

SMART CREATOR **KORAMCO**

Annual Report 2010



SMART CREATOR **KORAMCO**



Sometimes we need to run at full speed to be successful; sometimes we need to be careful, and go slowly. Although 2010 was a difficult year to operate in due to a weak real estate market, KORAMCO REITs & Trust leveraged its belief that crises can yield opportunities to strengthen its foundations for change and innovation for the next decade.

The innovations we are carrying out have many goals: value creation through preemptive risk management; better insights into market trends and opportunities; more knowledge-based, scientific, and creative approaches; definite, defined aims; and better and more critical thinking. This is the kind of “Smart Creator” we want to be.

By making a paradigm shift to “Work Smart” from “Work Hard,” KORAMCO REITs & Trust will grow into a world-renowned real estate financial institution.

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smart leader

Launching a great leap forward!



2010

Launched KORAMCO Fund subsidiary

- 2006**
 - Capital increased to KRW 10 billion from KRW 8.55 billion
 - Company building moved to Yeoksam-dong, Seoul from Yeouido
 - Obtained license for trust business
 - Company name changed to KORAMCO REITs Management & Trust from KORAMCO
 - Launched trust business
 - Established KOCREF No. 8
 - Established KOCREF NPS No. 1
 - Established KOCREF NPS No. 2
- 2007**
 - Established KOCREF No. 11
 - Liquidated KOCREF Nos. 1 and 2
 - Established Pangyo SD-2 PFV
 - Established KOCREF AREIF No. 1
- 2008**
 - Established KOCREF No. 14
 - Liquidated KOCREF No. 3
 - Entrusted assets exceeded KRW 6 trillion
- 2009**
 - Liquidated KOCREF No. 4
 - Liquidated KOCREF No. 5
 - Established KOCREF No. 15
 - Established KOCREF GS Square PFV
 - Entrusted assets exceeded KRW 12 trillion

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Site Link



How long will it take
to make our dreams come true?

- Won-Rock Chong General Manager



2006

Capital increased to KRW 10 billion from KRW 8.55 billion

Company building moved to Yeoksam-dong, Seoul from Yeouido

Obtained license for trust business

Company name changed to KORAMCO REITs Management & Trust from KORAMCO

Launched trust business

Established KOCREF No. 8

Established KOCREF NPS No. 1

Established KOCREF NPS No. 2

2007

Established KOCREF No. 11

We think it takes at least ten years for people to develop the capabilities and foundations that will allow them to make their dreams come true.

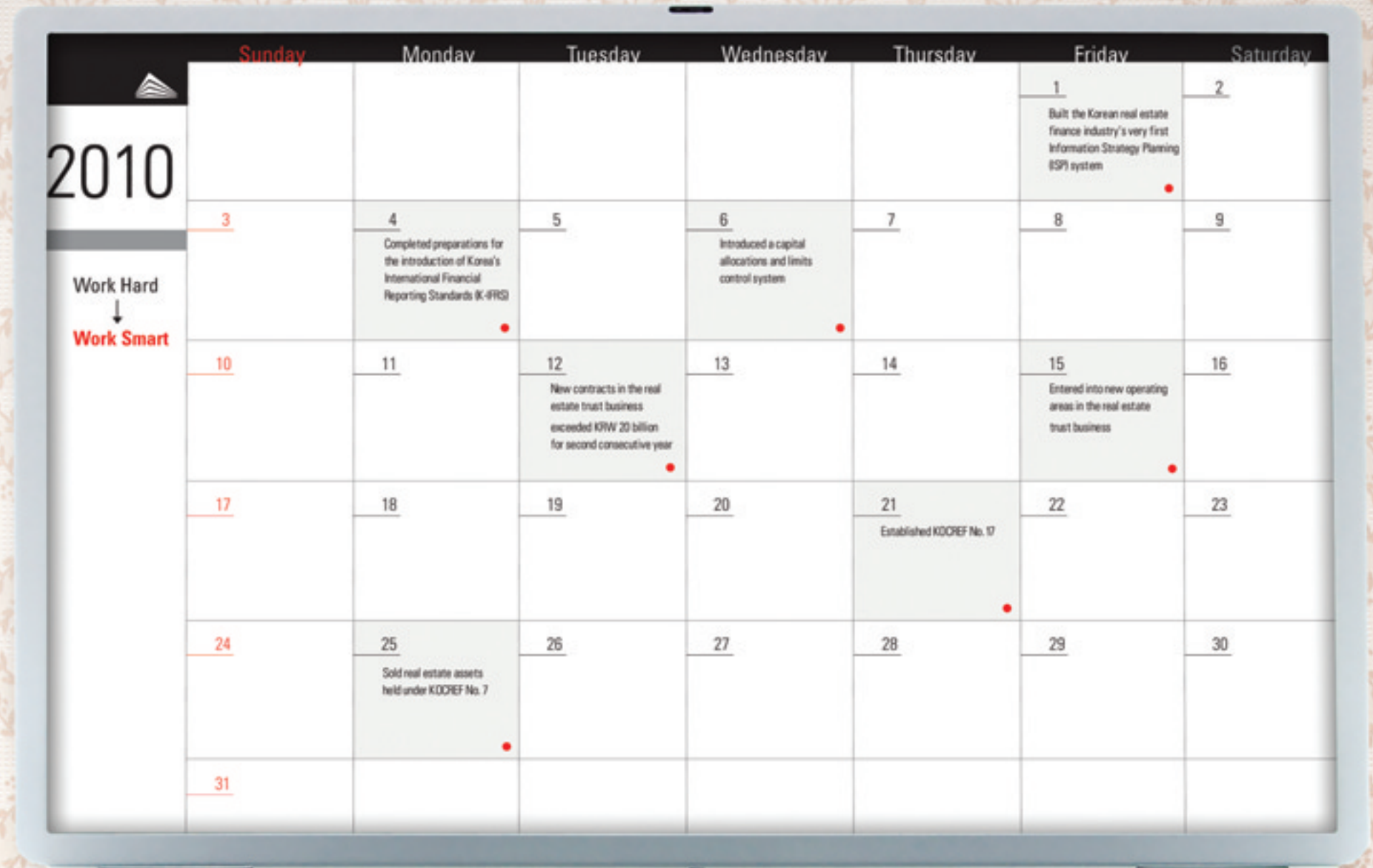
KORAMCO REITs and Trust, established as a REITs asset management company in 2001, has grown into a truly comprehensive real estate financial institution by expanding the range of its businesses beyond REITs and real estate trusts into real estate funds. This included the addition of real estate trusts in 2006 and an asset management subsidiary in 2010. We are celebrating our tenth anniversary by making clear, concrete, and concise preparations for another decade of stellar performances.

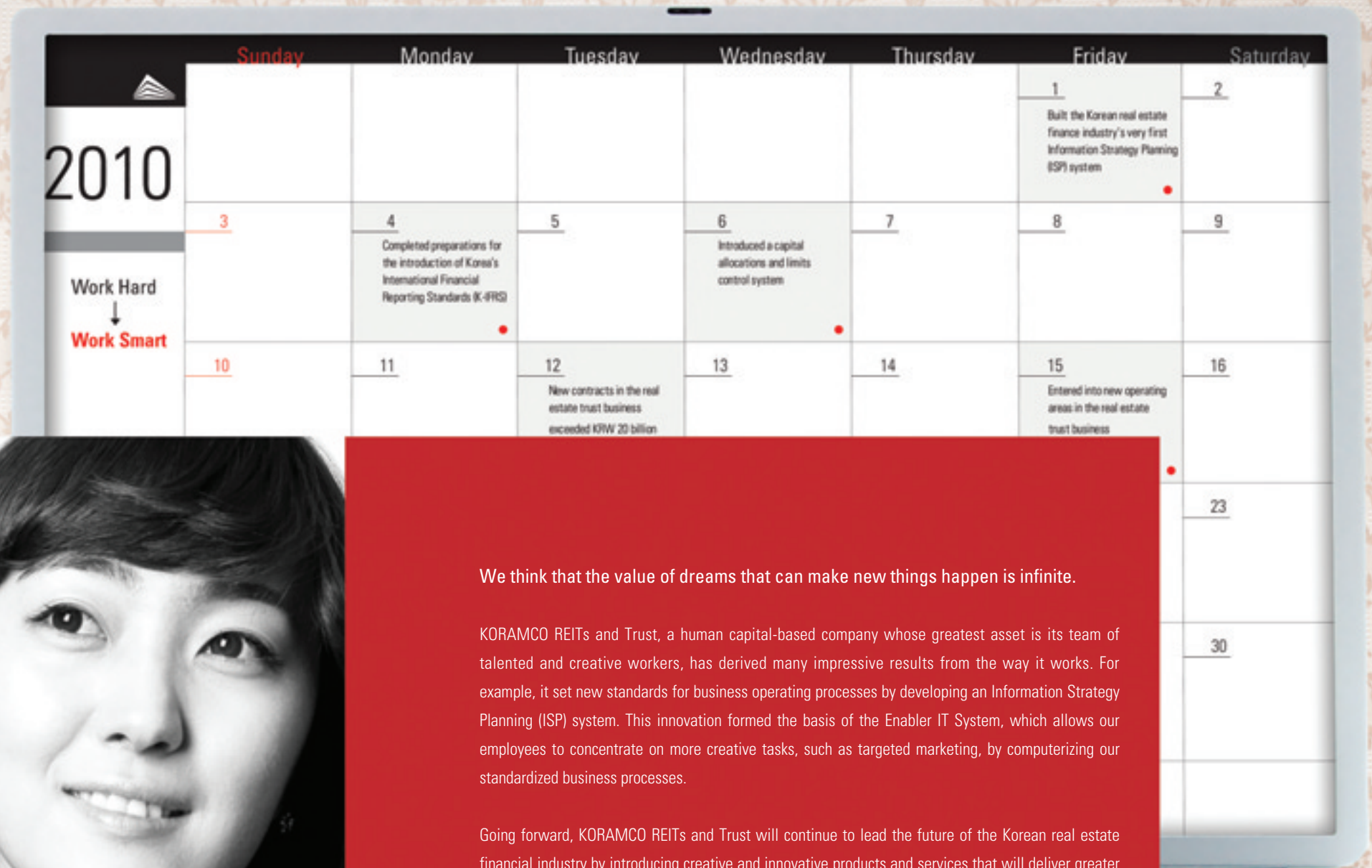
We intend to reach our medium-term goals by 2020, and plan to become a full-fledged investment bank that will include comprehensive asset management and investment operations after that. Everyone at KORAMCO REITs and Trust is committed to using their passion and creativity to build our new future.

Site Link

smart worker

Using creativity and innovation!





How much will
our dreams be worth?

- You-Hee Park Staff

We think that the value of dreams that can make new things happen is infinite.

KORAMCO REITs and Trust, a human capital-based company whose greatest asset is its team of talented and creative workers, has derived many impressive results from the way it works. For example, it set new standards for business operating processes by developing an Information Strategy Planning (ISP) system. This innovation formed the basis of the Enabler IT System, which allows our employees to concentrate on more creative tasks, such as targeted marketing, by computerizing our standardized business processes.

Going forward, KORAMCO REITs and Trust will continue to lead the future of the Korean real estate financial industry by introducing creative and innovative products and services that will deliver greater value to its customers.

smart partner

Building greater trust!





How far will we go to
earn someone's trust?

- Woon-Young Song Staff

There are no limits to our efforts to earn the trust and respect of our customers and our society.

Always fulfilling its social responsibilities is one of KORAMCO REITs and Trust's core values. For us, growth and development are not just a function of how we manage and perform as a business. Instead, we want to grow with our customers and the communities we serve by creating new values on every level. To do so, we will continue to play our role as a caring and concerned corporate citizen, while also providing leadership and introducing new trends within the industry.

KORAMCO REITs and Trust will continue to partner with its stakeholders to ensure that it practices sustainable management and is deserving of their trust and respect.

Message from the Chairman



Dear Valued Shareholders, Customers, Partners, and Stakeholders,

Our businesses suffered last year under pressure from continued weaknesses in the real estate market. Although our operating results for 2010 weren't robust, we did make significant strides in expanding our growth potential throughout the year.

Notwithstanding the growing competitive pressures and the deteriorating business environment, we succeeded in achieving the goals we set for our trust business by concluding new business contracts totaling KRW 22 billion. Our REITs business, on the other hand, managed only KRW 63.5 billion in new fund creations, well short of the 2010 target of KRW 800 billion. The after-tax income totaled KRW 5.3 billion, below the KRW 6.9 billion target, which brought down the ROE to 6.9%, the lowest level since the turnaround in 2003.

