

DOOSAN HEAVY INDUSTRIES & CONSTRUCTION CO., LTD.

Separate Financial Statements

December 31, 2012

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Doosan Heavy Industries & Construction Co., Ltd.:

We have audited the accompanying separate statements of financial position of Doosan Heavy Industries & Construction Co., Ltd. (the "Company") as of December 31, 2012 and 2011 and the related separate statements of operations, comprehensive income (loss), changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate 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 separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

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

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying separate financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 6, 2013

This report is effective as of March 6, 2013, 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 separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Doosan Heavy Industries & Construction Co., Ltd.
 Separate Statements of Financial Position
 As of December 31, 2012 and 2011

(In thousands of won)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Assets			
Cash and cash equivalents	4,11	₩ 648,466,029	336,360,734
Short-term investments	4,5,6,11	27,249,138	49,701,271
Trade receivables	4,7,11,26, 35	911,606,637	841,826,991
Due from customers for contract work	26	1,550,621,006	1,461,725,288
Other receivables	4,7,11	123,994,420	139,833,644
Prepayments	7	457,265,422	583,336,713
Prepaid expenses		41,048,261	34,047,217
Derivative assets including firm commitment assets	4,10,11	317,369,184	243,092,266
Inventories	8	451,795,960	353,036,054
Non-current assets held for sale	37	60,411,750	-
Other current assets	4,7	119,261,375	58,890,494
Current assets		<u>4,709,089,183</u>	<u>4,101,850,672</u>
Long-term financial instruments	4,5,11	71,104,291	58,726,407
Long-term investments in securities	4,9,11	43,339,435	96,537,382
Investments in subsidiaries, joint ventures and associates	12,34	2,913,471,452	3,348,380,167
Long-term loans	7	9,889,646	102,496,654
Property, plant and equipment	13,34	2,001,282,262	2,013,115,134
Intangible assets	14	461,581,415	386,191,576
Investment property	15	13,175,103	10,051,988
Derivative assets including firm commitment assets	4,10,11	223,628,743	248,440,353
Deferred tax assets	31	20,214,119	-
Guarantee deposits	4	80,233,973	67,079,675
Other non-current assets	4,7	2,896,298	2,987,758
Non-current assets		<u>5,840,816,737</u>	<u>6,334,007,094</u>
Total assets	₩	<u><u>10,549,905,920</u></u>	<u><u>10,435,857,766</u></u>

Doosan Heavy Industries & Construction Co., Ltd.
 Separate Statements of Financial Position, Continued
 As of December 31, 2012 and 2011

<i>(In thousands of won)</i>	<u>Note</u>	<u>2012</u>	<u>2011</u>
Liabilities			
Trade payables	4, 11, 35	₩ 677,474,010	500,827,889
Short-term borrowings	4, 11, 16	632,050,658	1,357,871,317
Other payables	4, 11	352,947,226	349,848,925
Advanced receipts		71,075,838	69,702,906
Due to customers for contract work	26	1,456,280,611	1,675,622,513
Withholdings		6,391,429	3,330,998
Accrued expenses		114,434,424	152,957,242
Income tax payable		16,689,711	50,166,929
Current portion of long-term debt	4, 11, 16	349,922,261	379,855,754
Derivative liabilities including firm commitment liabilities	10, 11	429,044,713	243,789,892
Provisions		1,884,626	2,235,358
Current liabilities		<u>4,108,195,506</u>	<u>4,786,209,723</u>
Debentures	4, 11, 16	1,216,357,809	958,586,239
Long-term borrowings	4, 11, 16	1,020,000,000	182,000,000
Long-term other payables	11	26,504,336	39,546,855
Employee benefits	17	239,649,242	228,085,621
Deposits received		197,538,081	138,159,560
Derivative liabilities including firm commitment liabilities	10, 11	304,650,530	301,759,126
Deferred tax liabilities	31	-	14,160,731
Provisions	18	138,563,441	136,930,672
Other non-current liabilities		8,995,485	5,737,482
Non-current liabilities		<u>3,152,258,925</u>	<u>2,004,966,286</u>
Total liabilities	₩	<u>7,260,454,431</u>	<u>6,791,176,009</u>
Equity			
Share capital	1, 19	529,281,335	529,217,335
Capital surplus	20	794,524,021	792,961,504
Other capital adjustments	19, 21	(195,639,129)	(197,832,293)
Accumulated other comprehensive income (loss)	22	(81,816,237)	19,709,536
Retained earnings	23	2,243,101,499	2,500,625,675
Total equity		<u>3,289,451,489</u>	<u>3,644,681,757</u>
Total equity and liabilities	₩	<u>10,549,905,920</u>	<u>10,435,857,766</u>

See accompanying notes to the separate financial statements.

Doosan Heavy Industries & Construction Co., Ltd.

Separate Statements of Operations

For the years ended December 31, 2012 and 2011

(In thousands of won, except per share information)

	<u>Note</u>	<u>2012</u>	<u>2011 Restated</u>
Revenue	24,25,26,35	₩ 7,856,768,585	6,669,496,851
Cost of sales	26,35	6,710,114,580	5,733,181,688
Gross profit		<u>1,146,654,005</u>	<u>936,315,163</u>
Selling and administrative expenses	28	591,740,484	544,964,592
Results from operating activities	24	<u>554,913,521</u>	<u>391,350,571</u>
Finance income	29	884,742,619	437,989,317
Finance costs	29	1,051,794,640	602,917,571
Other income	30	45,705,114	55,631,081
Other expenses	30	588,388,471	31,521,739
Profit (loss) before income tax		<u>(154,821,855)</u>	<u>229,618,105</u>
Income tax expense	31	51,157,139	58,035,859
Profit (loss) for the year		<u>₩ (205,978,994)</u>	<u>171,582,246</u>
Earnings per share			
Basic earnings per share (won)	32	₩ (2,313)	1,912
Diluted earnings per share (won)	32	₩ (2,313)	1,912

See accompanying notes to the separate financial statements.

Doosan Heavy Industries & Construction Co., Ltd.
 Separate Statements of Comprehensive Income (Loss)
 For the years ended December 31, 2012 and 2011

(In thousands of won)

	<u>2012</u>	<u>2011</u>
Profit (loss) for the year	₩ (205,978,994)	171,582,246
Other comprehensive income (loss)		
Net change in unrealized fair value of available-for-sale financial assets	(37,391,249)	36,108,789
Effective portion of changes in fair value of cash flow hedges	(96,547,766)	26,128,773
Defined benefit plan actuarial income (loss)	20,089,763	(48,386,652)
Income tax on other comprehensive income (loss)	27,551,519	(2,630,842)
Other comprehensive income (loss) for the year, net of income tax	<u>(86,297,734)</u>	<u>11,220,068</u>
Total comprehensive income (loss) for the year	₩ <u>(292,276,728)</u>	<u>182,802,314</u>

See accompanying notes to the separate financial statements.

Doosan Heavy Industries & Construction Co., Ltd.
 Separate Statements of Changes in Equity
 For the year ended December 31, 2011

<i>(In thousands of won)</i>		Share capital	Capital Surplus	Other capital adjustment	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at January 1, 2011	₩	529,082,335	791,272,923	(150,054,802)	(28,187,614)	2,433,096,377	3,575,209,219
Annual dividend		-	-	-	-	(67,375,866)	(67,375,866)
Profit for the year		-	-	-	-	171,582,246	171,582,246
Defined benefit plan actuarial losses		-	-	-	-	(36,677,082)	(36,677,082)
Share-based compensation		135,000	1,688,581	2,222,147	-	-	4,045,728
Acquisition of treasury stock		-	-	(49,999,638)	-	-	(49,999,638)
Net change in fair value of available-for-sale financial assets		-	-	-	27,381,599	-	27,381,599
Effective portion of changes in fair value of cash flow hedges		-	-	-	20,515,551	-	20,515,551
Balance at December 31, 2011	₩	529,217,335	792,961,504	(197,832,293)	19,709,536	2,500,625,675	3,644,681,757

Doosan Heavy Industries & Construction Co., Ltd.
 Separate Statements of Changes in Equity
 For the year ended December 31, 2012

(In thousands of won)

		<u>Share capital</u>	<u>Capital Surplus</u>	<u>Other capital adjustment</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at January 1, 2012	₩	529,217,335	792,961,504	-197,832,293	19,709,536	2,500,625,675	3,644,681,757
Annual dividend		-	-	-	-	(66,773,222)	(66,773,222)
Loss for the year		-	-	-	-	(205,978,994)	(205,978,994)
Defined benefit plan actuarial income		-	-	-	-	15,228,040	15,228,040
Share-based compensation		64,000	1,562,517	2,193,165	-	-	3,819,682
Net change in fair value of available-for-sale financial assets		-	-	-	(28,342,567)	-	(28,342,567)
Effective portion of changes in fair value of cash flow hedges		-	-	-	(73,183,207)	-	(73,183,207)
Balance at December 31, 2012	₩	<u>529,281,335</u>	<u>794,524,021</u>	<u>(195,639,129)</u>	<u>(81,816,237)</u>	<u>2,243,101,499</u>	<u>3,289,451,489</u>

See accompanying notes to the separate financial statements.

Doosan Heavy Industries & Construction Co., Ltd.
 Separate Statements of Cash Flows
 For the years ended December 31, 2012 and 2011

<i>(In thousands of won)</i>	<u>Note</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities			
Cash generated from operating activities	36 ₩	642,257,203	34,408,691
Interest received		15,365,520	15,533,849
Interest paid		(189,840,440)	(140,089,777)
Dividend received		10,890,004	12,473,968
Income taxes paid		(91,458,595)	(73,643,250)
Net cash provided by operating activities		<u>387,213,691</u>	<u>(151,316,519)</u>
Cash flows from investing activities			
Net decrease in short-term investment instruments		22,962,457	33,357,773
Net increase in short-term loans		(37,571,062)	(28,493,203)
Proceeds from sale of investments in subsidiaries, joint venture and associates		-	1,897,489
Acquisition of investments in subsidiaries, joint venture and associates		(56,439,551)	(273,416,878)
Proceeds from sale of long-term investment securities		2,291,396	22,400,259
Acquisition of long-term investment securities		(24,496,746)	(3,119,224)
Proceeds from sale of long term financial instrument		280,008	-
Acquisition of long term financial instrument		(15,444,236)	(16,910,000)
Increase in loans		(392,992)	(93,687,294)
Proceeds from sale of property, plant and equipment		301,728	3,282,274
Acquisition of property, plant and equipment		(98,882,920)	(191,971,573)
Proceeds from sale of intangible assets		654,545	1,600,455
Acquisition of intangible assets		(126,076,350)	(67,818,178)
Proceeds from sale of investment property		-	12,407,712
Others		(14,470,595)	12,139,488
Net cash used in investing activities		<u>(347,284,318)</u>	<u>(588,330,900)</u>
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		(707,328,640)	518,815,951
Repayment of current portion of long-term debt		(380,000,000)	(510,000,000)
Proceeds from issuance of debentures		547,165,200	653,940,293
Proceeds from long-term borrowings		888,000,000	182,000,000
Acquisition of treasury stock		-	(49,999,638)
Proceeds from stock option exercised		538,860	1,265,300
Dividends paid		(66,773,222)	(67,375,866)
Net cash provided by financing activities		<u>281,602,198</u>	<u>728,646,040</u>
Effect of exchange rate fluctuations on cash held		(9,426,276)	237,047
Net increase (decrease) in cash and cash equivalents		312,105,296	(10,764,332)
Cash and cash equivalents at 1 January		336,360,734	347,125,066
Cash and cash equivalents at 31 December	₩	<u>648,466,029</u>	<u>336,360,734</u>

See accompanying notes to the separate financial statements.

Doosan Heavy Industries & Construction Co., Ltd.

