on bonds payable and others	6,820	4,819
Interest Income	(344)	-
Reversal of loss on valuation of inventories	-	(49,818)
Reversal of allowance for doubtful accounts	-	(6,165)
Loss on sale of accounts and notes receivable - trade	12,043	10,905
Reversal of impairment of available-for-sale securities	(46)	-
Gain on conversion of convertible bonds	(10,188)	-
Loss on redemption of debenture	461	1,966
Gain on sale of equity method accounted investments	-	(20,569)
	<u>152,402</u>	<u>10,468</u>
Change in assets and liabilities:		
Accounts and notes receivable - trade	(81,542)	(30,012)
Long-term accounts receivable - trade	(2,024)	505
Accounts receivable - other	11,001	17,320
Prepaid expenses	506	(3,502)
Inventories	(217,243)	22,896
Current deferred income tax assets	(9,992)	(6,507)
Accounts and notes payables - trade	(111,887)	137,595
Account and notes payable - other	1,288	723
Accrued expenses	5,934	10,032
Non-current deferred income tax liabilities	(9,439)	(22,339)
Payment of retirement and severance benefits	(2,960)	(1,435)
Decrease in deposit for severance benefits trust	-	9,300
Increase in retirement benefit plan	(427)	(13,380)
Others, net	(13,132)	(7,854)
<b>Net cash provided (used) by operating activities</b>	<u>₩ (304,509)</u>	<u>173,979</u>

See accompanying notes to non-consolidated financial statements.

Dongbu Steel Co., Ltd.  
Non-Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2010 and 2009

(In millions of Korean won)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of short-term financial instruments	₩ 14,585	49,683
Proceeds from sale of long-term financial instruments	1,108	-
Proceeds from sale of available-for-sale securities	46	29,893
Proceeds from sale of held-to-maturity securities	251	973
Proceeds from sale of equity method accounted investments	4,898	35,020
Decrease in long-term loans receivable	37	54
Proceeds from sale of property, plant and equipment	2,243	16,833
Increase in short-term loans receivable	(1,000)	-
Increase in financial long-term instruments	-	(300)
Acquisition of available-for-sale securities	(7,106)	(28,532)
Acquisition of held-to-maturity securities	(2,517)	(1,512)
Acquisition of equity method accounted investments	-	(8,135)
Acquisition of construction-in-progress	(228,199)	(692,268)
Increase in other asset	(1,444)	(2,773)
<b>Net cash used in investing activities</b>	<u>(217,098)</u>	<u>(601,064)</u>
<b>Cash flows from financing activities</b>		
Additional short-term borrowings	-	13,496
Issuance of common stock for cash	-	135,302
Issuance of debentures	490,906	361,713
Additional long-term debt	1,022,937	412,581
Issuance of shares by conversion of convertible bonds	1	31
Repayment of short-term borrowings	(42,097)	(32,181)
Repayment of debentures	(32,978)	-
Repayment of long-term debt	(313,300)	(45)
Repayment of current portion of long-term debt	(549,843)	(444,145)
Acquisition of treasury stocks	-	(22,338)
Cash dividends paid	(10,395)	(4,767)
<b>Net cash provided by financing activities</b>	<u>565,231</u>	<u>419,647</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	43,624	(7,438)
Cash and cash equivalents at beginning of year	<u>11,003</u>	<u>18,441</u>
<b>Cash and cash equivalents at end of year</b>	<u>₩ 54,627</u>	<u>11,003</u>

See accompanying notes to non-consolidated financial statements.

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

**1 Organization and Description of Business**

Dongbu Steel Co., Ltd. (the “Company”) was established on October 27, 1982 and is engaged in the manufacture of iron and steel products.

On February 3, 1986, the Company was listed on the Korea Exchange. The Company’s headquarters is located in Daechi-dong 891-10, Gangnam-gu, Seoul. The Company produces its products in three factories located in Incheon, Pohang and Dangjin.

As of December 31, 2010, one of the Company’s major stockholders is Dongbu CNI Co., Ltd. (13.41%).

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies**

**(a) Basis of Presenting Financial Statements**

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

Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations, appropriation of retained earnings, cash flows or changes in equity is not presented in the accompanying non-consolidated financial statements.

The Company applied the same accounting policies that were adopted in the previous year’s non-consolidated financial statements.

**(b) Allowance for Doubtful Accounts**

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection and presented as a deduction from accounts receivable - trade and other.

**(c) Inventories**

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined by the specific identification method for materials in transit and by the moving-average method for all other inventories. Amounts of inventories written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of products sold and are deducted as an allowance from the carrying value of inventories.

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(d) Investments in Securities (Excluding investments in Subsidiaries and Associates)**

**Classification**

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries and associates) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each end of the reporting period.

Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

**Initial recognition**

Investments in securities (excluding investments in subsidiaries and associates) are initially recognized at cost.

**Subsequent measurement and income recognition**

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the statement of operations in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the statement of operations using the effective interest method.

**Fair value information**

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the Company's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

**Presentation**

Trading securities, available-for-sale securities which mature within one year from the end of the reporting period or where the likelihood of disposal within one year from the end of the reporting period is probable, held-to-maturity securities which mature within one year from the end of the reporting period, short-term deposits and short-term loans are combined and presented as current assets. All other available-for-sale securities and held-to-maturity securities are combined and presented as non-current investments.

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(d) Investments in Securities (Excluding investments in Associates and Subsidiaries), Continued**

**Impairment**

The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

When a reversal of impairment loss is objectively related to an event occurring after the recognition of impairment loss (such as an improvement in the debtor's credit rating), the amount of the reversal shall be recognized as current income to the extent of the impairment loss previously recognized. Even though the fair value increases subsequent to the recognition of an impairment loss, if such increase does not qualify to be recognized as a reversal of impairment loss, the increase in fair value shall be included in a separate component of shareholders' equity.

**(e) Investments in Associates and Subsidiaries**

Associates are all entities over which the Company has the ability to significantly influence the financial and operating policies and procedures, generally accompanying a shareholding of over 20 percent of the voting rights. Subsidiaries are entities controlled by the Company.

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates and subsidiaries include goodwill identified on acquisition. Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life of five years. Amortization of goodwill is recorded together with equity income.

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of operations.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the statement of operations, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary.

If the investee is a subsidiary, net income and net assets of the parent company's separate financial statements should agree with the parent company's share in the net income and net assets of the consolidated financial statements, except when the Company discontinues the application of the equity method due to its investment in a subsidiary being reduced to zero.

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(e) Investments in Associates and Subsidiaries, Continued**

Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

**(f) Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

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

	<u>Useful lives (years)</u>
Buildings	30 ~ 60
Structures	20 ~ 60
Machinery and equipment	20
Tools	5 ~ 7
Furniture and fixtures	5 ~ 7
Vehicles	5 ~ 7

The Company capitalizes as part of the cost of qualifying assets interest costs on all borrowings incurred until the acquisition or construction of a qualifying asset is substantially complete and the asset is ready for its intended use.

The Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

The Company adopted the revaluation model in accordance with the revised SKAS No.5 *Property, Plant and Equipment*. The book value of land, and machinery and equipments is accounted at fair value as of the date of the revaluation. If an asset's book value increases as a result of the revaluation, the amount of the increase is recognized in other comprehensive income, of which, the amount of the increase that reverses a revaluation decrease of the same asset previously recognized in profit and loss is recognized in profit and loss in the current period. On the other hand, if an asset's book value decreases as a result of the revaluation, that decrease is recognized as a loss for the current period, and the portion of the amount of decrease included in the credit balance in the revaluation surplus recorded in comprehensive income is deducted from other comprehensive income. According to the transitional provision to this Standard, the accounting change will be applied prospectively and the prior period non-consolidated financial statements presented for comparative purposes have not been restated.

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**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(g) Intangible Assets**

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Impairment losses are determined as the amount required to reduce the carrying amount of an intangible asset to its recoverable amount.

Intangible assets, which consist of industrial property rights, harbor facility usage right, other facility usage right and development cost and software, are amortized using the straight-line method over their respective estimated useful lives.

**(h) Convertible Bonds**

When accounting for convertible bonds, the liability component and the equity component of a bond are separated.

The liability component of a bond is recognized initially at fair value. Fair value is the present value of a similar debt security that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the bond as a whole, which are the gross proceeds of the bond received at the date of issue, and the fair value of the liability component. In the case of bonds with detachable stock warrants, the fair values of the liability and equity components are calculated separately. The equity component of convertible bonds or bonds with stock purchase warrants is presented as part of capital surplus within equity.

Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest rate method. The equity component is not remeasured subsequent to initial recognition.

**(i) Discount (Premium) on Debentures**

Discount (premium) on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized (accreted) using the effective interest method over the life of the debentures. The amount amortized (accreted) is included in interest expense.

