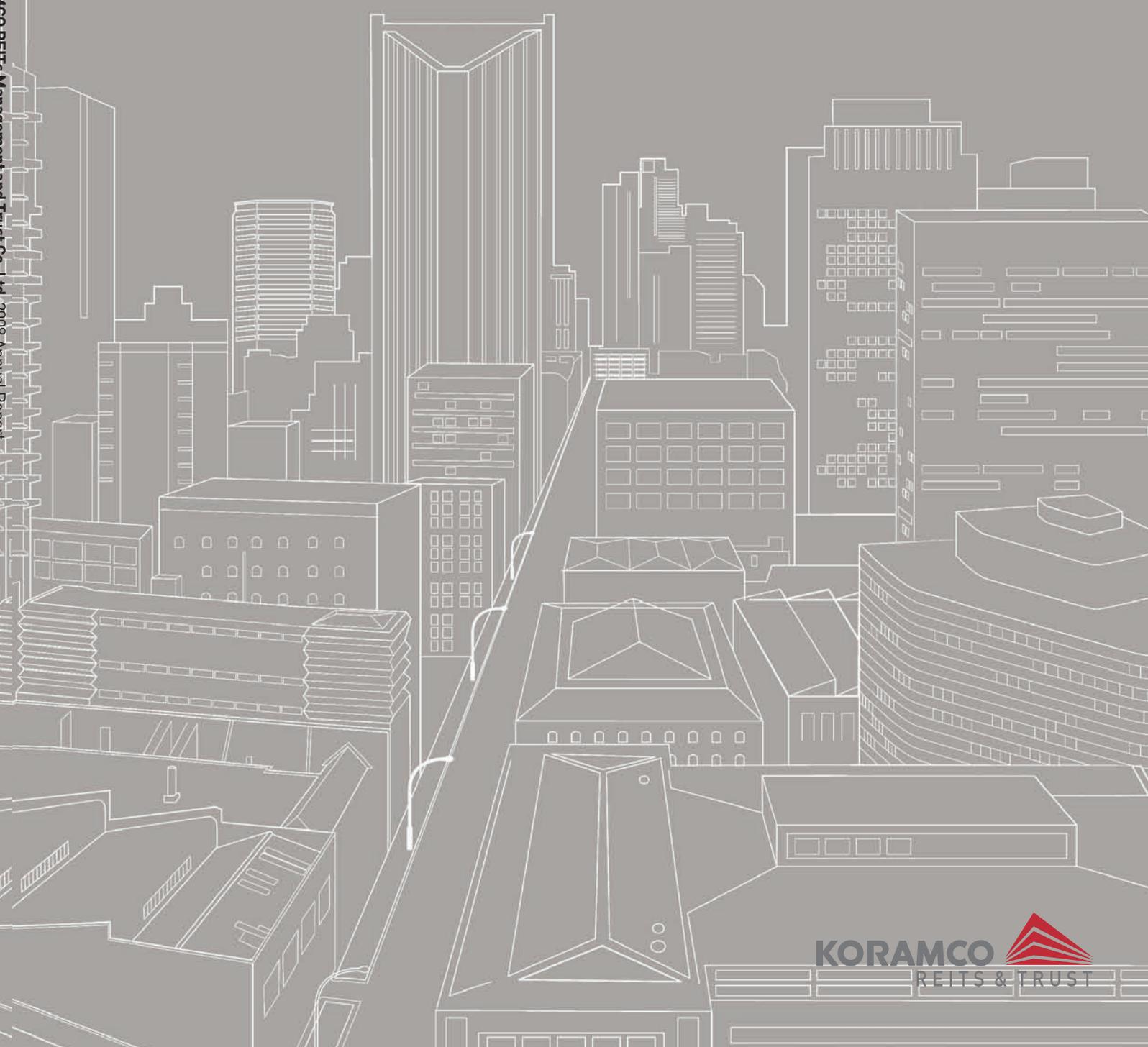


NAVIGATING NEW WAY **KORAMCO**

2008 Annual Report

2008 Annual Report - Assets



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Financial Summary

Key indicators

	2007	2008
Stability indicator		
Current ratio	198.7%	366.4%
Debt-to-equity ratio	60.3%	29.1%
Profitability indicator		
Ratio of operating income to revenue	47.1%	69.5%
Return on assets (ROA)	25.5%	42.9%
Return on equity (ROE)	40.9%	55.3%
Growth and activity indicator		
Growth rate of revenue	83.1%	95.6%
Growth rate of operating income	104.0%	189.0%

Summary income statement

(Unit: KRW million)

Account	2007	2008	% chg
Operating revenue	33,507	65,555	95.6
Operating expenses	17,734	19,974	12.6
Operating income	15,773	45,581	189.0
Non-operating income	2,136	2,050	-4.0
Non-operating expenses	370	513	38.6
Income before income taxes	17,539	47,118	168.6
Income taxes	5,009	13,157	162.7
Net income	12,530	33,961	171.0

Summary balance sheet

(Unit: KRW million)

Account	2007	2008	% chg
Current assets	36,131	64,308	78.0
Non-current assets	12,966	14,919	15.0
Total assets	49,097	79,227	61.3
Current liabilities	18,182	17,552	-3.5
Non-current liabilities	281	320	13.9
Total liabilities	18,463	17,872	-3.2
Capital stock	10,000	10,000	0.0
Surplus	20,634	51,354	148.9
Total stockholders' equity	30,634	61,354	100.2
Total liabilities and stockholders' equity	49,097	79,227	61.3

2008 Highlights

We achieved record high results in 2008.

Spurred by the successful sale of assets held by KOCREF No.3, revenue soared 95.6% over the previous year to KRW 65.6 billion while net income grew 171.0% to KRW 34.0 billion.



All KOCREF funds currently under management exceed their target payout ratios

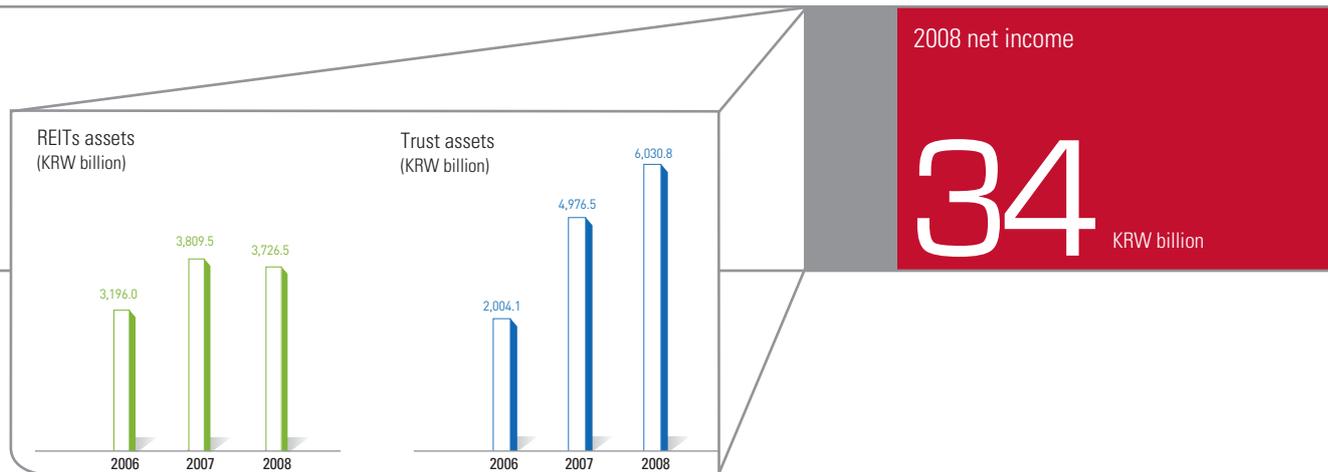
Effective asset management enabled all nine KOCREF funds that invest in rental properties to record higher dividend payout ratios than the targets initially presented to investors at the funds' establishment.

Sale of assets held by KOCREF No.3 leads to high returns for investors

In May of 2008, KOCREF No.3 successfully sold the Hanwha Securities Building and Daewoo I-vill Hill Town building. The Hanwha Securities Building, located in Yeouido-dong, Seoul, and standing 27 floors above and six floors below ground, is one of the most recognized landmarks in the financial district of Korea. The building was sold to the Hanwha Group. The Daewoo I-vill Hill Town building in Seoul's Nonhyeon-dong was sold to an individual investor. Effective planning and execution of an exit strategy, coupled with a reduction in corporate tax, made KOCREF No.3 the best performing REIT to date (annual average of 51% over five years).

Establishment of KOCREF No. 14 that invests in comprehensive development projects

We established KOCREF No.14 entrust management real estate investment company in January 2008. KOCREF No.14 purchased two office buildings (total area of 39,665m²) that are part of a comprehensive development project to build offices, department store, discount store, shopping mall and hotel spanning a total area of 340,560m². The project site is an area near Yeongdeungpo 4-ga, Seoul. High returns are expected from the investment as the area is near a subway (line no.1, Yeongdeungpo Station) and is forecast to undergo continued development as part of the Yeongdeungpo New Town project.



REITs assets exceed KRW 3 trillion

Since launching KOCREF No.1 in 2002, we recorded KRW 3,200 billion in REITs assets with the exclusion of the now liquidated KOCREF No.1, KOCREF No.2 and KOCREF No.3. The feat solidified our earnings structure and market share (based on managed assets) rose to 59% in 2008.

Trust assets exceed KRW 6 trillion

In just three years since initiating our real estate trust business, the total value of trust assets has reached KRW 6,030.8 billion. We overcame numerous initial hurdles as a newly established trust company and managed to quickly build up our portfolio of trust assets.

Record high performance

In 2008, we posted our best ever results, despite the turmoil in global financial markets and slump in the Korean real estate market that worsened during the second half of the year. Revenue soared 95.6% over the previous year to KRW 65.6 billion, while net income increased 171.0% to KRW 34.0 billion. The combination of our accumulated knowhow and dedication of employees produced the record performance and laid the foundation for us to grow into a global real estate finance company.

Chairman's **Message**

Making profits while creating value for customers and contributing to society - that's our raison d'etre and business philosophy. We will develop into a world-class real estate finance company through constant innovation, based on our management principles.



Dear shareholders, customers and other stakeholders,

Nine years have passed since KORAMCO REITs and Trust was established to support corporate restructuring through the sale of real estate holdings owned by companies. On behalf of everyone at KORAMCO, I would like to extend my heartfelt gratitude to your constant support over the years.

In 2008, KORAMCO experienced unprecedented trials and rewards. The trials began in the second half of the year as the US subprime mortgage crisis sparked a global financial meltdown. During the first eight months of the year, we had set up KRW 518.8 billion worth of REITs. However, as the effects of the economic crisis spread further, we were unable to reach our annual goal of establishing KRW 800 billion worth of REITs.

In our trust business, we recorded KRW 8.5 billion worth of contracts, far below our initial target of KRW 20.3 billion. Nevertheless, I am proud to say we also reaped major rewards in 2008. Net income after tax reached KRW 34 billion, a record high figure since our establishment. This pushed our equity capital to over KRW 60 billion and further solidified our capital structure.