Notes to the Separate Financial Statements

For the years ended December 31, 2012 and 2011

1. Reporting Entity

Doosan Heavy Industries & Construction Co., Ltd. (the "Company") was incorporated on September 20, 1962, and is engaged in manufacturing and selling of power plant equipment, industrial equipment, forge and casting products, and construction. The Company's operations are headquartered in Changwon, Korea, as of December 31, 2012. The Company's stock was listed on the Korea Exchange on October 25, 2000 and the Company's major stockholder as of December 31, 2012 is Doosan Co., Ltd. (ownership : 41.23%).

2. Basis of Preparation

(a) Statement of compliance

The separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2012, and the Company has not early adopted them.

(i) *Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'*

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012. Management believes the impact of this amendment on the Company's separate financial statements is not significant.

(ii) *K-IFRS No. 1113, 'Fair Value Measurement'*

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Company's annual periods beginning on or after January 1, 2013. Management believes the impact of this amendment on the Company's separate financial statements is not significant.

(iii) *Amendments to K-IFRS No. 1019, 'Employee Benefits'*

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013. Management believes the impact of this amendment on the Company's separate financial statements is not significant.

Authorization for issue

The separate financial statements were authorized for issue by the Board of Directors on February 4, 2013, which will be submitted for approval to the shareholders' meeting to be held on March 29, 2013.

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
For the years ended December 31, 2012 and 2011

2. **Basis of Preparation, Continued**
(b) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the items described otherwise in the relative notes.

(c) Use of estimates and judgments

The preparation of the separate financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- ✓ Note 25 and 26 - Revenue recognition based on percentage of completion

(d) Changes in accounting policies

(i) Presentation of financial statements

The Company adopted the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Company's operating profit (loss) is calculated as revenue less: (1) cost of sales, and (2) selling, general and administrative expenses, and is presented separately in the statement of income.

(ii) Impact of change in accounting policy

The Company retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

(In millions of won)

	2012	2011
Operating profit before adoption of the amendment	₩ 12,231	415,461
Changes		
Other income (Note 30)	(45,705)	(55,631)
Other expense (Note 30)	588,388	31,521
Operating profit after adoption of the amendment	₩ <u>554,914</u>	<u>391,350</u>

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods except as explained in note 2 (d).

(1) Subsidiaries, associates and jointly controlled entities in the separate financial statements

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027 '*Consolidated and Separate Financial Statements*'. The Company applied the cost method to investments in subsidiaries, associates and joint ventures in accordance with K-IFRS No. 1027. The carrying amount under previous K-GAAP on the date of transition to K-IFRS is considered to be the deemed cost of investments in subsidiaries, associates and joint ventures on the date of transition. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

(2) Foreign currencies

(i) Functional and presentation currency

These separate financial statements are presented in Korean won, which are the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(4) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(4) Non-derivative financial assets, continued

(a) Classification

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that is linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

(b) Initial recognition

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(c) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(4) Non-derivative financial assets, continued

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

(d) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(4) Non-derivative financial assets, continued

(e) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the separate statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(5) Trade receivable

Trade receivable is the amount owed by customer for products and services provided in the ordinary course of business. Trade receivable expected to be collected within one year is classified as current assets; otherwise, it is classified as non-current assets. The Company recognizes Trade receivable as fair value when it occurs and presents net value offsetting the allowance for bad debts based on historical experience for the collective loss allowance and analysis about individual receivable.

(6) Due from customers for contract work and due to customers for contract work

Due from customers for contract work represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Due from customers for contract work is presented as part of trade and other receivables in the separate statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as due to customers for contract work in the separate statement of financial position.

(7) Inventories

The cost of inventories is based on the moving average method, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(8) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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3. Significant Accounting Policies, Continued

(8) Property, plant and equipment, continued

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Company's property, plant and equipment are as follows:

	Useful lives (years)
Buildings	10~40
Structures	10~40
Machinery	5~20
Heavy equipment	10
Vehicles	5
Others	3~5

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

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3. Significant Accounting Policies, Continued

(9) Intangible assets, continued

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	<u>Useful lives (years)</u>
Industrial property rights	5~10
Development costs	5
Others	5~20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(10) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. Changes are accounted for as changes in accounting estimates.

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3. Significant Accounting Policies, Continued

(11) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

(12) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable Company of assets that generates cash inflows that are largely independent of the cash inflows from other assets or Company of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(13) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
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3. Significant Accounting Policies, Continued

(13) Non-derivative financial liabilities, continued

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(14) Financial guarantee contract liabilities

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period ; and
- the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period.

(15) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

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3. Significant Accounting Policies, Continued

(15) Employee benefits, continued

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

(v) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Doosan Heavy Industries & Construction Co., Ltd.
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3. Significant Accounting Policies, Continued

(16) Provisions

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

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision shall be used only for expenditures for which the provision was originally recognized.

(17) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting

The Company holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Company designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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3. Significant Accounting Policies, Continued

(17) Derivative financial instruments, including hedge accounting, continued

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the separate statement of operations.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(18) Dividend

Dividend payable is recognized as liability when declaration of the dividend is approved in the shareholders' meeting.

(19) Share-based payment transactions

The Company recognizes stock options granted to employees at the fair value at the grant date. The fair value determined at the grant date of the stock option is expensed on a straight-line basis over the vesting period. The Company determines fair value of stock option using the Black-Scholes model.

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3. Significant Accounting Policies, Continued

(20) Revenue

Revenue from the sale of goods, rendering of services or use of the Company assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue.

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(ii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

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

(iii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iv) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

(21) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(i) If the Company received grants related to assets

Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
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3. Significant Accounting Policies, Continued

(21) Government grants, continued

(ii) If the Company received grants related to income

- Government grants which are intended to compensate the Company for expenses incurred shall be recognized deduction to related expenses in profit or loss over the periods in which the Company recognizes the related costs as expenses.
- Government grants which are intended to give immediate financial support to the Company with no future related costs are recognized as government grant income in profit or loss.

(22) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Doosan Heavy Industries & Construction Co., Ltd.
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3. Significant Accounting Policies, Continued

(22) Income taxes, continued

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(23) Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative separate statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(24) Non-current assets held for sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(25) Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Company has six operating segments, as described in note 24.

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4. Financial Risk Management

The Company is exposed to various financial risks such as market risk, credit risk and liquidity risk relating to the operations of the Company. The purpose of risk management policy is to minimize potential risks, which could have adverse effect on financial performance.

Financial risk management activities are performed by treasury and international finance department, in accordance with the related risk management policies. In addition, the Company enters into derivative contracts to hedge against certain risks.

(1) Market risk

(i) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company.

Currency risk is managed by the Company's policy on foreign currencies. The Company's basis for foreign currency management is to minimize profit / loss volatility. The Company mitigates exposure to foreign currency risk by matching the inflow and the outflow of foreign currencies (natural hedge) and manages foreign currency risk by using currency derivatives, such as currency forwards, for the remaining exposure.

The following are the Company's exposure to foreign currency risk as of December 31, 2012 and 2011.

		2012				
<i>(In millions of won)</i>		USD	EUR	JPY	GBP	Others(*)
I. Financial Assets	₩	405,237	46,124	1,820	1,167	121,393
II. Financial Liabilities		354,918	269,186	176,827	32,210	38,130
Net(I-II)	₩	50,319	(223,062)	(175,007)	(31,043)	83,263

		2011				
<i>(In millions of won)</i>		USD	EUR	JPY	GBP	Others(*)
I. Financial Assets	₩	305,872	51,856	1,472	187	96,089
II. Financial Liabilities		392,396	219,628	85,144	14,655	19,766
Net(I-II)	₩	(86,524)	(167,772)	(83,672)	(14,468)	76,323

(*) Others are foreign currencies except for USD, EUR, JPY and GBP.

A strengthening and a weakening of the won, as indicated below, against the USD, EUR, JPY, GBP and other foreign currencies at December 31, 2012 and 2011 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

		2012		2011	
<i>(In millions of won)</i>		10% weakening	10% strengthening	10% weakening	10% strengthening
Profit (loss) before tax	₩	(29,553)	29,553	(27,611)	27,611

Doosan Heavy Industries & Construction Co., Ltd.
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4. Financial Risk Management, Continued

(1) Market risk, continued

(ii) Interest rate risk

Interest rate risk is the risk of fluctuations in the interest rate changes in the future, which mainly occur in floating rate deposits and borrowings. The objective of the interest rate risk management is to minimize the financial costs and uncertainty associated with interest rate changes.

The Company utilizes internally reserved funds to minimize external borrowings, improves structure of short-term and long-term borrowings, maintains optimum level of floating rate borrowings compared to fixed rate, and regularly monitors the trend of domestic and overseas interest rate movement in order to manage interest rate risk.

Floating rate financial assets and liabilities exposed to interest rate risk as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
I. Financial assets	₩	514,581	210,678
II. Financial liabilities		-	680,000
Net(I-II)	₩	<u>514,581</u>	<u>(469,322)</u>

Assuming all other variables are constant, the effect of 100 basis point (bp) changes in interest rate on the profit before income tax for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>		<u>2011</u>	
		<u>100 bp increase</u>	<u>100 bp decrease</u>	<u>100 bp increase</u>	<u>100 bp decrease</u>
Profit (loss) before tax	₩	5,146	(5,146)	(4,693)	4,693

(iii) Other market price risk

The Company is exposed to market price risk arising from change in fair value or future cash flows of financial investments, especially equity instruments listed on the stock exchanges. The management of the Company assesses the market price risk on a regular basis. Significant investments are individually managed and all purchase and sale decisions are approved by the Board of Directors.

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4. Financial Risk Management, Continued

(2) Credit risk

The Company is exposed to credit risk which results in financial losses in the event where the contractual obligation of another entity fails to be fulfilled. Credit risk arises mainly from trade and other receivables, derivatives, deposits etc. The Company maintains measures of credit enhancements by obtaining collateral and assessing the credit ratings of the customers and financial institutes on a regular basis.

(i) Exposure to credit risk

The carrying amounts of financial assets represent the maximum exposure to credit risks. The maximum exposure to credit risks as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Cash and cash equivalents	₩	648,466	336,360
Short and long term financial instruments		97,843	104,929
Trading and other receivables		1,038,497	984,648
Firm commitment assets and Others		336,894	480,749
Held-to-maturity investments		8,578	5,891
Derivative instrument assets		410,124	234,695
	₩	<u>2,540,402</u>	<u>2,147,272</u>

(ii) Aging analysis

The following are the contractual maturities of financial assets as of December 31, 2012 and 2011.

<i>(In millions of won)</i>		<u>2012</u>				<u>Total</u>
		<u>Past due 0~3 months</u>	<u>Past due 3~6 months</u>	<u>Past due 6~12 months</u>	<u>More than 12 months</u>	
Account receivables	₩	324,379	83,024	79,183	668,356	1,154,942
Other receivables		177,825	16,687	19,377	122,398	336,287
Others		5,698	3,336	6,042	2,348	17,424
	₩	<u>507,902</u>	<u>103,047</u>	<u>104,602</u>	<u>793,102</u>	<u>1,508,653</u>

Based on historic experience, the Company believes that no impairment is necessary in respect of trade receivables not past due or past due by up to three months.