**(j) Retirement and Severance Benefits**

The Company introduced a pension plan, from 2009. Under the Retirement Benefits Regulation, consideration of service requirements under the plan begins from the date the plan is effective; the period of service prior to the effective date of the plan will continue to be covered by the existing retirement benefits plan.

The Company introduced a defined benefit pension plan, where each eligible employee receives a fixed amount of pension after retirement. The Company accrued, as a liability for retirement and severance benefits, lump-sum payments payable to employees who are currently in service, assuming that they left the Company as of the end of the reporting period. All employees with a minimum of one year of service are eligible to participate and must elect to participate in the plan.

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(j) Retirement and Severance Benefits, Continued**

Dongbu Steel Co., Ltd.  
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The combined provision for retirement and severances benefits under the pension plan and those under the existing retirement benefit plan is recorded as the liability for retirement and severance benefits. Pension plan assets, together with the existing retirement and severance benefit deposit and the deposit previously made to the National Pension Fund under the old National Pension Law, as referred to above, is reflected in the accompanying non-consolidated statements of financial position as a reduction of the liability for retirement and severance benefits.

**(k) Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the foreign exchange rate at the end of the reporting period, with the resulting gains or losses recognized in the statement of operations. Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean won at the foreign exchange rates on the date of the transaction.

**(l) Derivatives**

The Company holds derivative financial instruments to hedge its foreign currency risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

**Hedge Accounting**

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction, it is designated as a cash flow hedge.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(l) Derivatives, Continued**

**Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of operations, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to any ineffective portion is recognized

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immediately in the statement of operations. Amounts accumulated in equity are recycled to the statement of operations in the periods in which the hedged item will affect income or expense. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of operations. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of operations.

**Derivatives that do not qualify for hedge accounting**

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the statement of operations.

**Separable embedded derivatives**

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of operations.

**(m) Revenue Recognition**

The Company's revenue categories consist of goods sold, services, and construction contracts.

**Goods sold**

Revenue from the sale of products is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, and there is no continuing management involvement with the products.

**Services**

Revenue from services rendered is recognized in the statement of operations based on the percentage of completion when all of the following conditions are met: (1) the amount of revenue can be measured reliably; (2) it is probable that the economic benefits associated with the transaction will flow into the entity; (3) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and (4) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. When the percentage of completion method is applied, the Company uses working hours or costs incurred for work performed to date to the estimated total contract hours or costs to measure the amount of work performed.

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**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(m) Revenue Recognition, Continued**

**Construction contracts**

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in the statement of operations in proportion to the percentage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The percentage of completion is assessed by reference to costs incurred for work performed to date to the estimated total contract costs or surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in the statement of operations.

**(n) Income Taxes**

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

**(o) Use of Estimates**

The preparation of non-consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

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3. Restricted Deposits

Deposits which are restricted in use as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>2010</u>	<u>2009</u>
Cash and cash equivalents	₩	2,462	5,651
Non-current financial instruments		<u>21</u>	<u>21</u>
	₩	<u>2,483</u>	<u>5,672</u>

Cash and cash equivalents have withdrawal restrictions related to the checking accounts and transfer of beneficiary certificates as described in Note 4.

4. Transfers of Trade Accounts Receivable

Outstanding trade accounts and notes receivable transferred to and discounted with third parties, and excluded from the accompanying statements of financial position, as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>2010</u>	<u>2009</u>
Trade accounts receivable	₩	63,208	70,399
Trade notes receivable		5,097	5,765
ABS (Asset-Backed Securities) bonds(*)		<u>85,000</u>	<u>85,000</u>
	₩	<u>153,305</u>	<u>161,164</u>

(\*) In August 2010, the Company placed a portion of its trade accounts and notes receivable in trust with Industrial Bank of Korea in exchange for senior and subordinated beneficiary certificates in accordance with the Asset Backed Securitization Act, as follows:

	<u>Description</u>
Trust principal amount	₩159,653 million
Underlying assets	Trade accounts receivable from 140 customers as of August 30, 2010, and future accounts receivable and incidental rights until August 30, 2013
Trust period	August 30, 2010 - August 30, 2013
Senior beneficiary certificates	Nominal value: ₩85,000 million
Subordinated beneficiary certificates	Amount of underlying assets less payments for senior beneficiary certificate, fees and commission paid to SPC

The Company transferred senior beneficiary certificates to Fourth Dongbu Steel SPC Ltd. ("SPC"), which then issued ABCP (Asset-Backed Commercial Paper) based on the transferred senior beneficiary certificates.

As of December 31, 2010, subordinated beneficiary certificates amounting to ₩142,659 million are classified as accounts and notes receivable - trade, while certificates amounting to ₩1,696 million are classified as accounts and notes receivable - other.

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5. Inventories

Inventories as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>2010</u>	<u>2009</u>
Merchandise	₩	1,082	264
Finished products		169,672	89,979
Work-in-progress		2,912	2,293
Semi-finished products		123,162	69,694
Raw materials		219,377	160,543
Supplies		90,682	86,221
Materials in transit		48,061	30,256
By-products		4,452	2,908
	₩	<u>659,400</u>	<u>442,158</u>

6. Short-term Investments

Held-to-maturity securities (current) as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>Face value</u>	<u>Discount</u>	<u>Book value</u>	
				<u>2010</u>	<u>2009</u>
Government bonds	₩	2	-	2	251

7. Other Current Assets

Other current assets as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>2010</u>	<u>2009</u>
Accrued income	₩	664	726
Advance payments		7,337	100
Deposits provided for business		2,447	16
Prepaid value added tax		11,798	10,048
Income tax refund receivables		1,377	1,288
	₩	<u>23,623</u>	<u>12,178</u>

8. Non-current Investments

Non-current investments as of December 31, 2010 and 2009 are summarized as follows:

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(In millions of Korean won)

		<u>2010</u>	<u>2009</u>
<b>Available-for-sale securities (non-current)</b>			
Marketable securities	₩	65,770	22,824
Non-marketable securities		52,444	45,356
Debt securities		-	29,007
		<u>118,214</u>	<u>97,187</u>
<b>Held-to-maturity securities (non-current)</b>		22,695	20,180
<b>Equity method accounted investments</b>		<u>77,767</u>	<u>81,575</u>
	₩	<u>218,676</u>	<u>198,942</u>

(a) Available-for-sale securities (non-current)

As of December 31, 2010 and 2009, available-for-sale securities (non-current) consist of marketable securities recorded at fair value, non-marketable securities and debt securities.

(i) Marketable securities recorded at fair value

Marketable securities recorded at fair value as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>2010</u>		<u>2009</u>
	<u>Percentage of ownership</u>	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Fair value</u>
Dongbu Securities Co., Ltd.	8.13% ₩	28,267	26,933	22,824
Dongbu HiTek Co., Ltd.	8.49%	37,564	38,822	-
Ssangyong Motor Co., Ltd.	0.01%	19	15	-
		<u>₩ 65,850</u>	<u>65,770</u>	<u>22,824</u>

8. Non-current Investments, Continued

(a) Available-for-sale securities (non-current), Continued

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(ii) Non-marketable securities

Non-marketable securities as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

	Percentage of ownership	2010		2009
		Acquisition cost	Book value	Book value
Dongbu Life Insurance Co., Ltd.	11.62% ₩	20,476	43,658	43,658
Dongbu Metal Co., Ltd.(*)	0.02%	88	88	-
KMA Consultants Inc.(*)	0.50%	20	20	20
The Korea Metal Journal Co., Ltd.(*)	2.67%	20	20	20
Korea Specialty Contractor Financial Cooperative(*)	0.46%	158	158	158
POS-HiMETAL Co., Ltd.(*)	15.00%	7,500	7,500	1,500
SY tech Co., Ltd.(*)	4.97%	1,000	1,000	-
	₩	29,262	52,444	45,356

(\*) These non-marketable securities are recorded at acquisition cost since their fair values are not available or readily determinable.

(iii) Debt securities

Debt securities as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		2010		2009
		Acquisition cost	Fair value	Fair value
Convertible bonds of Dongbu HiTek Co., Ltd.	₩	-	-	29,007

Convertible bonds of Dongbu Hitek Co., Ltd. were converted to Dongbu Hitek Co., Ltd.'s common stock of 3,594,680 shares in 2010 and as a result of the converting, ₩10,188 million as other income was recorded in the statements of operations.

