

**Doosan Heavy Industries and
Construction Co., Ltd.**
Non-Consolidated Financial Statements
December 31, 2007

Doosan Heavy Industries and Construction Co., Ltd.

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December 31, 2007

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Report of Independent Auditors

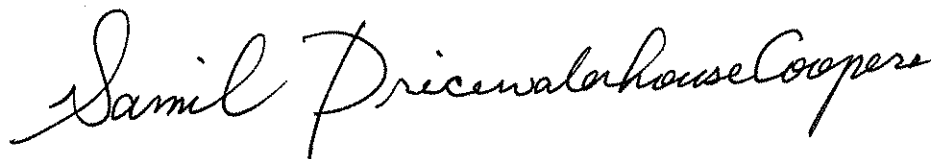
To the Board of Directors and Shareholders of
Doosan Heavy Industries and Construction Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Doosan Heavy Industries and Construction Co., Ltd. (the “Company”) as of December 31, 2007, and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders’ equity and cash flows for the year then ended expressed in Korean won. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in those subsidiaries amount to ₩ 2,132,964 million as of December 31, 2007, and the net gain on valuation of equity method investments amounts to ₩182,241 million for the year then ended. Those statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts for those subsidiaries, is based solely on the reports of the other auditors. The financial statements of the Company as of and for the year ended December 31, 2006, presented herein for comparative purposes, were audited by Deloitte Anjin whose report dated February 1, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, based on our audit and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Doosan Heavy Industries and Construction Co., Ltd. as of December 31, 2007, and the results of its operations, the changes in its retained earnings, the changes in its shareholders' equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

A handwritten signature in cursive script that reads "Samil PricewaterhouseCoopers". The signature is written in black ink and is positioned centrally on the page.

Seoul, Korea
February 29, 2008

This report is effective as of February 29 , 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Doosan Heavy Industries and Construction Co., Ltd.
Non-Consolidated Balance Sheets
December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (Note 14)	₩ 161,176	₩ 71,737
Short-term investments (Notes 3, 4 and 14)	108,541	88,591
Trade accounts and notes receivable, net (Notes 5 and 14)	1,029,285	1,166,675
Other accounts and notes receivable, net (Note 5)	48,239	52,145
Advance payments, net (Note 5)	247,636	164,118
Prepaid expenses	15,499	12,794
Derivative financial instruments	109,610	104,413
Deferred income tax assets (Note 13)	29,839	18,156
Inventories, net (Note 6)	177,764	150,597
Others	29,235	6,699
Total current assets	1,956,824	1,835,925
Long-term financial instruments (Note 3)	10,270	8
Long-term investment securities (Note 7)	130,003	224,492
Equity method investments (Note 8)	2,231,731	1,937,461
Long-term loans receivable	7,108	10,783
Property, plant and equipment, net (Note 9)	969,137	964,798
Intangible assets, net (Note 10)	160,504	131,620
Long-term other account receivable, net (Note 5)	897	5,600
Non-current guarantee deposits	45,460	36,751
Long-term prepaid expenses	9,378	-
Other non-current assets	60,444	14,839
Total assets	₩ 5,581,756	₩ 5,162,277
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts and notes payable (Note 14)	₩ 452,250	₩ 480,012
Short-term borrowings (Note 14)	648,008	536,220
Other accounts payable (Note 14)	115,108	167,912
Current portion of long-term accrued interest expenses	-	41,493
Advances received	484,121	341,977
Withholdings	7,705	29,096
Accrued expenses	86,401	56,397
Income taxes payable	58,146	1,032
Current portion of long-term debts and debentures, net (Notes 11 and 14)	252,868	557,690
Derivative financial instruments	68,217	22,376
Total current liabilities	2,172,824	2,234,205
Debentures, net of current portion and discounts on debentures (Note 11)	575,305	600,000
Long-term borrowings, net of current portion (Notes 11 and 14)	202,004	104,239
Long-term other accounts payable (Note 14)	23,256	2,696
Accrued severance benefits, net (Note 12)	93,891	101,555
Provision for loss on construction contracts (Note 19)	17,608	19,338
Provision for warranty cost (Note 19)	35,041	41,052
Provision for penalty for construction delays (Note 19)	6,289	2,280
Guarantee deposits	65,412	46,690
Deferred income tax liabilities (Note 13)	90,981	5,874
Others	2,668	2,387
Total liabilities	3,285,279	3,160,316
Commitments and contingencies (Note 26)		