But we can also tell you that 2010 was the year KORAMCO REITs & Trust steadfastly implemented innovations that laid the foundation for business revitalization with enhanced growth potential. For instance, we stepped up company-wide coordination and collaboration on developing a new set of business concepts and models befitting the evolving business environment.

As a result, we were able to successfully come up with new, forward-looking business models that strengthen our competitive edge as a project organizer in the REITs business. We also reinforced our potential for future earnings by entering the leveraged land development trust market and seeking new growth opportunities in the urban renewal and revitalization business, the first trust company to do so in Korea. We also brought about significant advances in our work and business processes by faithfully implementing the Information Strategy Planning (ISP) that had been in the works since 2009 and upgrading the existing processes.

In March, we started an asset management business that will pave the way for our transformation as a full-service real estate financial institution offering unmatched investment and business services in REITs, real estate trusts, and real estate funds.

Korea's real estate market is rapidly evolving amid growing uncertainty. In particular, profound shifts in demographics and extensive distress in the so-called project finance market are altering the very structure of the real estate market and demanding new approaches to real estate financing. The market is further clouded by a steady flow of new entrants that are competing for business.

We believe that the new reality compels us to raise our competitive strength to a new level by faithfully implementing the business innovation drive we launched in earnest last year. A successful transition from "Work Hard" to "Work Smart" is crucial in this endeavor.

Work Smart is a simple philosophy that rejects conventional thinking and customary practice in favor of clear goals and creative solutions. So the year 2011, the tenth anniversary of KORAMCO's incorporation and the first year of our next decade, will mark the rebirth of KORAMCO as the "Smart Creator" that looks forward with a pioneering spirit.

Just as even the longest journey begins with the first step, KORAMCO must meet the business performance we set for this year as the first step toward our new future. As we forges ahead, here are the priorities that I see as crucial to our continued success.

First, we will strive for differentiated competitive strength for our REITs business. For the real estate development business, this means reinforcing our position as project organizer. As for asset management, we intend to aim for significant efficiency gains with new asset

management systems. Equally important, we are going to push for remodeling business by leveraging the know-how that we have accumulated from our extensive business experiences.

Second, we will allocate new resources into marketing for the trust business. Among others, this means diversifying our client base by better utilizing our business networks and enhancing our capabilities in new business areas such as leveraged land trust and urban revitalization. As we do so, we will focus on providing high-quality one-stop services our competitors can't match.

The third priority is implementing efficiency measures into our operating structure. In this endeavor, we are going to enhance our future growth potential with the full integration and utilization of the ISP system throughout our work processes while providing reliable market analysis and satisfying the needs of our clients. New, more focused efforts will also be undertaken to better train our employees so that all of them can contribute to the knowledge-driven company we envision for the future.

KORAMCO owes much of its success over the years to the unceasing support of its shareholders, customers, partners, and stakeholders. So we very much look forward to your continued encouragement and commitment for our future growth and transformation into a truly world-class real estate financial institution.

Thank you.

February 2011
Chairman Kyu-Sung Lee

BOARD OF DIRECTORS

Chairman and Inside Directors



Kyu-Sung Lee
Chairman of the Board of Directors

- B.A. in Economics, Seoul National University
- Minister, Ministry of Finance and Economy
- Minister, Ministry of Finance

Chang-Mo Moon

- BA in Political Science & International Studies, Yonsei University
- MA in Economics, Vanderbilt University
- General Management Director, Ministry of Finance and Economy
- Auditor, Korea Development Bank

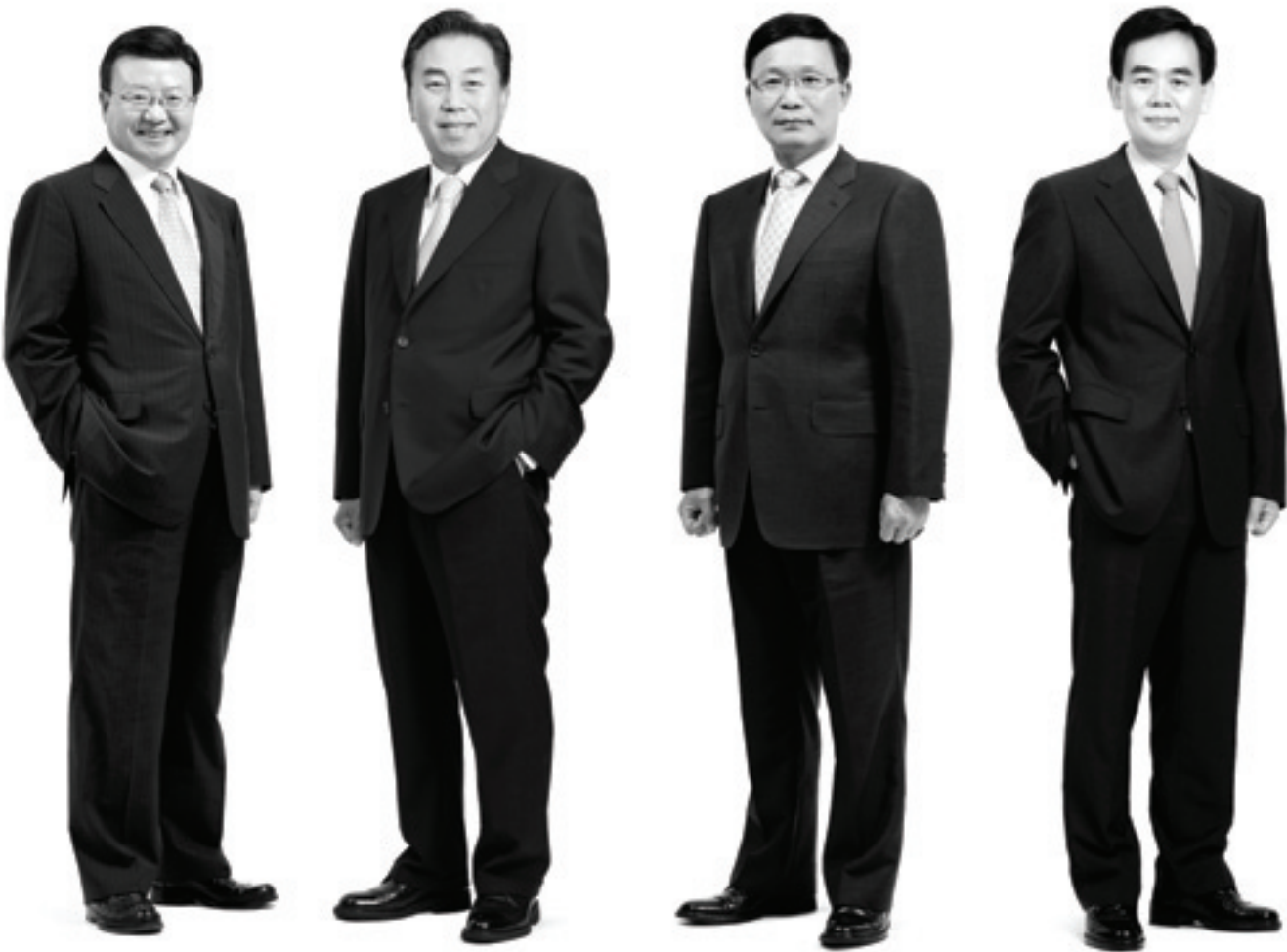
Kil-Seok Suh

- BA in Agricultural Chemistry, Korea University
- Executive Vice President, Trust Business Unit, Woori Bank
- Executive Vice President, Risk Management Unit, Woori Bank
- Executive Vice President, Credit Management Unit, Woori Bank

Joon-Ho Chung

- BA in Economics, Seoul National University
- Ph.D. in Economics, University of Missouri
- Ministry of Finance and Economy
- Financial Supervisory Commission
- Head, Research and Analysis Department, Woori Financial Group

Outside Directors



Hoon Namkoong

- BA in Law, Seoul National University
- Master's Degree, Vanderbilt University, US
- Ministry of Finance and Economy
- President, Korea Deposit Insurance Corp.
- Chairman, Korea Life Insurance Association

Ji-Chang Yoo

- BA in Sociology, Seoul National University
- Kennedy School of Government, Harvard University
- Vice Chairman, Financial Services Commission
- Governor, Korea Development Bank
- Chairman, Korea Federation of Banks
- Currently Chairman, Eugene Investment Securities

Sin-Seob Kang

- BA in Law, Seoul National University
- Master's Degree, Seoul National University
- Research Judge, Supreme Court of Korea
- Currently Attorney, Shin & Kim Law Firm

Hyoung-Tae Kim

- BA in Business Administration, Seoul National University
- Ph.D. in Business Administration, Seoul National University
- Currently President, Korea Capital Market Institute

2010 Financial Summary

Statements of Financial Position Summary		(In millions of KRW)	
	2009	2010	% Change
Change	67,401	62,064	-8.0%
Non-Current Assets	19,235	29,081	51.1%
Total Assets	86,636	91,145	5.2%
Current Liabilities	10,949	13,417	22.5%
Non-Current Liabilities	480	620	29.2%
Total Liabilities	11,429	14,037	22.8%
Capital Stock	10,000	10,000	0%
Capital Surplus	65,207	67,108	2.9%
Total Stockholders' Equity	75,207	77,108	2.5%
Total Liabilities and Stockholders' Equity	86,636	91,145	5.2%

Statements of Income Summary		(In millions of KRW)	
	2009	2010	% Change
Operating Revenues	42,185	27,308	-35.3%
Operating Expenses	19,558	18,942	-3.2%
Operating Income	22,627	8,366	-63.0%
Non-Operating Income	38	21	-44.7%
Non-Operating Expenses	504	1,083	114.9%
Pre-Tax Net Income	22,161	7,304	-67.0%
Income Tax Expenses	5,569	2,011	-63.9%
Net Income	16,592	5,293	-68.1%

Key Management Indicators		(%)	
	2009	2010	
Stability Indicators			
Current Ratio	615.6	462.6	
Debt-to-Equity Ratio	17.5	18.2	
Net Capital Ratio (NCR)	754.2	581.9	
Profitability Indicators			
Ratio of Operating Income to Revenues	57.8	33.5	
Return on Assets (ROA)	20.0	5.9	
Return on Equity (ROE)	26.2	6.9	
Growth and Activity Indicators			
Sales Growth Rate	-37.6	-36.3	
Operating Income Growth Rate	-52.1	-63.0	

2010 News Highlights

New contracts in real estate trust business exceeded KRW 20 billion for second consecutive year

New contracts exceeded KRW 20 billion for the second consecutive year. Despite extremely difficult business conditions, we won new contracts worth KRW 22 billion, compared to KRW 21.1 billion in 2009. In addition, we had KRW 14.3 billion in revenues, up 58% from the previous year and the largest since our entry into the trust business in 2006. These results, which were driven by sharp rises of revenues in land development trusts and disposal trusts, provided us with a stable earnings basis for the future and solidified our position as a leading trust company.

Advanced into new areas in the trust business

Our trust business, backed by our insistence on thorough business analysis and risk management, has been enjoying solid growth. This year, we began operations in the leveraged land development trust sector, and became the first player in the domestic trust industry to enter into the urban renewal business. These steps allowed us to position ourselves as a premiere real estate trust company a mere five years since our establishment.

Sold assets held by KOCREF No. 7

We adopted a strategy of raising our bidding ratios by adding to our slate of prospective buyers a year in advance of a sale. This was done to maximize our sales values and strengthen our sales procedures. As a result, we completed the disposal of the Kolon Annex Building in December without a hitch. In addition, we transferred the ownership of the Daewoo Shipbuilding & Marine Engineering (DSME) Building in accordance with a prior sales agreement with that company.

Built Information Strategy Planning (ISP) system, a first for the Korean real estate finance industry

We defined our mid- to long-term goals for improving our information systems by consulting with ISP experts outside the company at the beginning of the year. We also developed directions and strategies for upgrading our data processing systems by establishing a task force team composed of our field workers. Our aim was to enhance our competitiveness by boosting the efficiency and productivity of our business operations. After a period of system development and pilot operations, we went on to build it at the end of the year. This laid the foundation for shifting our way of working from “Work Hard” to “Work Smart.”





☒ Market Review ☐ Smart Performance ☐ Smart Potential ☐ Smart Value ☐ Financial Review

1. Market Review

Our multi-talented, level-headed employees make accurate predictions of what is likely to happen in the future through timely analysis of the constant flow of information that crosses their desks. Their strengths include superior judgment, unwavering principles, and a sincere desire to do their very best for their clients.