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8. Non-current Investments, Continued

(a) Available-for-sale securities (non-current), Continued

(iv) Changes in unrealized gains (losses)

Changes in unrealized gains (losses) for the years ended December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>2010</u>	<u>2009</u>
<b>Beginning balance</b>	₩	19,714	(10,962)
Realized gains on disposition of securities		(1,975)	(2,622)
Changes in unrealized gains and losses, net		<u>5,363</u>	<u>33,298</u>
Ending balance		23,102	19,714
Income tax effect		<u>(5,083)</u>	<u>(4,337)</u>
<b>Net balance at end of year</b>	₩	<u>18,019</u>	<u>15,377</u>

(b) Held-to-maturity securities (non-current)

Held-to-maturity securities (non-current) as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		<u>Face value</u>	<u>Discount</u>	<u>Book value</u>	
				<u>2010</u>	<u>2009</u>
Government bonds	₩	3,895	-	3,895	1,680
Subordinated bonds		<u>18,800</u>	-	<u>18,800</u>	<u>18,500</u>
	₩	<u>22,695</u>	-	<u>22,695</u>	<u>20,180</u>

Maturities of debt securities classified as held-to-maturity at December 31, 2010 are summarized as follows:

(In millions of Korean won)

		<u>2010</u>
Due within one year	₩	2
Due after one year through five years		<u>22,695</u>
	₩	<u>22,697</u>

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8. Non-current Investments, Continued

(c) Equity method accounted investments

(i) Investments in companies accounted for using the equity method as of December 31, 2010 are summarized as follows:

(In millions of Korean won)

Company	Percentage of ownership	Acquisition cost	Net assets	Balance at Dec. 31, 2010
Dongbu Japan Inc.(*1)	82.02% ₩	3,688	2,210	2,210
Dongbu USA Inc.	100.00%	5,929	7,939	5,266
Dongbu Singapore Pte. Ltd.	100.00%	20,672	24,840	24,840
Dongbu Capital Corp.(*2)	49.98%	21,401	31,469	31,469
Dongbu Corp.	42.86%	4,500	13,982	13,982
Dongbu World Inc.(*3)	23.27%	-	-	-
		₩ <u>56,190</u>	<u>80,440</u>	<u>77,767</u>

(\*1) The Company accounted for its investment in Dongbu Japan Inc. by using the equity method of accounting based on the unaudited financial statements as audited financial statements were not available and performed certain procedures to verify the reliability of them.

(\*2) The Company has disposed 400,800 shares (percentage of ownership: 10.02%) of Donbu Capital Corp. in December 2010. The difference between disposal and carrying amount was reflected as other comprehensive income because Dongbu Capital Corp. remains as a subsidiary after disposal.

(\*3) The Company has discontinued the application of the equity method because the carrying amount of investment was zero as a result of capital deficiency of Dongbu World Inc. The cumulative loss in the amount of ₩10,106 million was not recognized by the Company as of December 31, 2010.

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8. Non-current Investments, Continued

(c) Equity method accounted investments, Continued

Investments in companies accounted for using the equity method as of December 31, 2009 are summarized as follows:

(In millions of Korean won)

Company	Percentage of ownership	Acquisition cost	Net assets	Balance at Dec. 31, 2009
Dongbu Japan Inc.	82.02% ₩	3,688	2,030	2,030
Dongbu USA Inc.	100.00%	5,929	7,916	5,773
Dongbu Singapore Pte. Ltd.	100.00%	20,672	24,706	24,706
Dongbu Capital Corp.	60.00%	25,692	37,749	37,749
Dongbu Corp.	42.86%	4,500	11,317	11,317
Dongbu World Inc. (*)	23.27%	-	-	-
		₩ 60,481	83,718	81,575

(\*) The Company has discontinued the application of the equity method because the carrying amount of investment was zero as a result of capital deficiency of Dongbu World Inc.. The cumulative loss in the amount of ₩8,253 million was not recognized by the Company as of December 31, 2009.

The Company disposed of its securities held in Dongbu Life Insurance Co., Ltd. in 2009. As such, the Company reclassified the investment from equity method accounted investments to available-for-sale securities in 2009.

(ii) Details of eliminated unrealized gains from inter-company transactions for the year ended December 31, 2010 are summarized as follows:

(In millions of Korean won)

Company	Transaction	Balance at Jan. 1, 2010	Increase	Decrease	Balance at Dec. 31, 2010
Dongbu USA Inc.	Inventories ₩	2,143	2,673	(2,143)	2,673

Details of eliminated unrealized gains from inter-company transactions for the year ended December 31, 2009 are as follows:

(In millions of Korean won)

Company	Transaction	Balance at Jan. 1, 2009	Increase	Decrease	Balance at Dec. 31, 2009
Dongbu USA Inc.	Inventories ₩	2,221	2,143	(2,221)	2,143

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8. Non-current Investments, Continued

(c) Equity method accounted investments, Continued

(iii) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the year ended December 31, 2010 are summarized as follows:

(In millions of Korean won)

<u>Company</u>	<u>Percentage of ownership</u>	<u>Balance at Jan. 1, 2010</u>	<u>Net income (loss)</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Issuance of common stock, etc</u>	<u>Balance at Dec. 31, 2010</u>
Dongbu Japan Inc.	82.02% ₩	2,030	(33)	213	-	2,210
Dongbu USA Inc.	100.00%	5,773	(310)	(197)	-	5,266
Dongbu Singapore Pte. Ltd.	100.00%	24,706	684	(550)	-	24,840
Dongbu Capital Corp.	49.98%	37,749	628	(1,435)	(5,473)	31,469
Dongbu Corp.	42.86%	11,317	2,665	-	-	13,982
Dongbu World Inc.	23.27%	-	-	-	-	-
		₩ 81,575	3,634	(1,969)	(5,473)	77,767

Changes in the opening and closing balances of investments in companies accounted for using the equity method for the year ended December 31, 2009 are summarized as follows:

(In millions of Korean won)

<u>Company</u>	<u>Percentage of ownership</u>	<u>Balance at Jan. 1, 2009</u>	<u>Net income (loss)</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Issuance of common stock</u>	<u>Balance at Dec. 31, 2009</u>
Dongbu Japan Inc.	82.02% ₩	2,107	130	(207)	-	2,030
Dongbu USA Inc.	100.00%	4,769	1,644	(640)	-	5,773
Dongbu Singapore Pte. Ltd.	100.00%	16,936	527	(891)	8,134	24,706
Dongbu Capital Corp.	60.00%	30,383	1,426	5,940	-	37,749
Dongbu Corp.	42.86%	10,052	1,344	(79)	-	11,317
Dongbu World Inc.	23.27%	-	-	-	-	-
		₩ 64,247	5,071	4,123	8,134	81,575

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8. Non-current Investments, Continued

(c) Equity method accounted investments, Continued

(iv) Summarized financial information of equity method accounted investments as of December 31, 2010 are summarized as follows:

(In millions of Korean won, thousands of JPY and USD)

Company		Total assets	Total liabilities	Sales	Net income (loss)
Dongbu Japan Inc.	JPY	588,214	395,324	601,434	(3,062)
Dongbu USA Inc.	USD	39,150	32,278	154,227	197
Dongbu Singapore Pte. Ltd.	USD	23,891	3,377	6,772	291
Dongbu Capital Corp.	₩	164,490	101,528	15,643	1,047
Dongbu Corp.	₩	73,980	41,354	72,727	6,219
Dongbu World Inc.	₩	205,387	296,396	8,978	(7,962)

9. Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of December 31, 2010 are summarized as follows:

Controlled subsidiaries(*1)	Ownership
Dongbu Capital Corp.	50%
Dongbu Japan Inc.	82%
Dongbu USA Inc.	100%
Dongbu Singapore Pte. Ltd.	100%
Zhangjiagang Dongbu High Technology Metal Products Co., Ltd.(*2)	50%

(\*1) Controlled subsidiaries represent majority-owned entities by either the Company or controlled subsidiaries and other entities where the Company or its controlled subsidiary owns more than 30% of total outstanding common stock and is the largest shareholder.

(\*2) This entity is a 50% owned subsidiary of Dongbu Singapore Pte. Ltd.