To lay the foundation for sustainable growth, we reviewed our management infrastructure spanning the organizational structure, human resources, evaluation and compensation with the help of an outside consulting firm in the first half of 2008. Accordingly, we newly created teams of Risk Management, REITs Planning and Development, and Trust Business VI. Revisions were also made to our personnel management and compensation systems, while we introduced the Key Performance Indicator (KPI) system for fair performance measurements and evaluations.

The business environment in 2009 is expected to remain extremely challenging. The continuing economic slump is weighing down on the financial and real estate markets. Yet, we have set ambitious business targets for the year. I firmly believe that if everyone at KORAMCO can demonstrate creative

thinking, proactive attitudes and strong passion, we will be able to attain our goal.

We live in uncertain times and it is difficult to predict the direction or scope of changes lying ahead. This calls for an extremely prudent approach and careful consideration. At the same time, the present environment demands courage to boldly go forward, no matter how high the hurdles may be. Therefore I would like to adopt "Prudence" and "Boldness" as the key words to reach our 2009 business goals. Also, I would like to mention some major tasks which we should address to achieve our business goals.

First, we will focus our capabilities on securing funds for REITs. The year 2009 is predicted to see a rise in transactions of real estate assets held by companies and equity funds. At the same time, the contraction in investments by financial institutions and pension funds is expected to continue. We will actively pursue diversification of fund raising methods by pushing for public offerings, seeking new investors and procuring overseas capital.

Second, we will increase our market share in the trust business. In 2008, our market share fell due to deteriorating business conditions in the trust industry, affected by the depressed real estate market. We will make all-out efforts to increase the number of new contracts and expand our market share in 2009.

Third, we will enhance our working efficiency as a knowledge-based company. We will encourage our employees to set goals on their own and create an environment where they can think creatively and work with initiative and independence. Furthermore, we will oversee our competitiveness level at all times and maintain an innovative attitude.

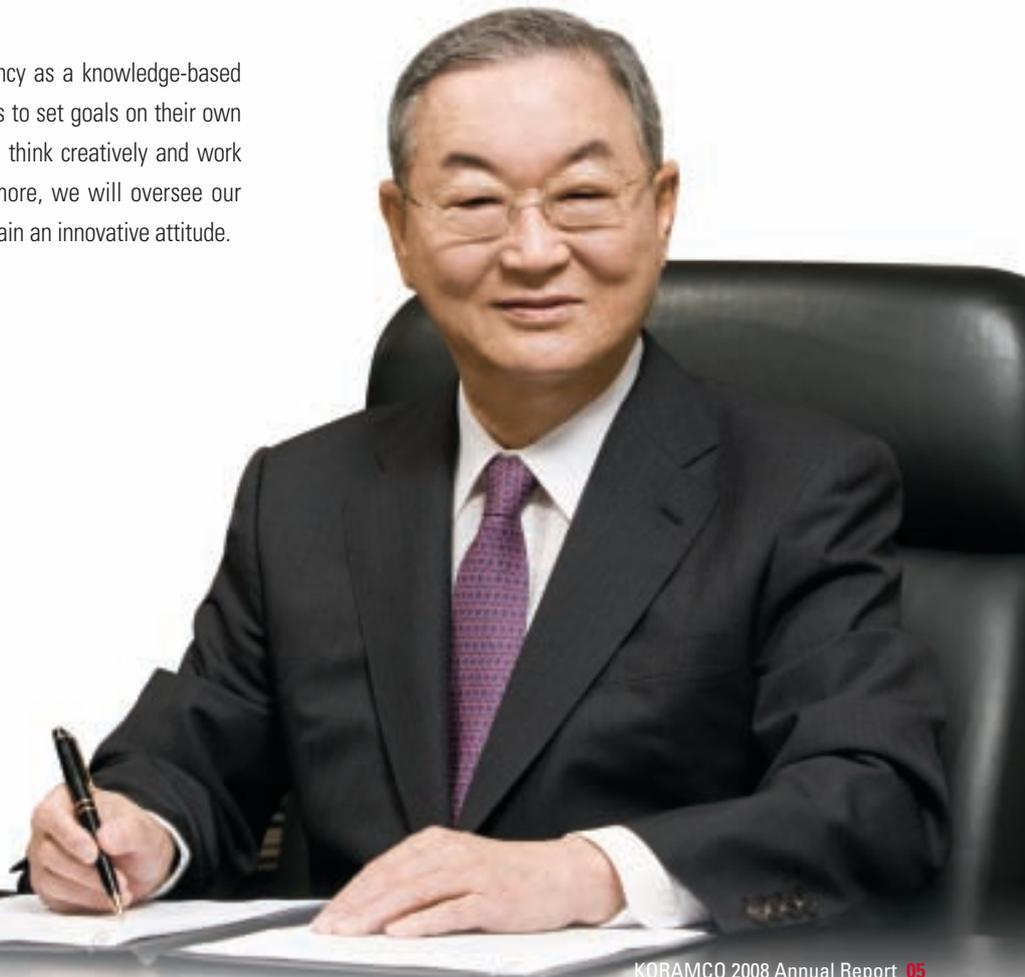
Fourth, we will overhaul our management system and upgrade our training programs. We will make further reasonable improvements in the areas of human resources development and KPI system, and also turn our IT system into an enabler, and not merely as a processor, of operations. A systematic approach to our training programs will give an opportunity for our employees to learn new knowledge and skills.

Making profits while creating value for customers and contributing to society - that's our *raison d'être* and business philosophy. We will develop into a world-class real estate finance company through constant innovation, based on our management principles.

We look forward to your constant support in the future.



Kyu-Sung Lee
Chairman



MARKET REVIEW

Reading the Market

KORAMCO



Accurately reading the real estate market where countless variables loom holds the key to success of a real estate finance company and to delivering optimal returns to clients.

With keen insight into market trends, accurate analysis and predictions, we maximize returns and enhance value for all market participants.



Real estate market

The Korean real estate market, comprising the office, retail, residential and logistics markets, has remained weak since the fourth quarter of 2008 due to the global financial crisis. Similar conditions are forecast for 2009.

Office market

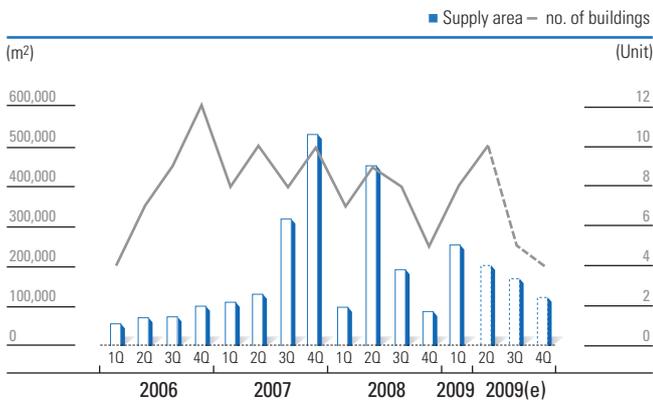
Supply trends



Since the second half of 2008, there has been a generous supply of office buildings as companies attempt to increase operational efficiency among affiliates and alleviate the rent burden. On the other hand, the unstable economy has led to frequent delays in the construction of new buildings. Accordingly, although numerous office buildings had been planned for 2010, the actual supply volume is forecast to be much smaller than initial estimates due to delays.

New office market supply

(source: Shinyoung Asset)



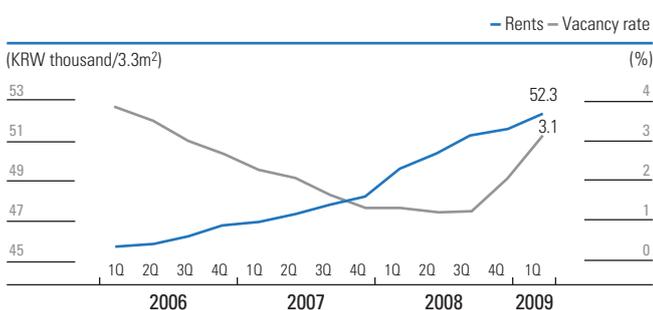
Rental trends



Relatively less impacted by economic conditions, rents are still rising albeit at a slower pace. The Seoul office vacancy rate has been climbing rapidly since the second half of 2008 and surpassed 3% as of the first quarter of 2009.

Office rents and vacancy rates

(source: Shinyoung Asset)



Transaction trends



The global financial crisis stalled real estate transactions from the second half of 2008. However, a slight recovery is being observed in 2009 as existing investors take a wait-and-see attitude and demand is being detected among actual users.

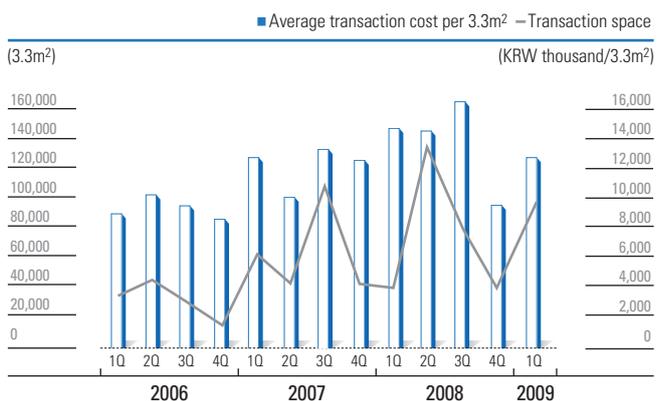
Market outlook



The investment return on office buildings is expected to remain weak due to the increase in the number of buildings put up for sale by companies pursuing restructuring, coupled with decreased profitability from rising vacancies. Rents are likely to remain steady as a majority of buildings freeze rents. The uncertain economy, reduction and closure of office space by companies, particularly, insurance firms, and the effect of corporate restructuring will continue to push up the vacancy rate and add to the market's overall instability.

Office transaction space and prices

(source: Shinyoung Asset)





Retail market

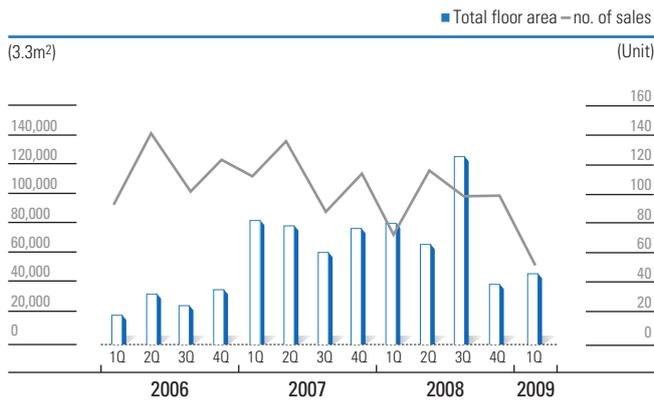
Supply trends



At the end of 2008, supply dwindled due to the decrease in sales and area of retail space. Since 2009 however, several large retail buildings have been supplied, hinting at the possibility of a recovery.

Retail space sales volume

(source : Sangga 114)



Sales trends



Retail sales had grown by increasing margins until mid-2008 but thereafter, figures have largely tapered off due to slowed sales and lower average purchases at hypermarkets and department stores.