Doosan Heavy Industries and Construction Co., Ltd.
Non-Consolidated Balance Sheets
December 31, 2007 and 2006

<i>(in millions of Korean won)</i>	2007	2006
Shareholders' equity		
Capital stock		
Common stock (Note 15)	523,715	521,996
Capital surplus		
Paid-in capital in excess of par value (Note 15)	3,925	1,866
Asset revaluation surplus	594,262	594,262
Other capital surplus	10,780	10,769
Capital adjustments		
Treasury stock (Note 17)	(159,709)	(159,709)
Stock options (Note 18)	4,131	2,982
Accumulated other comprehensive income and expense (Note 24)		
Gain on valuation of equity-method investments	136,206	81,770
Loss on valuation of equity-method investments	(121,086)	(85,143)
Unrealized gain on available-for-sale securities	2,913	1,813
Gain on valuation of derivatives (Note 21)	75,206	45,942
Loss on valuation of derivatives (Note 21)	(43,272)	(15,316)
Retained earnings (Note 16)		
Legal reserve	68,363	65,263
Discretionary reserve	902,305	865,072
Unappropriated retained earnings	298,738	70,394
Total shareholders' equity	2,296,477	2,001,961
Total liabilities and shareholders' equity	₩ 5,581,756	₩ 5,162,277

The accompanying notes are an integral part of these non-consolidated financial statements.

Doosan Heavy Industries and Construction Co., Ltd.
Non-Consolidated Statements of Income
Years ended December 31, 2007 and 2006

<i>(in millions of Korean won, except per share amounts)</i>	2007		2006	
Sales (Notes 19, 28 and 29)	₩	4,089,542	₩	3,508,665
Cost of sales (Notes 28 and 29)		<u>3,518,862</u>		<u>3,035,587</u>
Gross income		570,680		473,078
Selling and administrative expenses (Note 22)		<u>287,373</u>		<u>264,715</u>
Operating income		<u>283,307</u>		<u>208,363</u>
Non-operating income				
Interest income		14,391		15,412
Dividend income		101		927
Rental income		621		218
Commission earned		1,181		108
Foreign exchange gains		33,595		29,391
Gain on foreign currency translation		7,928		10,000
Gain on valuation of equity method investments (Note 8)		206,750		51,727
Gain on disposal of investment securities		73,536		13
Gain on disposal of property, plant and equipment		724		55,185
Gain on valuation of derivatives (Note 21)		16,390		1,133
Gain on derivative transactions		20,167		3,886
Reversal of allowance for doubtful accounts		15,977		108
Reversal of provision for penalty for construction delays		178		10
Reversal of provision for warranty cost		-		8,735
Others		16,953		9,786
		<u>408,492</u>		<u>186,639</u>
Non-operating expenses				
Interest expenses		102,934		102,331
Service Fees		16,908		29,293
Foreign exchange losses		33,359		21,033
Loss on foreign currency translation		24,331		8,414
Loss on valuation of equity method investments (Note 8)		18,889		37,760
Loss on disposal of property, plant and equipment		1,764		8,843
Impairment loss on property, plant and equipment		-		270
Impairment loss on intangible assets		23,307		26
Loss on valuation of derivatives (Note 21)		34,301		1,251
Loss on derivative transactions		24,244		4,217
Other bad debt expense		-		19,117
Donations		8,308		4,696
Additional payment of income taxes		-		25,359
Others		2,120		21,074
		<u>290,465</u>		<u>283,684</u>
Income before income tax expense		401,334		111,318
Income tax expense (Note 13)		<u>102,644</u>		<u>37,153</u>
Net income	₩	<u>298,690</u>	₩	<u>74,165</u>
Basic earnings per share (Note 25)	₩	3,476	₩	865
Diluted earnings per share (Note 25)	₩	3,462	₩	861

The accompanying notes are an integral part of these non-consolidated financial statements.