<i>(In millions of won)</i>		<u>2011</u>				<u>Total</u>
		<u>Past due 0~3 months</u>	<u>Past due 3~6 months</u>	<u>Past due 6~12 months</u>	<u>More than 12 months</u>	
Account receivables	₩	357,107	99,493	169,429	381,466	1,007,495
Other receivables		255,649	-	3,600	46,747	305,996
Others		2,556	-	-	-	2,556
	₩	<u>615,312</u>	<u>99,493</u>	<u>173,029</u>	<u>428,213</u>	<u>1,316,047</u>

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4. Financial Risk Management, Continued

(3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities as of December 31, 2012 and 2011:

		2012					
<i>(In millions of won)</i>		Book value	Total	Less than 1 year	2 years or less	5 years or less	More than 5 years
Carrying amounts(*)	₩	4,275,256	4,279,699	2,019,496	1,017,893	1,142,310	100,000
Interests		-	249,965	103,865	62,450	75,546	8,104
	₩	4,275,256	4,529,664	2,123,361	1,080,343	1,217,856	108,104

		2011					
<i>(In millions of won)</i>		Book value	Total	Less than 1 year	2 years or less	5 years or less	More than 5 years
Carrying amounts(*)	₩	3,768,537	3,781,457	2,606,632	330,636	844,189	-
Interests		-	161,069	30,735	24,501	105,833	-
	₩	3,768,537	3,942,526	2,637,367	355,137	950,022	-

(*)Trade payables and other payables, borrowings and debentures are included.

(4) Capital management

The objective of capital risk management is to sustain the Company's ability to provide profits to its shareholders and interested parties and sustain optimal capital structure to reduce the cost of capital. In order to sustain optimal capital structure, the Company manages the capital based on the debt-equity ratio as other companies in the same field do. Debt-equity ratio is calculated by dividing the total liabilities by the total capital.

The Company's debt to equity ratio as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won, except debt ratio)</i>		2012	2011
Total liabilities	₩	7,260,454	6,791,176
Total equity		3,289,451	3,644,682
Debt to equity ratio(%)		220.72	186.33

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5. Restricted Financial Instruments

Restricted financial instruments as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Short-term investments			
Deposits for R&D projects (*1)	₩	21,779	46,202
Advances from construction contracts		4,784	-
Long-term financial instruments			
Key money deposits		3	3
Beneficiary certificate (*2)		35,756	20,312
	₩	<u>62,322</u>	<u>66,517</u>

(*1) These deposits are related to the specific research and development projects partly funded by the government and their withdrawal is restricted.

(*2) These deposits are related to a carbon fund, mutual growth fund and securities depository.

6. Short-term Investments

Short-term investments as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Short-term financial instruments	₩	26,739	46,202
Held-to-maturity financial assets		510	3,499
	₩	<u>27,249</u>	<u>49,701</u>

7. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>		
		<u>Carrying amounts</u>	<u>Allowance for doubtful accounts</u>	<u>Book value</u>
Trade receivables	₩	1,152,046	(240,440)	911,606
Other receivables		165,319	(41,324)	123,995
Accrued income		17,424	(2,258)	15,166
Short-term loans		161,078	(74,297)	86,781
Prepayments		459,893	(2,628)	457,265
Long-term trade receivables		2,896	-	2,896
Long-term loans		9,890	-	9,890
	₩	<u>1,968,546</u>	<u>(360,947)</u>	<u>1,607,599</u>

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7. Trade and Other Receivables, Continued

		2011		
<i>(In millions of won)</i>		Carrying amounts	Allowance for doubtful accounts	Book value
Trade receivables	₩	1,004,507	(162,681)	841,826
Other receivables		170,238	(30,404)	139,834
Accrued income		2,556	-	2,556
Short-term loans		33,261	-	33,261
Prepayments		583,337	-	583,337
Long-term trade receivables		2,988	-	2,988
Long-term loans		102,497	-	102,497
	₩	<u>1,899,384</u>	<u>(193,085)</u>	<u>1,706,299</u>

(2) Changes in allowance for doubtful debts of trade and other receivables as of December 31, 2012 are summarized as follows:

<i>(In millions of won)</i>		Trade receivables	Other receivables	Accrued Income	Short-term loans	Prepay-ments
Beginning balance	₩	162,681	30,404	-	-	-
Addition		<u>77,759</u>	<u>10,920</u>	<u>2,258</u>	<u>74,297</u>	<u>2,628</u>
Ending balance	₩	<u>240,440</u>	<u>41,324</u>	<u>2,258</u>	<u>74,297</u>	<u>2,628</u>

The Company regards trade and other receivables overdue for more than 3 months to be impaired. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance established for companies of homogeneous receivables in respect of losses that been incurred but not yet identified. The collective loss allowance is determined using aging method based on historical data of payment statistics.

Allowance for doubtful accounts pertaining to trade receivable is included in selling expenses, and allowance for doubtful accounts pertaining to other receivable is included in non-operating expense.

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8. Inventories

Inventories as of December 31, 2012 and 2011 are as follows:

		2012		
<i>(In millions of won)</i>		<u>Acquisition cost</u>	<u>Provision for loss on valuation</u>	<u>Carrying amounts</u>
Finished goods	₩	25,251	(3,321)	21,930
Work-in-process		221,306	-	221,306
Raw materials		38,600	(988)	37,612
Supplies		12,176	-	12,176
Materials-in-transit		158,772	-	158,772
	₩	<u>456,105</u>	<u>(4,309)</u>	<u>451,796</u>
		2011		
<i>(In millions of won)</i>		<u>Acquisition cost</u>	<u>Provision for loss on valuation</u>	<u>Carrying amounts</u>
Finished goods	₩	13,642	(1,518)	12,124
Work-in-process		174,107	-	174,107
Raw materials		47,586	(484)	47,102
Supplies		15,278	-	15,278
Materials-in-transit		104,425	-	104,425
	₩	<u>355,038</u>	<u>(2,002)</u>	<u>353,036</u>

During 2012, the loss on valuation of inventory recognized amounts to ₩ 2,307 million while the reversal of loss on valuation of inventories was made in the amount of ₩ 165 million in 2011.

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9. Long-term Investment Securities

(1) Long-term investment securities as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Available-for-sale financial assets	₩	35,271	94,145
Held-to-maturity financial assets		8,068	2,392
	₩	<u>43,339</u>	<u>96,537</u>

(2) Available-for-sale financial assets

(i) Available-for-sale financial assets as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Marketable equity securities	₩	1,409	1,414
Non - marketable equity securities		11,441	72,310
Other equity investments		22,421	20,421
	₩	<u>35,271</u>	<u>94,145</u>

(ii) Changes in unrealized gain or loss of the available-for-sale financial assets for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>January 1, 2012</u>	<u>Valuation</u>	<u>Reclassified to profit or loss</u>	<u>December 31, 2012</u>
Marketable equity securities	₩	(5,242)	(5)	-	(5,247)
Non - marketable equity securities		37,386	-	(37,386)	-
Tax effect		(7,779)	9,048	-	1,269
	₩	<u>24,365</u>	<u>9,043</u>	<u>(37,386)</u>	<u>(3,978)</u>

<i>(In millions of won)</i>		<u>January 1, 2011</u>	<u>Valuation</u>	<u>Reclassified to profit or loss</u>	<u>December 31, 2011</u>
Marketable equity securities	₩	(3,965)	(1,277)	-	(5,242)
Non - marketable equity securities		-	37,386	-	37,386
Tax effect		948	(8,727)	-	(7,779)
	₩	<u>(3,017)</u>	<u>27,382</u>	<u>-</u>	<u>24,365</u>

(3) Held-to-maturity financial assets

Details of held-to-maturity investments as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Government and corporate bonds	₩	8,068	1,352
Other debt securities		-	1,040
	₩	<u>8,068</u>	<u>2,392</u>

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10. Derivative Financial Instruments

Derivative financial instruments as of December 31, 2012 and 2011 are summarized as follows:

(in millions of won and in thousands of foreign currency)

						2012			
						Derivative instrument assets (liabilities)	Gain (loss) on valuation of derivative instrument	Accumulated other comprehensive income (*1)	Firm commitment asset (liabilities) (*2)
		Buy	Sell						
Foreign currency forward	KRW	8,151,175	USD	7,189,647	₩	292,182	366,346	21,875	(340,077)
	KRW	444,355	EUR	296,433		17,284	10,875	6,514	(14,415)
	KRW	511,637	JPY	37,786,089		17,871	(13,963)	31,841	(3,592)
	KRW	128,918	Others			7,483	7,686	254	(7,200)
	USD	3,686,470	KRW	4,193,548		(176,706)	(109,666)	(66,557)	138,335
	EUR	323,045	KRW	498,202		(30,577)	(6,743)	(24,661)	3,558
	JPY	53,549,925	KRW	792,257		(92,632)	(7,335)	(70,829)	324
	Others	KRW	57,463		(2,746)	(1,620)	(1,126)	1,368	
Foreign exchange risk insurance	KRW	47,139	USD	48,535		(4,906)	4,127	-	4,906
	KRW	2,861	JPY	294,325		(814)	714	-	814
	Exchange rights (*3)					(3,157)	5,592	-	-
	Matured amount					-	28,535	-	-
Sub total						23,282	284,548	(102,689)	(215,979)
Tax effect						-	-	24,851	-
						₩ 23,282	284,548	(77,838)	(215,979)

(*1) Effective portion of changes in fair value of cash flow hedges of ₩ 77,838 million, net of tax was charged to other comprehensive income.

(*2) In respect of fair value hedges, firm commitment assets of ₩ 130,874 million and firm commitment liabilities of ₩ 346,853 million were recorded.

(*3) The amount related to the exchange rights on exchangeable bonds issued by the Company in 2011.

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10. Derivative Financial Instruments, Continued

(in millions of won and in thousands of foreign currency)

						2011			
						Derivative instrument assets (liabilities)	Gain (loss) on valuation of derivative instrument	Accumulated other comprehensive income (*1)	Firm commitment asset (liabilities) (*2)
		Buy	Sell						
Foreign currency forward	KRW	8,222,925	USD	7,262,488	₩	(239,327)	(197,972)	(56,699)	171,589
	KRW	409,886	EUR	263,492		8,316	3,554	3,737	(5,128)
	KRW	327,486	JPY	25,449,489		(61,907)	688	(61,351)	1,646
	KRW	240,312	Others			(1,848)	(1,222)	(625)	1,264
	USD	2,308,765	KRW	2,617,295		69,418	32,456	39,316	(39,218)
	EUR	434,445	KRW	687,293		(24,886)	(3,464)	(21,433)	466
	JPY	51,905,514	KRW	722,271		77,192	(15,420)	92,603	(46)
	Others	KRW	105,399		(221)	(780)	557	(106)	
Foreign exchange risk insurance	KRW	120,711	USD	126,950		(26,057)	345	(2,246)	23,585
	KRW	2,861	JPY	294,325		(1,527)	(287)	-	1,527
	Exchange rights (*3)					(8,749)	-	-	-
	Matured amount					-	35,990	-	-
Sub total						(209,596)	(146,112)	(6,141)	155,579
Tax effect						-	-	1,486	-
						₩ (209,596)	(146,112)	(4,655)	155,579

(*1) Effective portion of changes in fair value of cash flow hedges of ₩ 4,655 million, net of tax was charged to other comprehensive income.

(*2) In respect of fair value hedges, firm commitment assets of ₩ 256,837 million and firm commitment liabilities of ₩ 101,258 million were recorded.

(*3) The amount related to the exchange rights on exchangeable bonds issued by the Company in 2011.