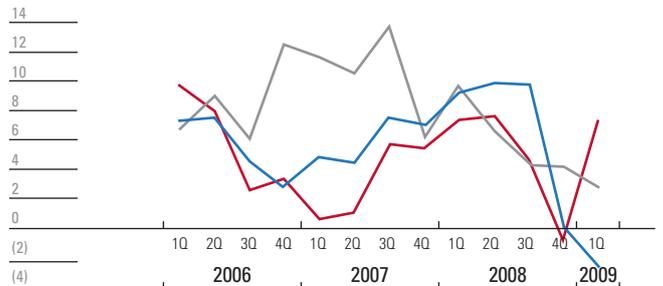
Retail industry sales

(source : NSO)

(year on year)

— Average — Hypermart — Department Store

(%)



Profitability trends



Profit rates are dropping drastically due to decreased demand for lease retail space and sluggish investment stemming from the economic slowdown. This is attributed to the noticeable lower return on equity following the fall in asset value.

Market outlook



As the global economic crisis spreads to the real economy, contraction in consumer sentiment is expected to worsen from the first half of 2009.



Real estate market

Residential market

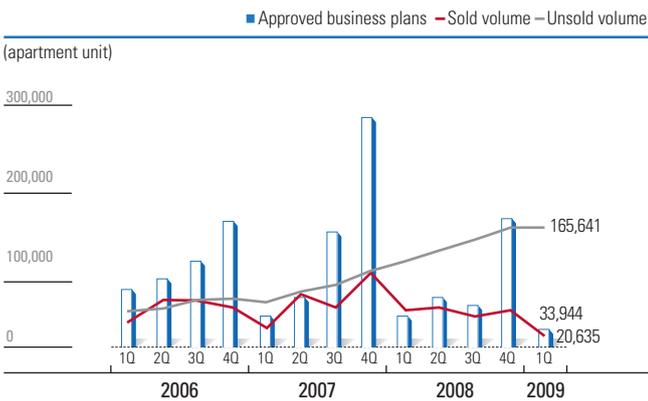
Supply trends



Residential supply (volume of units whose business plans were approved and available on pre-sale market) plunged to a three-year low in 2008 while the number of unsold units soared to an unprecedented high of over 160,000.

Apartment supply

(source : Min. of Land, Transport and Maritime Affairs)



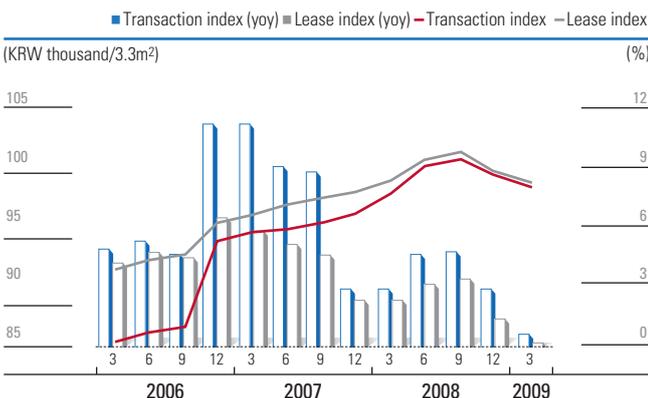
Price trends



The financial crisis resulted in falling transaction prices after September 2008, a trend that has been continuing through to the first quarter of 2009. In particular, steep price falls have been recorded in areas with large volumes of new supply.

Housing prices

(source : Kookmin Bank)



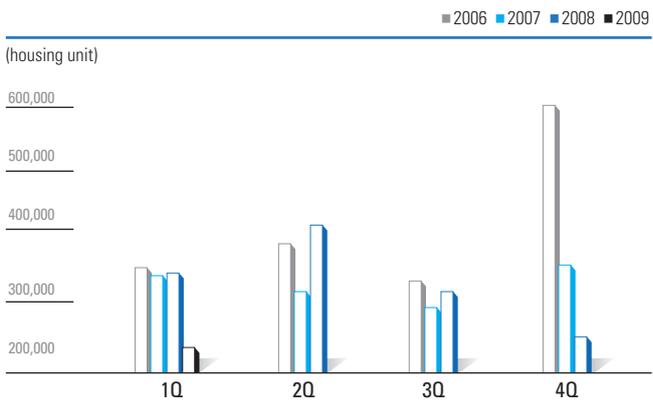
Transaction trends



Transaction of residential units fell steeply in the second half of 2008 and sank to a low in the first quarter of 2009. However, actual indicators including the volume of apartment transaction have been showing signs of recovery since the second quarter.

Housing transaction volume

(source : Onnara)



Market outlook



Due to the continuing macroeconomic slump as the global economic crisis affects the real economy, it is likely that the residential market will take a long time to recover. • During the foreign exchange crisis of the late 1990s, it took one year for residential prices to reverse upward and four years before they recovered to levels before the fall. • Industry experts and research centers predict a 5~10% decline in prices in 2009 and a rebound from the second half of the year at the earliest.

Logistics market

Market trends



The logistics industry is experiencing worsening conditions due to sluggish international trade and production cutbacks by the manufacturing industry. Major institutional investors are moving to scale back their operations or focus on existing projects. On the other hand, projects to develop large-scale logistics complexes in Gyeonggi-do and hinterland areas of key ports are on-going.

Market outlook



In 2009, growth of the logistics industry is expected to moderate considerably to 1.5%. In particular, it is unlikely that institutional investors will inject money into large logistics facilities which carry a sizable investment risk.

REITs institutional investors' preference for investment products

Stable, large-sized building	0%	94%
Value-added, small- to mid-sized building	0%	6%
High profit development project	16%	0%
Logistics product	19%	0%
Unsold apartments	29%	0%
Specialized stores	35%	0%

Note: The 'Logistics product' row is highlighted with a dashed blue border. 'Disinclination to invest' is indicated for the 16% and 19% values, and 'Preference to invest' is indicated for the 0% values in the right column.

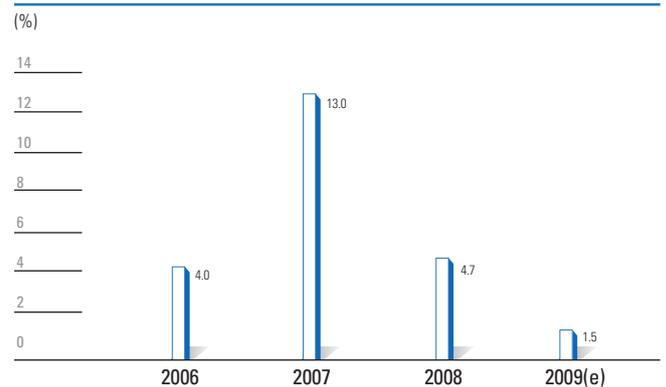
(source : KORAMCO REITs and Trust, REITs investor needs survey results)

Survey target : Personnel at key domestic investment institutions (58 persons at 31 institutions)

Survey period : Jan. 1~Jan. 20, 2009

Logistics industry growth outlook

(source: KORCHAM)



REVIEW OF OPERATION

Leading the Industry

KORAMCO



Despite our comparatively short history, we have demonstrated robust growth since founded in 2001 driven by high caliber professionals and strong execution ability. We reinforced our market presence by producing record high results in the face of a challenging business environment in 2008. We will pursue constant change and innovation to reach beyond Korea and grow into a competitive real estate finance company on the global stage.



01. REITs Business

The REITs business posted the highest-ever asset management revenue in our history. Despite a decline in acquisition fees, disposal fees recorded a 430.8% increase over the previous year spurred by the successful sale of assets held by KOCREF No. 3.

We will strive to attain our vision of “a market-leading, best-in-class global real estate finance company.”



CEO and President, REITs Business Group | **Kil-Seok Suh**

Management Policy

2008 Highlights

- Launched REITs: KRW 518.8 billion
- Despite the deteriorating REITs market, we attained a 63% market share (based on REITs established in 2008) amid a sharp plunge in REITs creation
- All nine KOCREF funds currently under management exceeded their target dividend payout ratios
- Successfully liquidated KOCREF No.3 and posted an annual average yield of 51.3%

Plans for 2009

- Establish new REITs worth KRW 800 billion
 - Increase investment in value-added properties
- Strengthen ability to raise funds from global investors and discover new competitive investors
 - Diversify fund raising methods by attracting overseas capital and capital from pension funds, companies and public offerings
- Strengthen competitive edge in asset management to respond to changing investment environment
 - Reinforce asset management competencies to prepare for recession and lay the foundation for value-added property management
- Successful sale of assets held by KOCREF No.4 and No.5

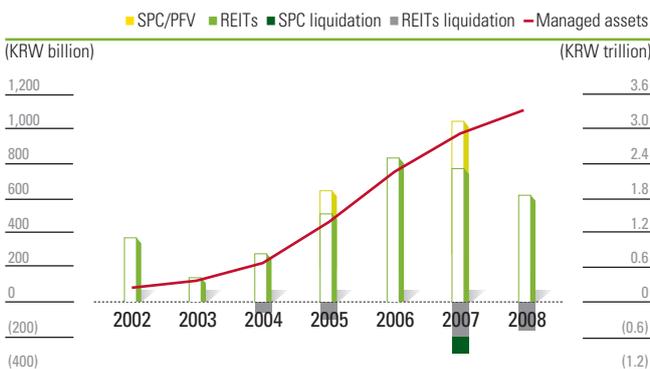


2008 Performance

Establishment of new funds worth KRW 518.8 billion amid global financial crisis

 We launched new REITs worth KRW 518.8 billion during the first eight months of 2008; however, the credit crunch resulting from the global financial crisis took a toll on the establishment of new funds in the second half of the year. The establishment of new REITs in 2008 amounted to less than half the previous year's level. In detail, we acquired a total of three office building properties in 2008 with the establishment of KOCREF No.14 and two capital increases of KOCREF NPS No.1. Harnessing our close-knit network of investors, we were able to secure KB Yeoksam Building, which we invested through the capital increase of KOCREF NPS No.1. • We also successfully closed the deal on Samhwa Building by leveraging our investment experience to overcome differences with the seller. As a result, we were able to reach an agreement while minimizing the period for deal closing. For the first time, we invested in office properties in a comprehensive development project (hotel, offices, retail shops, etc.) through the newly launched KOCREF No.14. These investments involved substantially lower risks as well as higher expected returns compared to investing in finished properties by having investors invest during the development phase.