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9. Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

Relationship	Name	Transaction		2010	2009
Subsidiary	Dongbu USA Inc.	Sales - export	₩	157,924	152,051
		Purchase - import		14,160	7,579
	Dongbu Japan Inc.	Purchase - import		8,140	8,896
		Dongbu Singapore Pte. Ltd.	Purchase - import		7,511
	Zhangjiagang Dongbu High Technology Metal Products Co., Ltd.	Sales - export		6,617	16,486
Equity method Investee	Dongbu Corp.	Purchase - domestic		92	87
Related party	Dongbu Life Insurance Co., Ltd.	Purchase - domestic		277	288
		Dongbu Fire Insurance Co., Ltd.	Sales - domestic	-	54,075
	Dongbu Construction Co., Ltd.	Purchase - domestic		7,867	6,410
		Sales - domestic		21,651	9,888
	Dongbu Hitek Co., Ltd.	Purchase - domestic		203,221	248,618
		Sales - domestic		-	1,764
	Dongbu CNI Co., Ltd.	Sales - domestic		139	-
		Purchase - domestic		15,423	17,693
	Dongbu Fine Chemicals Co., Ltd.	Sales - domestic		520	171
		Purchase - domestic		-	24
	Dongbu World Inc.	Purchase - domestic		-	730
	Dongbu Securities Co., Ltd.	Purchase - domestic		1,048	-
	Dongbu Metal Co., Ltd.	Sales - domestic		25	-
		Purchase - domestic		18,006	-
	Dongbu Hannong Co., Ltd.	Sales - domestic		39	-
	Dongbu Investment Co., Ltd.	Sales - domestic		701	-
		Purchase - domestic		8	-
Dongbu Engineering Co., Ltd.	Purchase - domestic		221	-	
		Sales	₩	187,616	234,435
		Purchases	₩	275,974	327,607

9. Transactions and Balances with Related Companies, Continued

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(c) Account balances with related companies as of December 31, 2010 are summarized as follows:

(In millions of Korean won)

Relation-ship	Name		Receivables			Payables		
			Accounts receivables	Long-term financial instruments	Other Assets	Accounts payable - trade	Deposits provided	Short term loan
Subsidiary	Dongbu USA Inc.	₩	5,028	-	-	-	-	-
	Dongbu Japan Inc.		-	-	-	2,409	-	-
	Dongbu Singapore Pte. Ltd.		-	-	-	4,183	-	-
	Zhangjiagang Dongbu High Technology Metal Products Co., Ltd.		44	-	-	-	-	-
Equity method investee	Dongbu Corp.		-	-	-	60	-	-
Related party	Dongbu Life Insurance Co., Ltd.		-	141	-	-	-	-
	Dongbu Fire Insurance Co., Ltd.		-	-	1,930	317	-	-
	Dongbu Construction Co., Ltd.		7,518	-	25	68,869	-	-
	Dongbu CNI Co., Ltd.		91	-	-	5,231	-	-
	Dongbu World Inc.		-	-	24,481	-	-	-
	Dongbu Securities Co., Ltd.		-	-	-	-	-	17,500
	Dongbu Metal Co., Ltd.		-	-	-	5,821	22	-
	Dongbu Investment Co., Ltd.		-	-	5	-	-	-
	Representative Director		-	-	2,338	-	-	-
			₩	<u>12,681</u>	<u>141</u>	<u>28,779</u>	<u>86,890</u>	<u>22</u>

The Company maintains employees' retirement insurance accounts and retirement pension accounts of ₩2,716 million with Dongbu Life Insurance Co., Ltd. as of December 31, 2010.

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9. Transactions and Balances with Related Companies, Continued

(d) The Company had provided guarantees for related companies as of December 31, 2010 and are summarized as follows:

(In thousands of JPY and USD)

Beneficiary	Type of guarantee		Guaranteed amount
Dongbu USA Inc.	Trade financing	USD	2,600
Dongbu Japan Inc.	Bank overdrafts	JPY	540,000
Zhangjiagang Dongbu High Technology Metal Products Co., Ltd.	General loan	USD	1,950

(e) The Company has borrowings from Korea Exchange Bank which are guaranteed by a Representative Director

10. Property, Plant and Equipment

(a) Property, plant and equipment at December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		2010	2009
Property, plant and equipment at cost	₩	4,649,637	4,160,844
Accumulated depreciation		(974,588)	(839,265)
<b>Property, plant and equipment, net</b>	₩	<b>3,675,049</b>	<b>3,321,579</b>

(b) Changes in property, plant and equipment for the year ended December 31, 2010 are summarized as follows:

(In millions of Korean won)

		2010					Other	Book value as
		Book value as	Acquisitions	Disposals	Depreciation	Revaluation	(*)	of Dec. 31
		of Jan. 1						
Land	₩	1,015,795	-	-	-	-	932	1,016,727
Buildings		169,762	-	(28)	(10,894)	-	162,972	321,812
Structures		82,538	-	(26)	(6,163)	-	96,296	172,645
Machinery and equipment		652,632	-	(2,187)	(120,929)	278,605	1,073,236	1,881,357
Vehicles		730	-	-	(276)	-	361	815
Others		7,258	-	-	(4,049)	-	17,018	20,227
Construction-in-progress		1,392,864	228,199	-	-	-	(1,359,597)	261,466
	₩	<b>3,321,579</b>	<b>228,199</b>	<b>(2,241)</b>	<b>(142,311)</b>	<b>278,605</b>	<b>(8,782)</b>	<b>3,675,049</b>

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10. Property, Plant and Equipment, Continued

- (c) Under SKAS (Statement of Korea Accounting Standards) No. 5 *Property, Plant and Equipment*, the Company changed accounting policy to state the revaluation amount for machinery and equipment. This change resulted in increases of ₩278,605 million in machinery and equipment, ₩217,312 million in other comprehensive income, ₩25,670 million in depreciation expense and of ₩19,458 million in net loss.

(In millions of Korean won)

		<u>Net book value before revaluation</u>	<u>Fair value</u>	<u>Revaluation surplus</u>
Machinery and equipment	₩	650,858	929,463	278,605
Deferred tax liabilities directly credited to equity				<u>(61,293)</u>
Revaluation surplus recorded in other comprehensive income	₩			<u>217,312</u>

- (d) The Company changed estimated useful life of machinery and equipment from 8 and 20 years to 20 years effective January 1, 2010. As a result of this change, depreciation expense decreased by ₩13,047 million and net loss decreased by ₩9,890 million more than it would have been under the previous useful life, respectively.
- (e) Changes in property, plant and equipment for the year ended December 31, 2009 are summarized as follows:

(In millions of Korean won)

		<b>2009</b>					
		<u>Book value as of Jan. 1</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Other (* )</u>	<u>Book value as of Dec. 31</u>
Land	₩	1,027,445	-	(11,650)	-	-	1,015,795
Buildings		182,964	-	(6,270)	(7,124)	192	169,762
Structures		87,770	-	-	(3,702)	(1,530)	82,538
Machinery and equipment		677,953	-	(491)	(71,330)	46,500	652,632
Vehicles		702	-	-	(243)	271	730
Others		7,880	-	-	(2,921)	2,299	7,258
Construction-in- progress		<u>754,497</u>	<u>693,395</u>	<u>-</u>	<u>-</u>	<u>(55,028)</u>	<u>1,392,864</u>
	₩	<u>2,739,211</u>	<u>693,395</u>	<u>(18,411)</u>	<u>(85,320)</u>	<u>(7,296)</u>	<u>3,321,579</u>

- (f) Insurance  
As of December 31, 2010, buildings, machinery and tools are insured against fire and other casualty damage up to ₩2,734,181 million. In addition, as of December 31, 2010, the Company maintains insurance policies covering loss and liability arising from gas and automobile accidents.

10. Property, Plant and Equipment, Continued

- (g) The officially declared value of land at December 31, 2010, as announced by the Ministry of Land, Transport and Maritime Affairs are summarized as follows:

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(In millions of Korean won)

		<u>Book value</u>	<u>Declared value</u>
Head office	₩	21,692	17,620
Plant in Incheon		514,420	288,184
Plant in Pohang		23,470	19,797
Plant in Dangjin		457,145	190,292
	₩	<u>1,016,727</u>	<u>515,893</u>

The officially declared values, which are used for government purposes, are not intended to represent fair value.

### 11. Capitalization of Interest

In relation to the completion of construction, interest costs of ₩45,884 million and ₩79,347 million are capitalized as part of the cost of qualifying assets as of December 31, 2010 and 2009, respectively. If the Company had expensed the interest costs, the differences in balances of the relevant accounts would have been as follows:

(In millions of Korean won)

<u>Related account</u>		<u>2010</u>		<u>2009</u>	
		<u>Capitalized</u>	<u>Expensed</u>	<u>Capitalized</u>	<u>Expensed</u>
Finished products	₩	169,672	165,868	89,978	89,363
Property, plant and equipment and other assets		3,691,991	3,534,737	3,333,926	3,218,025
Non-current deferred income tax liabilities		170,820	134,581	115,058	88,619
Cost of sales		3,369,694	3,368,394	2,444,245	2,444,063
Selling, general and administrative expenses		197,604	197,565	161,762	161,730
Interest expense		148,194	194,078	70,510	149,857
Net income (loss)		(26,994)	(61,740)	50,168	(11,581)

Dongbu Steel Co., Ltd.  
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December 31, 2010 and 2009

12. Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2010 are summarized as follows:

(In millions of Korean won)

		2010				
		Industrial property right	Harbor facility usage right	Other facility usage right	Software	Development costs
Net balance at beginning of year	₩	1	6,733	20	3,326	172
Additions		-	-	-	-	-
Amortization		(1)	(509)	(8)	(1,533)	(39)
Other changes		-	(84)	-	3,605	5,259
Net balance at end of year	₩	-	6,140	12	5,398	5,392

(b) Changes in intangible assets for the year ended December 31, 2009 are summarized as follows:

(In millions of Korean won)

		2009				
		Industrial property right	Harbor facility usage right	Other facility usage right	Software	Development costs
Net balance at beginning of year	₩	3	7,534	25	4,604	-
Additions		-	-	-	-	-
Amortization		(2)	(456)	(5)	(1,378)	(25)
Other changes		-	(345)	-	100	197
Net balance at end of year	₩	1	6,733	20	3,326	172

(c) Research and development costs incurred and expensed for the years ended December 31, 2010 and 2009 are ₩3,847 million and ₩1,607 million, respectively.