Doosan Heavy Industries and Construction Co., Ltd.
Non-Consolidated Statements of Appropriations of Retained Earnings
Years Ended December 31, 2007 and 2006
(Date of Appropriations : March 21, 2008 and March 16, 2007
for the years ended December 31, 2007 and 2006, respectively)

(in millions of Korean won)

	2007	2006
Retained earnings before appropriations		
Unappropriated retained earnings carried over		
from prior year	₩ 48	₩ (3,771)
Net income	298,690	74,165
	<u>298,738</u>	<u>70,394</u>
Transfer from discretionary reserves	<u>14,100</u>	<u>767</u>
Appropriations of retained earnings		
Legal reserve	4,305	3,100
Discretionary reserves	265,400	38,000
Dividends (Note 26)		
Cash dividends (Note 26)		
Dividends (ratio) per share		
Common Stock :		
₩ 500 (10%) in 2007		
₩ 350 (7%) in 2006	43,047	30,013
	<u>312,752</u>	<u>71,113</u>
Unappropriated retained earnings		
carried forward to subsequent year	<u>₩ 86</u>	<u>₩ 48</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

Doosan Heavy Industries and Construction Co., Ltd.
Statement of Changes in Shareholders' Equity
Year ended December 31, 2007

(in millions of Korean won)

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustment</u>	<u>Accumulated other comprehensive Income and expense</u>	<u>Retained earnings</u>	<u>Total</u>
Balances as of January 1, 2007	₩ 521,996	₩ 606,897	₩ (156,727)	₩ 29,066	₩ 1,000,729	₩ 2,001,961
Dividends (Note 26)	-	-	-	-	(30,013)	(30,013)
Retained earnings after appropriation					970,716	1,971,948
Exercise on stock options	1,719	2,059	(981)	-	-	2,797
Cancelation of stock options	-	11	(125)	-	-	(114)
Stock compensation cost	-	-	2,255	-	-	2,255
Change in equity from equity method	-	-	-	18,493	-	18,493
Gain on valuation of long-term investments	-	-	-	1,100	-	1,100
Changes in equity from valuation of derivativ	-	-	-	1,308	-	1,308
Net income	-	-	-	-	298,690	298,690
Balances as of December 31, 2007	<u>₩ 523,715</u>	<u>₩ 608,967</u>	<u>₩ (155,578)</u>	<u>₩ 49,967</u>	<u>₩ 1,269,406</u>	<u>₩ 2,296,477</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