Fund establishment



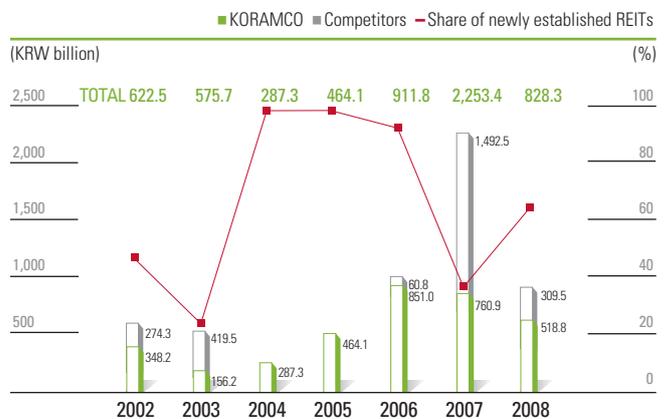
Newly launched funds

	2007	2008	Change	Note
REITs	760.9	518.8	-31.8%	KOCREF NPS no.1 (KB Yeoksam, Samhwa) KOCREF No.14 (Kyungbang Office Development)
PFV	340.0	-	-	
Total	1,100.9	518.8	-52.9%	

Relatively high market share in established REITs

 Newly launched REITs surpassed KRW 2 trillion in 2007, but the amount dropped to one-third of that level in 2008 due to the global financial meltdown. • We were not spared from this downward trend and we, too, saw a decline in establishment of new REITs. Nonetheless, our core competencies helped us post a relatively robust performance compared to the overall market.

Market share of annual established REITs



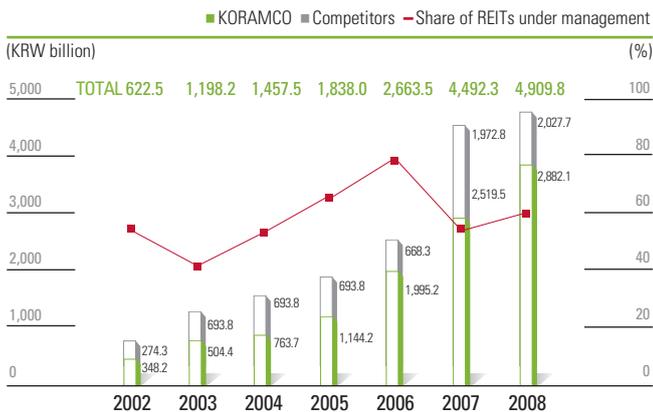
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REITs Business

Greater market share in REITs under management

◀ The acquisition of Daewoo Center Building worth KRW 1 trillion by a competitor in 2007 led to a sharp reduction in our REITs market share. However, we were able to post a relatively strong performance in the rapidly shrinking market in 2008. Our market share in REITs under management rose by 3% from 2007 to 59% in 2008. • The increased market share holds particular significance as it was achieved amid intensifying competition with the formation of several new asset management firms.

Market share of REITs under management



KOCREF No.3: High yield via successful sale of assets

↗ Guided by an effective exit strategy, we were able to successfully complete liquidation of KOCREF No.3. The exit plan was set up after consultation with the fund board of directors 10 months prior to liquidation. • For Hanwha Securities Building, we facilitated its disposal by signing an agreement with the holder of right to first refusal on pre-negotiated terms. To ensure an appropriate price for the property, we introduced various systems to support the bidding. This allowed us to notch up the highest sale price for an office building sold in Yeouido in 2008 despite the right of first refusal. Meanwhile, we were able to wrap up the sale of I-vill Hill Town building (divided ownership property) by quickly switching to a private contract after confirming the sole bidder's uncertain intent to sign the contract.

Sales of Yeouido office buildings (2008)

	Transaction period	Area (1,000m ²)	Price per 3.3m ² (KRW million)	Ratio
Daewoo Securities Building	3 Quarter	38.6	15.5	88%
Singsong Center	3 Quarter	33.8	11.5	66%
Handsome Building	2 Quarter	37.2	12.0	68%
Hanwha Securities Building	2 Quarter	59.6	17.7	100%

Attained highest yield among liquidated REITs through high management and capital gain dividends

	AMC	Annual average yield	ROE
REITs of other AMCs (*)	-	21%	15%
KOCREF No.1		43%	28%
KOCREF No.2	KORAMCO	12%	11%
KOCREF No.3		51%	31%

(*) Calculated by averaging the yield of 4 liquidated REITs. For the yield of other AMC-managed REITs, the data we referred to disclosures and other materials

We successfully sold assets through efficient employment of the lead manager. • To motivate the lead manager, we introduced various incentives and penalties based on the transaction price which helped us secure an appropriate sale price for Hanwha Securities Building despite the right to first refusal. Leveraging our vast experience, we proactively addressed various legal, accounting and tax related issues to facilitate the transaction. • Deep cost cuts including the tax expenses led to a huge return for the fund and increased our disposal fee which was linked to the fund's yield.

All KOCREF funds currently under management exceed target payout ratios



In 2008, a total of 12 REITs (including 1 PFV) was under our management. Of the total, nine funds invest in rental properties and three in properties under construction. The nine KOCREF funds invested in rental properties all exceeded the 2008 target dividend payout ratios (average target payout ratio of 8.51%) we initially presented to investors. Their actual average payout ratio was 10.38%, achieved through better-than-expected rental revenues, cost cuts and other effective management activities.

- On average, non-listed funds which had higher target payout ratios attained higher actual payout ratios than listed funds. However, in terms of exceeding the target payout ratio, listed funds delivered better performance. In the case of funds invested in properties under construction, we are effectively executing construction process/business management and quality control functions. On top of working to cut construction costs and appropriately controlling construction specifications, we are analyzing data provided by construction firms, seeking new ways to cut costs and consulting with related government agencies regarding approvals and permits. All these efforts are geared to improve property value and rental competitiveness as well as increase fund returns.

Fund dividends

	Rental		Under construction	Total
	Listed	Non-listed	Non-listed	
No. of funds	3	6	3	12
Total assets (KRW billion)	414.6	2,293.2	670.5	3,378.3
Target payout ratio average (A)	7.86%	8.84%	N/A	8.51%
Actual payout ratio average (B)	9.81%	10.66%	N/A	10.38%
Payout ratio exceeded (B-A)	1.95%	1.82%	N/A	1.87%

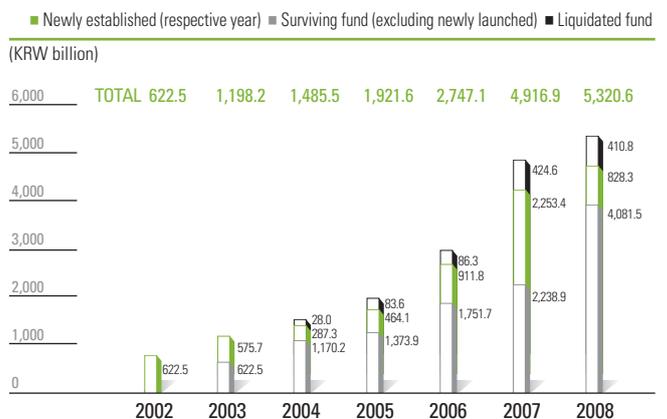
(*) The average payout ratio is the simple average of each fund.

[Reference] REITs market trends



REITs assets in Korea grew eight-fold over the past seven years to reach KRW 4.9 trillion as of the end of 2008, from KRW 622.5 billion when REITs were first launched in 2002. The REITs market, which enjoyed rapid growth until 2007, lost pace in 2008 as the financial crisis spread across the globe. Although the launch of new REITs was sluggish in 2008, the surge in new asset management firms is expected to help REITs play a central role in Korea's indirect real estate investment market when investment sentiment recovers.

REITs assets



Transformation into an international shopping mall through successful remodeling (KOCREF AREIF No.1: Noon Square)

- Emerge as Myeondong landmark & maximize property value -



Before

After

Noon Square

- Exterior suitable for retail facility
- Change and renovate outdated interior
- Improve overall interior and exterior routes



- Acquired a shopping mall (former Avatar shopping mall) located at the entrance of Myeongdong street and established KOCREF AREIF No.1
 - Established Korea's first retail property REIT
 - Successfully completed massive remodeling project
 - After acquiring the building, we proceeded with remodeling design and gained approval/permits for the building's exterior and interior routes and facilities
 - Successful execution of remodeling (obtained approval for use in March 2009)
- To revitalize the building's usage as commercial facility, the property is arranged as a lease-type shopping mall for large leaseholders
- Realize new life style concept by attracting leaseholders from fashion and F&B industries.
 - Set specific targets through analysis of Myeondong's market demographics
 - Attract competitive leaseholders that meet the new trend

- Attract competitive leaseholders with proven track record to secure profitability and stability
 - Attract major domestic leaseholders with proven competitiveness and stability: CGV (8-9F)/ Youngpoong Bookstore (B2)
 - Attract brands with proven track record in attracting clients : Starbucks (4F)/Footlocker (4F)/Todai (7F)
 - Strengthen competitiveness by securing domestic flagship stores of market leading global brands: H&M (Korea's first store) /ZARA/Mango

Increase property value by acquiring office buildings which are part of a comprehensive development project (KOCREF No. 14: Times Square)



- Established KOCREF No.14 by purchasing two office buildings in Times Square, a COEX-type complex developed on 330,580m² Kyungbang Plant site next to Kyungbang Phill Department in Yeongdeungpo-gu. The buildings were acquired on condition of completing construction.
- A forward-looking investment based on the potential of Yeongdeungpo-gu with the development of comprehensive facilities such as D-cube city and development of Pangrim site (99,174m²). Although the buildings are not located in the key rental area, we expect the properties to generate gains on disposal.

- We have been participating in the development of Times Square, a 100% lease-type shopping mall from the initial stage. This enables us to get in-depth knowledge in developing and operating large complexes, thereby allowing us to review the possibility of purchasing large-scale comprehensive projects, which have emerged as the key trend in recent property development, and secure expertise in development and operation of such projects.
- Improve efficiency ratio and upgrade facilities
We improved the efficiency ratio by excluding space with low usability from the purchase area. We also carried out work to upgrade lobby, elevator, rest rooms, and other facilities to increase leaseholder convenience by securing sufficient budget through adjustment of building specifications.
- Allow independent management of each of two office buildings
By adding management operation items in the CM service scope, we installed separate electrical and machinery facilities for office buildings A and B. This allows independent management of each office building, which will be advantageous when selling the property.
- Improve customer access
Reinforce leaseholder satisfaction by improving accessibility through such works as upgrading pedestrian routes during the commuting hours and securing entryway to parking lots in front of office buildings A and B.

2009 Business Plan

Set up new funds worth KRW 800 billion

 Despite global financial uncertainties, our 2009 target for new funds is set at KRW 800 billion. • We will harness our competitiveness to expand our portfolio scope to attain this goal. Our plan is to shift our investment focus from core- or core-plus centered portfolios that aim for relatively low target returns to value-added properties that pursue higher returns.

Raise funds from global investors and discover new competitive investors

 Until now, we relied heavily on domestic investors to establish new funds. Going forward, we plan to look overseas to raise capital. We will also diversify fund raising methods by seeking investment from pension funds, insurance firms, businesses and individuals (public offering).

Strengthen asset management to respond to changing investment environment

 We will strengthen our competitive edge in asset management as we navigate the changing investment environment, in particular to gear for expansion of value-added projects. • Various measures are being formulated to address declining demand for rentals amid the economic downturn. We plan to improve shareholder return by minimizing the vacancy rate in our properties and cutting costs. • We are also working to advance our asset management levels by developing and applying asset management indicators which are related to the environment, profit, leaseholder satisfaction, facilities, etc.