13. Other Non-current Assets

Other non-current assets as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

	2010	2009
Long-term loans	₩ 7,119	7,155
Long-term trade receivables, less allowance for doubtful accounts of ₩3,476 in 2010 and ₩4,464 in 2009	2,062	1,119
Deposit provided for business	9,634	8,180
Memberships	21,111	20,327
Other investments	6,924	6,924
	₩ 46,850	43,705

Dongbu Steel Co., Ltd.  
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December 31, 2010 and 2009

14. Pledged Assets and Guarantees

The following assets are pledged as collateral for the Company's short-term borrowings and long-term debt as of December 31, 2010:

(In millions of Korean won)

Asset	Lender	Borrowing amount	Book value of assets collateralized	Collateralized amount
Land, buildings, equity method investments and available-for-sale securities	The Korea Development Bank and others	₩ 1,545,742	3,435,557	2,819,419
Securities held to maturity	Corporate bond	-	25,520	23,000
Inventories	The Korea Export- Import Bank	50,000	125,608	65,000
Treasury stock and available- for-sale securities	Korea Securities Finance Corporation	12,000	26,537	12,027
		₩ 1,607,742	3,613,222	2,919,446

15. Other Current Liabilities

Other current liabilities as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

	2010	2009
Advances from customers	₩ 1,205	4,270
Unearned income	65	70
Withholdings	1,541	1,094
Deposits received	1,761	1,516
Dividends payable	29	28
	₩ 4,601	6,978

Dongbu Steel Co., Ltd.  
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16. Long-term Debt

(a) Long-term debt as of December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

Lender	Maturity	Annual interest rate	2010	2009	
<b>Local currency borrowings</b>					
The Korea Development Bank	2016 ~ 2019	4.29 ~ 4.83% ₩	4,100	409,600	
	2012-01-14	8.53 ~ 8.80%	264,000	20,000	
Syndicated Loan	2017-09-03	7.50%	700,000	-	
Kookmin Bank	2022-06-14	3.00%	5,820	6,074	
IBM Korea	2013 ~ 2015	7.84 ~ 9.87%	1,615	1,522	
GE Capital Korea Co., Ltd.	2013-10-21	9.30%	17,752	-	
Veolia Water Resource Development Co., Ltd.	2025-06-25	9.10 ~ 11.10%	55,721	15,130	
			<u>1,049,008</u>	<u>452,326</u>	
<b>Foreign currency borrowings</b>					
Sumitomo Corp.	2013-03-29	7.75%	16,765	-	
			<u>16,765</u>	<u>-</u>	
<b>Bonds &amp; debentures</b>					
128-1th	Publicly placed debentures	2011-11-13	6.10%	20,000	20,000
129th	Publicly placed debentures	2010-02-05	-	-	40,000
130th	Privately placed debentures	2010-02-09	-	-	30,000
133rd	Publicly placed debentures	2010-08-06	-	-	20,000
134th	Publicly placed debentures	2010-10-29	-	-	10,000
135th	Publicly placed debentures	2010-11-14	-	-	10,000
136th	Convertible debentures	2010-11-30	-	-	1,077
138th	Privately placed debentures	2011-05-26	-	-	30,000
139th	Publicly placed debentures	2011-06-17	8.21%	20,000	20,000
143rd	Publicly placed debentures	2012-01-22	10.50%	15,000	15,000
144th	Privately placed debentures	2012-03-04	10.56%	50,000	50,000
145th	Bonds with stock warrants	2012-05-21	6.00%	31,892	34,870
146th	Bonds with stock warrants	2012-05-22	6.00%	15,000	15,000
147th	Publicly placed debentures	2010-06-25	-	-	10,000
148th	Privately placed debentures	2011-07-07	10.80%	14,500	14,500
149th	Publicly placed debentures	2010-07-16	-	-	30,000
150th	Publicly placed debentures	2010-08-13	-	-	40,000
151-1st	Publicly placed debentures	2010-09-10	-	-	40,000
151-2st	Publicly placed debentures	2011-03-10	10.70%	10,000	10,000
152nd	Publicly placed debentures	2011-04-22	9.80%	50,000	50,000
153rd	Publicly placed debentures	2011-05-20	9.70%	50,000	50,000
154th	Privately placed debentures	2010-11-24	-	-	21,000
155th	Privately placed debentures	2010-11-30	-	-	23,000
156th	Privately placed debentures	2010-12-14	-	-	200,000
157th	Privately placed debentures	2012-02-09	8.98%	30,000	-
158-1th	Publicly placed debentures	2011-02-26	9.40%	10,000	-
158-2th	Publicly placed debentures	2011-08-26	9.70%	10,000	-
159-1th	Publicly placed debentures	2011-03-12	9.40%	10,000	-
159-2th	Publicly placed debentures	2011-09-12	9.70%	10,000	-
160th	Bonds with stock warrants	2014-05-13	8.80%	60,000	-

16. Long-term Debt, Continued

(a) Long-term debt as of December 31, 2010 and 2009 are summarized as follows, continued:

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(In millions of Korean won)

Lender		Maturity	Annual interest rate	2010	2009
161st	Publicly placed debentures	2012-06-09	9.20% ₩	60,000	-
162nd	Publicly placed debentures	2012-07-14	9.00%	60,000	-
163rd	Publicly placed debentures	2012-08-09	8.80%	20,000	-
164th	Privately placed debentures	2011-08-26	8.50%	10,000	-
165th	Publicly placed debentures	2012-09-07	8.80%	60,000	-
166th	Publicly placed debentures	2013-10-29	8.90%	50,000	-
167th	Publicly placed debentures	2013-12-06	8.80%	50,000	-
168th	Publicly placed debentures	2013-12-14	6.41%	10,000	-
				<u>726,392</u>	<u>784,447</u>
Less conversion right adjustment and stock warrants adjustment				(14,663)	(4,363)
Less discounts on bonds payable				(2,993)	(2,090)
Less discounts on long term debt				(13,613)	-
Premium on bonds payable				18,411	5,144
				<u>713,534</u>	<u>783,138</u>
Total long-term debt, bonds and debentures				<u>1,779,307</u>	<u>1,235,464</u>
Less current portion, net of discount, premium and others				<u>(295,954)</u>	<u>(549,349)</u>
				₩ <u>1,483,353</u>	<u>686,115</u>

Property, plant and equipment, inventories, non-current investments are pledged as collateral for long-term debt as of December 31, 2010.

(b) Aggregate maturities of the Company's long-term debt as of December 31, 2010 are summarized as follows:

(In millions of Korean won)

For the years ending December 31		Bonds and debentures	Local currency debt	Foreign currency debt	Total
2011	₩	261,392	28,944	4,191	294,527
2012		295,000	370,536	8,383	673,919
2013		110,000	164,810	4,191	279,001
2014		60,000	160,431	-	220,431
2015 and thereafter		-	324,287	-	324,287
	₩	<u>726,392</u>	<u>1,049,008</u>	<u>16,765</u>	<u>1,792,165</u>

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16. Long-term Debt, Continued

(c) Details of bonds with stock purchase warrants as of December 31, 2010 are summarized as follows:

	145th	146th	160th
Date issued	May 21, 2009	May 22, 2009	May 13, 2010
Issued at	Face value	Face value	Face value
Maturity date	May 21, 2012	May 22, 2012	May 13, 2014
Expiration date	April 21, 2012	April 22, 2012	April 13, 2014
Exercise price in won(*)	₩7,760	₩8,010	₩9,860
Amount of issue	₩31,892 million	₩15,000 million	₩60,000 million

(\*) A bond with stock purchase warrants is effective when the relevant payment is made in cash or proxy, and is required to pay dividends assuming it to be converted on the last day of the year before the conversion is made. On the maturity date of 145th and 146th, the bonds with stock purchase warrants are to be redeemed at 110.2016% of the face value. The bonds with stock purchase warrants bear an option to claim an early redemption by investors in every 3 months after 18 months from the issuing date. On the maturity date of the 160th, the bond with stock purchase warrants is to be redeemed at 122.7178% of the face value and if an option is early redeemed by investors (exercise period: March 14, 2012 ~ April 13, 2012), the bonds with stock purchase warrants are to be redeemed at 109.6986% of the face value on May 13, 2012.