Doosan Heavy Industries and Construction Co., Ltd.
Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Cash flows from operating activities		
Net income	₩ 298,690	₩ 74,165
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision for severance benefits	38,726	36,380
Bad debt expenses	5,306	-
Reversal of allowance for doubtful accounts	(15,977)	(108)
Depreciation	79,861	80,291
Amortization of intangible assets	17,513	18,443
Loss (Gain) on foreign currency translation, net	16,402	(1,585)
Gain on valuation of equity method investments, net	(187,861)	(13,967)
Impairment on intangible assets	23,307	26
Loss (Gain) on disposal of property, plant and equipment, net	1,040	(46,342)
Gain on disposal of investment securities	(73,536)	(13)
Loss on valuation of derivatives, net	17,911	118
Reversal of provision for penalty for construction delays	(178)	(10)
Reversal of provision for warranty cost	-	(8,735)
Others, net	(5,288)	26,301
	<u>(82,774)</u>	<u>90,799</u>
Changes in operating assets and liabilities		
Decrease (Increase) in trade accounts and notes receivable	136,409	(292,885)
Increase in other accounts receivable	(6,268)	(40,382)
Increase in advance payments	(85,248)	(41,361)
Increase in inventories	(27,468)	(13,435)
Decrease (Increase) in derivatives financial instrument	25,398	(7,800)
Decrease in deferred income tax assets (liabilities)	37,685	17,110
Dividends Income	33,579	-
Increase (Decrease) in trade accounts and notes payable	(30,305)	102,115
Increase (Decrease) in other accounts payable	(54,671)	3,516
Increase (Decrease) in advances received	142,144	(6,986)
Increase (Decrease) in income tax payable	57,114	(43,048)
Payment of severance benefits	(22,329)	(15,522)
Increase in severance insurance deposits	(25,453)	(30,469)
Others, net	(30,119)	26,805
	<u>150,468</u>	<u>(342,342)</u>
Net cash provided by (used in) operating activities	<u>366,384</u>	<u>(177,378)</u>

Doosan Heavy Industries and Construction Co., Ltd.
Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

<i>(In millions of Korean won)</i>	2007	2006
Cash flows from investing activities		
Proceeds from disposal of short-term investments	₩ 857	₩ 86,479
Proceeds from disposal of long-term investment securities	186,581	30,573
Proceeds from disposal of property, plant and equipment	900	62,409
Proceeds from disposal of other assets	16,382	28,279
Acquisition of short-term investments	(22,611)	-
Acquisition of long-term investment securities	(121,228)	(201,103)
Acquisition of property, plant and equipment	(97,995)	(109,267)
Acquisition of intangible assets	(58,400)	(35,291)
Acquisition of other investment assets	(21,392)	(12,962)
Net cash used in investing activities	<u>(116,906)</u>	<u>(150,883)</u>
Cash flows from financing activities		
Increase in short-term borrowings	95,681	162,391
Issuance of debentures	75,095	600,000
Issuance long-term borrowings	200,000	450,000
Stock issuance	2,796	572
Payment of current portion of long-term borrowings	(503,598)	(242,603)
Payment of long-term borrowings	-	(800,000)
Payment of cash dividends	(30,013)	(21,425)
Net cash provided by (used in) financing activities	<u>(160,039)</u>	<u>148,935</u>
Net increase (decrease) in cash and cash equivalents	89,439	(179,326)
Cash and cash equivalents		
Beginning of the year	<u>71,737</u>	<u>251,063</u>
End of the year	<u>₩ 161,176</u>	<u>₩ 71,737</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

Doosan Heavy Industries and Construction Co., Ltd.

Notes to the Financial Statements

December 31, 2007 and 2006

1. The Company

Doosan Heavy Industries and Construction Co., Ltd. (the “Company”) was incorporated on September 20, 1962, in order to engage in manufacturing and selling of power plant equipment, industrial equipment, forge and casting products, and construction. The Company listed its shares in the Korean Stock Exchange on October 25, 2000. The face amount of common stock as of December 31, 2007, is ₩523,715 million.

2. Summary of significant accounting policies

Basis of financial statement presentation

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

The following is a summary of significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

In 2007, the Company adopted the following new Statements of Korean Financial Accounting Standards (SKFAS) issued by the Korea Accounting Standards Board:

- SKFAS No. 21, *Preparation and Presentation of Financial Statements I*
- SKFAS No. 22, *Share-Based Compensation*
- SKFAS No. 23, *Earnings Per Share*

In accordance with SKFAS No. 21, *Preparation and Presentation of Financial Statements I*, the Company’s non-consolidated financial statements include the statement of changes in shareholders’ equity. The Company classified its capital adjustments account into capital adjustments and accumulated other comprehensive income and expense, and also disclosed the details of its comprehensive income in the notes to the non-consolidated financial statements. In addition, the Company disclosed its earnings per share on the face of its statements of income.