Successful sale of assets held by KOCREF No.4 & No.5

 Since the second half of 2008, real estate investment has been sluggish and the overall market environment has been more favorable to buyers due to an increase in properties put up for sale. Despite such adversity, we aim to deliver dividends to our investors that go beyond the initial business plans by selling assets held by KOCREF No. 4 and No.5, which mature in 2009, at appropriate market prices within the funds' duration.

KORAMCO's REITs: KOCREF

Portfolios of KOCREF funds



KOCREF is the name of REITs established and managed by us. A total of 14 REITs were established with nine still in operation as of the end of March 2009. • We also set up one PFV which invests in properties under construction. Such risk factors as low returns, leaseholder default risk, and rapid depreciation are usually inherent in small properties but KOCREF funds invest in large office buildings of over a certain size (average KRW 80~100 billion) and retail facilities with master lease structure in key locations in Seoul to ensure profitability and stability.

Portfolio breakdown by invested properties

* Based on total assets



- Office buildings: 50.2%
- Retail: 31.7%
 - KOCREF No.6, KOCREF NPS No.2, KOCREF ARIEF No.1
- Development projects: 18.1%
 - KOCREF No.11, Pangyo SD-2 PFV, KOCREF No.14

Portfolio breakdown by region



- Seoul: 75.7%
 - KOCREF No.1~8, KOCREF NPS No.1, KOCREF No.11, KOCREF ARIEF No.1, KOCREF No.14
- Seoul surrounding areas: 19.0%
 - 4 outlets (KOCREF No.6), Kolon annex building (KOCREF No.7), Central tower (KOCREF No.8), 4 discount stores (KOCREF NPS No.2), Pangyo SD-2 PFV
- Other regions: 5.3%
 - 4 discount stores (KOCREF NPS No.2)

Target payout ratio and performance of KOCREF funds

* As of March 2009

(KRW billion)

	Established year	Amount invested	Target payout ratio	Status	Note
KOCREF No. 1	2002	236.6	10.1%	Liquidation completed	Annual average payout ratio 43.5%, ROE 28.4%
KOCREF No. 2	2002	111.6	10.4%	Liquidation completed	Annual average payout ratio 12.1%, ROE 11.2%
KOCREF No. 3	2003	156.2	10.2%	Liquidation completed	Annual average payout ratio 51.3%, ROE 31.1%
KOCREF No. 4	2004	181.0	10.2%	Liquidation completed	Annual average payout ratio 31.4%, ROE 23.0%
KOCREF No. 5	2005	106.3	8.7%	9th term of operation	
KOCREF No.6 (Preferred stock)	2005	328.1	9.4%	8th term of operation	
KOCREF No.6 (Common stock)	2005		5.8%	8th term of operation	
KOCREF No. 7	2005	136.0	8.0%	7th term of operation	In the process of achieving results exceeding target payout ratio
KOCREF No. 8	2006	122.4	8.6%	6th term of operation	
KOCREF NPS No. 1	2006	817.8	7.8%	6th term of operation	
KOCREF NPS No. 2	2007	640.7	12.4%	5th term of operation	
KOCREF No.11	2007	219.3	9.0%	5th term of operation	
Pangyo SD-2 PFV	2007	340.0	13.1%	3th term of operation	Under construction
KOCREF AREIF No.1	2007	213.5	10.9%	3th term of operation	Under remodeling
KOCREF No.14	2008	117.0	11.9%	3th term of operation	Under construction
Total		3,726.5			

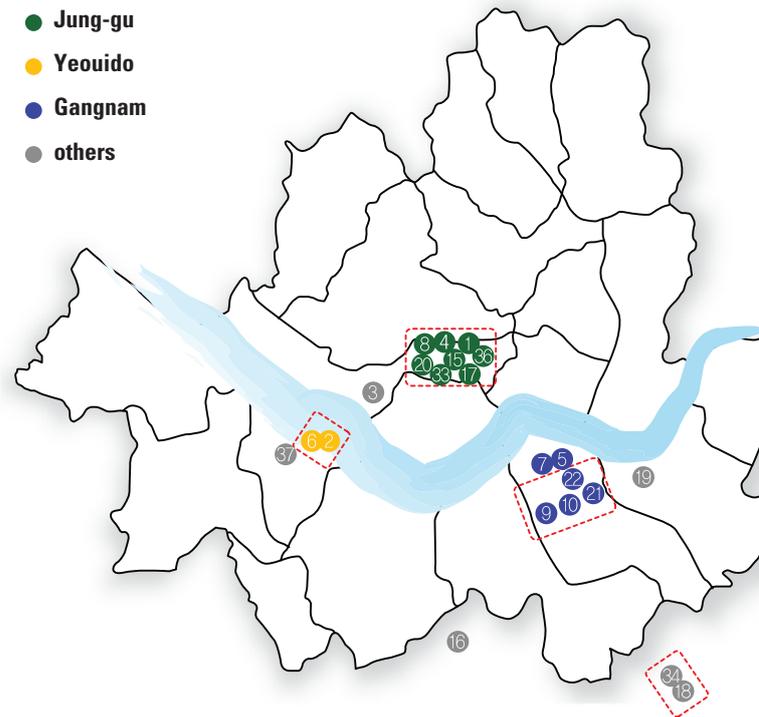
-Most KOCREF funds are designed to pay dividends twice a year. Until now, we have exceeded the target payout ratios we promised to investors.



KOCREF fund investments

Fund name	No. Investments	Type	Location	Total floor area (m ²)	
KOCREF No. 1	1	Hanwha Jangkyo Building	Office	Jung-gu	79,049
	2	Daehan Building	Office	Yeouido	14,622
	3	Dae-A Building	Office	Mapo-gu	14,014
KOCREF No. 2	4	Myeongdong Tower	Office	Jung-gu	27,823
	5	Trees Tower	Office	Gangnam	12,923
KOCREF No. 3	6	Hanwha Securities Building	Office	Yeouido	59,641
	7	I-vill Hill Town building	Office	Gangnam	5,013
KOCREF No. 4	8	YTN Tower	Office	Jung-gu	42,322
	9	Platinum Tower	Office	Gangnam	26,007
KOCREF No. 5	10	Dacom Building	Office	Gangnam	34,461
KOCREF No. 6	11	4 Newcore outlet stores	Outlet	Seoul metropolitan area	263,130
KOCREF No. 7	15	DSME Building	Office	Jung-gu	24,854
	16	Kolon Annex Building	Office	Gwacheon	26,861
KOCREF No. 8	17	G Tower	Office	Jung-gu	16,473
	18	Central Tower	Office	Bundang	23,831
	19	Sigma Tower	Office	Songpa-gu	27,814
KOCREF NPS No.1	20	Seoul City Tower	Office	Jung-gu	60,017
	21	KB Yeoksam Building	Office	Gangnam	24,530
	22	Samhwa Building	Office	Gangnam	40,480
KOCREF NPS No.2	23	10 Homeplus discount stores	Outlet	Nationwide	473,447
KOCREF No. 11	33	STX Namsan Tower	Office	Jung-gu	67,324
Pangyo SD-2 PFV	34	H Square A & B wings	Office	Pangyo	138,778
KOCREF AREIF No. 1	36	Noon Square	Retail	Jung-gu	23,641
KOCREF No. 14	37	Times Square A&B wings	Office	Yeongdeungpo	39,665
Total	38				1,566,720

-For stable profit, KOCREF funds invest mostly in key locations in Seoul. They also invest in other regions for portfolio diversification.



02. Trust Business

We have made notable strides in our trust business since its launch three years ago, with entrusted assets exceeding KRW 6 trillion as of the end of 2008. In particular, we have satisfied the criteria to qualify as a housing company, set up a risk management system, and brought in experts in land development trust to establish the foundation for long-term growth.

We will do our best to turn our vision of “Korea’s No.1 real estate service company” into reality.



CEO and President, Trust Business Group | **Joon-Ho Chung**

Management Policy

2008 Highlights

- Business results were dampened by the financial crunch triggered by the domestic real estate slump and the US subprime mortgage crisis.
- Entrusted assets surpassed KRW 6 trillion just three years after launching the trust business.
- Secured contracts for all trust products (including land development trusts) have paved the way for future growth.

Plans for 2009

- Foster the land development trust business to achieve balanced growth with other trust businesses
 - Strengthen real estate development capabilities by amassing knowhow and experience as a real estate developer
- Secure contracts with more diverse trustors and gain a differentiated edge
 - Review and participate in a wide range of projects
- Practice systematic risk management and enhance risk management capabilities
 - Bring on board experts (lawyers) to conduct swift and accurate risk assessments and come up with countermeasures

2008 Performance

Pursuing stability in trust business



We have steadily built up our trust business since its launch in 2006 as a new growth engine. • Although the global financial crisis deepened the real estate slump, we have experienced no defaults in our trust business due to thorough analysis and stringent risk management. • Entrusted principal continues to grow, standing at KRW 5,965.9 billion as of the end of 2008. We are striving to expand market share with the introduction of sales management trusts in 2007 and land development trusts in 2008.

Foundation of land development trust for long-term growth

Satisfying the housing company criteria

In 2008, we registered as a housing builder with the Korea Housing Builders Association. We also completed registration as a developer in accordance with the law on supervising and promoting real estate development. In doing so, we set the stage for long-term growth driven by land development trusts.

Risk management system

We overhauled internal regulations to enable systematic risk management concerning land development trusts and real estate development.

- Assessing risks of new projects: Before deciding on a new project, the Trust Review Committee examines the related risks (risks regarding lotting out, construction, trustor, grievance, etc.). Thorough checks are also conducted on a project's viability, contract terms, trust structure and other relevant matters.

Land development trust experts

Experts in land development trusts have been recruited to nurture this segment of our operations.

Minimizing insolvency via tight control of trust assets

Stringent control based on checklist

Adoption of an ERP system has reduced the oversight burden in the trust business through the use of real-time checklists. We practice meticulous control to enhance returns for trustors and beneficiaries and realize customer satisfaction.

New contract volume in 2008

(Unit: KRW million)

Category	2007		2008	
	Amount	As % of Total	Amount	As % of Total
Land development trust	-	-	1,300	15.5%
Management trust	584	4.0%	121	1.4%
Disposal trust	2,866	19.8%	1,267	15.2%
Collateral trust	5,328	36.8%	3,433	41.1%
Sales management trust	1,582	10.9%	1,320	15.8%
Project management service	4,128	28.5%	910	10.9%
Other	-	-	9	0.1%
Total	14,488	100%	8,361	100%

- New contract volume in 2008 decreased by 42% compared to the previous year due to contraction of the overall trust market and deteriorated performance. However, we achieved portfolio diversification in terms of the types of trust which should contribute to the generation of stable future income streams.

Addressing the risk of injunctions on sale and taxes/dues

Various measures have been devised to counter the rising trend of applications for injunction on the sale of entrusted property by creditors of trustors as well as the courts' tendency to indiscriminately accommodate filings for provisional seizures and dispositions. We have also examined ways to minimize risks facing the trustee related to property taxes and various dues to keep trust assets intact.