KORAMCO REITs & Trust is committed to achieving better results than its customers expect to receive. We believe that earning their trust is more important than making a profit at any cost.





Real Estate Market

Office Market

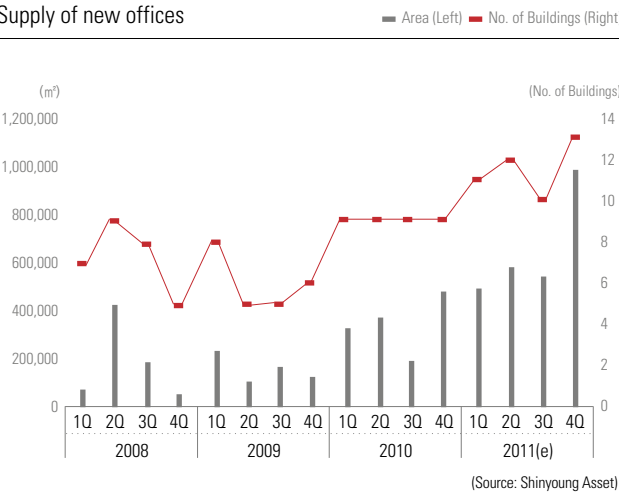
Supply Trends

The biggest issue in the market for office space in 2011 will be the availability of new facilities. The Central Business District (CBD), which led the parade during the fourth quarter of 2010, is expected to be in the forefront again this year. The market is expected to increase to average-year levels in the Gangnam Business District (GBD), while a healthy increase is anticipated in the Yeouido Business District (YBD).

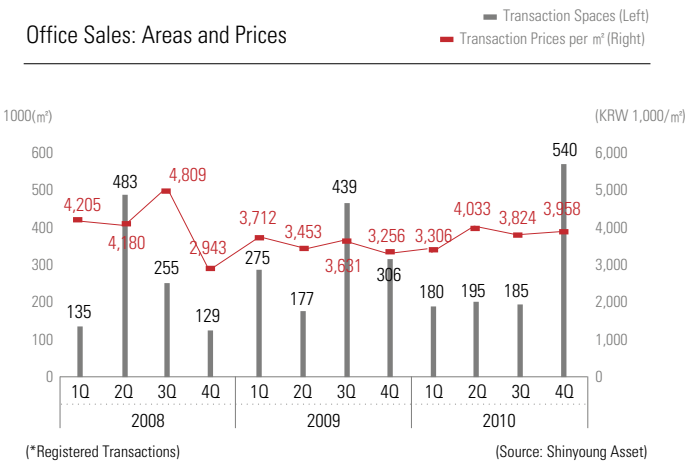
Sales Trends

Sales of offices showed a slight recovery last year, in terms of both volume and price. There was strong buying by domestically-based capital, while foreign players, who had taken a wait-and-see approach for a long time in the wake of the global financial crisis, showed more interest in the second half of the year. Purchases by CR-REITs and transactions between companies to strengthen their financial performance and/or increase their liquidity also continued apace.

Supply of new offices



Office Sales: Areas and Prices



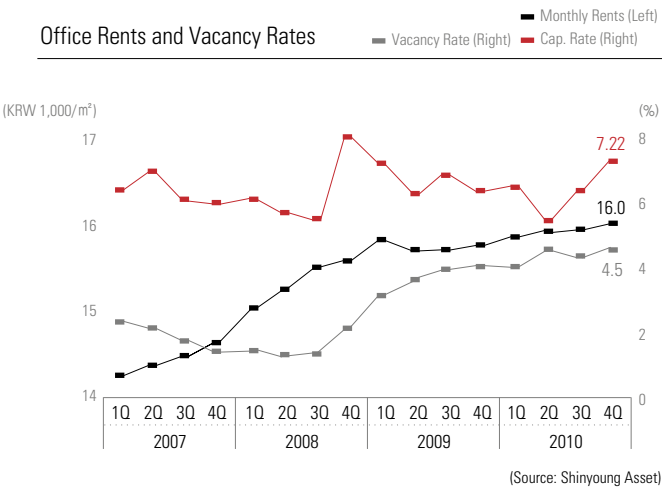
Rental Trends

Growth in rents failed to reach the average-year level, due to continued instability in the market and a rise in the supply of new units. Any increases in rental rates were for units in large-scale, newly-erected buildings.

Market Outlook

The pace of recovery in the office rentals market in 2011 will likely be limited, due to a continuing increase in the availability of new units. Rental rates may even experience a decrease, since the number of new facilities coming on stream is expected to be concentrated in the second half of the year. The overall performance of the economy in the first half of the year will be the major determining factor in predicting the market for office rentals going forward.

Office Rents and Vacancy Rates



Retail Market

Supply Trends

Sales in 2010 remained at almost the same level as the preceding year, although there was an increase in the supply of retail buildings in the provinces.

Sales Trends

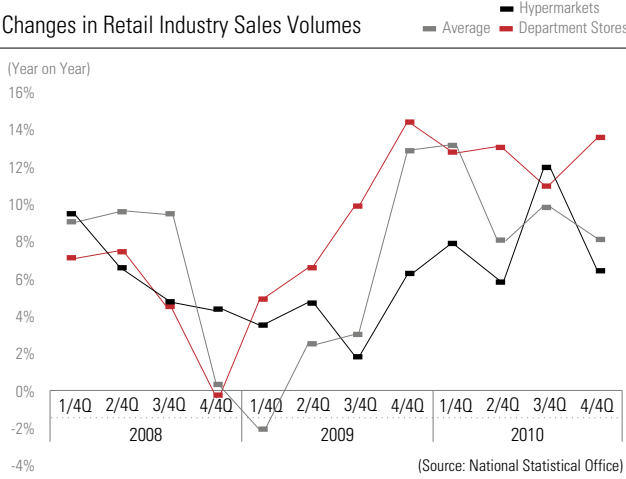
There was a slight recovery in the economy as the worst effects of the financial crisis began to dissipate. As a result, annual sales by major retailers increased, with sales by hypermarkets and department stores climbing by 4.9% and 9.5%, respectively, over the year.

Market Outlook

According to a report on the economic outlook for major retail facilities by NH Investment & Securities, department stores will likely enjoy higher growth than the previous year, although competition is expected to intensify in the provinces. Hypermarkets are forecast to show a lower rate of growth (in the area of 4.5%) than department stores, mainly due to increased competition among sales channels, slowing growth in their customer base, and reduced bulk purchasing in response to inflationary pressures.

Retail Sales Volumes





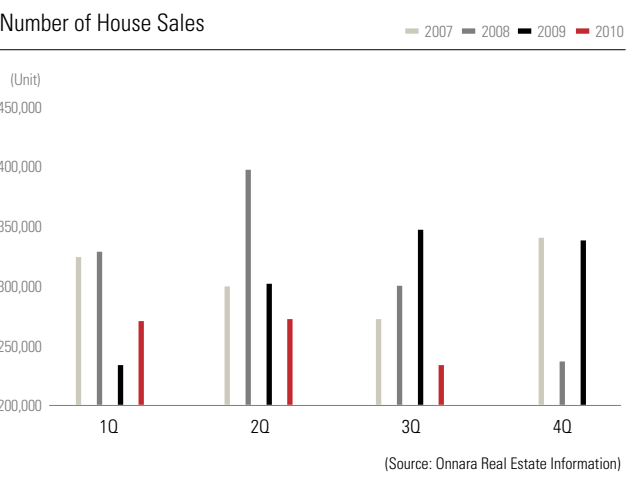
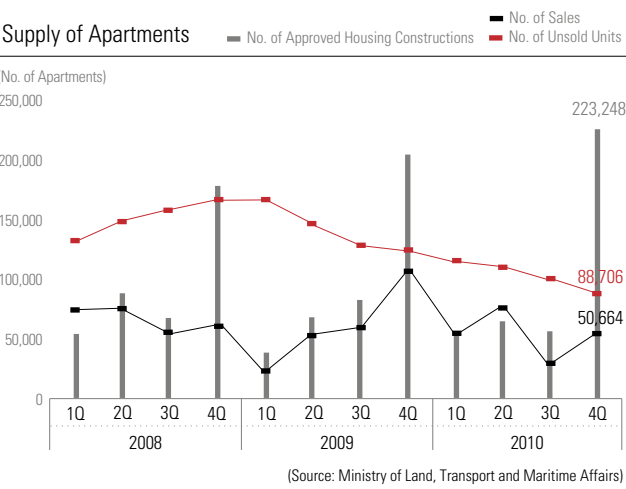
Residential Market

Supply Trends

The volume of sales in 2010 reached an all-time low. This was due to a shrinking real estate market and a concomitant glut of unsold offerings, as well as reduced expectations by prospective buyers. Sales of residential lots are forecast to decline again in 2011, mainly due to a decrease in the number of new homes being built and the introduction of the IFRS.

Sales Trends

Sales of residential units began to rise at the end of 2010. This trend, which was echoed by an increase in consumer prospects in the housing transaction business survey index, or BSI, led to growing hopes that the market will be more bullish in 2011.

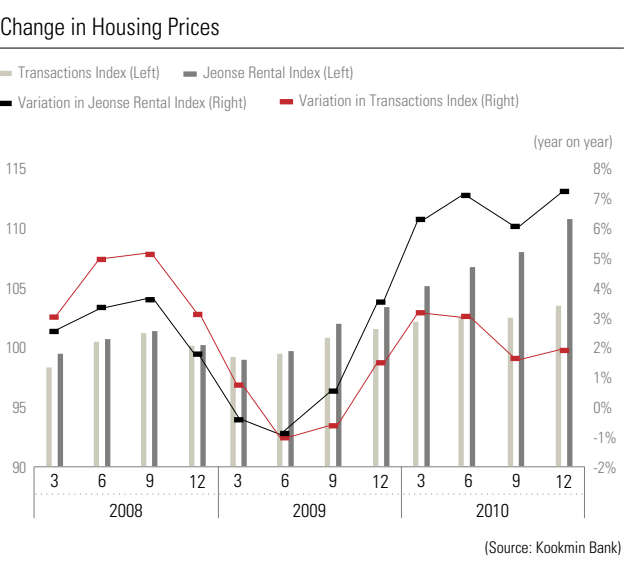


Price Trends

The Korean housing market in 2010 featured a distinct variation by region: while sales prices were lower in Seoul and other metropolitan areas, they were higher in the provinces. In overall terms, the housing market remained weak, while the Jeonse rental market enjoyed positive growth.

Market Outlook

It is difficult to provide an accurate outlook for the housing market, because experts and research organizations have differing views of what they think will happen. Some of them believe that prices will rise because vendors will take their unsold offerings off the market, resulting in a reduced volume overall. They also think that expectations that prices have bottomed out will help to push them higher. On the other hand, any upward movement will be limited due to continuing household debt problems, negative business sentiment, and unsold units coming back on stream as the market gains strength.



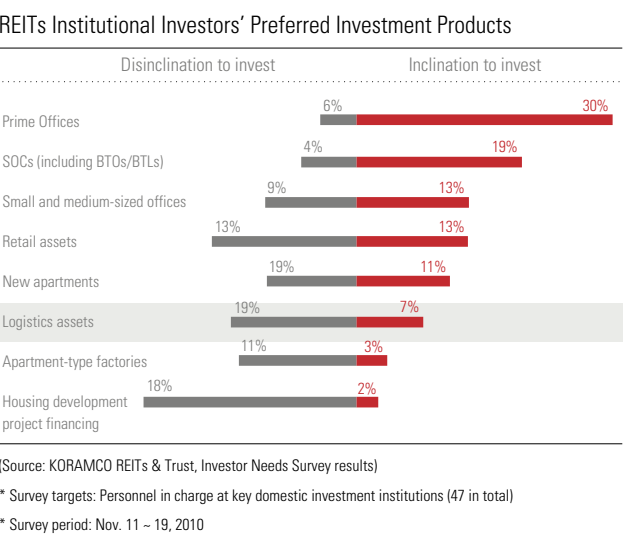
Logistics Market

Market Trends

The growth rate of the logistics industry, which had been in decline since 2009, remained stagnant in 2010, with its corporate earnings rate leveling off at below 5% (Source: The Korea Chamber of Commerce and Industry). The only bright news was that demand for newly-built, large-scale logistics centers increased, leading to a slight upturn in rental rates.

Market Outlook

The market will witness many changes in 2011. These will include a movement toward the establishment of logistics subsidiaries by large enterprises, more M&As among leading courier service providers, and the implementation of the green logistics certification system. Although the demand for large logistics centers is likely to remain healthy, there is a distinct possibility that rents will fall as supply begins to outstrip demand. This is especially true if plans for the development of new logistics complexes by local governments proceed as scheduled.