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11. Categories of Financial Instruments

(1) Categories of financial instruments as of December 31, 2012 and 2011 are summarized as follows:

(i) 2012

<i>(In millions of won)</i>		Cash and cash equivalents	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Derivative assets under hedge accounting	Carrying amount	Fair value
Cash and cash equivalents	₩	648,466	-	-	-	-	-	648,466	648,466
Short and long financial instruments		-	-	97,843	-	-	-	97,843	97,843
Short and long investment securities		-	-	-	35,271	8,578	-	43,849	43,849
Derivative instrument assets		-	14	-	-	-	410,110	410,124	410,124
Trade and other receivables		-	-	1,038,497	-	-	-	1,038,497	1,038,497
Others		-	-	336,894	-	-	-	336,894	336,894
	₩	<u>648,466</u>	<u>14</u>	<u>1,473,234</u>	<u>35,271</u>	<u>8,578</u>	<u>410,110</u>	<u>2,575,673</u>	<u>2,575,673</u>

<i>(In millions of won)</i>		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities under hedge accounting	Carrying amount	Fair value
Trade and other payables	₩	-	1,056,925	-	1,056,925	1,056,925
Borrowings and debentures		-	3,218,331	-	3,218,331	3,218,331
Derivative instrument liabilities		5,199	-	381,643	386,842	386,842
Others		-	700,717	-	700,717	700,717
	₩	<u>5,199</u>	<u>4,975,973</u>	<u>381,643</u>	<u>5,362,815</u>	<u>5,362,815</u>

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11. Categories of Financial Instruments, Continued

(ii) 2011

<i>(In millions of won)</i>		Cash and cash equivalents	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Derivative assets under hedge accounting	Carrying amount	Fair value
Cash and cash equivalents	₩	336,361	-	-	-	-	-	336,361	336,361
Short and long financial instruments		-	-	104,929	-	-	-	104,929	104,929
Short and long investment securities		-	-	-	94,145	5,891	-	100,036	100,036
Derivative instrument assets		-	8,929	-	-	-	225,766	234,695	234,695
Trade and other receivables		-	-	984,648	-	-	-	984,648	984,648
Others		-	-	480,749	-	-	-	480,749	480,749
	₩	<u>336,361</u>	<u>8,929</u>	<u>1,570,326</u>	<u>94,145</u>	<u>5,891</u>	<u>225,766</u>	<u>2,241,418</u>	<u>2,241,418</u>

<i>(In millions of won)</i>		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities under hedge accounting	Carrying amount	Fair value
Trade and other payables	₩	-	890,224	-	890,224	890,224
Borrowings and debentures		-	2,878,313	-	2,878,313	2,878,313
Derivative instrument liabilities		8,662	-	435,629	444,291	444,291
Others		-	440,990	-	440,990	440,990
	₩	<u>8,662</u>	<u>4,209,527</u>	<u>435,629</u>	<u>4,653,818</u>	<u>4,653,818</u>

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11. Categories of Financial Instruments, Continued

(2) The table below analyzes financial instruments carried at fair value, by hierarchy of the fair value of inputs.

		2012			
<i>(In millions of won)</i>		Level 1	Level 2	Level 3	Total
Financial assets :					
Financial assets					
at fair value through profit or loss	₩	-	14	-	14
Available-for-sale financial assets		1,409	-	33,862	35,271
Derivative assets under hedge accounting		-	410,110	-	410,110
	₩	<u>1,409</u>	<u>410,124</u>	<u>33,862</u>	<u>445,395</u>
Financial liabilities :					
Financial liabilities					
at fair value through profit or loss	₩	-	5,199	-	5,199
Derivative liabilities under hedge accounting		-	381,643	-	381,643
	₩	<u>-</u>	<u>386,842</u>	<u>-</u>	<u>386,842</u>
2011					
<i>(In millions of won)</i>		Level 1	Level 2	Level 3	Total
Financial assets :					
Financial assets					
at fair value through profit or loss	₩	-	8,929	-	8,929
Available-for-sale financial assets		1,414	-	92,731	94,145
Derivative assets under hedge accounting		-	225,766	-	225,766
	₩	<u>1,414</u>	<u>234,695</u>	<u>92,731</u>	<u>328,840</u>
Financial liabilities :					
Financial liabilities					
at fair value through profit or loss	₩	-	8,662	-	8,662
Derivative liabilities under hedge accounting		-	435,629	-	435,629
	₩	<u>-</u>	<u>444,291</u>	<u>-</u>	<u>444,291</u>

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11. Categories of Financial Instruments, Continued

The different levels of inputs have been defined as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the dates of the separate statements of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry company, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily listed equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the dates of the separate statements of financial position, with the resulting value discounted to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments. As for trade and other receivables, the book value approximates a reasonable estimate of fair value.

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11. Categories of Financial Instruments, Continued

(3) Financial Instruments Income and Costs by Categories

		2012		
		Interest income (expense)	Bad debt expenses	Other comprehensive loss
<i>(In millions of won)</i>				
Cash and cash equivalents	₩	13,557	-	-
Trading and other receivables		11,782	(167,862)	-
Available-for-sale financial assets		-	-	(37,391)
Held-to-maturity financial assets		1,221	-	-
Total		26,560	(167,862)	(37,391)
Financial liabilities measured at amortized cost		(177,880)	-	-
Total	₩	(177,880)	-	-

		2011		
		Interest income (expense)	Bad debt expenses	Other comprehensive income
<i>(In millions of won)</i>				
Cash and cash equivalents	₩	11,998	-	-
Trading and other receivables		4,674	(10,798)	-
Available-for-sale financial assets		-	-	36,109
Held-to-maturity financial assets		265	-	-
Total		16,937	(10,798)	36,109
Financial liabilities measured at amortized cost		(146,642)	-	-
Total	₩	(146,642)	-	-

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12. Investment in Subsidiaries, Associates and Joint Ventures

(1) Investment in subsidiaries, associates and joint ventures as of December 31, 2012 and 2011 are as follows:

<u>Company</u>	<u>Items of investment</u>	<u>Location</u>	<u>Ownership (%)</u>		<u>2012</u>	<u>2011</u>
Subsidiary	Doosan Power Systems S.A.(*1)	Luxembourg	100.00%	₩	404,074	403,868
	S.C. Doosan IMGB S.A.	Romania	99.76%		18,909	18,909
	Doosan Heavy Industries Vietnam Co. Ltd.	Vietnam	75.04%		125,178	123,658
	Doosan Heavy Industries Vietnam Haiphong Co. Ltd.	Vietnam	90.00%		18,964	18,964
	Doosan Heavy Industries Japan Corp.	Japan	100.00%		1,993	1,993
	Doosan Heavy Industries America Holdings(*2)	America	100.00%		11,756	11,756
	HF Controls Corp.	America	100.00%		5,642	5,642
	Doosan Power Systems India Private Ltd.(*3)	India	99.48%		104,925	62,025
	Doosan Enpure Ltd.	England	100.00%		4,951	-
	Doosan AMC Co., Ltd.	Korea	100.00%		-	-
					696,392	646,815
Associate	Doosan Engineering & Construction Co., Ltd.	Korea	72.74%		667,784	1,098,720
	Doosan Infracore Co., Ltd.	Korea	44.77%		1,483,471	1,483,471
	Doosan Engine Co., Ltd.	Korea	42.66%		6,958	6,958
	Doosan Capital Co., Ltd.	Korea	14.28%		41,092	41,092
	Gyeonggi Expressway Co., Ltd. (*4)	Korea	25.00%		-	60,412
	Doosan Power Projects Australia	Australia	50.00%		26	26
	Tam-la seaward wind power generation	Korea	36.00%		7,452	590
					2,206,783	2,691,269
Joint venture	Hanjung Power Ltd.	Papua New Guinea	51.00%		9,004	9,004
	Haman Industrial Complex	Korea	53.33%		1,292	1,292
					10,296	10,296
				₩	2,913,471	3,348,380

(*1) In 2012, Doosan Heavy Industries European Holdings S.a.r.l changed its name to Doosan Power Systems S.A.

(*2) In 2012, Doosan Heavy Industries America Holdings Ltd. was newly incorporated as an intermediate holding company of Doosan Heavy Industries America Corp, Doosan Hydro Technology Inc and Doosan Engineering & Services LLC.

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12. Investment in Subsidiaries, Associates and Joint Ventures, Continued

(*3) Doosan Chennai Works merged Doosan Power Systems India Private Ltd. and Doosan Chennai Works changed its name to Doosan Power Systems India Private Ltd. on October 16, 2012.

(*4) In 2012, the Company reclassified Gyeonggi Expressway Co., Ltd. to asset held for sale due to the decision to sell (Note 34 and 37) and the related investments are pledged as collateral for project financing of Gyeonggi Expressway.

(2) Fair value of marketable securities of associates as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	2012	2011
Doosan Engineering & Construction Co., Ltd. ₩	317,361	384,872
Doosan Infracore Co., Ltd.	1,283,659	1,347,842
Doosan Engine Co., Ltd.	254,990	348,388
₩	<u>1,856,010</u>	<u>2,081,102</u>

(3) The Company tested for impairment of its investment in Doosan Engineering & Construction Co., Ltd., and the carrying amount of the investment exceeds its recoverable amount. As a result, an impairment loss is recognized in other expenses in the amount of ₩ 430,936 million. The recoverable amount is measured at value in use based on report from independent valuation appraisers. The estimation of the value in use are summarized as follows.

<i>(In millions of won)</i>	
I. The carrying amounts	1,098,720
Operating value	2,543,921
Non-operating assets(*1)	130,680
Enterprise value	2,674,601
Net debt(*1)	1,756,552
Equity capital	918,049
II. The value of equity holdings (Ownership ratio: 72.74%)	667,784
III. Impairment losses (I -II)	430,936

(*1) Non-operating assets and net debt are based on Doosan Engineering & Construction Co., Ltd.'s data as of December 31, 2012.

The value in use was determined to discount the future cash flows expected from the continued use of the asset. The main assumptions used in calculating value in use are as follows:

① Net cash flows is based on projected five-year future cash flows, reflected the nature of the business. The projection is based upon management's best estimates of past experience and operating performance over the related period including order balance, estimates of future expected five-year business plan. Applied perpetuity growth rate was 1.5% for the estimation period.

② The discount rate used to determine the recoverable amount are based on average industry interest rate and current market interest rate for the year ended December 31, 2012.

Significant estimates and assumptions include future trend of construction industry are based on management projections by considering the internal and external information.

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13. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2012 and 2011 are as follows:

(i) 2012

<i>(In millions of won)</i>		Land	Buildings & Structures	Machinery	Others	Construction -in-progress	Total
Beginning balance	₩	1,218,508	363,715	299,877	37,605	93,410	2,013,115
Acquisitions		-	2,495	1,423	2,178	92,787	98,883
Reclassifications		9,553	4,657	53,838	15,314	(86,657)	(3,295)
Disposals		-	(6,715)	(69)	(431)	-	(7,215)
Depreciation		-	(27,927)	(53,259)	(18,330)	-	(99,516)
Impairment losses		-	656	(1,340)	(6)	-	(690)
Ending balance	₩	<u>1,228,061</u>	<u>336,881</u>	<u>300,470</u>	<u>36,330</u>	<u>99,540</u>	<u>2,001,282</u>
- Acquisition cost		1,228,061	636,624	893,409	164,726	99,540	3,022,360
- Accumulated depreciation		-	(299,743)	(592,939)	(128,396)	-	(1,021,078)

(ii) 2011

<i>(In millions of won)</i>		Land	Buildings & Structures	Machinery	Others	Construction -in-progress	Total
Beginning balance	₩	1,209,388	347,871	263,520	44,703	97,714	1,963,196
Acquisitions		-	61	988	3,336	187,586	191,971
Reclassifications		9,120	43,811	79,840	8,370	(191,890)	(50,749)
Disposals		-	(47)	(36)	(2,374)	-	(2,457)
Depreciation		-	(27,127)	(44,469)	(16,176)	-	(87,772)
Impairment losses		-	(854)	34	(254)	-	(1,074)
Ending balance	₩	<u>1,218,508</u>	<u>363,715</u>	<u>299,877</u>	<u>37,605</u>	<u>93,410</u>	<u>2,013,115</u>
- Acquisition cost		1,218,508	630,720	830,048	152,415	93,410	2,925,101
- Accumulated depreciation		-	(267,005)	(530,160)	(114,552)	-	(911,717)
- Accumulated impairment		-	-	(11)	(258)	-	(269)

As of December 31, 2012, some portion of the Company's property, plant and equipment are pledged as collateral for borrowings. The Company has no right to pledge such assets as collateral or to sell (see Note 34).