17. Assets and Liabilities Denominated in Foreign Currencies

(a) Assets and liabilities denominated in foreign currencies as of December 31, 2010 are summarized as follows:

(In millions of Korean won and thousands of foreign currencies)

		As of December 31, 2010		
		Foreign currencies	Exchange rate	Translation into Korean won
Short-term financial instruments	EUR	50	1,513.60 ₩	76
	USD	208	1,138.90	237
Accounts receivable - trade	EUR	8,014	1,513.60	12,129
	JPY	688,589	13.9708	9,620
	USD	61,713	1,138.90	70,285
	GBP	731	1,757.72	1,285
	USD	80	1,138.90	91
Total foreign currency denominated assets			₩	93,723
Accounts payable - trade	USD	507,690	1,138.90 ₩	578,208
	JPY	3,588,674	13.9708	50,137
	EUR	2,502	1,513.60	3,787
Short-term borrowings	USD	37,963	1,138.90	43,237
	JPY	239,544	13.9708	3,347
Long-term debt	JPY	1,200,000	13.9708	16,765
<b>Total foreign currency denominated liabilities</b>			₩	<b>695,481</b>

17. Assets and Liabilities Denominated in Foreign Currency, Continued

(a) Assets and liabilities denominated in foreign currencies as of December 31, 2010 are summarized as follows,

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continued:

The Company recorded foreign currency translation gain of ₩12,983 million and foreign currency translation loss of ₩6,105 million in relation to translation of the above assets and liabilities for the year ended December 31, 2010.

(b) Assets and liabilities denominated in foreign currencies as of December 31, 2009 are summarized as follows:

(In millions of Korean won and thousands of foreign currencies)

		As of December 31, 2009		
		Foreign currencies	Exchange rate	Translation into won
Short-term financial instruments	EUR	702	1,674.28 ₩	1,175
	USD	11,752	1,167.60	13,722
Accounts receivable - trade	EUR	5,879	1,674.28	9,843
	JPY	978,880	12.6282	12,361
	USD	96,118	1,167.60	112,227
Accounts receivable - other	USD	80	1,167.60	93
Total foreign currency denominated assets				₩ 149,421
Accounts payable - trade	USD	546,960	1,167.60 ₩	638,630
	JPY	3,224,793	12.6282	40,723
	EUR	174	1,674.28	291
Short-term borrowings	USD	5,702	1,167.60	6,657
	JPY	198,120	12.6282	2,502
<b>Total foreign currency denominated liabilities</b>				₩ 688,803

The Company recorded foreign currency translation gain of ₩24,438 million and foreign currency translation loss of ₩11,474 million in relation to translation of the above assets and liabilities for the year ended December 31, 2009.

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18. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

	2010	2009
<b>Estimated retirement and severance benefits at beginning of year</b>	₩ 25,357	19,293
Accrual for retirement and severance benefits	8,286	7,469
Payments	(2,979)	(1,440)
Transferred from related company	11	35
<b>Estimated retirement and severance benefits at end of year</b>	<u>30,675</u>	<u>25,357</u>
Transfer to National Pension Fund	(152)	(171)
Deposit for pension plan asset	<u>(13,807)</u>	<u>(13,380)</u>
<b>Net balance at end of year</b>	<u>₩ 16,716</u>	<u>11,806</u>

The Company maintains pension plan assets arrangements with The Korea Development Bank and others as of December 31, 2010. Under these arrangements, the Company has made deposits in the amount equal to 45.01% of the reserve balances of retirement and severance benefits as of December 31, 2010. The assets are accounted for as a reduction in the reserve balance. Pension plan assets consist of time deposits as of December 31, 2010.

19. Commitments and Contingencies

(a) Contractual agreements with financial institutions as of December 31, 2010 are summarized as follows:

(In millions of Korean won and thousands of USD)

Financial institution	Over-draft	General loan	Facilities loan	Syndicated loan(*2)	Import usance bill	Import bill payable at sight	Local letter of credit	Document against acceptance	Guarantee in foreign currency
The Korea Development Bank	₩ -	₩ 270,000	₩ 4,100	₩ 400,000	\$ 150,000	₩ -	\$ -	\$ 15,000	10,000
Korea Exchange Bank	20,000	30,000	-	-	123,585	53,000	6,000	11,000	-
Hana Bank	3,500	60,000	-	70,000	70,000	-	-	-	-
The Korea Export-Import Bank	-	50,000	-	-	150,000	-	-	-	-
Shinhan Bank	1,000	-	-	90,000	61,965	-	-	-	-
Industrial Bank of Korea	5,000	-	-	-	10,000	-	-	-	-
NACF(*1)	-	2,800	-	100,000	80,000	-	-	-	-
Woori Bank	10,000	-	-	40,000	131,395	-	-	10,000	-
Kookmin Bank	-	-	5,821	-	-	-	-	-	-

(\*1) National Agricultural Cooperative Federation

(\*2) Related to the above syndicated loan, the Company has a covenant with the lender group on the maintenance of certain financial ratios and restriction on the disposal of material assets.

19. Commitments and Contingencies, Continued

(b) As of December 31, 2010, the Company has pledged one blank note as collateral for borrowings to Kookmin Bank.

Dongbu Steel Co., Ltd.  
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- (c) As of December 31, 2010, the outstanding balance of the domestic accounts and notes receivable sold to financial institutions but not yet matured amounted to ₩90,097 million, including ₩85,000 million related to asset backed securities (ABS), and the outstanding balance of the export related accounts and notes receivable sold of documents against acceptance (D/A) or documents against payment (D/P) but not yet matured amounted to ₩63,208 million.
- (d) In September, 2007, the Company entered into a renewable hot coil supply contract with JFE Steel Corp., a Japanese company, for five years.

**20. Capital Stock**

- (a) Transactions in capital stock for the year ended December 31, 2010 are summarized as follows:

*(In millions of Korean won, except share data)*

	Common stock		Preferred stock	
	Number of shares	Amount	Number of shares	Amount
<b>Balance at December 31, 2009</b>	50,638,463 ₩	253,192	2,565,350 ₩	67,827
Exercise of warrants	152	1	-	-
<b>Balance at December 31, 2010</b>	<u>50,638,615 ₩</u>	<u>253,193</u>	<u>2,565,350 ₩</u>	<u>67,827</u>

- (b) Transactions in capital stock for the year ended December 31, 2009 are summarized as follows:

*(In millions of Korean won, except share data)*

	Common stock		Preferred stock	
	Number of shares	Amount	Number of shares	Amount
<b>Balance at December 31, 2008</b>	28,363,190 ₩	141,816	2,565,350 ₩	67,827
Conversion of convertible bonds	258,709	1,293	-	-
Exercise of warrants	16,564	83	-	-
Issuance of common stock	22,000,000	110,000	-	-
<b>Balance at December 31, 2009</b>	<u>50,638,463 ₩</u>	<u>253,192</u>	<u>2,565,350 ₩</u>	<u>67,827</u>

**21. Treasury stock**

Details of treasury stock as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of Korean won)*

	<u>2010</u>	<u>2009</u>
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Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

**December 31, 2010 and 2009**

Treasury stock	₩	22,340	22,340
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The Company retained 1,868,120 shares of its treasury stock amounting to ₩22,340 million as of December 31, 2010. The Company recorded this at cost, as a capital adjustment.

On June 10, 2009, according to the decision of the Board of Directors, the Company acquired 1,867,390 shares of treasury stock for the purpose of stock price stabilization. The Company retained 1,868,120 shares of its treasury stock amounting to ₩22,340 million as of December 31, 2010. Treasury stocks do not exercise their voting rights under the Commercial Code of Korea.

**22. Retained Earnings**

Retained earnings as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of Korean won)</i>		<u>2010</u>	<u>2009</u>
Legal reserve(*)	₩	20,141	19,101
Discretionary and voluntary reserve		139,403	100,803
Unappropriated retained earnings (undisposed accumulated deficit)		<u>(26,923)</u>	<u>50,107</u>
	₩	<u>132,621</u>	<u>170,011</u>

(\*) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to offset against deficit or to transfer to capital.