Ji-Yeon Byeon Staff



2. Smart Performance

Boasting new competencies!

In 2010, KORAMCO REITs & Trust began preparing for another take-off in its operations through the expansion of its growth potentials. We developed a variety of new business concepts and models, and opened up a number of new operational areas. We also made dramatic improvements to our way of working by building an ISP system. In addition, the establishment of a real estate fund subsidiary allowed us to position ourselves as a comprehensive real estate financial institution covering all areas of real estate financing--including REITs, real estate trusts, and real estate funds.



General Management

We built the institutional foundations needed to put “Work Smart” into practice, and added to our profile as an industry leader by being the first player to build an ISP system.

Built Information Strategy Planning (ISP) system

KORAMCO REITs & Trust successfully completed the construction of an Enabler IT-based ISP system. The process included consulting with IT specialists, conducting in-house discussions, and developing a system to shift to “Work Smart” from “Work Hard.” The system automates standardized and repetitive operations, allowing our employees to concentrate on more creative duties, such as targeted marketing.

We were the first player in the Korean real estate financial industry to build an ISP system. This was done by integrating a number of data processing systems, including Enterprise Resource Planning (ERP), Business Process Management (BPM), Customer Relationship Management (CRM), and Executive Information System (EIS). This enabled us to consolidate our industry-leading position for another take-off, and confirmed our position as a leader of the Korean real estate financial industry.

Introduced capital allocations and limits control system

We introduced a capital allocations and limits control system--another first for the Korean real estate financial industry--to allow us to cope preemptively with unexpected risks and losses and augment the stability of our invested assets. This will help us to achieve our mid- to long-term financial strategies by broadening our range of investments.

Completed preparations for the introduction of K-IFRS

We completed preparations for the introduction of K-IFRS, a system for simplifying international accounting standards, in 2011. This involved developing new data processing systems and revamping our accounting and funds management rules and regulations.

Achieved company-wide consensus on issues and strategies

We held a number of evaluation and analysis meetings to confirm our quarterly business results and make plans for the next quarter. In addition, we conducted a workshop in October 2010, with a goal of outlining our business strategies for 2011 and strengthening our mid- to long-term competitiveness to reflect changes in our operating environment. This allowed our employees to understand and come to an agreement on the company’s management strategies and future directions. For example, we formed a company-wide consensus on adding to our presence as a project organizer.

REITs Business

We laid the groundwork to strengthen our role as a project organizer by enhancing the project planning and real estate financing strengths that we have accumulated so far. We also continued to add to our capabilities in the area of asset management, which included developing a system of asset management indicators.

Established KOCREF Fund No. 17

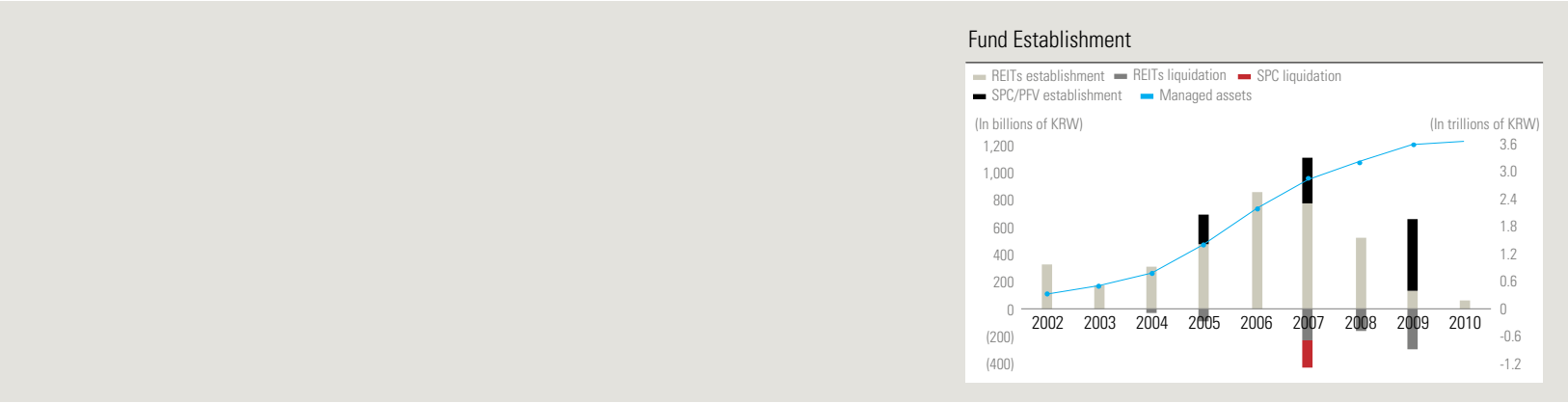
Only one REITs fund was established in 2010, due to continuing slowdowns in the real estate market. The KOCREF No. 17 REITs corporation was put in place in November 2010 with a capital stock of KRW 0.5 billion (total assets after the acquisition of properties: KRW 63.5 billion). We will assume ownership and begin managing the fund around March 2011, subject to the seller meeting such conditions as the transfer of leaseholders.

The new fund involved the purchase of the Judo Hall in Seoul. The goal is to maximize its value by turning it into an office building and then flipping it. We interested a number of investors in this, even though the weak domestic rental market and unpromising global economy had made them leery of entering the market before. We also attracted re-investments from private banking (PB) customers of banks who had already invested in KOCREF funds, and brought in some new players, including pension funds and private corporations.

KOCREF No. 7: Completed Sales of Assets.

In order to ensure the stable sale of the assets of KOCREF No. 7 in the face of a sluggish real estate market environment, we had adopted a strategy of adding to our slate of prospective buyers a year in advance. This resulted in higher bids.

As part of this strategy, we analyzed turning the Kolon Annex Building site into small studio apartments to meet the increasing need for one-person accommodations. Because we had increased the likelihood of a successful sale by including potential buyers with an interest in studio apartments, it went off without a hitch.



* Kolon Annex Building, Gwacheon
Ownership transfer completed on December 28, 2010.



Majority of Funds Under Management Exceeded Target Payout Ratios

We were managing eleven funds in 2010. Nine of them involved rental properties, while the other two, which were Project Financing Vehicles, or PFVs, were invested in properties under construction.

KOCREF Nos. 6~8, KOCREF NPS No. 2, and KOCREF Nos. 14~15 all exceeded their target payout ratios, but KOCREF NPS No. 1 and KOCREF No. 11 didn't. KOCREF AREIF No. 1 had no plans to pay dividends in its sixth and seventh terms, which fell in 2010. We believe that our fund management results should be rated "satisfactory," considering how much the office rental market had deteriorated due to the global financial crisis, an increase in the supply of new offices, and a slump in the entire real estate sector.



Jung-Woo Ok Senior Manager

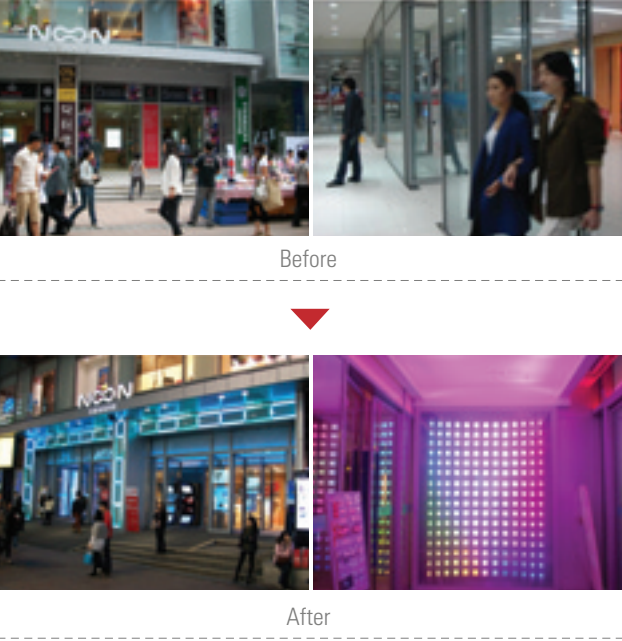
In the case of the Pangyo SD-2 PFV and KOCREF GS Square PFV funds for buildings under construction (and which are scheduled for completion in March 2011 and April 2012, respectively), we are seeking to reduce our construction costs to boost their value and their attractiveness in the office rentals market. We are also undertaking process management and quality control as previously planned.

Dividend Rates by Fund			
	Targeted payout ratios	Real payout ratios	Remarks
KOCREF No.6(Preferred stock)	9.40%	9.40%	Unlisted, Achieved target
KOCREF No.6(Common stock)	5.16%	8.53%	Unlisted, Exceeded target
KOCREF No. 7*	9.34%	11.58%	Listed, Exceeded target
KOCREF No. 8	8.11%	8.28%	Listed, Exceeded target
KOCREF NPS No. 1	6.12%	5.42%	Unlisted, Failed to reach target
KOCREF NPS No. 2	12.09%	12.76%	Unlisted, Exceeded target
KOCREF No. 11	10.18%	7.13%	Unlisted, Failed to reach target
KOCREF No. 14	4.80%	6.90%	Unlisted, Exceeded target
KOCREF No. 15	10.28%	10.46%	Listed, Exceeded target
KOCREF AREIF No. 1**	0.00%	0.00%	Unlisted

* KOCREF No. 7 is in liquidation due to the expiration of its term (Dec. 28, 2010)
** KOCREF AREIF No. 1 had no plans to pay out dividends during its sixth and seventh terms, which fell in 2010.

Added to value and rental performances through differentiated asset management techniques

1. KOCREF AREIF No. 1 (Noon Square)
- Increased customer awareness by enhancing convenience and upgrading facilities
- We increased customer inflows and sales by installing LED lighting on the facade and entrances and adding more convenience facilities of various kinds.



- Made building more attractive by adding better-quality tenants
- Noon Square positioned itself as a representative shopping mall in Myeong-dong by attracting stores of such world-class SPA brands as H&M, ZARA, and Mango. The ZARA store boasts the largest sales volume in all of Asia, beating out the IFC Mall in Hong Kong and Ginza in Tokyo.

2. KOCREF No. 8: G Tower
- Increased rental attractiveness by improving image and adding to convenience
- We improved the image and attractiveness of the KOCREF No. 8 "G Tower" by enhancing its environment. This increased the convenience and satisfaction levels of the current tenants, and helped us add new ones at profitable rates.

Although there was some worry about a falling rate of return with the expiration of some tenants' leases at the beginning of 2010, we managed to keep the vacancy rate at zero by attracting other leaseholders. We did this by improving the operating environment and conducting an aggressive marketing campaign.



Strengthened development project capabilities

1. Pangyo SD-2 PFV (H'SQUARE)

- This project involves developing two multi-use buildings with a total floor area of 138,624m² in the SD-2 Block, a site for research supports in the Pangyo Techno Valley that Gyeonggi-do province is creating for high-tech industries. We established a PFV to carry the project to fruition in August 2007.
- Enhanced asset management competencies
 - Increased ability to manage development projects by gaining more experience in project management and building approvals
 - Met construction process rates for each period and carried out projects within budget by minimizing construction costs
- Sold and managed commercial facilities successfully
 - Sold nearly 90% of total space despite weak market, becoming a target for benchmarking
 - Minimized dishonest practices at general shopping centers through thorough vetting of merchandisers and tenants
 - Enhanced operating environment in multi-unit buildings by organizing tenants’ associations and establishing and enforcing strict management standards

Bird's-eye view



2. KOCREF GS Square PFV (Multiple-Use Facility in Pyeongchon)

- Won approval to carry out large development project
 - Established PFV worth KRW 532 billion after winning approval to carry out a large-scale development project consisting of a department store, shopping malls, a multiplex theater, and office buildings in a business district near Beomgye Station in southwestern Seoul
- Carried out project successfully thanks to closely-monitored, on-site project management
 - We played our role as a project organizer successfully by working closely with the GS Retail project management company, a construction management group composed of Hanmi Parsons and three other companies, the GS Construction company, and a variety of other service providers.
- Added to rental competitiveness and asset value
 - We augmented the facility’s rental competitiveness and increased its asset value by upgrading major facilities such as elevators and emergency generators and installing electricity and machinery infrastructures. This will result in a higher sale price.