Certain prior year accounts, presented herein for comparative purposes, have been reclassified to conform to current year’s financial statement presentation. Such reclassification does not impact the net income or net assets reported in the prior year.

Doosan Heavy Industries and Construction Co., Ltd.
Notes to the Financial Statements
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Revenue recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

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

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.

The Company recognizes revenues from construction contracts using the percentage-of-completion method to determine the amounts to be recognized as revenues in a given period. The stage of completion is measured using the percentage of the total contract costs incurred up to the balance sheet date over the total estimated costs for each contract. When the outcome of a construction contract cannot be estimated reliably, the contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable and contract costs incurred for the period is recognized as an expense.

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of raw materials and supplies are determined using the moving-weighted average method and finished goods, work-in-process, materials-in-transit and cost of projects-in-progress are determined using the specific identification method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the

Doosan Heavy Industries and Construction Co., Ltd.
Notes to the Financial Statements
December 31, 2007 and 2006

valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

Investments in securities

Costs of securities are determined using the moving-weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets, while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses of available-for-sale securities are recognized in the income statement.

Equity method investments

Investees over which the Company can exercise significant influence should reflect any changes in equity after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Property, plant and equipment are stated net of accumulated depreciation calculated based on the following depreciation method and estimated useful lives:

	<u>Estimated Useful Lives</u>	<u>Depreciation Method</u>
Buildings	20 - 40 years	Straight-line method
Structures	20 - 40 years	Straight-line method
Machinery and equipment	5 - 10 years	Straight-line method
Heavy equipment	10 years	Straight-line method
Vehicles	5 years	Straight-line method
Others	3 - 5 years	Straight-line method

Expenditures incurred after the acquisition or completion of assets are capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the

Doosan Heavy Industries and Construction Co., Ltd.
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related assets. Routine maintenance and repairs are charged to expense as incurred.

Intangible assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using the following depreciation method and estimated useful lives:

	<u>Estimated Useful Lives</u>	<u>Depreciation Method</u>
Industrial property rights	5 - 10 years	Straight-line method
Development Cost	5 years	Straight-line method
Usable donation asset	21 years	Straight-line method
Others	5 - 15 years	Straight-line method

Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets.

Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology.

Non-Capitalization of interest expense

The Company expenses interest expense incurred on borrowings used to finance the cost of manufacturing, acquisition, and construction of inventory and property, plant, and equipment that require more than one year to complete from the initial date of manufacture, acquisition, and construction.

Impairment of assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment.

Provision for loss on construction contracts

When a loss on a construction contract is expected, the expected loss is recorded as a provision for loss on construction contracts and such provision is charged to cost of sales in the year that the provision is recorded. The provision for loss on construction is adjusted in the year the actual losses are incurred.

Provision for warranty cost

When repair for defects is expected, the estimated repairing cost is recorded as provision for warranty cost based on historical rates of repair and charged to current operations. The actual repairing costs are offset against the provision and the remaining net provision balance is reversed when the repairing work is no longer deemed necessary.

Doosan Heavy Industries and Construction Co., Ltd.
Notes to the Financial Statements
December 31, 2007 and 2006

Provision for penalty for construction delays

When a penalty for construction delay is expected, the estimated penalty, based on a specific analysis of the related construction project, is charged to the provision for penalties and is subsequently offset against actual penalties paid.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

Prepaid construction expenses

Cost incurred for prospective construction projects are accounted for as prepaid construction expenses, provided that they are identifiable and can be measured reliably, and when it is probable that the contract for such project will be obtained. These prepaid construction expenses are reclassified to contract costs after construction starts.

Cost variance

Normal differences between actual indirect costs and estimated indirect costs are recognized as cost of sales or inventories and abnormal differences are recognized as other income (expenses).