(2) Capitalization of borrowing cost for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won, except percentage)</i>		2012	2011
Capitalization of borrowing cost	₩	1,703	278
Interest rate of borrowing cost (%)		4.76	5.32

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14. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows:

(i) 2012

<i>(In millions of won)</i>		Industrial property rights	Development costs	Others	Total
Net balance at beginning of year	₩	288	265,279	120,625	386,192
Additions		82	125,899	95	126,076
Reclassifications		-	(11,642)	7,250	(4,392)
Disposals		-	-	(998)	(998)
Amortization		(53)	(24,930)	(17,249)	(42,232)
Impairment		-	-	(3,065)	(3,065)
Net balance at end of year	₩	<u>317</u>	<u>354,606</u>	<u>106,658</u>	<u>461,581</u>

(ii) 2011

<i>(In millions of won)</i>		Industrial property rights	Development costs	Others	Total
Net balance at beginning of year	₩	255	226,015	91,003	317,273
Additions		81	63,715	4,022	67,818
Reclassifications		-	(4,568)	42,736	38,168
Disposals		-	-	(2,226)	(2,226)
Amortization		(48)	(18,217)	(14,910)	(33,175)
Impairment		-	(1,666)	-	(1,666)
Net balance at end of year	₩	<u>288</u>	<u>265,279</u>	<u>120,625</u>	<u>386,192</u>

The carrying amount of intangible assets with indefinite useful lives as of December 31, 2012 and 2011 is ₩ 43,522 million and ₩ 45,977 million, respectively.

(2) Research and development costs incurred for the years ended December 31, 2012 and 2011 are ₩ 18,937 million and ₩ 48,846 million, respectively.

(3) Capitalization of borrowing cost for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won, except percentage)</i>		2012	2011
Capitalization of borrowing cost	₩	1,859	94
Interest rate of borrowing cost (%)		4.76	5.32

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15. Investment Properties

(1) Changes in investment in real properties for the year ended December 31, 2012 and 2011 are as follows:

(i) 2012

(In millions of won)

		<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Beginning balance	₩	7,246	2,806	10,052
Reclassifications		-	3,745	3,745
Depreciation		-	(622)	(622)
Ending balance	₩	<u>7,246</u>	<u>5,929</u>	<u>13,175</u>
- Acquisition cost		7,246	6,910	14,156
- Accumulated depreciation		-	(981)	(981)

The book value of investment property is presented at depreciated cost and the fair value of investment property as of December 31, 2012 is ₩ 13,175 million.

(ii) 2011

(In millions of won)

		<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Beginning balance	₩	7,246	15,008	22,254
Disposals		-	(11,636)	(11,636)
Depreciation		-	(566)	(566)
Ending balance	₩	<u>7,246</u>	<u>2,806</u>	<u>10,052</u>
- Acquisition cost		7,246	3,164	10,410
- Accumulated depreciation		-	(358)	(358)

(2) Rental income from investment property for the years ended December 31, 2012 and 2011 are ₩ 1,353 million and ₩ 1,131 million, respectively.

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16. Debentures and Borrowings

(1) Debentures as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Type of debentures	Interest rate (%)		2012	2011
Public subscription debentures	5.35	₩	150,000	150,000
	5.90		200,000	200,000
	4.90		200,000	200,000
	4.40		200,000	-
	5.10		100,000	100,000
	3.57		60,000	-
	3.85		40,000	-
	4.25		100,000	-
	4.60		150,000	-
	6.40		-	200,000
	8.80		-	80,000
	Private subscription debentures	4.70		100,000
5.52			-	100,000
Exchangeable debenture(*)	1.50		219,999	219,999
Sub total			1,519,999	1,349,999
Less current portion of long-term debt discount on debentures			(300,000)	(380,000)
exchange rights adjustment			(7,427)	(6,944)
Adding redemption premium on exchangeable bond (*1)			(32,990)	(41,245)
			36,776	36,776
		₩	1,216,358	958,586

(*)Exchangeable bond as of December 31, 2012 are summarized as follows:

(In millions of won)

Settlement date	Maturity date	Coupon rate	YTM	Exchangeable right exercise period	Exchangeable price	Issued value
June 14, 2011	June 14, 2016	1.50%	4.50%	June 15, 2011 ~ May 14, 2016	- Standard stock price is less 5,500 won: 6,000 won - Standard stock price is over 5,500 won: 110% of standard stock price	₩ 220,000
				Exchange amount of this period		(1)
				Ending balance		₩ 219,999

① Terms on early redemption

The right of early redemption is exercisable in whole or in part against the par value of exchangeable bonds at the interest payment date from the third year after the date of issuance of bonds and interest payment date of every six months thereafter.

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16. Debentures and Borrowings, Continued

② Method of maturity payment

Coupon rate for the bond is 1.5%. For the bonds not exchanged until the maturity, 116.7167% of the principal amount is paid on June 14, 2016 with yield to maturity rate of 4.5%.

③ Calculation of exchange price

Pursuant to the issuance contract, in the events of increase of capital stock without consideration, stock dividends or splits, and increase of capital stock with the price less than market price during the period from the date of issuance through one month before maturity, the initial exchange price can be adjusted as of the day before the adjustment occurs. As of December 31, 2012, the exchange price is ₩ 6,000.

Number of bonds issued by the exercise of exchange right in 2011 was 166 shares.

(2) Short-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Type of borrowings	Lender	Interest rate (%)		2012	2011	
Local currency	KDB	4.89~6.96	₩	-	200,000	
		4.85		50,000	-	
		4.88		150,000	-	
	The Export-Import Bank of Korea	4.64~5.29		-	650,000	
		4.70		40,000	-	
	KOREA EXCHANGE BANK	Kyongnam Bank	5.26~5.55		-	30,000
			5.78		-	30,000
			2.12		-	447,871
	Foreign currency	KDB and others	1.41		392,051	-
				₩	632,051	1,357,871

(3) Long-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Type of borrowings	Lender	Interest rate (%)		2012	2011	
Local currency	KOREA FINANCE CORPORATION	5.57	₩	12,000	12,000	
		4.84		50,000	20,000	
		4.00		8,000	-	
	KDB	5.24		50,000	50,000	
		5.16		50,000	50,000	
		4.04		100,000	-	
	The Export-Import Bank of Korea	3.79		150,000	-	
		3.77		250,000	-	
		5.26		50,000	50,000	
	NongHyup Bank	IBK	3.74		200,000	-
			4.85		50,000	-
	Woori Investment & Securities Korea	Investment & Securities Korea	3.53		100,000	-
	Sub total				1,070,000	182,000
	(-) Less current portion				(50,000)	-
				₩	1,020,000	182,000

The Company's property, plant and equipment (with a carrying amount of ₩ 575,305 million as of December 31, 2012) were pledged as collateral for the above debentures and borrowings (Note 34).

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17. Employee Benefits

(1) Defined benefit liabilities as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Present value of defined benefit obligations	₩	320,619	313,831
Fair value of plan assets		(79,533)	(84,210)
Contribution to National Pension Plan		(1,437)	(1,535)
Defined benefit liabilities	₩	<u>239,649</u>	<u>228,086</u>

(2) Net expenses recognized in profit or loss for the years ended December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Current service costs	₩	44,447	32,779
Interest on obligation		14,934	12,387
Expected return on plan assets		(2,944)	(3,975)
	₩	<u>56,437</u>	<u>41,191</u>

(3) Classification of expense related to the retirement benefit related to defined benefit plan for the years ended December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Cost of sales	₩	44,282	32,676
Selling, general and administrative expense		12,155	8,515
	₩	<u>56,437</u>	<u>41,191</u>

(4) Movements in defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Beginning balance	₩	313,831	252,571
Current service costs		44,447	32,779
Interests		14,934	12,387
Benefit paid		(33,712)	(30,927)
Transfer in		2,681	367
Transfer out		(882)	(211)
Actuarial gains or losses		(20,680)	46,865
Ending balance	₩	<u>320,619</u>	<u>313,831</u>

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17. Employee Benefits, Continued

(5) Movements in plan assets for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		<u>2012</u>	<u>2011</u>
Beginning balance	₩	84,210	93,466
Expected return on plan assets		2,944	3,975
Contributions paid into the plan		1,500	-
Benefit paid by the plan		(8,464)	(11,636)
Transfer out		(65)	(73)
Actuarial gains or losses		(592)	(1,522)
Ending balance	₩	<u>79,533</u>	<u>84,210</u>

The actual returns on plan assets for the years ended December 31, 2012 and 2011 are ₩ 2,352 million and ₩ 2,453 million, respectively.

(6) Principal actuarial assumptions at the reporting date are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	5.0%	5.3%
Expected return on plan assets	3.7%	4.5%
Future salary increases		
Executives	5.3%	8.0%
Staff members	2.9%	5.6%

(7) Plan assets comprise:

(In millions of won)

		<u>2012</u>	<u>2011</u>
Trusted assets and others	₩	79,533	84,210

The expected rates of return on plan assets are determined considering applicable expected rate of return on plan assets under current investment policy. The expected rates of return on debt securities are based on redemption yields at end of the reporting period. The expected rates of return on equity securities and other assets reflect historical market return data by asset category.

(8) Historical information for the amounts related to defined benefit plans recognized for the current year and previous three years are as follows:

(In millions of won)

		<u>Dec 31, 2012</u>	<u>Dec 31, 2011</u>	<u>Dec 31, 2010</u>	<u>January 1, 2010</u>
Defined benefit obligation	₩	320,619	313,831	252,571	203,739
Plan assets		(79,533)	(84,210)	(93,466)	(76,244)
Obligation which is not covered by plan assets	₩	241,086	229,621	159,105	127,495
Experience adjustments on plan liabilities		(20,680)	46,865	-	-
Experience adjustments on plan assets		(592)	(1,522)	-	-

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18. Provisions

Changes in provisions for the year ended December 31, 2012 are as follows:

<i>(In millions of won)</i>	Balance at				Balance at	Current	Non-current
	Jan. 1, 2012	Increase	Reversal	Utilization	Dec. 31, 2012		
Provision for construction warranties	₩ 136,931	29,148	(5,842)	(21,674)	138,563	-	138,563
	₩ 136,931	29,148	(5,842)	(21,674)	138,563	-	138,563

The Company estimates expenditure required to settle the Company's obligations from product warranty, refund, related after service and others based on warranty period and historical claim rate, etc.

19. Share Capital and Paid-in Capital in Excess of Par Value

(1) Change in the capital stock and paid-in capital in excess of par value of the Company for the year ended December 31, 2012 is summarized as follows:

<i>(In millions of won)</i>	Changes	Number of ordinary shares	Capital stock	Additional paid-in capital
Beginning balance		105,843,467	₩ 529,217	61,143
June 7, 2012	Exercise of stock option, 4 th	6,100	31	251
October 8, 2012	Exercise of stock option, 5 th	6,700	33	454
Ending balance		105,856,267	₩ 529,281	61,848

(2) The Company has 400,000,000 authorized shares of common stock (₩5,000 par value), of which 105,856,267 shares have been issued as of December 31, 2012.

(3) As of December 31, 2012, the number of shares with limited voting rights under the Commercial Code is 16,812,505.

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20. Additional paid-in and other capital

Details of capital surplus as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Additional paid-in capital	₩ 61,848	61,143
Revaluation surplus	594,262	594,262
Other capital surplus	138,414	137,557
	<u>₩ 794,524</u>	<u>792,962</u>

21. Other Capital Adjustments

(1) Other capital as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Treasury shares	₩ (207,523)	(207,523)
Share options	11,884	9,691
	<u>₩ (195,639)</u>	<u>(197,832)</u>

(2) Treasury stock

As of December 31, 2011, the Company holds 16,812,505 treasury stocks of ₩ 207,523 million for the stability of the stock price and the treasury stocks are recorded as other capital adjustment.