**23. Selling, General and Administrative Expenses**

Details of selling, general and administrative expenses for the years ended December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of Korean won)</i>		<u>2010</u>	<u>2009</u>
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Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

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Wage and salaries	₩	24,770	16,322
Accrual for retirement and severance benefits		2,547	2,018
Other employee benefits		5,210	4,344
Travel		3,650	2,808
Rent		7,633	6,930
Depreciation		2,230	3,254
Entertainment		3,014	2,340
Meetings		97	460
Ordinary development		3,030	1,527
Professional service fee		3,372	3,585
Training		1,485	1,048
Outsourcing		5,584	5,509
Amortization		2,090	1,866
Transportation		116,324	97,396
Sales commissions		4,774	4,038
Bad and doubtful debts		1,478	-
Warranties		2,997	2,030
Overseas branch offices' expenses		1,785	1,557
Others		5,533	4,730
	₩	<u>197,603</u>	<u>161,762</u>

Dongbu Steel Co., Ltd.  
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December 31, 2010 and 2009

24. Income Taxes

(a) The Company is subject to income taxes on taxable income at the following nominal tax rates:

Taxable income	Tax rate			
	2009	2010	2011 & 2011	Thereafter
Up to ₩200 million	12.1%	12.1%	11%	11%
Over ₩200 million	27.5%	24.2%	24.2%	22%

(b) The components of income tax expense and benefit for the years ended December 31, 2010 and 2009 are summarized as follows:

(In millions of Korean won)

		2010	2009
Current	₩	-	-
Others		271	(1,042)
Deferred		(19,432)	(28,847)
<b>Income tax benefit</b>	₩	<b>(19,161)</b>	<b>(29,889)</b>

(c) Deferred tax assets and liabilities are measured using the tax rate to be applied for the year in which temporary differences are expected to be realized.

The income tax expense (benefit) calculated by applying statutory tax rates to the Company's taxable income for the year differs from the actual tax expense (benefit) in the statements of operations for the years ended December 31, 2010 and 2009 for the following reasons:

(In millions of Korean won)

		2010	2009
<b>Income before income taxes</b>	₩	(46,156)	20,279
<b>Expense (benefit) for income taxes at nominal tax rates</b>		(11,170)	4,908
Tax effects of permanent differences, primarily non-taxable income		(47)	(449)
Investment tax credit		(4,815)	(32,175)
Tax effects of permanent differences, primarily entertainment expenses in excess of tax limit		1,202	404
Adjustment of prior income tax		(4,259)	-
Tax effect from difference between expected and applicable tax rate		(343)	(1,535)
Others		271	(1,042)
<b>Income tax benefit</b>	₩	<b>(19,161)</b>	<b>(29,889)</b>

The Company did not calculate the effective tax rate due to the net loss incurred for the years ended December 31, 2010 and 2009, respectively.

(d) Deferred tax assets have been recognized because it is probable that future profits will be available against which the Company can utilize the related tax benefit.

Dongbu Steel Co., Ltd.  
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December 31, 2010 and 2009

24. Income Taxes, Continued

- (e) Deferred tax assets and liabilities that were directly charged or credited to equity and accumulated other comprehensive income for the year ended December 31, 2010 are summarized as follows:

<i>(In millions of Korean won)</i>	<u>Temporary differences</u>	<u>Deferred tax assets (liabilities)</u>
Gain on valuation of available-for-sale securities	₩ (717)	158
Loss on valuation of available-for-sale securities	4,104	(903)
Capital changes in equity method investments	(1,985)	437
Changes in revaluation surplus	278,605	(61,293)
Loss on valuation of currency swaps	(112)	25
Consideration for stock warrants	889	(197)
Revaluation reserve	14,165	(3,428)
	<u>₩ 294,949</u>	<u>(65,201)</u>

- (f) In accordance with SKAS No. 16 *Income Taxes*, deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. In addition, the Company is required to disclose aggregate deferred tax assets and liabilities. As of December 31, 2010, details of aggregate deferred tax assets and liabilities are as follows:

<i>(In millions of Korean won)</i>	<u>Temporary differences at December 31, 2010</u>	<u>Deferred tax assets (liabilities)</u>	
		<u>Current</u>	<u>Non-current</u>
<b>Assets</b>			
Allowance for doubtful accounts in excess of tax limit	₩ 155	37	-
Provision for retirement and severance benefits	20,832	-	4,583
Losses on valuation of available-for-sale securities	1,338	-	294
Foreign currency translation loss	6,105	1,477	-
Other	51,754	-	11,386
	<u>80,184</u>	<u>1,514</u>	<u>16,263</u>
<b>Liabilities</b>			
Interest related to loan for construction	(109,035)	-	(23,988)
Foreign currency translation gain	(24,438)	(3,142)	-
Gains on valuation of available-for-sale securities	(25,157)	-	(5,377)
Revaluation surplus	(742,200)	-	(224,577)
Others	(354,924)	(3,588)	(13,133)
	<u>(1,255,754)</u>	<u>(6,730)</u>	<u>(267,075)</u>
Tax loss carryforwards	169,987	41,137	-
Carryforwards of unused tax credits	-	-	79,992
<b>Net deferred tax asset (liability)</b>	<u>₩ (1,005,583)</u>	<u>35,921</u>	<u>(170,820)</u>

25. Earnings (Loss) per Share

- (a) Basic earnings (loss) per share for the years ended December 31, 2010 and 2009 are summarized as follows:

Dongbu Steel Co., Ltd.  
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December 31, 2010 and 2009

(In Korean won, except share data)

		<u>2010</u>	<u>2009</u>
<b>Net income (loss)</b>	₩	(27,507,431,910)	49,527,313,191
Weighted-average number of common shares outstanding		<u>48,770,440</u>	<u>33,204,238</u>
<b>Earnings (loss) per share</b>	₩	<u>(564)</u>	<u>1,492</u>

(i) Adjusted to net income (loss):

(In Korean won, except share data)

		<u>2010</u>	<u>2009</u>
<b>Net income (loss), net of tax</b>	₩	(26,994,361,910)	50,168,650,691
Dividends on non-redeemable preference shares		<u>(513,070,000)</u>	<u>(641,337,500)</u>
<b>Adjusted net income (loss)</b>	₩	<u>(27,507,431,910)</u>	<u>49,527,313,191</u>

(ii) Weighted average number of common shares outstanding:

(In shares)

	<u>2010</u>	<u>2009</u>
<b>Issued common shares at January 1</b>	48,770,343	28,362,460
Effect of treasury stocks held	-	(1,012,995)
Effect of conversion of convertible bonds	-	258,709
Effect of exercise of stock warrants	97	8,198
Issuance of common stocks	-	5,587,866
<b>Weighted average number of common shares outstanding at December 31</b>	<u>48,770,440</u>	<u>33,204,238</u>

(b) Diluted earnings (loss) per share for the years ended December 31, 2010 and 2009 are summarized as follows:

(In Korean won, except share data)

		<u>2010</u>	<u>2009</u>
<b>Adjusted net income (loss)</b>	₩	(27,507,431,910)	49,539,735,722
Weighted-average number of common shares outstanding and common equivalent shares		<u>48,770,440</u>	<u>33,887,909</u>
<b>Diluted earnings (loss) per share</b>	₩	<u>(564)</u>	<u>1,462</u>

25. Earnings (Loss) per Share, Continued

(i) Adjustments to net income (loss):

(In Korean won, except share data)

		<u>2010</u>	<u>2009</u>
<b>Income (loss) attributable to common shareholders (basic)</b>	₩	(27,507,431,910)	49,527,313,191
Interest expense on bonds with stock warrants		-	12,422,531

Dongbu Steel Co., Ltd.  
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<b>Net income (loss) attributable to common shareholders (diluted)</b>	₩	<u>(27,507,431,910)</u>	<u>49,539,735,722</u>
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(ii) Weighted average number of common shares outstanding:

<i>(In shares)</i>		<u>2010</u>	<u>2009</u>
<b>Weighted average number of common shares (basic) at December 31</b>		48,770,440	33,204,238
Effect of conversion of convertible bonds		-	683,671
<b>Weighted average number of common shares (diluted) at December 31</b>		<u>48,770,440</u>	<u>33,887,909</u>

(iii) The Company did not calculate diluted earnings per share due to the net loss incurred for the year ended December 31, 2010.

26. Dividends

(a) Details of dividends for the years ended December 31, 2010 and 2009 are summarized as follows:

*(In Korean won, except share data)*

		2010			2009		
		Common stock	Preferred stock	Total	Common stock	Preferred stock	Total
Cash dividends	₩	7,315,574,250	513,070,000	7,828,644,250	9,754,068,600	641,337,500	10,395,406,100
Number of shares		48,770,495	2,565,350	51,335,845	48,770,343	2,565,350	51,335,693
Dividend per share	₩	150	200		200	250	

(b) Details of dividends for the years ended December 31, 2010 and 2009 were as follows:

*(In Korean won, except par value)*

		<u>2010</u>	<u>2009</u>
Dividend amount:			
Cash dividends	₩	7,828,644,250	10,395,406,100
Net income (loss)	₩	(26,994,361,910)	50,168,650,691
Dividends as a percentage of net income(*)		-	20.72%
Par value per share	₩	5,000	5,000
Dividends as a percentage of par value		3.00%	4.00%

(\*) The Company did not calculate dividends as a percentage of net income for the year ended December 31, 2010 due to the net loss incurred.