Bird's-eye view

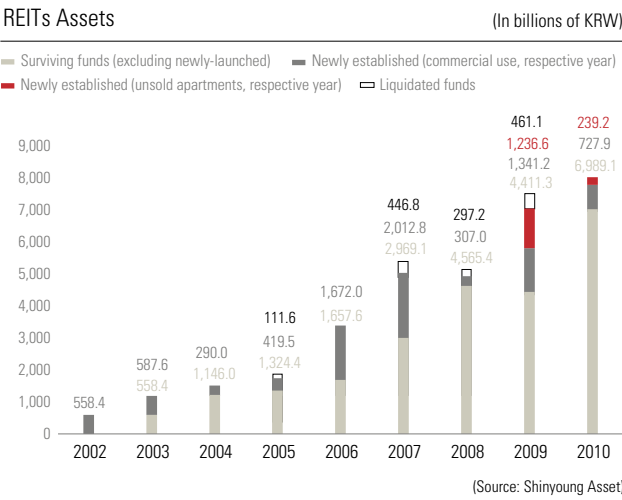


[Reference] REITs Market Trends

Assets held under REITs were worth approximately KRW 8 trillion
A total of 52 REITs were under management (10 internally managed, 13 externally managed, 29 CR-REITs). Their total value amounted to about KRW 8 trillion as of 2010-end.

The most noticeable development in the REITs market during the year was the increased number of internally managed REITs: seven were established, and nine were awaiting approval. This happened because developers began to recognize the value of a REIT as a project financing (PF) alternative following the slowing of the regular PF market.

The listing of three more REITs in 2010 meant that there were five at the end of the year. CR-REITs investments in unsold apartments increased steadily; however, they all performed poorly and suffered from low payout ratios.

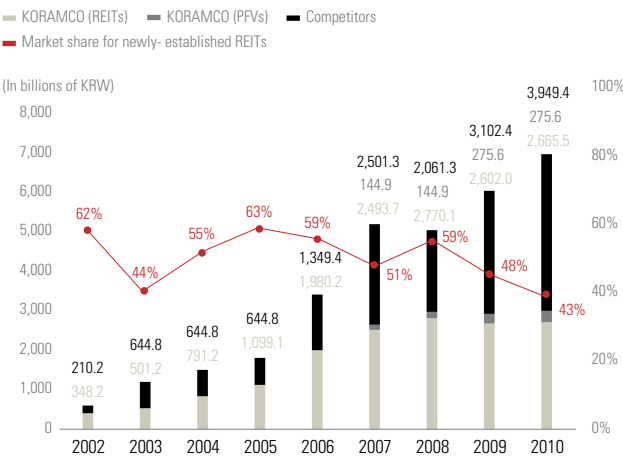


[Reference] REITs Market Share

Assets under management worth KRW 2.9 trillion, 43% market share
The value of the REITs market in Korea in 2010 reached KRW 8.2 trillion (including AMC's PFVs). This included the establishment of 17 new ones worth a total of KRW 967.1 billion.

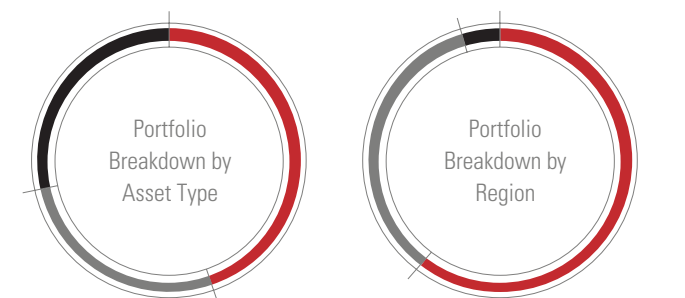
The market share of REITs under management by KORAMCO REITs & Trust (exclusive of unsold apartment REITs and internally managed REITs) fell by 5% from the previous year to 43%. This happened because the company only established one REIT during the year. Despite this, the company retained its industry-leading market share based on assets under management. The total value of its funds under management was KRW 2.9 trillion, a slight increase from the preceding year.

Market share of REITs under management
(Exclusive of unsold apartment REITs and internally managed REITs, but including AMC's PFVs)



KOCREF is the brand name of REITs established and managed by KORAMCO REITs & Trust. A total of 15 REITs have been established, with nine still in operation as of January 2011. We also set up two PFVs, which invested in properties under construction.

Small properties suffer from such risk factors as (comparatively) lower returns, an increased risk of leaseholder default, and rapid depreciation. The bulk of KOCREF funds are invested in large office buildings averaging KRW 80~100 billion in value, and/or retail facilities in key locations in Seoul with master lease structures. This ensures a greater degree of profitability and stability.



- KOCREF Nos. 1~5, 7~8
- KOCREF NPS No. 1
- KOCREF No. 15

- KOCREF No. 6
- KOCREF NPS No. 2
- KOCREF AREIF No. 1

- KOCREF Nos. 11, 14, 17
- Pangyo SD-2 PFV
- KOCREF GS Square PFV

* Based on total assets


























- KOCREF Nos. 1~8
- KOCREF NPS Nos. 1~2
- KOCREF No. 11
- KOCREF AREIF No. 1
- KOCREF Nos. 14~15, 17

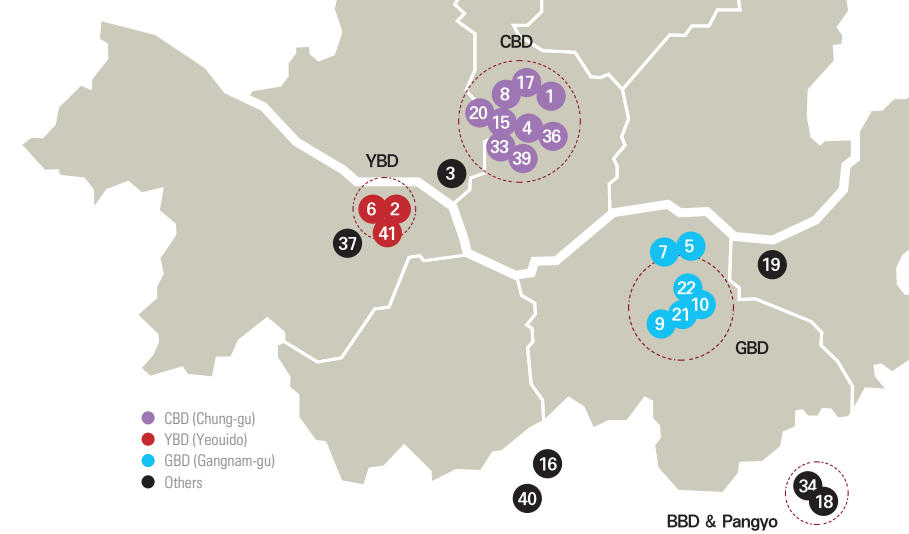
-KOCREF NPS No. 2 (four discount stores)

- KOCREF No. 6 (four outlet stores)
- KOCREF No. 7 (Kolon Annex Building)
- KOCREF No. 8 (Central Tower)
- KOCREF NPS No. 2 (four discount stores)
- Pangyo SD-2 PFV
- KOCREF GS Square PFV

* Based on total assets

In order to ensure stable earnings, KOCREF funds are predominantly invested in key locations in Seoul. However, they also invest in other regions for purposes of portfolio diversification.

Fund Name	No	Investments	Type	Location	Total Floor Area(m ²)
KOCREF No. 1	1	 Hanwha Jangkyo Building	Office	CBD	74,375
	2	 Daehan Building	Office	YBD	14,623
	3	 Dae-A Building	Office	Mapo	14,014
KOCREF No. 2	4	 Myeongdong Tower	Office	CBD	27,823
	5	 Trees Tower	Office	GBD	13,000
KOCREF No. 3	6	 Hanwha Securities Building	Office	YBD	59,641
	7	 I-vill Hill Town	Office	GBD	5,013
KOCREF No. 4	8	 YTN Tower	Office	CBD	42,322
	9	 Platinum Tower	Office	GBD	26,007
KOCREF No. 5	10	 Dacom Building	Office	GBD	34,461
KOCREF No. 6	11	4 Newcore outlet stores	Outlet	Seoul metropolitan area	263,742
KOCREF No. 7	15	 DSME Building	Office	CBD	24,854
	16	 Kolon Annes Building	Office	Gwacheon	26,861
KOCREF No. 8	17	 G Tower	Office	CBD	16,523
	18	 Central Tower	Office	BBD	23,824
KOCREF NPS No. 1	19	 Sigma Tower	Office	Songpa	27,814
	20	 Seoul City Tower	Office	CBD	60,011
	21	 Grace Tower	Office	GBD	24,530
	22	 Golden Tower	Office	GBD	40,480
KOCREF NPS No. 2	23	10 Homeplus discount stores	Discount store	Nation-wide	475,228
KOCREF 11	33	 STX Namsan Tower	Office	CBD	65,196
Pangyo SD-2 PFV	34	 H Square A&B wings	Office	Pangyo	138,644
KOCREF AREIF No. 1	36	 Noon Square	Retail	CBD	23,836
KOCREF No. 14	37	 Time Square A&B wings	Office	Yeongdeungpo	39,008
KOCREF No. 15	39	 Insong Building	Office	CDB	31,284
KOCREF GS	40	 GS Retail Complex	Retail+	Pyeong-chon	
Square PFVa		Development Business	Office		236,688
KOCREF No. 17	41	 Yoido-Judo Hall	Office	YBD	18,122
total	40				1,847,924



	Established Year	Amount Invested	Target Payout Ratio	Status	Note
KOCREF No. 1	2002	236.6	10.06%	Liquidation completed	Annual average payout ratio 43.5%, ROE 28.4%
KOCREF No. 2	2002	111.6	10.39%	Liquidation completed	Annual average payout ratio 12.1%, ROE 11.2%
KOCREF No. 3	2003	156.2	10.19%	Liquidation completed	Annual average payout ratio 51.3%, ROE 31.1%
KOCREF No. 4	2004	181.0	10.24%	Liquidation completed	Annual average payout ratio 31.4%, ROE 23.0%
KOCREF No. 5	2005	106.3	8.71%	Liquidation completed	Annual average payout ratio 42.5%, ROE 28.9%
KOCREF No. 6 (Preferred Stock)	2005	328.1	9.44%	12th term of operation	Under lease
KOCREF No. 6 (Common Stock)	2005		5.82%	12th term of operation	
KOCREF No. 7	2005	136.0	8.00%	Under liquidation	
KOCREF No. 8	2006	122.4	8.57%	10th term of operation	Under lease
KOCREF NPS No. 1	2006	817.8	7.99%	9th term of operation	
KOCREF NPS No. 2	2007	640.7	12.18%	8th term of operation	
KOCREF No. 11	2007	219.3	9.03%	8th term of operation	
Pangyo SD-2 PFV	2007	340.0	13.10%	5th term of operation	Under liquidation (Partially pre-sold) (To be completed in March 2011)
KOCREF AREIF No. 1	2007	213.5	10.90%	7th term of operation	Under lease after Remodeling
KOCREF No. 14	2008	115.2	11.57%	7th term of operation	Under lease after construction completed
KOCREF No. 15	2009	122.4	14.23%	3th term of operation	Under lease (to be remodeled)
KOCREF GS Square PFV	2009	532.0	10.47%	2th term of operation	Under construction
KOCREF No. 17	2010	63.5	8.03%	To be under management	Scheduled to acquire properties upon meeting of conditions by the vendor
Total		4,442.7			

(As of February 2011)

Trust Business

The value of our assets in trust in 2010 was in excess of KRW 20 billion. This was the second straight year that we had reached that mark, helping us to realize our highest level of earnings since our entry into the real estate trust sector. In addition, we built the foundations for continued stable revenues by concentrating on high-end services that will add to our differentiated competitiveness and advancing into new business areas.

Built Foundations for Continued Stable Revenues

We secured a base for stable future revenues by signing over KRW 20 billion worth of new contracts for the second consecutive year. Land development trusts made up 44% of the total. Thanks to our commitment to thorough business analysis and high-quality risk management, there were no insolvencies. As of the end of 2010, the total value of our assets in trust was KRW 12.2 trillion. We also strengthened our ability to carry out development projects by introducing leveraged land development trusts.

Volume of New Contracts in 2010		(In millions of KRW)			
	2009		2010		% Change
	Amount	Percentage	Amount	Percentage	
Land Development Trusts	9,280	44.1	9,701	44.1	4.5%
Management Trusts	45	0.2	22	0.1	- 51.1%
Disposal Trusts	455	2.2	867	3.9	90.5%
Collateral Trusts	5,077	24.1	5,204	23.6	2.5%
Sales Management Trusts	1,254	6.0	1,614	7.3	28.7%
Project Management Service	4,955	23.5	4,516	20.5	- 8.9%
Other	-	-	101	0.5	
Total	21,066	100	22,025	100	4.6%

Our volume of new contracts in 2010 was 4.6% higher than the previous year’s. We anticipate that having a well-balanced portfolio between land development trusts and non-land trusts (with land development trusts accounting for 44.1% of the total) will contribute greatly to the generation of stable revenues in the future.