(3) Stock options

The Company has granted the stock options to the executives several times, and the way of settlement is subject to the Board of Directors' decision at the time of exercise. The executives are granted stock options conditional upon completing 2 years' service from the grant date.

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21. Other Capital Adjustments, Continued

(i) The share options of Company as of December 31, 2012 are as follows:

(In won, except number of shares)

Grant date	Number granted	Exercise period	Exercise price	Estimated fair value at grant date
2006.02.27	5,200	2009.02.27~2016.02.26	₩ 33,200	12,950
2007.03.16	27,900	2010.03.17~2017.03.16	50,200	22,564
2008.03.21	47,800	2011.03.21~2018.03.20	121,200	49,565
2009.03.27	39,700	2012.03.27~2019.03.26	73,000	32,595
2010.03.26	74,900	2013.03.26~2020.03.25	90,100	41,077
2011.03.25	125,500	2014.03.25~2021.03.24	65,700	24,642
2012.03.30	275,200	2015.03.30~2022.03.29	66,800	16,337
	<u>596,200</u>			

(ii) Changes in share options for the year ended December 31, 2012 are as follows:

(number of shares)

Grant date	Number of stocks to be issued				Ending of the year
	Beginning of the year	Newly granted	Exercised	Canceled	
2006.02.27	11,300	-	(6,100)	-	5,200
2007.03.16	34,600	-	(6,700)	-	27,900
2008.03.21	65,100	-	-	(17,300)	47,800
2009.03.27	39,700	-	-	-	39,700
2010.03.26	82,100	-	-	(7,200)	74,900
2011.03.25	132,200	-	-	(6,700)	125,500
2012.03.30	-	275,200	-	-	275,200
	<u>365,000</u>	<u>275,200</u>	<u>(12,800)</u>	<u>(31,200)</u>	<u>596,200</u>

(In millions of won)

Grant date	Valuation amount				Ending of the year
	Beginning of the year	Increase	Exercised	Canceled	
2006.02.27	₩ 146	-	(79)	-	67
2007.03.16	781	-	(151)	-	630
2008.03.21	3,227	-	-	(858)	2,369
2009.03.27	1,294	-	-	-	1,294
2010.03.26	2,984	388	-	(295)	3,077
2011.03.25	1,259	1,585	-	(103)	2,741
2012.03.30	-	1,706	-	-	1,706
	<u>₩ 9,691</u>	<u>3,679</u>	<u>(230)</u>	<u>(1,256)</u>	<u>11,884</u>

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21. Other Capital Adjustments, Continued

The Company's weighted average share price at the dates of exercise is ₩ 57,628 and weighted average expected duration of share based payment (from December 31, 2012 to the date of maturity) is 1.7 years.

The compensation expenses associated with stock option for the years ended December 31, 2012 and 2011 are ₩ 3,281 million and ₩ 2,781 million, respectively and ₩ 2,743 million will be recognized in the future.

(iii) The estimated fair value was calculated using the modified fair value method and the assumptions applied to this method are summarized as follows:

<u>Grant date</u>	<u>Risk-free interest rate(*)</u>	<u>Option life</u>	<u>Expected volatility</u>	<u>Expected dividends</u>
2006.02.27	5.01%	3 years	53.87%	1.69%
2007.03.16	4.79%	3 years	49.33%	5.67%
2008.03.21	5.25%	3 years	56.02%	7.33%
2009.03.27	3.71%	3 years	65.15%	9.00%
2010.03.26	3.82%	3 years	66.45%	10.00%
2011.03.25	3.66%	3 years	53.12%	10.00%
2012.03.30	3.57%	3 years	38.21%	13.33%

(*) Based on three-year government bonds

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22. Accumulated Other Comprehensive Income

(1) Accumulated other comprehensive income as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	<u>2012</u>	<u>2011</u>
Increase (decrease) in fair value of available-for-sale financial assets	₩ (3,978)	24,365
Decrease in fair value of derivatives under cash flow hedges	(77,838)	(4,655)
	<u>₩ (81,816)</u>	<u>19,710</u>

(2) The income tax consequences which were recorded directly in equity associated with the components of accumulated other comprehensive income as of December 31, 2012 and 2011 are as follows:

(In millions of won)

	<u>2012</u>		
	<u>Balance before tax</u>	<u>Tax impact</u>	<u>Balance after tax</u>
Decrease in fair value of available-for-sale financial assets	₩ (5,247)	1,269	(3,978)
Decrease in fair value of derivatives under cash flow hedges	(102,689)	24,851	(77,838)
	<u>₩ (107,936)</u>	<u>26,120</u>	<u>(81,816)</u>

(In millions of won)

	<u>2011</u>		
	<u>Balance before tax</u>	<u>Tax impact</u>	<u>Balance after tax</u>
Increase in fair value of available-for-sale financial assets	₩ 32,144	(7,779)	24,365
Decrease in fair value of derivatives under cash flow hedges	(6,141)	1,486	(4,655)
	<u>₩ 26,003</u>	<u>(6,293)</u>	<u>19,710</u>

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23. Retained Earnings

(1) Composition of retained earnings

(In millions of won)

	<u>2012</u>	<u>2011</u>
Legal reserve(*)	₩ 94,968	88,268
Voluntary reserve	742,972	664,972
Unappropriated retained earnings	1,405,161	1,747,386
	<u>₩ 2,243,101</u>	<u>2,500,626</u>

(*) The Korean Commercial Code requires the Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital.

(2) Changes in retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	₩ 2,500,626	2,433,096
Profit (loss) for the year	(205,979)	171,582
Dividends	(66,773)	(67,375)
Actuarial losses	15,227	(36,677)
Balance at the end of year	<u>₩ 2,243,101</u>	<u>2,500,626</u>

(3) Statements of appropriation of retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

	<u>2012</u>	<u>2011</u>
I. Unappropriated retained earnings	₩	
Unappropriated retained earnings	1,595,912	1,612,480
Profit (loss) for the year	(205,979)	171,582
Defined benefit plan actuarial losses	15,228	(36,677)
II. Transfer from voluntary reserves		
Reserve for research and human development reserves	-	12,000
III. Total (I + II)		
Legal appropriated retained earnings	6,700	6,700
Voluntary reserves	45,000	90,000
Dividends	66,783	66,773
IV. Unappropriated retained earnings to be carried over to subsequent year	<u>₩ 1,286,678</u>	<u>1,595,912</u>

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23. Retained Earnings, Continued

(4) Details of dividends for the years ended December 31, 2012 and 2011 were as follows :

<i>(In won, except number of shares)</i>		<u>2012(*1)</u>	<u>2011</u>
Dividends	₩	66,782,821,500	66,773,221,500
Number of shares		89,043,762	89,030,962
Par value per share		5,000	5,000
Dividends to capital stock rate		15.00%	15.00%
Dividends per share	₩	750	750

(*1) Represents the amount proposed prior to the date of authorization of issuance of financial statements, and not recognized as appropriations of retained earnings on the financial statements as of the reporting date.

The Company paid ₩ 66,773 million of dividends for the year ended December 31, 2011 during April of 2012, and dividends for the year ended December 31, 2012 are expected to be paid during April of 2013 (₩ 67,375 million was paid in 2011)

(5) Pay-out ratio and dividend yield ratio for the years ended December 31, 2012 and 2011 were as follows:

		<u>2012(*)</u>	<u>2011</u>
Pay-out ratio (dividends/profit for the year attributable to the Company)		-	39%
Dividend yield ratio (dividends per share / Share price at the reporting date)		1.66%	1.15%

(*) The Company does not calculate pay-out ratio in 2012 since the Company recorded net loss.

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24. Operating Segments

Operating segment	Main products
Power generation	Power Plants, Power Generation Equipment, Retrofits & Upgrades
Water	Seawater Desalination Plants, Water Treatment Systems
Industrial plants	Container Handling Cranes, Bulk Material Handling Systems and Various Special Cranes
Castings & forgings	Power Generation Components, Shipbuilding Components, Iron & Steel Making Components, Mold & Tool Steel and Petrochemical & Industrial Components
Plant construction	Plant facilities construction service
General construction	Road construction, Apartment building, Various construction service to the provided by government

(1) The following table provides information for each reportable segment as of and for the year ended December 31, 2012 and 2011.

	Sales		Inter-segment revenue		Operating income		Profit	
	2012	2011	2012	2011	2012	2011	2012	2011
<i>(In millions of won)</i>								
Power generation	₩ 5,657,770	4,376,255	10,684	9,242	576,744	312,010	35,345	174,895
Water	957,272	813,059	38,278	39,413	30,153	28,010	(76,076)	2,705
Industrial plants	171,977	172,810	9,495	1,701	(34,048)	(39,981)	(61,008)	(51,651)
Castings & forgings	677,541	763,978	151,426	167,568	24,414	72,234	(10,383)	54,042
Plant construction	421,281	314,444	160,596	107,573	(6,878)	(24,576)	(19,012)	(24,727)
General construction	341,407	554,448	-	-	(35,471)	43,654	(74,845)	16,318
	₩ 8,227,248	6,994,994	370,479	325,497	554,914	391,351	(205,979)	171,582

Inter-segment sales have been made in accordance with the terms of the transaction between independent parties.

(2) Assets of each reportable segment as of December 31, 2012 and 2011 are as follows:

	Assets		Liabilities	
	2012	2011	2012	2011
<i>(In millions of won)</i>				
Power generation	₩ 6,919,221	6,557,260	5,118,413	4,746,624
Water	1,040,242	930,067	833,319	599,409
Industrial plants	314,349	403,383	193,157	192,461
Castings & forgings	924,695	1,036,915	281,717	357,632
Plant construction	212,993	460,924	137,743	298,817
General construction	1,138,406	1,047,309	696,105	596,233
	₩ 10,549,906	10,435,858	7,260,454	6,791,176

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24. Operating Segments, Continued

(3) Revenues from each geographical regions for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	Sales		Inter-segment revenue		Net sales	
	2012	2011	2012	2011	2012	2011
Domestic	₩ 2,532,526	2,438,478	95,275	140,992	2,437,251	2,297,486
Asia	876,529	961,209	9,481	75,582	867,048	885,627
Middle east	4,250,599	3,222,956	30,871	86,529	4,219,728	3,136,427
Other	567,594	372,351	234,852	22,394	332,742	349,957
	₩ 8,227,248	6,994,994	370,479	325,497	7,856,769	6,669,497

25. Sales

Sales by types of products and services for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		2012	2011
Sales-Finished goods	₩	2,407,546	1,982,932
Sales-Construction		5,446,254	4,686,565
Sales-Other		2,969	-
	₩	7,856,769	6,669,497

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26. Construction Contracts

(1) Accumulated profit and loss of construction contracts as of December 31, 2012 and 2011 are as follows:

(i) 2012

		Accumulated construction cost	Accumulated construction revenue	Accumulated construction profit (loss)	Receivables from construction contracts- billed	Receivables from construction contracts- unbilled	Due to customers for contract work
<i>(In millions of won)</i>							
Power plants	₩	19,622,230	23,934,817	4,312,587	245,421	1,005,648	1,212,629
Water plants		2,988,432	3,398,085	409,653	38,289	215,922	167,002
Industrial plants		1,076,263	1,126,922	50,659	40,797	105,242	67,822
Castings & forgings		452,297	525,927	73,630	77,404	-	-
Plant construction		991,331	959,428	(31,903)	1,564	46,481	397
General construction		2,304,711	2,705,137	400,426	748,571	177,328	8,431
	₩	<u>27,435,264</u>	<u>32,650,316</u>	<u>5,215,052</u>	<u>1,152,046</u>	<u>1,550,621</u>	<u>1,456,281</u>