2008 operating revenue



2008 operating revenue

(KRW million)

	2007		2008	
	Amount	As % of Total	Amount	As % of Total
Management trust	202	2.0%	388	4.9%
Disposal trust	1,177	11.7%	1,388	17.6%
Collateral trust	5,281	52.6%	2,794	35.3%
Sales management trust	676	6.7%	1,167	14.8%
Project management service	2,709	27.0%	2,157	27.3%
Other	-	-	9	0.1%
Total	10,045	100%	7,903	100%

Increase in operating revenue from management, disposal and sales management trusts

Compared to a year earlier, operating revenue grew 92% and 18% from management trusts and disposal trusts, respectively, largely due to gains realized on existing contracts. Turning to sales management trusts, operating revenue increased 73%, driven by gains realized on existing contracts (four properties) and new contracts (five properties).

Decreased income from collateral trust and project management service

In collateral trusts, there was one new contract addition, but fiercer competition put downward pressure on trust fees, leading to a decline in operating revenue. For project management service, a reduction in new contracts lowered operating revenue by 20%.

Earnings contribution by product

The main reason for the year-on-year decline in operating revenue was lower fees on collateral trust. On the other hand, operating revenue increased for management trusts, disposal trusts and sales management trusts. That in turn resulted in a more balanced contribution of earnings from the different trust segments.

[Reference] Trust market trends

→ The real estate trust market shows a close correlation with property development in the private sector. • A boom in property development will give a boost to accompanying real estate trust activity. • In the fourth quarter of 2008, construction investment fell by 6.1% year-on-year. That is a steeper decline from the 1.1% drop recorded in the first quarter of the year and is attributable to the worldwide financial crisis (Overall decline of 2.7% in 2008, according to the Bank of Korea). Orders in the private construction market, the key target of real estate trusts, dropped by 14% year-on-year to KRW 7.8 trillion in 2008, which in turn depressed the real estate trust market. • The reduction in project financing for private sector projects by financial institutions in the wake of the financial crisis also threw cold water on the trust market.



A recovery, albeit modest, is foreseen for project financing in 2009. As the table below indicates, real estate trust order volume, the leading indicator of the real estate trust market, has continued to decrease since 2006. • Despite the market slump, two real estate trust companies are expected to enter the market in 2009. • Enactment of the Financial Investment Services and Capital Markets Act has also opened the way for market entry by securities firms.

Real estate trust order volume



Plans for 2009

New contract target of KRW 20.3 billion

 Our target for the trust business in 2009 is to grow contract volume by KRW 20.3 billion (up 143% year-on-year) and achieve a market share of 7.5%. • Our emphasis will be on expanding our land development trust business and highlighting our strengths in other types of trusts. In detail, we will promote growth in properties backed by project financing to grow overall order volume in the sluggish real estate development market. • Our marketing activities will focus on land development trust, sales management trust and project management service. And as part of our differentiation strategy, we will concentrate on developing new products and new projects.

Improving the risk management system



We created the Trust Review Committee to identify and reduce risks related to managing new contracts and existing projects in the trust business. We will continue to revise related internal regulations to swiftly respond to changing market conditions and enable prudent deliberation and decision-making. When pursuing equity investments for our own accounts or acquiring borrowings above a certain level, the Risk Management Committee examines the anticipated impact on the company's financial conditions.

Boosting growth and returns through differentiation strategy



We will propose a revision to the Financial Investment Services and Capital Markets Act to include the "claim of registration for transfer of ownership" in the scope of entrusted assets which was not included in the Trust Business Act. We also plan to spearhead the development of new trust structuring to offer differentiated land development trusts. • In the past, property development projects have often run into difficulty due to the small size of developers, excessive debt guarantees of contractors, and the lacking ability of lending institutions to adjust projects. • That, in turn, spelled problems of profitability deterioration for market participants. Harnessing our expertise in real estate development, we will enhance transparency through the trust framework. At the same time, we will establish our business structure as a financial institution and exercise our ability in project adjustment to promote stability and growth of the overall trust market.

03. General Management

Our expanding scale of operations fueled by robust growth of the REITs and trust businesses highlighted the need for greater management efficiency. Accordingly, we are upgrading our management infrastructure, including our organizational structure and human resources, and enhancing our research and internal control functions.

We will grow into a world leading real estate finance company that meets the expectations of shareholders, customers and society.



CEO and President, General Management | **Chang-Mo Moon**

Management Policy

2008 Overview

Despite the global financial crisis and the domestic real estate slump, we achieved record high performance in 2008 largely due to the liquidation of KOCREF No. 3.

Plans for 2009

- Target revenue of KRW 43.3 billion and net income of KRW 19.3 billion
- Upgrade management infrastructure (organizational structure, human resources, evaluation, hiring, training)
- Strengthen management and planning capability
- Raise expertise and competitive edge in each business segment
- Launch new business (asset management)
- Reinforce research and internal control functions



2008 Performance

Record high results



In spite of spreading turmoil in global financial markets and a sluggish real estate market in Korea, we achieved record high performance in 2008. • Revenue increased 95.6% to KRW 65.5 billion and net income soared 171.0% to KRW 34.0 billion. The record high results are largely attributed to KRW 44.6 billion in disposal fees related to the liquidation of KOCREF No.3. As of the end of 2008, shareholders' equity stood at KRW 61.4 billion, giving us a stronger footing to grow into a world class real estate finance company.

Overhaul of management infrastructure



Growing scale of operations raised the need for a corresponding overhaul of our organizational structure and human resource system. We sought an assessment and consulting from an outside expert in the first quarter to make overall improvements. The changes are explained in more detail below.

Change in organizational structure and functions



We newly created a Risk Management Team to strengthen risk management. To boost our operations, we also formed an Investment Team 2 and Trust Business Teams 5, 6, and 7. For the REITs business, we formed a REITs Planning & Development Team. • An Accounting and Finance Team was established for greater autonomy of the accounting function, while the Management Team was revamped into the HR & General Affairs Team. The Research & Analysis Team was separated into two units, with one dedicated to research and the other to project review and evaluation.

Revised human resource system



We revised the pay band to promote fair compensation and overhauled the incentive pay system for more rational performance distribution. To enable objective assessments at both the organization and individual levels, we adopted key performance indicators (KPIs) for individuals, teams and divisions. Evaluations were conducted based on the KPIs.

Stronger risk management



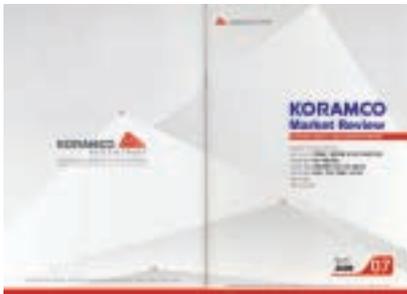
We set up the Risk Management Team and recruited experts in this field to strengthen risk management. We specified issues related to on-the-job decisions that should be discussed with the Risk Management Team as well as issues that need to be referred to the Risk Management Committee. Related regulations have been revised and we newly formulated detailed enforcement rules.

Enhanced research and analysis functions

+ The Research & Analysis Team has been separated into two units, with one dedicated to research and the other to project review and evaluation, and two additional research professionals were recruited to provide enhanced research and analysis.

- We set up a database of office buildings and logistics facilities and developed an office price prediction model.

In April, we began publishing a monthly magazine titled "KORAMCO Market Review" to deliver in-depth information and analysis on the real estate market and indirect real estate investment to clients.

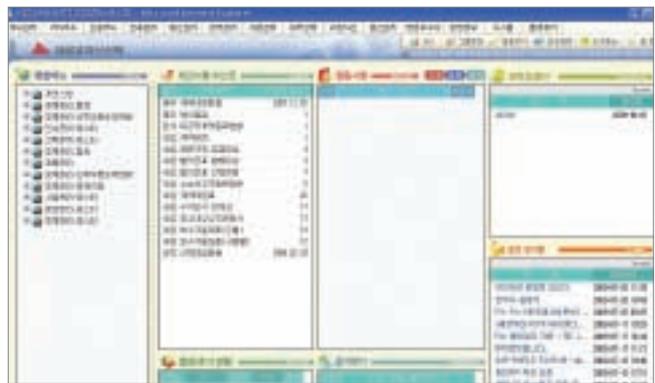


• KORAMCO Market Review

Enterprise resource planning (ERP)

+ After several months of preparation work, we replaced the previously adopted simple accounting program with enterprise resource planning (ERP) to lay the foundation for future growth and address various shortcomings. Past weaknesses included system instability, inability to make program revisions, insufficient budget control, and lack of HR function.

- ERP has made it easier to identify, manage and revise accounting data, while tasks formerly done by hand are now handled electronically. Moreover, the management information system allows for easy and prompt access to all company data.



• ERP screen

Plans for 2009

Target revenue of KRW 43.3 billion and net income of KRW 19.3 billion



Despite the challenging business environment in the aftermath of the global financial crisis, we have set aggressive business targets. • We will do our best to reach those goals based on thorough analysis of present conditions and determination to take on any challenge. Excluding disposal fees, our targets are revenue of KRW 26.9 billion and net income (after tax) of KRW 8.6 billion.

Business Strategy

Our strategy to realize our 2009 business targets are explained as follows.

Concentrate on fund raising

We will diversify fund raising methods for REITs creation by breaking away from the practice of relying solely on domestic funds and attracting foreign capital through the creation of blind funds, etc.

Expand market share backed by enhanced marketing

As a latecomer which entered the trust market in 2006, our market share has been low. We will expand market share in the trust business by boosting our marketing ability.

Reinforce performance management system

We will upgrade KPIs, which we introduced in 2008, to secure objective performance indicators and quantitative assessments to ensure impartiality of performance evaluations.

Enhance expertise and competitive edge

We will introduce diverse and specialized training programs to hone employee skills and differentiate ourselves from competitors by developing new products and new deal structuring.

Increase management efficiency

We will pursue constant innovation in all areas to raise management efficiency and productivity.

Meeting our responsibility to society

Caring company that fulfills its social responsibility



A caring company that fulfills its social responsibility – that is one of our major management principles. The trust of society and the support of customers are vital for a company's growth, and success is meaningful when a company serves its purpose as a member of society. • We engage in diverse social contribution activities to uphold our management principles. • These activities are funded by the company's social contribution budget and employee donations equaling 1% of their pay. In 2008, our social contribution expenditure amounted to KRW 204 million.



• Donation of funds for Sanseong charity bazaar in Seongnam

General Management

Our social contribution activities are classified into five categories. The following is an explanation of our programs in each of the categories.

Reaching out to people in need

We carry out a wide range of activities to help the underprivileged in society including disabled persons, elderly people living alone, and minors who head their households. In 2008, we donated a total of KRW 106.8 million to ten welfare facilities including a home for young boys in the Eunpyeong-gu district of Seoul.

Educational and academic support

We have introduced various programs to extend educational and academic assistance. In 2008, we provided KRW 48.6 million which went toward scholarships, building facilities for primary schools, and supporting a center dedicated to research on Korean traditions and culture affiliated with Korea University.

Public welfare

We support various activities to show our support for Korea's military servicemen and US soldiers stationed in Korea. A total of KRW 40.9 million was extended for activities organized for the benefit of military personnel in 2008.

Environmental preservation

We are well aware of the importance of protecting the environment for future generations. Our expenditure for this cause amounted to KRW 8 million in 2008.