Realized highest-ever revenues (KRW 14.3 billion) since entering the trust business

We realized our highest-ever revenues in 2010, with the value of our land development trusts and disposal trusts increasing by 58% year-on-year.

Operating revenues in 2010		(In millions of KRW)			
	2009		2010		% Change
	Amount	Percentage	Amount	Percentage	
Land Development Trusts	820	9.0	4,779	33.3	482.8%
Management Trusts	87	1.0	34	0.2	- 60.9%
Disposal Trusts	609	6.7	1,856	12.9	204.8%
Collateral Trusts	5,108	56.4	4,581	31.9	- 10.3%
Sales Management Trusts	1,412	15.6	1,089	7.6	- 22.9%
Project Management Service	1,026	11.3	2,022	14.1	97.1%
Other	-	-	6		
Total	9,063	100	14,366	100	58.5%

Operating revenues from land development trusts, disposal trusts, and project management services experienced healthy growth

Our land development trusts, which we first introduced in 2008, began to demonstrate their full potential in terms of returns in 2010, with their revenues exploding by 483% from a year ago to comprise 33% of the total. These will likely realize stable revenues in 2011 again. Revenues from disposal trusts surged by 205% over the year, mainly due to KRW 1 billion in revenues from Heonin Village in Seocho-dong, Seoul. Operating revenues from our project management service jumped by 97% over the year, reflecting earnings from new contracts for 19 properties and the 16 that were already in place.

Revenues from management trusts, sales management trusts, and collateral trusts decreased

Revenues from management trusts and sales management trusts declined in 2010 due to a reduction in the number of new contracts. Earnings from collateral trusts were down by 10% due to a delay in the receipt of payments from some properties. The number of new contracts increased marginally.

Boosting land development trust abilities and pioneering new businesses

Won orders for leveraged land development trust projects

We augmented our development project abilities and helped increase the company’s earnings bases by winning orders for sales-type land development trusts for the KRA Plaza in Yongsan and an industrial complex in Anseong. The latter project was the very first in Korea to utilize the development trust method. The KRA Plaza, a development trust case in a differentiated business structure, is also a new business model.

[KRA PLAZA in Yongsan]

- Suggested a stable business structure to potential buyers for the completion and purchase of buildings.
- Reduced project development risk for trustees and beneficiaries, and developed accurate earnings forecast for the project
- Total floor area: 22,495m²/Floor area ratio: 799%
- Use: Business facilities, cultural and meeting facilities, neighborhood living facilities

Entered into renewal projects and strengthened foundations for growth

We were chosen to provide project management services for the improvement of Bongmyeong District 3 in Cheonan, opening up urban and residential renewal projects as a promising new business area and earnings base. Our selection (a “first” for the Korean real estate trust industry) was part of our strategy of building new growth engines by differentiating ourselves from other industry players.

[Housing Redevelopment Project for Bongmyeong District 3 in Cheonan]

- Renewal area: 68,176m²
- Total floor area: 162,923m²
- Size: 1,111 households (368 as housing cooperatives, 648 as general/ 21 stories above-ground, 2 below)
- Took character of neighborhood into consideration by ensuring that more than 90% of units would be 85m2 or less in size
- Approval for the establishment of a cooperative is scheduled for February 2011

Minimized risk of insolvencies through after-sales management

We reduce the risk of insolvencies in our trust assets through continuous monitoring and thorough risk management. This includes paying close attention to the possibility of losses due to lawsuits. Our efforts to strengthen our risk management processes and minimize the risk of insolvencies distinguish us from our competitors, proving to customers that we are committed to providing them with the ultimate in service and satisfaction.

Bird’s-eye view of Bongmyeong District 3 in Cheonan





3. Smart Potential

Dreaming of unlimited growth!

2011 is the first year of our shift to “Work Smart” from “Work Hard.” The aim of “Work Smart” is to work creatively with a clear sense of goals and critical minds, breaking away from the old way of doing things. We will focus our capabilities on changing from “Work Hard” to “Work Smart.”



General Management

We will bring the “Work Smart” paradigm to fruition by applying the ISP system company-wide. In addition, we will ensure that more efficient fund management planning is put into practice by upgrading our risk management processes. Finally, we will add to our sales capabilities by strengthening our internal and external communications and implementing a customer relationship management (CRM) program.

Establishing more efficient operating systems

Apply ISP system company-wide | We plan to apply the ISP system that we built in 2010 across the company. This will include improving user convenience through continuous maintenance and constant upgrades. We will also monitor its utilization levels by all our employees, and share data on its performance with them through a wide range of evaluations, including key performance indexes (KPIs).

Develop more efficient fund management plans | We will heighten the accuracy of our funds forecasts by operating our long and short-term funds efficiently and effectively and giving positive support to sales. In addition, we will establish policies to optimize our rate of returns at proper risk levels. In order to put the K-IFRS system into operation as soon as possible, we will engage the services of a reputable accounting firm and strengthen our employee training programs so that our workers can adapt to it more easily.

Strengthen risk management processes | We will increase our monitoring of trust sector properties that are at risk of insolvency, and assess the profit potential of our investments and financing in such areas as PFVs and KOCREF on a continuing basis. In addition, we will minimize the possibility of losses by enhancing our non-financial risk management activities.

Strengthening sales capabilities

Improve internal and external communications | We will maximize the value of our employees’ collective intelligence by improving the quality of our internal and external communications channels to encourage greater openness and facilitate employee collaboration. To do this, we will develop an internet site that will allow our workers to share their ideas and strengthen our relationship with all our stakeholders.

Enhance CRM system | Working from the CRM master plan and system that we put in place in 2010, we will upgrade our ability to monitor and evaluate our CRM activities, and develop plans to implement the system on a company-wide basis. We will also increase our use of targeted marketing by using the CRM system to assist in the production of sales and marketing materials.



REITs Business

We will continue to add to our competitiveness in asset management by augmenting our capabilities as a project organizer and developing new and more accurate asset management indicators. In addition, we will strengthen our ability to carry out development projects, and continue creating new standards in the eco-friendly, highly energy-efficient “Smart Green” building sector.

Aiming for KRW 800 billion worth of new funds and KRW 14 billion in earnings

Our goals for 2011 are to establish KRW 800 billion worth of new funds and realize KRW 14 billion in sales (up 36% from KRW 10.4 billion in 2010).

To achieve these objectives, we will focus on securing core competitiveness mainly by carrying forward new projects through new business and urban development financing projects and structured deals. We will do this by strengthening our linkages with our strategic and financial partners. We will also continue to systematize our potential for deal sourcing by utilizing the ISP system.

Add to differentiated competitiveness by bolstering capabilities as project organizer

We will enhance our differentiated competitiveness by augmenting our capabilities as a project organizer and pursuing new business projects.

We will also become more proficient at selecting core tasks and systematizing our business planning processes, in order to improve our ability to carry out business feasibilities studies at the initial planning stage. We will also revamp our internal monitoring systems, develop a team of in-house experts, and create a pool of professional outside agencies.

In addition, we will enhance the investment structures of our domestically-based REITs by bolstering our strengths in the area of real estate financing. This will allow us to offer customers the very finest in custom-tailored financial solutions.

Project Organizer

This means taking the initiative in developing and carrying forward new business projects related to real estate developments. We will cope proactively with changes in the real estate market, including an increased risk of project financing insolvencies and a contraction in payment guarantees by construction companies when the IFRS is introduced.



Develop better asset management systems

We will develop improved asset management systems that will allow us to carry out better analysis of the status of our funds operations and make the information available in real-time. It will be used on a company-wide level to improve the efficiency of our asset management processes.

One of our primary goals is to increase our level of investor satisfaction by offering basic information and data on our funds operations. We also want to continue enhancing our differentiated competitiveness in terms of asset management. We will do this by strengthening our foundations for knowledge and information, and by optimizing the use of our asset management systems when we purchase new properties.

Enhance core competencies to ensure improved asset management

In order to enhance our development project abilities, we will develop relevant networks and seek out professional assistance according to asset type. This will aid us in coping with market diversification in the future, and strengthen our ability to carry out development project-related operations.

We also plan to add our strengths in the area of “Smart Green.” We will do this by helping to develop new standards for the construction of eco-friendly, highly energy- efficient, future-oriented buildings.

Finally, we will continue to strengthen our asset management competencies by applying our asset management indicators in a systematic manner and utilizing our asset management systems effectively.

Trust Business

We will diversify our client base by expanding the range of our external networks and increasing the share of such new business areas as leveraged land development trusts and urban renewal projects. In addition, we will focus on sustaining our growth and increasing our profitability by pursuing a strategy of differentiation.

Aiming for KRW 22 billion in new contracts and KRW 16 billion in sales

In the trust business, we plan to achieve KRW 22 billion in new contracts, a market share of 11% or higher, and KRW 16 billion in sales, up 11.4% over the year. By doing so, we will lay the groundwork for becoming a leader in the domestic real estate trust market.

To do this, we will increase the proportion of our land development trust business to more than 45% and take the lead in pioneering new businesses, including renewal projects. We will also increase investor awareness of our differentiated management capabilities in our non-land development trust business.

We will also concentrate on winning contracts for the refinancing of properties that are currently backed by project financing. This will help to increase our participation in the sluggish real estate development market. We will also add to our presence in the area of one-room and dormitory-type houses and studio apartments, a market sector that enjoyed increased activity in the second half of 2010.

Our marketing activities will focus on winning a healthy balance of orders among land development trusts, sales management trusts, project management, and collateral trusts. As part of our differentiation strategy, we will develop new products and innovative project structures.

Improve risk management system

We will enhance the operational regulations of the Trust Review Committee and reorganize it so that it can respond to changes in the market environment more promptly. In addition, the Risk Management Committee will thoroughly analyze the impact on the company’s finances and the degree of risk flowing from equity investments from our own accounts, or from outside borrowings that exceed a pre-determined level.

Augment growth and profitability through a strategy of differentiation

We will take steps to add to our presence in the area of urban renewal project management. This will allow us to develop a significant new earnings source that will enhance our profitability dramatically.

Following the implementation of the K-IFRS, construction companies will want a business structure that comes without the obligation of PF payment guarantees. We plan to assist them in reaching this goal by increasing our presence in the real estate trust market. This will include enhancing the transparency of PF projects through the trust method, and demonstrating its advantages in terms of risk distribution, the establishment of business structures, and business controls.

4.
Smart Value



Practicing sustainable management!

One of KORAMCO REITs & Trust’s core values is to be a sharing and caring company that always fulfills its social responsibilities.

As a human capital-based company whose single greatest asset is its people, we focus on hiring and fostering workers with the industry’s highest level of abilities and expertise.

Social Responsibility

We have been involved in corporate social responsibility (CSR) activities since 2007, using funds from our own budget and voluntary donations from our employees that equal one percent of their salaries. Our Social Responsibility Practice Committee, comprising members of both staff and management, is tasked with establishing plans for the company’s CSR activities and seeing that they are carried out in an efficient and effective manner.

Fulfilling social responsibilities

KORAMCO REITs & Trust involves itself in CSR activities because it believes that it is both necessary and important to be a caring and concerned member of society.

In 2010, we budgeted KRW 220.0 million for CSR activities. Two of our most important goals were to strengthen our presence in non-metropolitan areas, and to increase our supports for excellent students needing financial assistance.

We establish systematic CSR activity plans and carry out continuous and consistent CSR activities by operating a Social Responsibility Practicing Committee. It consists of both employee and management representatives

Financial resources for social contribution activities

We use funds from our own budget and voluntary donations from our employees that equal one per cent of their salaries to put our CSR programs into action.

KORAMCO REITs & Trust has increased its CSR budget every year to further its goal of assisting worthwhile organizations and facilities.

Volunteering for “Habitat for Humanity”



A-Reum Jeon Staff



CSR Highlights in 2010

The CSR activities carried out by KORAMCO REITs & Trust are divided into four main areas.

Helping people in need | We carry out a wide range of activities to help the underprivileged. They include making donations to social welfare funds, helping juvenile heads of families, and supporting welfare facilities for children, the physically challenged, sole-support seniors, and foreign workers. In 2010, we donated KRW 110 million to such facilities, including an orphanage in Eunpyeong-gu, Seoul, the Hansarang Infants' Shelter, the Paramil Shelter for Women, and the Raphael Clinic.

Educational and academic supports | We have established a variety of programs to support worthy but low-income students who need help to pursue their education. In 2010, we provided KRW 36 million to support college scholarships, assist gifted students from low-income families, and help elementary schools in rural areas with books and improvements to their facilities.