(ii) 2011

		Accumulated construction cost	Accumulated construction revenue	Accumulated construction profit (loss)	Receivables from construction contracts- billed	Receivables from construction contracts- unbilled	Due to customers for contract work
<i>(In millions of won)</i>							
Power plants	₩	16,081,284	19,694,096	3,612,812	243,661	949,905	1,530,587
Water plants		2,894,741	3,157,565	262,824	20,053	122,528	24,619
Industrial plants		984,182	1,063,186	79,004	32,035	169,003	54,629
Castings & forgings		477,134	591,492	114,358	64,371	-	-
Plant construction		805,949	774,881	(31,068)	7,702	38,769	20,555
General construction		2,096,384	2,500,534	404,150	636,685	181,520	45,233
	₩	<u>23,339,674</u>	<u>27,781,754</u>	<u>4,442,080</u>	<u>1,004,507</u>	<u>1,461,725</u>	<u>1,675,623</u>

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26. Construction Contracts, Continued

(2) Changes in construction contracts for the years ended December 31, 2012 and 2011 are as follows:

(i) 2012

<i>(In millions of won)</i>	Ordering company	Project name	Term	Beginning of the year	Increase	Constructi on revenue	End of the year
Power plants	SEC and others	Rabigh Power Plant and others	2010.09 ~2014.12	₩ 16,097,059	1,685,856	5,647,086	12,135,829
Water plants	SWCC and others	Yanbu ph.3 MSF and others	2011.11 ~2016.05	1,475,266	1,057,390	918,994	1,613,662
Industrial plants	STX Offshore and others	FFX CPP #4,5 and others	2001.12 ~2014.05	368,707	111,600	162,482	317,825
Castings& forgings	POSCO and others	Casting, Forging	2012.12 ~2013.12	563,868	563,163	526,115	600,916
Plant construction	KOGAS and others	Samcheok LNG #5~7 and others	2010.11 ~2016.02	461,488	113,214	260,685	314,017
General construction	OPA and others	Yong-in Doosan Weve and others	2008.12 ~2013.11	1,323,017	390,147	341,407	1,371,757
				₩ 20,289,405	3,921,370	7,856,769	16,354,006

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26. Construction Contracts, Continued

(ii) 2011

<i>(In millions of won)</i>	Ordering company	Project name	Term		Beginning of the year	Increase	Construction revenue	End of the year
Power plants	SEC and others	Rabigh Power Plant and others	2010.09 ~2014.12	₩	13,818,304	6,645,768	4,367,013	16,097,059
Water plants	SWCC and others	Ras Al Khair and others	2010.09 ~2014.03		2,038,681	210,231	773,646	1,475,266
Industrial plants	Damietta International Port and others	DAMIETTA RMQC14 and others	2007.03 ~2012.12		373,712	166,104	171,109	368,707
Castings & forgings	POSCO and others	Casting, Forging	2010.03 ~2012.03		539,210	621,068	596,410	563,868
Plant construction	Korea Hydro & Nuclear Power Co., Ltd. and others	Sinkori #3 #4 Construction and others	2007.04 ~2014.09		589,775	78,584	206,871	461,488
General construction	Dongriwon and others	Havico Tower and others	2008.11 ~2012.08		1,774,889	102,576	554,448	1,323,017
				₩	<u>19,134,571</u>	<u>7,824,331</u>	<u>6,669,497</u>	<u>20,289,405</u>

27. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>		2012	2011
Employee benefits expense	₩	767,521	626,713
Depreciation expenses		100,138	88,338
Amortization expenses on intangible assets		42,232	33,175

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28. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Salaries	₩ 179,070	161,830
Cost of defined benefit plans	12,155	8,515
Employee benefits	34,117	29,833
Travel expenses	10,066	11,035
Training expenses	25,793	20,428
Taxes and dues	3,033	6,559
Commissions	86,285	107,575
Rental expenses	10,840	7,520
Bad debt expenses	77,759	10,798
Depreciation expense	4,471	5,494
Amortization expense	10,554	11,304
Insurance premiums	11,791	9,413
Research	18,851	48,755
Overseas marketing	24,595	26,256
Advertising expenses	34,267	27,174
Others	48,093	52,476
	<u>₩ 591,740</u>	<u>544,965</u>

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29. Financial Instruments Income and Costs by Categories

Financial income and expenses for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	2012	2011
Interest income		
- Cash and cash equivalents	₩ 13,557	11,998
- Short-term and long-term financial instruments	1,174	1,767
- Held-to-maturity financial assets	1,221	265
- Others	10,608	2,907
	<u>26,560</u>	<u>16,937</u>
Dividends income		
- Subsidiaries, associates and joint venture	10,872	13,057
- Available-for-sale financial assets	18	30
	<u>10,890</u>	<u>13,087</u>
Interest expense		
- Short-term and long-term borrowings	(107,448)	(71,733)
- Bonds	(70,432)	(74,909)
	<u>(177,880)</u>	<u>(146,642)</u>
Foreign currency transaction gain (loss), net	29,567	(256)
Foreign currency translation gain (loss), net	3,245	(4,834)
Gain (loss) on transaction of derivatives, net	(19,673)	(36,506)
Gain (loss) on valuation of derivatives, net	284,548	(146,111)
Gain (loss) on valuation of firm commitment, net	(297,225)	142,976
Others	(27,084)	(3,579)
Net finance costs	₩ <u>(167,052)</u>	<u>(164,928)</u>

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30. Other Income and Expenses

Details of other income and expenses for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Other income		
Rental revenues	₩ 444	2,855
Commissions earned	4,112	4,067
Gain on disposal of investment in associates	-	365
Gain on disposal of plant, property and equipment	179	1,302
Reversal of impairment of plant, property and equipment	-	65
Gain on sale of investment assets	-	6,122
Gain on sale of long-term investment securities	28,081	-
Others	12,889	40,855
	<u>45,705</u>	<u>55,631</u>
Other expenses		
Other bad debt expenses	90,103	-
Loss on disposal of marketable securities	-	1,286
Loss on disposal of investment in associates	-	1
Loss on disposal of plant, property and equipment	7,435	1,086
Loss on impairment for plant, property and equipment	690	1,139
Loss on impairment for intangible assets	3,065	1,666
Loss on sale of trade receivable	29,926	-
Loss on sale of long-term investment securities	2,430	-
Loss on impairment for investment in associates	430,937	-
Loss on impairment for long-term investment securities	760	-
Donation	13,386	17,886
Others	9,656	8,458
	<u>₩ 588,388</u>	<u>31,522</u>

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31. Income Taxes

(1) The component of income tax expense (benefit) for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Current tax	₩	57,980	50,405
Changes in deferred tax		(34,375)	10,262
Deferred tax (charged) credited to equity		27,552	(2,631)
Income tax expense	₩	<u>51,157</u>	<u>58,036</u>

(2) The Company offset deferred tax assets and deferred tax liabilities if it has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

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31. Income Taxes, Continued

(3) Changes in deferred tax assets (liabilities) for the years ended December 31, 2012 and 2011 are as follows:

(i) 2012

<i>(In millions of won)</i>	Beginning balance	Increase (decrease)	Ending balance
Allowance for retirement	₩ 57,504	3,588	61,092
Allowance for doubtful accounts	42,290	36,676	78,966
Property, plant and equipment	3,432	3,917	7,349
Reserve for research and development	(35,574)	(10,890)	(46,464)
Development costs	34,808	5,352	40,160
Derivative financial instruments	22,390	(2,959)	19,431
Foreign currency assets (liabilities)	2,736	(8,695)	(5,959)
Land revaluation gain	(165,505)	(16,550)	(182,055)
Others	23,758	23,936	47,694
	₩ (14,161)	34,375	20,214

(ii) December 31, 2011

<i>(In millions of won)</i>	Beginning balance	Increase (decrease)	Ending balance
Allowance for retirement	₩ 39,104	18,400	57,504
Allowance for doubtful accounts	38,145	4,145	42,290
Property, plant and equipment	3,943	(511)	3,432
Reserve for research and development	(16,434)	(19,140)	(35,574)
Investments	4,053	(4,053)	-
Development costs	28,296	6,512	34,808
Derivative financial instruments	(9,143)	44,113	34,970
Foreign currency assets (liabilities)	2,275	460	2,735
Firm commitment assets (liabilities)	24,825	(37,405)	(12,580)
Land revaluation gain	(165,505)	-	(165,505)
Others	46,542	(22,783)	23,759
	₩ (3,899)	(10,262)	(14,161)

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31. Income Taxes, Continued

(4) The amount of deductible temporary differences for which no deferred tax asset is recognized in the statements of financial position as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Deductible temporary differences	₩	386,199	362,065

Deferred tax assets have been recognized as the Company has determined it is probable that future profits will be available against which the Company can utilize the related benefit.

(5) The amount of temporary differences related to investment in subsidiaries, associates and joint ventures for which no deferred tax asset (liability) is recognized as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Investment of subsidiary	₩	(86,499)	(52,637)
Investment of associate or joint venture		122,570	(308,365)
	₩	<u>36,071</u>	<u>(361,002)</u>

(6) Reconciliation of effective tax rate:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Profit before income tax	₩	(154,822)	229,618
Income tax using the Company's statutory tax rate		(37,467)	55,568
Adjustment for prior periods			
- Temporary differences not recognized as deferred tax asset		4,249	13,653
- Tax credits		(11,170)	(11,917)
- Others (*2)		95,546	732
Income tax expenses	₩	<u>51,158</u>	<u>58,036</u>
Effective tax rate (*1)		-	25.28%

(*1) The Company does not calculate effective tax rate in 2012 since the Company recorded net loss.

(*2) Others primarily include unrecognized deferred tax asset related to investments in associates.

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32. Earnings Per Share

(1) Basic earnings per share for the years ended December 31, 2012 and 2011 were as follows:

<i>(In won, except share information)</i>	<u>2012</u>	<u>2011</u>
Adjusted profit (loss) for the year	₩ (205,978,994,383)	171,582,246,258
Weighted-average number of common shares outstanding (*)	89,035,985	89,719,487
Earnings per share	₩ (2,313)	1,912

(*) Weighted average number of common shares outstanding:

<i>(In number of shares)</i>	<u>2012</u>	<u>2011</u>
Issued common shares at Jan. 1	89,030,962	89,834,488
Effect of share options exercised	5,023	19,657
Effect of treasury stocks held	-	(134,658)
Weighted average number of common shares outstanding at December, 31	89,035,985	89,719,487

(2) Diluted earnings (loss) per share for the years ended December 31, 2012 and 2011 are as follows:

<i>(In won, except share information)</i>	<u>2012</u>	<u>2011</u>
Adjusted profit (loss) for the year	₩ (205,978,994,383)	171,582,246,258
Weighted-average number of common shares outstanding and common equivalent shares (*)	89,043,564	89,734,119
Diluted earnings per share	₩ (2,313)	1,912

(*) Weighted average number of common shares outstanding and common equivalent shares:

<i>(In number of shares)</i>	<u>2012</u>	<u>2011</u>
Weighted average number of ordinary shares (basic)	89,035,985	89,719,487
Effect of stock options	7,579	14,632
Weighted average number of ordinary shares (diluted) on December 31	<u>89,043,564</u>	<u>89,734,119</u>

Doosan Heavy Industries & Construction Co., Ltd.
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32. Earnings Per Share, Continued

(3) As of December 31, 2012, the following instruments were outstanding and could potentially become dilutive in the future.

(In number of shares)

	<u>2012</u>	<u>2011</u>
Stock option (March 21, 2008)	47,800	65,100
Stock option (March 27, 2009)	39,700	39,700
Stock option (March 26, 2010)	74,900	82,100
Stock option (March 25, 2011)	125,500	132,200
Stock option (March 30, 2012)	275,200	-
	<u>563,100</u>	<u>319,100</u>

Doosan Heavy Industries & Construction Co., Ltd.
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33. Commitments and Contingencies

(1) As of December 31, 2012, promissory note and checks (including one blank promissory note, and two blank checks) related to the Company's debt and guarantees are provided as collateral in the relevant banks.