Employee volunteering

Employee volunteer activities include visits to orphanages and senior welfare centers and building homes for Habitat for Humanity. We visited social service organizations and participated in building homes for homeless people in 2008.

FINANCIAL SECTION

Management's Discussion & Analysis

Report of Independent Auditor

Financial Statements

Management's Discussion & Analysis

Results of operations

Summary income statement

(Unit: KRW million)

	2007	2008	% chg
Operating revenue	33,507	65,555	95.6
Operating expenses	17,734	19,974	12.6
Operating income	15,773	45,581	189.0
Non-operating income	2,136	2,050	-4.0
Non-operating expenses	370	513	38.6
Income before income taxes	5,009	13,157	162.7
Income taxes	17,539	47,118	168.6
Net income	12,530	33,961	171.0

Income status

(Unit: KRW million)

		2007	2008	% chg
Revenue	Operating revenue	33,507	65,555	96%
	Asset management revenue	23,462	57,652	146%
	[Management fees]	9,195	10,886	18%
	[Acquisition fees]	5,865	2,171	-63%
	[Disposal fees]	8,402	44,594	431%
	Revenue from trusts	10,045	7,903	-21%
	[Land development trust fees]	-	-	-
	[Management trust fees]	401	510	27%
	[Disposal trust fees]	1,177	1,388	18%
	[Collateral trust fees]	5,280	2,794	-47%
	[Project management service fees]	3,186	3,211	1%
	Non-operating income	2,136	2,050	-4%
	[Interest income]	925	1,866	102%
	[Other non-operating income]	1,211	184	-85%
Total income	35,643	67,605	90%	
Expenses	Operating expenses	17,734	19,974	13%
	Non-operating expenses	370	513	39%
	Income taxes	5,009	13,157	163%
	Total expenses	23,113	33,644	46%
	Net income	12,530	33,961	171%

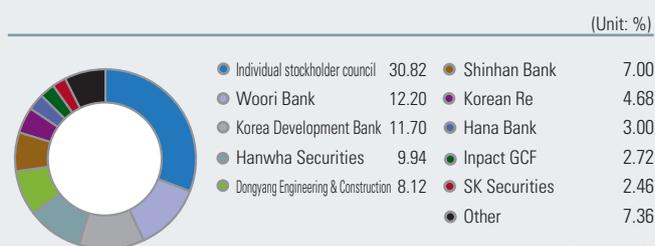
Operating revenue has shown significant growth since 2006, with growth rates reaching 83% in 2007 and 96% in 2008. The major growth driver was disposal fees related to the liquidation of KOCREF funds. Growth in operating expenses slowed to 13% in 2008 due to cost saving efforts, as opposed to a rise of 68% in the previous year stemming from an increase in the number of employees related to expansion of the trust business. As a result, operating income in 2008 jumped 189% to KRW 45.6 billion. Non-operating income fell by 4%, with interest income rising by 102% to KRW 1.9 billion. That is a slowdown from the non-operating income growth of 300% in 2007 backed by a jump in interest income stemming from an increase in cash income related to disposals and KRW 1.0 billion in gains on contract cancellation.

Financial conditions

Backed by improved asset quality and profit growth, total assets (own accounts) stood at KRW 79.2 billion as of the end of 2008, up 61% from a year earlier. Current assets grew by KRW 28.2 billion, underpinned by a KRW 38.6 billion increase in short-term financial instruments. Current liabilities, mainly comprising accrued expenses and income taxes payable, decreased slightly compared to the previous year, largely due to the repayment of KRW 7.0 billion in short-term borrowings. As of the end of 2008, we had no short-term borrowings on our balance sheet. Capital stock stood at KRW 10.0 billion.

As for trust accounts, current assets consist of cash and cash equivalents held and managed by the Trust Business Group, while non-current assets comprise real estate held in trust. Current liabilities include advances related to lotting-out and other withholdings for the trust business, and trust surplus is composed of retained earnings from the trust business. Total assets in trust accounts increased 21% year-on-year to surpass KRW 6.0 trillion as of the end of 2008, as opposed to the 148% growth rate recorded in 2007. The marked slowdown was caused by the slump in the domestic real estate market.

Ownership structure



* as of the end 2008

Summary balance sheet (own account)

	(Unit: KRW million)	
	2007	2008
1. Current assets	36,131	64,308
Quick assets	36,131	64,308
2. Non-current assets	12,966	14,919
Investment assets	4,965	3,379
Property, plant and equipment	1,014	1,401
Intangible assets	386	964
Other non-current assets	6,601	9,175
Total assets	49,097	79,227
1. Current liabilities	18,182	17,552
2. Non-current liabilities	281	320
Total liabilities	18,463	17,872
1. Capital stock	10,000	10,000
2. Capital surplus	703	703
3. Accumulated other comprehensive income	278	37
4. Retained earnings	19,653	50,614
Total shareholders' equity	30,634	61,354
Total liabilities and shareholders' equity	49,097	79,227

Summary balance sheet (trust account)

	(Unit: KRW million)	
	2007	2008
1. Current assets	86,909	64,962
2. Non-current assets	4,889,597	5,965,896
Entrusted real estate	4,889,597	5,965,896
Total assets	4,976,506	6,030,858
Current liabilities	86,909	64,866
Total liabilities	86,909	64,866
1. Entrusted principal	4,889,597	5,965,896
2. Trust surplus	-	96
Total shareholders' equity	4,889,597	5,965,992
Total liabilities and shareholders' equity	4,976,506	6,030,858

Dividend policy

We distributed per share dividend of KRW 1,500 in 2008, which is the same level as in 2007. Total dividend distribution was also unchanged from 2007 at KRW 3.0 billion. Dividends were unchanged from the 2007 level despite a significant increase in earnings because of the company's strategy to reinforce growth potential. The recent real estate slump has raised the need for principal investments by asset management firms and investment trust firms. This implies the need to expand capital to boost financial stability and secure funds for investment.

Statements of appropriations of retained earnings

	(Unit: KRW million)	
	2007	2008
I . Unappropriated retained earnings	17,651	46,107
1. Retained earnings carried over from the prior year	5,121	12,145
2. Net income	12,530	33,961
II . Appropriated retained earnings	5,506	7,396
1. Legal reserve	1,253	1,000
2. Reserves for trusts	1,253	3,396
3. Dividends	3,000	3,000
III . Retained earnings carried over to the subsequent year	12,145	38,711

Report of Independent Auditor

[The following is an English translation of the Report of Independent Auditors originally issued in Korean.]

사미회계법인

Report of Independent Auditors

To the Board of Directors and Shareholders of KORAMCO REITs Management and Trust Co., Ltd.

We have audited the accompanying balance sheets of KORAMCO REITs Management and Trust Co., Ltd. (the "Company") as of December 31, 2008 and 2007, and the related statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KORAMCO REITs Management and Trust Co., Ltd. as of December 31, 2008 and 2007, and the results of its operations, the changes in its retained earnings, the changes in its shareholder's equity and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Samil Accounting Corporation

191 Hangangno 2-ga, Yongsangu
Seoul 140-702, Korea

Representative Director

February 17, 2009

This report is effective as of February 17, 2009, 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 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.

Financial Statements

Balance Sheet

As of December 31, 2008 and 2007

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	2008	2007
Assets		
I. Current Assets	64,308,159,085	36,130,518,066
(1) Quick Assets	64,308,159,085	36,130,518,066
1. Cash and Cash Equivalents	1,445,366,262	12,872,089,293
2. Short-term Financial Instruments	53,600,000,000	15,000,000,000
3. Trade Receivables	9,020,505,548	7,071,746,236
Allowance for Doubtful Accounts	(1,327,954,386)	(35,358,731)
4. Short-term Loans	30,000,000	6,000,000
Allowance for Doubtful Accounts	(150,000)	(30,000)
5. Accrued Revenues	1,060,597,525	450,142,410
6. Non-trade Receivables	98,891,300	99,565,730
Allowance for Doubtful Accounts	(494,457)	(497,828)
7. Advance Payments	116,604,819	633,469,926
8. Prepaid Expenses	82,389,147	26,391,030
9. Value Added Tax Refundable	182,403,327	-
10. Securities Held to Maturity	-	7,000,000
II. Non-current Assets	14,918,746,823	12,966,448,685
(1) Investment Assets	3,378,747,750	4,964,830,000
1. Long-term Finance Instruments	3,000,000	-
2. Securities Available for Sale	2,440,000,000	4,334,000,000
3. Long-term Loans	940,450,000	634,000,000
Accounts for Doubtful Accounts	(4,702,250)	(3,170,000)
(2) Tangible Assets	1,400,925,479	1,014,524,765
1. Vehicles	308,788,479	378,061,347
Accumulated Depreciation	(137,846,201)	(104,325,927)
2. Other Tangible Assets	1,979,320,006	1,215,098,375
Accumulated Depreciation	(749,336,805)	(474,309,030)
(3) Intangible Assets	964,167,709	385,690,936
1. Other Intangible Assets	964,167,709	385,690,936
(4) Other Non-current Assets	9,174,905,885	6,601,402,984
1. Deferred Income Tax Assets	65,129,488	-
2. Other Investment Assets	6,903,088,059	5,044,457,199
3. Trust Deposits	942,407,938	895,539,785
4. Deposits Provided	1,264,280,400	661,406,000
Total Assets	79,226,905,908	49,096,966,751

(Continue)

Financial Statements

Balance Sheet

As of December 31, 2008 and 2007

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	2008	2007
Liabilities		
I. Current Liabilities	17,552,321,377	18,182,399,604
1. Short-term Borrowings	-	7,000,000,000
2. Non-trade Payables	96,891,300	96,891,300
3. Advances from Customers	2,962,318,584	3,028,089,342
4. Withholdings	199,129,548	174,324,249
5. Value Added Tax Withheld	-	304,250,607
6. Accrued Expenses	3,210,415,589	3,955,048,308
7. Income Taxes Payable	11,083,566,356	3,501,786,451
8. Deferred Income Tax Liabilities	-	122,009,347
II. Non-current Liabilities	320,181,434	280,702,195
1. Provision for Severance Benefits	1,125,806,300	816,460,920
Retirement Deposits	(1,113,418,001)	(816,460,920)
2. Provision for Trust Risk	307,793,135	213,945,283
3. Deferred Income Tax Liabilities	-	66,756,912
Total Liabilities	17,872,502,811	18,463,101,799
Stockholders' Equity		
I. Capital Stock	10,000,000,000	10,000,000,000
1. Common Stock	10,000,000,000	10,000,000,000
II. Capital Surplus	702,663,200	702,663,200
1. Paid-in Capital in excess of Par Value	702,663,200	702,663,200
III. Accumulated Other Comprehensive Income	37,440,000	278,400,000
1. Gain on Valuation of Available-for-Sale Securities	37,440,000	278,400,000
IV. Retained Earnings	50,614,299,897	19,652,801,752
1. Legal Reserve	4,507,497,837	2,001,426,835
2. Unappropriated Retained Earnings	46,106,802,060	17,651,374,917
Total Stockholders' Equity	61,354,403,097	30,633,864,952
Total Liabilities and Stockholders' Equity	79,226,905,908	49,096,966,751