Boosting the morale of military personnel | We sponsor a variety of activities to show our support for Korea's troops and US soldiers stationed here. In 2010, KRW 41 million was used for such activities.

Volunteer activities by employees | Our employees' volunteer activities include visits to orphanages and seniors' centers and helping to build homes for the underprivileged. In 2010, we visited a number of social service organizations, and participated in building homes for Habitat for Humanity.

An event for US and ROK military personnel



HR Management

KORAMCO REITs & Trust operates a broad spectrum of human resources development programs in the belief that its employees are the foundation for its future growth and success.

These include career development plans and educational and training programs that are custom-tailored to fit an individual's needs and job description.

KORAMCO REITs & Trust

: a company that is based on human capital

KORAMCO REITs & Trust's employees are Korea's foremost experts in all areas of real estate financing, including establishing REITs, asset management, investment consulting, real estate trusts, and project management. They are committed to maximizing value for their customers.

As a human capital-based company whose people are its most important asset, we believe that efficient and effective HR management is the key to our successful and sustainable development. We are committed to offering our employees a warm and welcoming workplace, in which all of them can realize their dreams. In 2010, we improved our personnel processes by implementing a "grade and position separation" system and introducing new training programs.

Hiring high-quality human resources and supporting their development

We have put an efficient and effective program in place to find high-quality human resources and support their development. This is done in the belief that high-quality human resources will be the driving force for our future growth. Some of its tasks include analyzing HR trends within the industry on a continuing basis to ensure that we are always sustaining a pool of high-quality talents. We also develop career development plans for our workers. Based on the concept of lifetime employment, they ensure that our employees are capable of performing a wide range of duties, mainly through periodic job rotations. We also provide information to current employees on job postings whenever vacancies occur.

Strengthening job capabilities through training

In 2010, we designed training roadmaps by job grade and work process to ensure that our employees acquire the expertise they need to perform their duties. This included providing them custom-tailored programs in line with their individual needs and jobs. In addition, we encourage them to take one or two specialized training courses to improve their job skills.

We revamp all our course curriculums on a continuing basis, and carry out regular employee satisfaction surveys to measure the value and success of our offerings.

Volunteering at the Hansarang Infants' Shelter



Financial Review

☐ Market Review ☐ Smart Performance ☐ Smart Potential ☐ Smart Value ☒ Financial Review

5.
Financial Review



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Management’s Discussion & Analysis

Financial Position

In 2010, our total assets in our proprietary accounts were worth KRW 91.1 billion, up 5.2% from the previous year. Current assets declined slightly over the year, while non-current assets increased by 51.2%. This was due to a rise in investment assets following the holding of equity-method securities related to the establishment of a subsidiary. It also reflected a rise in the value of intangible assets after the introduction of our ISP system.

Total liabilities grew by 22.8% year-on-year to KRW 14.0 billion. This was led by an increase in current liabilities following KRW 6.5 billion of short-term borrowings from financial institutions for the establishment of KOCREF No. 17.

Total stockholders’ equity edged up by 2.5% to reach KRW 77.1 billion, reflecting a slight increase in unappropriated retained earnings. Capital stock was worth KRW 10 billion at the end of the year.

Statement of Financial Position Summary (Proprietary Accounts) (Unit: Millions of KRW)

	2009	2010	% Change
Current Assets	67,401	62,064	-8.0%
Quick Assets	67,401	62,064	-8.0%
Non-Current Assets	19,235	29,081	51.2%
Investment Assets	8,599	17,953	108.8%
Property, Plant, And Equipment	1,149	886	-22.9%
Intangible Assets	861	1,297	50.6%
Other Non-Current Assets	8,625	8,945	3.7%
Total Assets	86,636	91,145	5.2%
Current Liabilities	10,949	13,417	22.5%
Non-Current Liabilities	480	620	29.2%
Total Liabilities	11,429	14,037	22.8%
Capital Stock	10,000	10,000	0%
Capital Surplus	703	703	0%
Accumulated Other Comprehensive Income	298	-93	
Retained Earnings	64,206	66,498	3.6%
Total Shareholders’ Equity	75,207	77,108	2.5%
Total Liabilities And Shareholders’ Equity	86,636	91,145	5.2%

For our trust accounts, current assets consisted of cash and cash equivalents held and managed by the trust business, while non-current assets comprised real estate held in trust.

Current liabilities included sales-related advances and other deposits generated by the trust business. Non-current liabilities consisted of borrowings in proprietary accounts related to the trust business. Entrusted principal comprised the principal of the entrusted assets by trust type, while trust surpluses included retained earnings of the trust business.

Total assets in trust accounts increased by 8%, reaching KRW 13 trillion at year-end. Total liabilities equaled KRW 907.8 billion, up 545.5% over the year.

Income Statement Summary: Trust Accounts

	2009	2010	(Unit: Millions of KRW) % Change
Current assets	2,103,546	2,832,410	34.6%
Non-current assets	9,917,661	10,156,454	2.4%
Entrusted real estate	9,917,661	10,156,454	2.4%
Total assets	12,021,207	12,988,864	8.0%
Current liabilities	140,630	896,801	537.7%
Non-current liabilities		11,062	
Total liabilities	140,630	907,863	545.5%
Entrusted principal	11,880,471	12,079,758	1.7%
Trust surpluses	107	1,243	
Total shareholders’ equity	11,880,577	12,081,001	1.7%
Total liabilities and shareholders’ equity	12,021,207	12,988,864	8.0%

Sales and Income Status

Operating revenues were KRW 27.3 billion, a decrease of 35.3% over the year from KRW 42.2 billion in 2009. This was led by a 65.6% decline in REITs-related operating revenues. However, revenues from trust operations surged by 58.6%, thanks to healthy sales.

Despite a 3.2% reduction in operating expenses, operating income contracted by 63.0% over the year to KRW 8.4 billion, reflecting a sharp decrease in operating revenues. This decrease also resulted in lower income tax costs and net income, which fell by 63.9% and 68.1%, respectively, over the year.

Statement of Financial Position Summary

	2009	2010	(Unit: Millions of KRW) % Change
Operating revenues	42,185	27,308	-35.3%
Operating expenses	19,558	18,941	-3.2%
Operating income	22,627	8,366	-63.0%
Non-operating income	38	21	-44.7%
Non-operating expenses	504	1,083	114.9%
Income before income taxes	22,161	7,304	-67.0%
Income taxes	5,569	2,011	-63.9%
Net income	16,592	5,293	-68.1%

(Unit: Millions of KRW)

		2009	2010	% Change
Revenue	Operating revenues	42,185	27,308	-35.3%
	Asset management revenues	30,077	10,346	-65.6%
	[Management fees]	9,860	9,337	-5.3%
	[Acquisition fees]	3,317	0	
	[Disposal fees]	16,900	1,009	-94.0%
	Revenues from trusts	9,063	14,374	58.6%
	[Land development trust fees]	820	4,787	483.8%
	[Management trust fees]	1,500	1,123	-25.1%
	[Disposal trust fees]	609	1,856	204.8%
	[Collateral trust fees]	5,108	4,581	-10.3%
	[Project management fees]	1,026	2,028	97.7%
	Other income	3,045	2,589	-15.0%
	[Interest income]	2,839	1,992	-29.8%
	[Other operating income]	206	597	189.8%
	Non-operating income	38	21	-44.7%
Total income	42,223	27,328	-35.3%	
Expenses	Operating expenses	19,558	18,941	-3.2%
	Non-operating expenses	504	1,083	114.9%
	Income taxes	5,569	2,011	-63.9%
	Total expenses	25,631	22,035	-14.1%
Net income		16,592	5,293	-68.1%

Dividend Policy

We paid dividends totaling KRW 3.0 billion in 2010. They were worth KRW 1,500 per share, with a dividend ratio of 30%--the same as in 2009. By allocating appropriations of retained earnings at KRW 3.5 billion (down 24.3% from 2009), we secured KRW 50.0 billion in retained earnings carried over to the subsequent year, up 3.7% over the year. This was done to increase our financial stability and secure more funds for investments.

Statements of Appropriations of Retained Earnings

	2009	2010	(Unit: Millions of KRW) % Change
Unappropriated retained earnings	52,906	53,540	1.2%
Retained earnings carried over from the prior year	36,314	48,247	32.9%
Net income	16,592	5,293	-68.1%
Appropriated retained earnings	4,659	3,529	-24.3%
Legal reserve	-	-	
Reserves for trusts	1,659	529	-68.1%
Dividends	3,000	3,000	0%
Retained earnings carried over to the subsequent year	48,247	50,011	3.7%

Independent Auditor’s Report

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

Feb.15 2011

We have audited the accompanying non-consolidated statements of financial position of KORAMCO REITs Management and Trust Co., Ltd. (the “Company”) as of December 31, 2010 and 2009, and the related non-consolidated statements of income, appropriations of retained earnings, changes in equity and cash flows for the years then ended. 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, 2010 and 2009, and the results of its operations, its changes in retained earnings and equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Ernst & Young
Seoul, Korea

This report is effective on 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.

Statements of Financial Position

As of December 31, 2010 and 2009

	(Unit: KRW)	
	2010	2009
Assets		
I. Cash and Deposits	35,937,173,564	58,532,007,147
1. Cash and Cash Equivalents	2,934,173,564	16,529,007,147
2. Deposits	33,003,000,000	42,003,000,000
II. Securities	18,422,269,199	7,267,658,495
1. Securities Available for Sale	8,540,229,700	6,307,029,700
2. Securities Held to Maturity	979,817,674	960,628,795
3. Equity-Method Securities	8,902,221,825	-
III. Loans Sold	12,586,091,253	2,781,224,000
1. Loans	11,359,837,942	1,430,000,000
2. Employee Loans	1,289,500,000	1,365,200,000
3. Allowance for Doubtful Accounts	(63,246,689)	(13,976,000)
IV. Tangible Assets	885,874,870	1,149,386,712
1. Vehicles	181,941,279	178,936,747
Accumulated Depreciation	(33,355,905)	(107,362,053)
2. Other Tangible Assets	2,175,756,465	2,114,632,009
Accumulated Depreciation	(1,438,466,969)	(1,036,819,991)
V. Other Assets	23,313,255,806	16,905,681,517
1. Non-trade Receivables	7,049,869,159	8,068,363,582
1) Non-trade Receivables for Investment Company Management Fees	4,549,253,710	5,315,314,020
2) Non-trade Receivables for Trust Fees	2,500,615,449	2,750,069,562
3) Others	-	2,980,000
2. Accrued Revenues	932,026,043	765,527,259
3. Advance Payments	6,749,807,000	133,000,000
4. Prepaid Expenses	17,301,947	17,937,467
5. Miscellaneous Prepaid Taxes	-	-
6. Deposits Provided	1,243,534,805	1,317,074,770
7. Other Intangible Assets	1,297,364,207	861,345,028
8. Deferred Income Tax Assets	409,630,069	18,130,670
9. Other Investment Assets	7,292,114,101	7,290,052,041
10. Allowance for Doubtful Accounts	(1,678,391,525)	(1,565,749,300)
1) Allowance for Doubtful Accounts for Non-trade Receivables	(1,644,642,490)	(1,565,749,300)
2) Allowance for Advance Payments	(33,749,035)	-
Total Assets	91,144,664,692	86,635,957,871

Statements of Financial Position

As of December 31, 2010 and 2009

	(Unit: KRW)	
	2010	2009
Liabilities		
I. Operating Liabilities	6,500,000,000	
1. Short-Term Borrowings	6,500,000,000	
II. Other Liabilities	7,536,320,063	11,428,864,467
1. Provision for Severance Benefits	0	1,449,794,860
Retirement Deposits	0	(1,438,007,779)
2. Provision for Trust Risk	619,708,064	468,520,123
3. Income Taxes Payable	1,734,018,377	2,276,542,684
4. Non-trade Payables	-	-
5. Accrued Expenses	1,107,206,343	3,125,595,407
6. Advances from Customers	3,239,479,405	4,797,357,826
7. Taxes Withheld	835,907,874	749,061,346
Total Liabilities	14,036,320,063	11,428,864,467
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	(92,948,992)	298,348,800
1. Gain on Valuation of Available-for-Sale Securities	18,798,400	298,348,800
2. Change in Equity Method Capital	(111,747,392)	
IV. Retained Earnings	66,498,630,421	64,206,081,404
1. Legal Reserve	5,684,098,734	5,684,098,734
2. Trust Business Reserve	7,274,876,884	5,615,698,733
3. Unappropriated Retained Earnings	53,539,654,803	52,906,283,937
Total Stockholders' Equity	77,108,344,629	75,207,093,404
Total Liabilities and Stockholders' Equity	91,144,664,692	86,635,957,871