26. Dividends, Continued

(c) Dividend yield ratios for the years ended December 31, 2010 and 2009 are summarized as follows:

*(In Korean won)*

		2010		2009	
		Common stock	Preferred stock	Common stock	Preferred stock
Dividend per share	₩	150	200	200	250

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

**December 31, 2010 and 2009**

Market price as of year end	9,970	4,910	11,750	4,480
Dividend yield ratio	1.5%	4.1%	1.7%	5.6%

**27. Comprehensive Income**

Comprehensive income for the years ended December 31, 2010 and 2009 are summarized as follows:

*(In millions of Korean won)*

	<u>2010</u>	<u>2009</u>
<b>Net income (loss)</b>	₩ (26,994)	50,169
Gain on valuation of available-for-sale securities, net of tax effect of ₩158 in 2010 and ₩5,146 in 2009	(559)	18,244
Loss on valuation of available-for-sale securities, net of tax effect of ₩903 in 2010 and ₩1,603 in 2009	3,201	5,683
Change in equity method capital change, net of tax effect of ₩437 in 2010 and ₩790 in 2009	(1,477)	1,951
Change in negative equity method capital change, net of tax effect of ₩261 in 2009	(55)	924
Loss on valuation of currency swap, net of tax effect of ₩25 in 2010	(88)	-
Revaluation surplus, net of tax effect of ₩61,293 in 2010 and ₩1,686 in 2009	<u>217,312</u>	<u>(5,978)</u>
<b>Comprehensive income</b>	<u>₩ 191,340</u>	<u>70,993</u>

**28. Value Added Information**

Value added information for the years ended December 31, 2010 and 2009 are summarized as following:

*(In millions of Korean won)*

	<u>2010</u>	<u>2009</u>
Wage and salaries	₩ 84,564	56,038
Accrual for retirement allowance and severance benefits	8,261	6,770
Other employee benefits	18,835	14,360
Rent	8,192	7,280
Depreciation	142,311	85,319
Taxes and dues	2,440	2,079

**29. Date of Authorization for Issue**

The 2010 financial statements were authorized for issue on March 2, 2011, at the Board of Directors meeting.

**30. Results of Operations for the Latest Interim Period of the Fourth Quarters**

*(In millions of Korean won, except earnings per share)*

	<u>2010 (Q4)</u>	<u>2009 (Q4)</u>
Revenue	₩ 939,007	692,056
Operating income (loss)	(16,254)	43,749

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

**December 31, 2010 and 2009**

Net income (loss) for the period	(47,848)	36,539
Earnings (loss) per share in won	(981)	750

**31. Subsequent Events**

The Company separated the CHQ Wire and CD Bar Business located in the Pohang plant and established a new company, Dongbu Special Steel Co., Ltd. on January 1, 2011. The carrying amount of assets and liabilities transferred to Dongbu Special Steel Co., Ltd. is ₩212,467 million and ₩89,274 million, respectively.

**32. Planning and Adoption of K-IFRS (Korean International Financing Reporting Standards)**

(a) K-IFRS Adoption Plan and current status of progress

The Company subsequently plans to issue financial statements prepared in accordance with K-IFRS from 2011. The Company organized a Task Force Team to perform preliminary analysis of the effects of K-IFRS adoption and establish accounting systems to apply the new accounting treatments, and trained its relevant personnel internally and externally. The Task Force Team regularly reports the details and status of the Adoption Plan to its board of directors and management. The details of the K-IFRS Adoption Plan are as follows:

Main Activities	Preparation Plan	State at December 31, 2010
Formation of the K-IFRS Adoption Task Force Team and analysis of the likely effects of K-IFRS adoption	Complete the K-IFRS Adoption Plan by the end of 2010 (Prepare 2010 comparative information and the 'explanation of transition to IFRS' called for under IFRS 1 by the end of 2Q 2010)	Feb. 2009 – Established the K-IFRS Adoption Task Force Team Mar. 2008 – Engaged an accounting firm to carry out an analysis of the likely effects of K-IFRS adoption
Training	Acquire the skills required for K-IFRS conversion by the end of 2Q 2010	Mar. 2009 – Held training for staff (training provided by the Korean Accounting Standards Board) Nov. 2009 – Held training for staff (training provided by the accounting firm)
Alignment of accounting systems	Complete the establishment of accounting systems to apply the new accounting treatments under K-IFRS by the end of 2010	Completed the analysis of the scope of required changes to the system The establishment of accounting systems under K-IFRS by the end of Jan. 2010

Dongbu Steel Co., Ltd.  
Notes to Non-Consolidated Financial Statements

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**32. Planning and Adoption of K-IFRS (Korean International Financing Reporting Standards),  
Continued**

(b) Differences between accounting under K-IFRS and under K-GAAP expected to have a material effect in the Company.

Area		K-IFRS	Current (K-GAAP)
First-time adoption of K-IFRS	Business combinations	K-IFRS 1103 (Business Combinations) will not be applied retroactively to business combinations occurring prior to January 1, 2010 (the date of transition to K-IFRS)	Not applicable
	Cumulative translation differences	The cumulative translation difference of foreign operations as of January 1, 2010 (the date of transition to K-IFRS) will be regarded as nil	Not applicable
	Investments in subsidiaries	Carrying amount of investments in subsidiaries, joint venture and associates under previous GAAP for separate financial statements are recorded at cost on the date of transition to K-IFRS	Not applicable
Investments in subsidiaries, joint ventures and associates under separate financial statements		Apply cost method	Not applicable
Changes in scope of consolidation		Regardless of amount of total assets, a subsidiary over which a parent company has control is consolidated	A subsidiary whose total assets are less than ₩10 billion is excluded from consolidation
Financial asset		The Company records the discount of account receivables when substantially all risks and rewards are transferred	The Company records the discount of account receivables when control is transferred
Employee benefits		Under the Projected Unit Credit Method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation	The Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period

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**32. Planning and Adoption of K-IFRS (Korean International Financing Reporting Standards),  
Continued**

(b) Differences between accounting under K-IFRS and under K-GAAP expected to have a material effect in the Company, continued.

Area	K-IFRS	Current (K-GAAP)
Long term employee benefits and annual allowance	Recognize the cost when the employee' services are provided, and under the Projected Unit Credit Method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation	Recognize the cost when the obligation to pay in cash is confirmed.
Goodwill	Goodwill is tested for impairment annually and gain on bargain purchases is recognized of profit or loss	Goodwill is amortized using the straight-line method over its estimated useful life
Intangible asset with indefinite useful life	An intangible asset with an indefinite useful life shall not be amortized, but be subject to regular impairment testing	Classified as long-term deposits
Financial instrument guarantee contract	Financial instrument guarantee contracts are recognized at the present value	Not applicable

(c) Changes in scope of consolidation

The Company is required under K-IFRS to present consolidated financial statements. Changes in the scope of consolidation from K-GAAP to K-IFRS as of December 31, 2010 are as follows:

Consolidated Subsidiaries under K-GAAP	Consolidated Subsidiaries under K-IFRS	Difference
Dongbu Capital Co., Ltd., Zhangjiagang Dongbu High Technology Metal Products Co., Ltd.	-	Excluded from consolidation considering percentage of ownership less than 50%
-	Dongbu JAPAN	Included from consolidation considering percentage of ownership more than 50%

## **Independent Accountants' Review Report on Internal Accounting Control System**

### English Translation of a Report Originally Issued in Korean

To the Representative Director of  
Dongbu Steel Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Dongbu Steel Co., Ltd. (the "Company") as of December 31, 2010. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2010, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether the Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness 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 the Report on the Operations of Internal Accounting Control System as of December 31, 2010 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2010. We did not review the Company's IACS subsequent to December 31, 2010. This report has been prepared for Korean regulatory purposes, pursuant to the Act on External Audit for Stock Companies of the Republic of Korea, and may not be appropriate for other purposes or for other users.

Seoul, Korea  
February 11, 2011

### Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2010 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

## **Report on the Operations of Internal Accounting Control System**

To the Board of Directors and Audit Committee of  
Dongbu Steel Co., LTD.:

I, as the Internal Accounting Control Officer (“IACO”) of Dongbu Steel Co., Ltd. (the “Company”), have assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) as of December 31, 2010.

The Company’s management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2010, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee.

February 11, 2011

This is translation of the accompanying report of management’s assessment of Internal Accounting Control System originally issued in Korean.