(2) As of December 31, 2012, the Company's bank overdraft limit is ₩10,000 million won and the limit of opening of letter of credits for imports is USD 1,684 million.

(3) As of December 31, 2012, the Company has pending lawsuits as defendant for compensation of damages amounting to approximately ₩ 218,266 million and the Company is unable to reliably estimate the expected financial effect that will result from these cases.

(4) As of December 31, 2012, the Company entered into approximately 15 contracts with MHI and other parties regarding technology inventions, and these contracts have been effective in the time range from March 28, 1977 until September 2, 2033. In 2012, the royalty payment for the technologies is ₩ 24,607 million.

(5) As of December 31, 2012, payment guarantees by commercial banks amounting to ₩ 7,127,000 million were provided for the Company with regard to construction projects. The Company had provided guarantees amounting to ₩ 65,700 million for performance of construction and the Company was provided with guarantees by a construction company amounting to ₩ 21,300 million relating to performance of construction.

(6) The Company provided guarantees for the operations of domestic construction project as follows:

(In millions of won)

Types of project financing	2012	2011
Asset backed commercial papers (ABCP)	₩ 1,523,000	1,341,000
Loan	6,825	57,625
	<u>₩ 1,529,825</u>	<u>1,398,625</u>

Doosan Heavy Industries & Construction Co., Ltd.
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33. Commitments and Contingencies, Continued

(7) As of December 31, 2012, major project financing loans are summarized as follows:

<u>Business area</u>	<u>Bonds agencies</u>		<u>Loan amount</u>	<u>Loan balance</u>	<u>Warranty plan</u>	<u>Loan period</u>	<u>Type</u>
Seoul forest	Kyobo Securities	₩	580,000	580,000	Debt acceptance	2012.05.04~ 2013.05.06	ABCP
Yong-in	Kookmin Bank		270,000	270,000	Debt acceptance	2012.08.22~ 2013.04.05	ABCP
Sangdo-dong	Bookook Securities		220,000	220,000	Debt acceptance	2012.06.01~ 2013.05.30	ABCP
Seochodong	Kyobo Securities		152,000	152,000	Debt acceptance	2012.10.12~ 2013.10.14	ABCP
Hanam	Meritz Investment Bank		121,000	121,000	Debt acceptance	2012.11.15~ 2013.11.14	ABCP
Hongchun	Kookmin Bank		170,000	170,000	Debt acceptance	2012.10.25~ 2013.10.24	ABCP
Namwonju	LIG Insurance		14,000	10,000	Debt acceptance	2012.10.15~ 2013.10.15	ABCP
Koonbook	Kyung-nam Bank and others		6,000	6,000	Debt acceptance	2008.11.07~ 2014.04.10	Loan
West Suwon	Shinhan Bank		825	825	Debt acceptance	2005.12.30~ 2013.12.31	Loan

34. Assets Pledged as Collateral

(1) As of December 31, 2012, the assets that are pledged as collateral for the Company's debts are summarized as follows:

(In millions of won)

<u>Collateralized asset</u>		<u>Collateralized amount</u>	<u>Borrowing amount</u>	<u>Security holders</u>
Property, plant and equipment	₩	575,305	785,125	KDB and others
Treasury shares		76,298	-	The Korea Securities Finance Corporation

(2) As of December 31, 2012, assets pledged as collateral for the others are summarized as follow:

(In millions of won)

<u>Received party</u>	<u>Collateralized asset</u>		<u>Carrying amount</u>	<u>Security holders</u>
Kyunggi Highway Co., Ltd.	Associate investment	₩	60,412	Shinhan Bank

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35. Related Parties

(1) As of December 31, 2012, the status of the Company's related parties are as follows:

Control relationship	Company name
Ultimate controlling party	Doosan Co., Ltd.
Subsidiaries	Doosan AMC Co., Ltd. Doosan Power Systems(Scotland) Limited Partnership Doosan Power Systems Holdings Ltd. And 23 subsidiaries Doosan Power System India Private Ltd. S.C. Doosan IMGB S.A. Doosan Heavy Industries Vietnam Haiphong Co., Ltd. Doosan Heavy Industries Vietnam Co., Ltd. Doosan Heavy Industries America Holdings Ltd. And 3 subsidiaries Doosan Heavy Industries Japan Corp. HF Controls Corp. Doosan Enpure Ltd. Doosan Water UK Pt. Doosan Heavy Industries Indonesia
Associates	Doosan Infracore Co., Ltd. Doosan Engineering & Construction Co., Ltd. Doosan Engine Co., Ltd. Doosan Capital Co., Ltd. Tam-la seaward wind power generation Doosan Power Projects Australia Doosan Hailong Cement Co. Doosan Malaysia SDN. BHD. Doosan Heavy Industries and Construction Pirm.
Joint ventures	Hanjung Power Ltd. Haman Industrial Complex
Others(*)	Doosan Dong-A Doosan Dst Co.Ltd. DOOSAN TOWER CO.LTD. N.Shaper ORICOM Inc Yonkang Foundation Doosan Eco Biz Net Co., Ltd. Gyeonggi Expressway Co., Ltd Neoplux Co., Ltd. DOOSANBEARS Inc Doosan Credit Union SRS Korea Co., Ltd. Doosan Cuvex Co., Ltd Rexcon Co., Ltd. Others

(*) Others include the subsidiaries of Doosan Co., Ltd. and Associates.

Doosan Heavy Industries & Construction Co., Ltd.
Notes to the Separate Financial Statements
For the years ended December 31, 2012 and 2011

35. Related Parties, Continued

(2) Significant transactions with related parties

Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	2012			2011		
	Sales and others	Investment	Purchases and others	Sales and others	Investment	Purchases and others
Ultimate controlling party	₩ 2,517	-	262,322	4,987	-	122,630
Subsidiaries	417,452	49,578	240,532	347,242	54,568	283,039
Associates(*)	185,208	6,862	27,503	270,011	218,850	26,040
Joint ventures	25,930	-	-	17,894	-	-
Others	7,099	-	52,713	3,516	-	35,964
	₩ 638,206	56,440	583,070	643,650	273,418	467,673

(3) Account balances with other related party

Account balances with related companies as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	2012		2011	
	Receivable	Payable	Receivable	Payable
Ultimate controlling party	₩ 395	46,775	1,514	37,967
Subsidiaries	130,013	89,588	41,520	52,046
Associates(*)	30,558	10,518	16,077	5,172
Joint ventures	15,557	-	6,006	-
Others	6,105	20,852	5,455	12,084
	₩ 182,628	167,733	70,572	107,269

(4) Key management personnel compensation

Key management personnel compensation in total and for each of the following categories for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	2012	2011
Short-term employee benefits	₩ 56,152	53,600
Retirement and severance benefits	2,393	2,179
Share-based payment	3,281	2,780
	₩ 61,826	58,559

(5) Guarantee

At December 31, 2012 the Company provided guarantees in the amount of ₩ 646,500 million for the performance of several projects of the related companies, and ₩ 1,102,800 million for the borrowings of the related companies.

Doosan Heavy Industries & Construction Co., Ltd.
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For the years ended December 31, 2012 and 2011

36. Statements of Cash flows

(1) Details of Cash generated from operations of the company during 2012 and 2011 are as follows:

(In millions of won)

	<u>2012</u>	<u>2011</u>
Profit (loss) for the year	₩ (205,979)	171,582
Adjustments for:	1,035,359	393,253
Interest expense	177,880	146,642
Bad debt expenses	77,759	10,798
Other bad debt expenses	90,103	-
Loss on sale of trade receivable	29,926	-
Depreciation	100,138	88,339
Amortization of intangible assets	42,232	33,175
Impairment losses on intangible assets	3,065	1,666
Impairment losses on investment in real properties	690	1,139
Loss on disposal of investment in associates	430,937	-
Impairment loss on long-Term Investments	760	-
Foreign currency translation loss	32,421	23,300
Loss on valuation of derivatives	203,691	203,053
Loss on valuation of firm commitments	459,227	56,928
Gain on sale of property, plant and equipment	(179)	(1,302)
Loss on disposals of property, plant and equipment	7,435	1,086
Gain on sale of long-term investment securities	(28,081)	-
Income tax expense	51,157	58,036
Severance payments	56,437	41,190
Expense arising from share-based payments	3,282	2,780
Interest income	(26,560)	(16,937)
Dividend income	(10,890)	(13,087)
Loss on sale of other investments	-	(6,122)
Foreign currency translation gain	(51,026)	(15,532)
Gain on valuation of derivatives	(488,239)	(56,940)
Gain on valuation of firm commitments	(162,002)	(199,904)
Others	35,196	34,945
Change in:	(187,123)	(530,426)
- Trade receivables	(180,765)	(148,682)
- Due from customers for contract work	(88,896)	(132,740)
- Other receivables	2,215	(8,803)
- Prepayments	68,655	(218,458)
- Inventories	(101,068)	(101,861)
- Derivative instrument assets	(44,878)	(56,461)
- Firm commitment assets	74,334	50,621
- Trade payables	178,412	(34,504)
- Other payables	13,505	50,428
- Advanced receipts	63,487	56,349
- Due to customers for contract work	(219,342)	84,759
- Withholdings	3,060	(13,057)
- Accrued expenses	(19,783)	13,512
- Severance payments paid	(33,712)	(30,770)
- Plan assets	7,062	11,888
- Others	90,591	(52,647)
Cash generated from operation activities	₩ <u>642,257</u>	<u>34,409</u>

Doosan Heavy Industries & Construction Co., Ltd.
 Notes to the Separate Financial Statements
 For the years ended December 31, 2012 and 2011

36. Statements of Cash flows, Continued

(2) There were no significant non-cash investing and financing activities in the years ended December 31, 2012 and 2011.

(3) Cash receipts and payments for items from the short-term financial instruments and the short-term borrowings were reported on a net basis because the turnover is quick, the amounts are large, and the maturities are short.

37. Non-current assets held for sale

The Company reclassified the book value of Gyeonggi Expressway Co., Ltd. from equity method investments to assets held for sale upon the decision of the Board of Directors dated September 21, 2012. Efforts to sell the investment have commenced, and a sale is expected to be completed by December 2013. As of the end of reporting period, the non-current assets held for sale are as follows:

<i>(In millions of won)</i>	<u>2012</u>
Asset held for sale:	
- Gyeonggi Expressway Co., Ltd.	₩ 60,412

38. Subsequent Events

The Board of directors of the Company resolved as of February 4, 2013 that the Company will participate in the capital increase and contribution in kind of Doosan Engineering & Construction Co., Ltd. planned in April 2013.

(1) Contribution in kind

- The Company will transfer Heat Recovery Steam Generator (the "HRSG") business to Doosan Engineering & Construction Co., Ltd. in exchange of newly issued shares.

- The expected value of shares to be issued in consideration ₩ 571.6 billion

(2) Capital increase

- The Company will participate in the capital increase by cash Doosan Engineering & Construction Co., Ltd. in proportion of its interests (72.74%).

- ₩ 305.5 billion (subject to change)

Independent Auditors' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the President of
Doosan Heavy Industries and Construction Co., Ltd.:

We have reviewed the Report on the Operations of Internal Accounting Control System ("IACS") of Doosan Heavy Industries and Construction Co., Ltd. (the "Company") as of December 31, 2012. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2012, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

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

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that the Report on the Operations of Internal Accounting Control System as of December 31, 2012 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2012. We did not review the Company's IACS subsequent to December 31, 2012. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 6, 2013

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2012 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Audit Committee of
Doosan Heavy Industries and Construction Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of Doosan Heavy Industries and Construction Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2012.

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

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2012, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Jang, Myeong Ho
Internal Accounting Control Officer

Park, Gee Won
Chief Executive Officer

February 4, 2013