Statements of Income

As of December 31, 2010 and 2009

	(Unit: KRW)	
	2010	2009
I . Operating Revenue	27,308,179,891	42,185,254,220
1. Management Fees from Collective Investment Agencies	10,345,600,781	30,077,345,976
1) Management Fees from Investment Company	10,345,600,781	30,077,345,976
2. Trust Revenues	12,346,340,050	8,036,349,429
1) Land Development Trust	4,786,943,000	820,215,000
2) Management Trust	33,541,668	86,641,668
3) Disposal Trust	1,855,951,340	608,951,523
4) Collateral Trust	4,580,536,302	5,108,312,365
5) Sales Management	1,089,367,740	1,412,228,873
3. Administrative Service Fees	2,027,758,745	1,026,284,856
4. Interest Income	1,991,979,756	2,839,048,881
5. Other Operating Revenue	596,500,559	206,225,078
1) Dividend Income	363,132,559	189,585,576
2) Reversal of Allowance for Doubtful Accounts	-	16,639,502
3) Others	233,368,000	
II . Operating Expenses	18,941,745,021	19,558,364,050
1. Interest Expenses	70,997,095	27,714,079
2. Loan Valuation and Disposal Loss	49,270,689	8,629,293
1) Bad Debts Expenses	49,270,689	8,629,293
3. General & Administrative Expenses	18,530,147,071	19,106,859,274
1) Wages and Salaries	8,264,191,020	9,194,024,642
2) Provision for Severance Benefits	802,996,875	561,245,967
3) Employee Benefits	1,530,471,919	1,587,153,158
4) Computer System Operation Expenses	120,439,000	81,881,000
5) Rent	1,983,223,419	1,941,897,067
6) Service Fees	2,415,556,217	2,528,846,607
7) Entertainment Expenses	908,030,778	823,275,187
8) Advertising Expenses	264,492,675	346,568,144
9) Depreciation	444,470,313	439,185,709
10) Training Fees	123,372,266	147,557,252
11) Depreciation for Intangible Assets	108,580,821	170,594,681
12) Taxes and Dues	421,583,230	299,921,768
13) Meeting and Conference	46,669,945	4,485,725
14) Printing Expenses	54,690,025	68,608,159
15) Travel Expenses	120,154,096	91,309,308

Statements of Income

As of December 31, 2010 and 2009

	(Unit: KRW)	
	2010	2009
16) Vehicle Expenses	423,764,012	402,068,694
17) Supplies Expenses	71,017,595	83,472,780
18) Utility Expenses	9,492,094	8,036,152
19) Insurance Premium	133,956,150	115,428,142
20) Event Expenses	135,979,715	83,471,051
21) Others	147,014,906	127,828,081
4. Other Operating Expenses	291,330,166	415,161,404
1) Contribution to Provision for Trust Risk	151,187,941	160,726,988
2) Other Bad Debt Expenses	140,142,225	254,434,416
III . Operating Income	8,366,434,870	22,626,890,170
IV . Non-operating Income	20,795,539	38,085,462
1. Gains on Disposition of Property, Plant, and Equipment	-	197,000
2. Gains on Disposition of Investments	-	-
3. Others	20,795,539	37,888,462
V . Non-operating Expenses	1,083,320,036	503,560,633
1. Losses on Disposition of Property, Plant, and Equipment	20,865,141	27,249,558
2. Equity-Method Losses	950,354,175	
3. Donations	112,100,720	100,641,495
4. Losses on Contract Cancellation	-	84,000,000
5. Losses on Investment Asset Disposal	-	245,675,408
6. Others	-	45,994,172
VI . Income before Income Taxes	7,303,910,373	22,161,414,999
VII . Income Taxes	2,011,361,356	5,569,633,492
VII . Net Income	5,292,549,017	16,591,781,507
IX . Net Income per Share		
1. Basic Earnings per Share	2,646	8,296

Statements of Appropriations of Retained Earnings

For the years ended December 31, 2010 and 2009(Dates of Appropriations : February 25, 2011, 2010 for the years ended December 31, 2010 and 2009, respectively)

	(Unit: KRW)	
	2010	2009
I . Retained Earnings before Appropriations	53,539,654,803	52,906,283,937
1. Retained Earnings to be Carried over from Prior Year before Appropriations	48,247,105,786	36,314,502,430
2. Net Income	5,292,549,017	16,591,781,507
II . Appropriations of Retained Earnings	3,529,254,902	4,659,178,151
1. Legal Reserve	-	-
2. Reserves for Trusts	529,254,902	1,659,178,151
3. Dividends	3,000,000,000	3,000,000,000
A. Cash Dividends	3,000,000,000	3,000,000,000
Dividends per Share (ratio)		
Current Period: KRW 1,500(30%)		
Previous Period: KRW 1,500(30%)		
III . Retained Earnings to be Carried over to Subsequent Year before Appropriations	50,010,399,901	48,247,105,786

Statements of Changes in Shareholders' Equity

As of December 31, 2010 and 2009

	(Unit: KRW)				
	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total
Jan 1, 2009 (Reported Amount)	10,000,000,000	702,663,200	37,440,000	50,614,299,897	61,354,403,097
Dividends	-	-	-	(3,000,000,000)	(3,000,000,000)
Retained Earnings after Appropriations	-	-	-	47,614,299,897	58,354,403,097
Net Income	-	-	-	16,591,781,507	16,591,781,507
Gain on Valuation of Available -for-Sale Securities	-	-	260,908,800	-	260,908,800
Dec 31, 2009	10,000,000,000	702,663,200	298,348,800	64,206,081,404	75,207,093,404
Jan 1, 2010 (Reported Amount)	10,000,000,000	702,663,200	298,348,800	64,206,081,404	75,207,093,404
Dividends				(3,000,000,000)	(3,000,000,000)
Retained Earnings after Appropriations				61,206,081,404	72,207,093,404
Net Income				5,292,549,017	5,292,549,017
Gain on Valuation of Available -for-Sale Securities			(279,550,400)		(279,550,400)
Dividends			(111,747,392)		(111,747,392)
Dec 31, 2010	10,000,000,000	702,663,200	(92,948,992)	66,498,630,421	77,108,344,629

Statements of Cash Flows

As of December 31, 2010 and 2009

	(Unit: KRW)	
	2010	2009
I . Cash Flows from Operating Activities	(2,963,749,934)	12,797,725,845
1. Net Income	5,292,549,017	16,591,781,507
2. Adjustments to Reconcile Net Income		
Loss) to Net Cash Provided by (used in)	2,667,868,180	1,867,742,020
A. Provision for Severance Benefits	802,996,875	561,245,967
B. Depreciation	444,470,313	439,185,709
C. Amortization	108,580,821	170,594,681
D. Bad Debt Expenses	49,270,689	8,629,293
E. Contribution to Provision for Trust Risk	151,187,941	160,726,988
F. Gains on Disposition of Property, Plant, and Equipment	20,865,141	27,249,558
G. Other Bad Debt Expenses	140,142,225	254,434,416
H. Losses on Disposition of Investment Assets	0	245,675,408
I. Equity-Method Losses	950,354,175	0
3. Deductions from Net Income of		
Non-cash Revenues	(19,188,879)	(35,057,359)
A. Interest Income	19,188,879	18,220,857
B. Reversal of Allowance for Doubtful Accounts	0	16,639,502
C. Gains on Disposition of Tangible Assets	0	197,000
4. Changes in Operating Assets and Liabilities	(10,904,978,252)	(5,626,740,323)
A. Decrease in Non-trade Receivables (Increase)	990,994,423	1,051,033,266
B. Decrease in Accrued Revenues (Increase)	(166,498,784)	295,070,266
C. Decrease in Advance Payments (Increase)	(6,616,807,000)	(16,395,181)
D. Decrease in Prepaid Expenses (Increase)	635,520	64,451,680
E. Decrease in Miscellaneous Prepaid Taxes (Increase)	0	182,403,327
F. Increase in Deferred Income Tax Assets	(266,573,191)	(37,692,382)
G. Decrease in Non-trade Payables	0	(96,891,300)
H. Increase in Advances from Customers (Decrease)	(1,557,878,421)	1,835,039,242
I. Increase in With holdings (Decrease)	86,846,528	549,931,798
J. Decrease in Accrued Expenses	(2,018,389,064)	(84,820,182)

	(Unit: KRW)	
	2010	2009
K. Increase in Income Taxes Payable (Decrease)	(542,524,307)	(8,807,023,672)
L. Payment of Severance Benefits	(2,252,791,735)	(237,257,407)
M. Increase in Retirement Deposits	1,438,007,779	(324,589,778)
II . Cash Flows from Investing Activities	(14,131,083,649)	5,285,915,040
1. Cash Inflows from Investing Activities	11,071,825,088	12,667,117,055
A. Decrease in Deposits	9,000,000,000	11,600,000,000
B. Decrease in Employee Loans	513,200,000	0
C. Decrease in Securities Held to Maturity	1,430,000,000	0
D. Decrease in Securities Available for Sale	0	190,000,000
E. Decrease in Other Investment Assets	0	850,000,000
F. Disposal of Vehicles	47,727,273	27,117,055
G. Disposal of Other Tangible Assets	7,357,850	0
H. Decrease in Deposits	73,539,965	0
2. Cash Outflows from Investing Activities	(25,202,908,737)	(7,381,202,015)
A. Increase in Employee Loans	437,500,000	394,750,000
B. Increase in Loans	11,359,837,942	1,430,000,000
C. Acquisition of Securities Available for Sale	2,602,000,000	3,711,429,700
D. Acquisition of Equity-Method Securities	10,000,000,000	0
E. Increase in Deposits Provided	0	52,794,370
F. Acquisition of Other Investment Assets	2,062,060	1,482,639,390
G. Acquisition of Vehicles	181,941,279	0
H. Acquisition of Other Tangible Assets	74,967,456	241,816,555
I. Acquisition of Other Intangible Assets	544,600,000	67,772,000
III . Cash Flows from Financing Activities	3,500,000,000	(3,000,000,000)
1. Cash Inflows from Financing Activities	6,500,000,000	18,000,000,000
A. Increase in Short-term Borrowings	6,500,000,000	18,000,000,000
2. Cash Outflows from Financing Activities	(3,000,000,000)	(21,000,000,000)
A. Decrease in Short-term Borrowings	0	18,000,000,000
B. Payment of Cash Dividends	3,000,000,000	3,000,000,000
IV . Net Increase in Cash and Cash Equivalents (Decrease) (I + II + III)	(13,594,833,583)	15,083,640,885
V . Cash and Cash Equivalents at Beginning of Year	16,529,007,147	1,445,366,262
VI . Cash and Cash Equivalents at End of Year	2,934,173,564	16,529,007,147



KORAMCO

History

2001

- Founded with paid-in capital of KRW 7.0 billion
- Licensed as asset management company by Ministry of Construction and Transportation

2002

- Increased capital to KRW 8.55 billion from KRW 7.0 billion
- Established KOCREF No. 1
- Established KOCREF No. 2

2003

- Established KOCREF No. 3

2004

- Established KOCREF No. 4
- Established KOCREF No. 5

2005

- Established KOCREF No. 6
- Established KOCREF No. 7

2006

- Increased capital to KRW 10.0 billion from KRW 8.55 billion
- Relocated company building to Yeoksam-dong from Yeouido, Seoul
- Licensed as trust business
- Changed company name from KORAMCO to KORAMCO REITs & Trust
- Launched trust business
- Established KOCREF No. 8
- Established KOCREF NPS No. 1
- Established KOCREF NPS No. 2
- Entrusted trust assets amounted to KRW 2 trillion

2007

- Established KOCREF No. 11
- Liquidated KOCREF No. 1 and No. 2
- Established Pangyo SD-2 PFV
- Established KOCREF AREIF No. 1
- Entrusted trust assets amounted to KRW 5 trillion

2008

- Established KOCREF No. 14
- Liquidated KOCREF No. 3
- Entrusted trust assets amounted to KRW 6 trillion

2009

- Liquidated KOCREF No. 4
- Liquidated KOCREF No. 5
- Established KOCREF No. 15
- Established GS Square PFV
- Entrusted trust assets amounted to KRW 12 trillion

2010

- Launched subsidiary, KORAMCO Fund
- Established KOCREF No. 17
- Sold real estate assets held under KOCREF No. 7
- Entrusted trust assets amounted to KRW 13 trillion