Income tax and deferred income tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Discounts on debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

Accrued severance benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

The Company has partially funded the accrued severance benefits through severance insurance

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deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

The Company deposits certain portion severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as deduction from accrued severance benefits.

Provisions and contingent liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Translation of assets and liabilities denominated in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the balance sheet date, and the resulting translation gains and losses are recognized in current operations.

Currency translation for foreign operations

Assets and liabilities of a foreign branch or company subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the balance sheet date, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Resulting translation gains and losses are recorded as accumulated other comprehensive income and expense. Corresponding gains and losses are recognized as gain or loss when the foreign branch or company is liquidated or sold.

Share-based payments

In case of equity-settled share-based payment, the fair value of the goods or employee services received in exchange for the grant of the options is recognized as an expense and a capital adjustment. If the fair value of goods or employee services cannot be estimated reliably, the fair value is estimated based on the fair value of the equity granted.

For cash-settled share-based payment, the fair value of the obligation the Company will assume is determined by the fair value of the goods or employee services received in exchange for the grant of the options. Until the liability is settled, the Company is required to measure the fair value at balance sheet date and at settlement date. The change in fair value is recognized as an expense.

Share-based payment transactions with an option for the parties to choose between cash and equity settlement are accounted for based on the substance of the transaction.

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Approval of financial statements

The December 31, 2007 non-consolidated financial statements of the Company were approved by the board of directors on February 27, 2008.

3. Restricted financial instruments

<i>(in millions of Korean won)</i>	2007		2006	
Short-term financial instruments	₩	62,523	₩	37,732
Long-term financial instruments		8		8
	₩	<u>62,531</u>	₩	<u>37,740</u>

Restricted financial instruments are related with government-assisted project and bank overdraft agreement.

4. Short-term investments

<i>(in millions of Korean won)</i>	2007		2006	
Short-term financial instruments	₩	132,524	₩	87,733
Held-to-maturity Securities		1,244		858
Less: Government grants		(25,227)		-
	₩	<u>108,541</u>	₩	<u>88,591</u>

5. Trade accounts and notes receivable, net

<i>(in millions of Korean won)</i>	2007		
	Gross amount	Allowance for doubtful accounts	Carrying value
Trade accounts and notes receivable	₩ 1,051,205	₩ 21,920	₩ 1,029,285
Other accounts receivable	64,694	16,455	48,239
Advance payments	251,462	3,826	247,636
Long-term other accounts receivable	906	9	897
<i>(in millions of Korean won)</i>	2006		
	Gross Amount	Allowance for doubtful accounts	Carrying value
Trade accounts and notes receivable	₩ 1,184,196	₩ 17,521	₩ 1,166,675
Other accounts receivable	84,572	32,427	52,145
Advance payments	166,742	2,624	164,118
Long-term other accounts receivable	7,952	2,352	5,600

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6. Inventories

(in millions of Korean won)

	2007			2006		
	Acquisition cost	Valuation allowance	Carrying value	Acquisition cost	Valuation allowance	Carrying value
Finished goods	₩ 6,963	₩ (89)	₩ 6,874	₩ 5,873	₩ (136)	₩ 5,737
Work-in-process	87,854	-	87,854	82,238	-	82,238
Raw materials	32,113	(400)	31,713	10,988	(52)	10,936
Materials-in-transit	45,956	-	45,956	46,483	-	46,483
Supplies	5,367	-	5,367	4,526	-	4,526
Cost of projects in-progress	-	-	-	677	-	677
	<u>₩ 178,253</u>	<u>₩ (489)</u>	<u>₩ 177,764</u>	<u>₩ 150,785</u>	<u>₩ (188)</u>	<u>₩ 150,597</u>

7. Long-term investments

Long-term investments

(in millions of Korean won)

	2007	2006
Available-for-sale	₩ 126,577	₩ 220,321
Held-to-maturity	3,426	4,171
	<u>₩ 130,003</u>	<u>₩ 224,492</u>

Available-for-sale

(in millions of Korean won)