Income Statement

For the years ended December 31, 2008 and 2007

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	2008		2007	
I . Operating Revenue		65,555,429,985		33,507,564,608
1. Asset Management Revenue	57,652,481,168		23,462,120,807	
a. Management Fees	10,886,402,951		9,195,074,196	
b. Acquisition Fees	2,171,401,400		5,864,700,000	
c. Disposal Fees	44,594,676,817		8,402,346,611	
2. Trust Revenues	7,902,948,817		10,045,443,801	
a. Collateral Trust Fees	2,794,310,215		5,280,764,000	
b. Administrative Service Fees	3,210,556,195		3,186,527,634	
c. Disposal Trust Fees	1,387,911,573		1,177,096,337	
d. Management Trust Fees	510,170,834		401,055,830	
II . Operating Expenses		19,973,979,497		17,734,144,006
1. Wages and Salaries	9,322,881,386		9,432,643,877	
2. Provision for Severance Benefits	629,202,460		649,589,210	
3. Employee Benefits	1,273,991,035		1,125,631,565	
4. Travel Expenses	157,844,796		150,990,490	
5. Communication Expenses	94,040,335		83,729,421	
6. Utility Expenses	5,264,564		3,842,086	
7. Taxes and Dues	182,143,392		364,653,675	
8. Rent	1,229,044,300		1,034,003,520	
9. Depreciation	336,257,177		288,771,925	
10. Amortization	51,002,227		28,104,700	
11. Insurance Premium	82,969,882		93,156,841	
12. Entertainment Expenses	803,828,611		737,063,698	
13. Meeting and Conference	68,493,014		64,712,214	
14. Membership	182,425,000		188,000,000	
15. Service Fees	3,174,415,576		2,160,360,265	
16. Contribution to Provision for Trust Risk	93,847,852		137,178,323	
17. Supplies Expenses	51,966,740		46,985,895	
18. Printing Expenses	78,819,373		84,125,705	
19. Books and Newspapers	17,996,281		12,853,420	
20. Vehicle Expenses	333,827,463		300,848,601	
21. Employee Training	111,775,979		45,868,390	
22. Advertizing Expenses	207,130,614		245,091,136	
23. Bad Debts Expenses	1,292,592,284		9,110,990	
24. Contract Cancellation Expenses	18,461,538		316,666,667	
25. Event Expenses	173,757,618		130,161,392	
III . Operating Income		45,581,450,488		15,773,420,602

(Continue)

Financial Statements

Income Statement

For the years ended December 31, 2008 and 2007

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	2008		2007	
IV. Non-operating Income		2,049,851,302		2,136,129,627
1. Interest Income	1,865,766,330		925,358,101	
2. Dividend	170,864,978		165,169,280	
3. Gains on Disposition of Investments	-		29,631,865	
4. Gain on Valuation of Available-for-Sale Securities	3,713,458		-	
5. Reversal of Allowance for Doubtful Accounts	-		4,172,495	
6. Gain on Contract Cancellation	-		1,000,000,000	
7. Miscellaneous Revenues	9,506,536		11,797,886	
V. Non-operating Expenses		513,213,486		370,043,876
1. Interest Expenses	355,984,010		262,952,321	
2. Other Bad Debt Expenses	1,652,250		-	
3. Donations	136,142,600		106,719,954	
4. Gains on Disposition of Property, Plant, and Equipment	16,890,423		-	
5. Miscellaneous Losses	2,544,203		371,601	
VI. Income before Income Taxes		47,118,088,304		17,539,506,353
VII. Income Tax Income Taxes		13,156,590,159		5,009,151,346
VIII. Net Income		33,961,498,145		12,530,355,007

Statements of Appropriations of Retained Earnings

For the years ended December 31, 2008 and 2007
(Dates of Appropriations: February 27, 2009 and March 13, 2008 for the
years ended December 31, 2008 and 2007, respectively)

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	2008		2007	
I . Retained Earnings before Appropriations		46,106,802,060		17,651,374,917
1. Retained Earnings to be Carried over from Prior Year	12,145,303,915		5,121,019,910	
2. Net Income	33,961,498,145		12,530,355,007	
II . Appropriations of Retained Earnings		9,792,299,630		5,506,071,002
1. Legal Reserve	3,396,149,815		1,253,035,501	
2. Reserves for Trusts	3,396,149,815		1,253,035,501	
3. Dividends	3,000,000,000		3,000,000,000	
III . Retained Earnings to be Carried over to Subsequent Year		36,314,502,430		12,145,303,915

Financial Statements

Statement of Changes in Shareholders' Equity

For the years ended December 31, 2008 and 2007

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance as of January 1, 2007 (as reported)	10,000,000,000	702,663,200	92,800,000	8,622,446,745	19,417,909,945
Dividends	-	-	-	(1,500,000,000)	(1,500,000,000)
Retained Earnings after Appropriations	-	-	-	7,122,446,745	17,917,909,945
Net Income	-	-	-	12,530,355,007	12,530,355,007
Gain on Valuation of Available-for-Sale Securities	-	-	185,600,000	-	185,600,000
2007. 12. 31	10,000,000,000	702,663,200	278,400,000	19,652,801,752	30,633,864,952
Balance as of January 1, 2008 (as reported)	10,000,000,000	702,663,200	278,400,000	19,652,801,752	30,633,864,952
Dividends	-	-	-	(3,000,000,000)	(3,000,000,000)
Retained Earnings after Appropriations	-	-	-	16,652,801,752	27,633,864,952
Net Income	-	-	-	33,961,498,145	33,961,498,145
Gain on Valuation of Available-for-Sale Securities	-	-	(240,960,000)	-	(240,960,000)
2008. 12. 31	10,000,000,000	702,663,200	37,440,000	50,614,299,897	61,354,403,097

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	2008		2007	
I . Cash Flows from Operating Activities		39,798,107,485		15,481,440,137
1. Net Income	33,961,498,145		12,530,355,007	
2. Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (used in) Operating Activities :	2,421,444,673		1,112,755,148	
a. Provision for Severance Benefits	629,202,460		649,589,210	
b. Depreciation	336,257,177		288,771,925	
c. Amortization	51,002,227		28,104,700	
d. Bad Debt Expenses	1,292,592,284		9,110,990	
e. Contribution to Provision for Trust Risk	93,847,852		137,178,323	
f. Gains on Disposition of Property, Plant, and Equipment	16,890,423		-	
g. Other Bad Debt Expenses	1,652,250		-	
h. Interest Income	17,306,753		13,776,008	
i. Gains on Disposition of Investments	-		29,631,865	
j. Reversal of Allowance for Doubtful Accounts	-		4,172,495	
k. Gain on Valuation of Available-for-Sale Securities	3,713,458		-	
3. Changes in Operating Assets and Liabilities	3,436,184,878		1,885,910,350	
a. Trade Receivables	(1,948,759,312)		(1,822,197,996)	
b. Non-trade Receivables	674,430		2,328,700	
c. Accrued Revenues	(610,455,115)		(360,784,715)	
d. Advance Payments	516,865,107		(559,994,571)	
e. Prepaid Expenses	(55,998,117)		(7,565,221)	
f. Prepaid Value Added Tax	(182,403,327)		-	
g. Deferred Income Tax Assets	(65,129,488)		(17,732,174)	
h. Non-trade Payables	-		76,891,300	
i. Advances from Customers	(65,770,758)		1,816,009,855	
j. Withholdings	24,805,299		(9,726,704)	
k. Value Added Tax Withheld	(304,250,607)		(27,086,247)	
l. Accrued Expenses	(744,632,719)		1,559,340,110	
m. Income Taxes Payable	7,581,779,905		1,784,347,154	
n. Liquid Deferred Income Tax Liabilities	(26,969,347)		99,215,797	
o. Deferred Income Tax Liabilities	(66,756,912)		-	
p. Payment of Severance Benefits	(319,857,080)		(304,533,480)	
q. Retirement Deposits	(296,957,081)		(342,601,458)	
II . Cash Flows from Investing Activities		(41,224,830,516)		(14,287,431,608)
a. Decrease in Short-term Financial Instruments	-		10,800,000,000	
b. Decrease in Short-term Loans	22,902,600		1,133,775,070	

(Continue)

Financial Statements

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

KORAMCO REITs Management and Trust Co., Ltd.

(Unit: KRW)

	2009	2007
c. Decrease in Securities Held to Maturity	7,000,000	-
d. Decrease in Long-term Loans	271,000,000	154,000,000
e. Decrease in Deposits Provided	-	-
f. Disposal of Securities Available for Sale	1,561,713,458	320,000,000
g. Disposal of Other Investment Assets	-	469,837,273
h. Disposal of Vehicles	32,888,765	-
i. Disposal of Other Tangible Assets	2,000,000	-
j. Increase in Short-term Financial Instruments	38,600,000,000	20,800,000,000
k. Increase in Short-term Loans	19,902,600	108,855,070
l. Increase in Long-term Loans	604,450,000	348,000,000
m. Acquisition of Securities Available for Sale	-	2,670,000,000
n. Increase in Long-term Finance Instruments	3,000,000	-
o. Increase in Deposits Provided	602,874,400	-
p. Increase in Trust Deposits	29,561,400	533,993,900
q. Acquisition of Other Investment Assets	1,858,630,860	2,074,324,234
r. Acquisition of Vehicles	-	178,936,747
s. Acquisition of Other Tangible Assets	774,437,079	170,012,000
t. Acquisition of Other Intangible Assets	629,479,000	280,922,000
III. Cash Flows from Financing Activities	(10,000,000,000)	4,500,000,000
a. Increase in Short-term Borrowings	55,000,000,000	55,350,000,000
b. Decrease in Short-term Borrowings	62,000,000,000	49,350,000,000
c. Payment of Cash Dividends	3,000,000,000	1,500,000,000
IV. Net Increase in Cash and Cash Equivalents	(11,426,723,031)	5,694,008,529
V. Cash and Cash Equivalents at Beginning of Year	12,872,089,293	7,178,080,764
VI. Cash and Cash Equivalents at End of Year	1,445,366,262	12,872,089,293

KORAMCO History

01

Establishment:
Paid-in capital of KRW 7.0 billion

Ministry of Construction and
Transportation grants approval to operate
as asset management company (AMC)

02

Capital increase:
KRW 7.0 billion → KRW 8.55 billion

KOCREF No.1 established
KOCREF No.2 established

03

KOCREF No.3 established

KOCREF No.4 established
KOCREF No.5 established

04

05

KOCREF No.6 established
KOCREF No.7 established

Capital increase: KRW 8.55 billion → KRW 10.0 billion

Office relocation: Yeouido → Yeoksam-dong

Approval to carry out trust business

Change in company name: KORAMCO Co., Ltd.
→ KORAMCO REITs Management and Trust Co., Ltd.

Launch of trust business
KOCREF No.8 established

07

KOCREF No.11 established
KOCREF No.1 and No. 2 liquidated
Pangyo SD-2 established
KOCREF ARIEF No.1 established

06

KOCREF No.14 established
KOCREF No. 3 liquidated

08



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