	2007	2006
Marketable		
Hana Financial Group Inc.	₩ 2,973	₩ 2,885
PTHI	2,359	930
Non-marketable ¹		
Electronictimes-internet.Co.	-	968
LKPL	12,050	12,050
Machinery Financial Cooperative	1,500	1,500
Korea Construction Financial Co.	2,138	2,138
Incheon-Kimpo Expressway Co.Ltd	1,387	5
Kyung-In Expressway Co. Ltd.	24,727	11,850
Kyung-gi Expressway Co. Ltd.	59,750	59,750
New Pusan Newport Co., Ltd.	16,164	14,197
Daegu-Pusan Expressway Co. Ltd.	-	111,641
Pentaport Development Co.Ltd	3,300	2,178
Others	229	229
	<u>₩ 126,577</u>	<u>₩ 220,321</u>

¹Non-marketable equity securities are carried at cost due to lack of reliable information necessary to determine the fair value of the securities.

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Held-to-maturity

<i>(in millions of Korean won)</i>	2007	2006
Government and public bonds	₩ 3,426	₩ 4,171

Maturities of held-to-maturity securities

	Held-to-maturity	
<i>(in millions of Korean won)</i>	2007	2006
Within 1 year	₩ 1,244	₩ 858
1 to 5 years	3,426	4,171
	₩ 4,670	₩ 5,029

Gain and loss from available-for-sale securities

2007	Beginning	Increase (Decrease)	Realized	Ending
<i>(in millions of Korean won)</i>				
Equity securities				
Marketable equity ¹	₩ 2,500	₩ 1,518	₩ -	₩ 4,018
Non-marketable equity	-	-	-	-
	₩ 2,500	₩ 1,518	₩ -	₩ 4,018

2006	Beginning	Increase (Decrease)	Realized	Ending
<i>(in millions of Korean won)</i>				
Equity securities				
Marketable equity ¹	₩ 4,510	₩ (2,010)	₩ -	₩ 2,500
Non-marketable equity	-	-	-	-
	₩ 4,510	₩ (2,010)	₩ -	₩ 2,500

¹ Unrealized gain (loss) on valuation of long-term investment securities is total amount before deducting of deferred income tax.

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8. Equity-method investments

(in millions of Korean won)	Investee	Percentage of Ownership 2007.12.31(%)	Acquisition Cost		Book Value		Net Asset Value	
			2007	2006	2007	2006	2007	2006
	Doosan Capital	19.99	₩ 20,000	₩ 20,000	₩ 39,928	₩ 39,043	₩ 39,928	₩ 39,043
	Doosan Engine	51.00	15,300	15,300	179,778	99,818	244,964	160,727
	Doosan Mecatec	100.00	117,051	117,051	248,601	143,836	246,477	144,108
	Han-viet Heavy Industry	60.00	5,470	5,470	5,807	4,858	7,017	5,682
	Celyon Heavy Industry	93.75	24,588	24,588	13,980	14,486	15,731	16,410
	Hanjung Power	51.00	4,364	8,729	7,814	9,359	8,925	10,655
	Doosan Heavy Industries America	100.00	177	177	1,394	1,179	1,394	1,307
	Doosan Heavy Industries Japan	100.00	1,168	1,168	1,408	1,204	1,408	1,260
	N.Shaper	80.52	6,200	6,200	7,231	4,445	7,231	4,445
	New Wave	60.00	6,000	6,000	1,787	2,122	1,787	2,122
	Doosan Construction & Engineering	39.92	170,298	170,298	315,656	259,885	227,807	170,654
	Doosan Infracore	38.87	1,346,141	1,346,141	1,238,828	1,267,599	431,177	413,049
	Nutra Park Inc ¹	20.62	25,377	25,032	-	-	-	-
	National Pension Partnership	23.33	7,000	7,000	7,654	7,883	7,654	7,883
	Doosan E&S	100.00	3,778	3,051	3,114	1,992	3,114	1,992
	Doosan Hydro Technology	100.00	7,688	7,688	-	3,091	-	1,819
	Doosan IMGB	99.76	17,354	17,343	9,040	18,924	13,658	31,621
	Doosan Heavy Industries UK.	100.00	90,413	56,122	95,328	56,122	95,147	44,136
	Doosan Vina	68.07	56,713	1,500	53,821	1,500	55,975	1,500
	Others		9,853	9,406	562	115	597	150
			<u>₩ 1,934,933</u>	<u>₩ 1,848,264</u>	<u>₩ 2,231,731</u>	<u>₩ 1,937,461</u>	<u>₩ 1,409,991</u>	<u>₩ 1,058,563</u>

¹The Company recorded impairment losses on equity-method investments in Nutra Park Inc., considering its recoverable value.

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Details of changes in the differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investees are as follows:

(in millions of Korean won)

2007			Increase		Ending
Investee	Beginning		(Decrease)	Realized	
Doosan Mecatec	₩ (173)	₩	-	₩ (173)	₩ -
Doosan Construction & Engineering ¹	89,231		-	1,381	87,850
Doosan Infracore	854,500		-	46,819	807,681
Doosan Hydro Technology	1,265		-	1,265	-
Doosan IMGB	(11,567)		-	(6,949)	(4,618)
Doosan Heavy Industries UK.	12,476		-	624	11,852
	<u>₩ 945,732</u>	<u>₩</u>	<u>-</u>	<u>₩ 42,967</u>	<u>₩ 902,765</u>

(in millions of Korean won)

2006			Increase		Ending
Investee	Beginning		(Decrease)	Realized	
Doosan Mecatec	₩ 95	₩	-	₩ 268	₩ (173)
Doosan Construction & Engineering ¹	83,699		-	(5,532)	89,231
Doosan Infracore	901,325		-	46,825	854,500
Doosan Hydro Technology	-		1,675	410	1,265
Doosan IMGB	-		(11,567)	-	(11,567)
Doosan Heavy Industries UK	-		12,476	-	12,476
	<u>₩ 985,119</u>	<u>₩</u>	<u>2,584</u>	<u>₩ 41,971</u>	<u>₩ 945,732</u>

¹ The amount is stated at net amount after multiple acquisition.

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Details of the elimination of unrealized gain or loss arising from inter-company transactions of equity method investees are as follows:

(in millions of Korean won)

2007				
Investee	Beginning	Increase	Decrease	Ending
Doosan Engine	₩ 60,909	₩ 8,300	₩ 4,023	₩ 65,186
Doosan Mecatec	99	(2,124)	99	(2,124)
Han-Viet Heavy Industry	824	547	161	1,210
Celyon Heavy Industry	1,924	1,751	1,924	1,751
Hanjung Power	1,296	-	185	1,111
Doosan Heavy Industries America	128	-	128	-
Doosan Heavy Industries Japan	56	-	56	-
Doosan Infracore	-	30	-	30
Doosan Hydro Technology	(7)	-	(7)	-
Doosan IMGB	(47)	-	(47)	-
Doosan Heavy Industries UK	-	11,672	-	11,672
Doosan vina	-	2,154	-	2,154
	<u>₩ 65,182</u>	<u>₩ 22,330</u>	<u>₩ 6,522</u>	<u>₩ 80,990</u>

2006				
Investee	Beginning	Increase	Decrease	Ending
Doosan Engine Co., Ltd	₩ 4,503	₩ 56,425	₩ 19	₩ 60,909
Doosan Mecatec	99	-	-	99
Han-Viet Heavy Industry	692	156	24	824
Celyon Heavy Industry	2,101	(2)	175	1,924
Hanjung Power	1,393	-	97	1,296
Doosan Heavy Industries America	(102)	160	(70)	128
Doosan Heavy Industries Japan	128	56	128	56
Doosan Hydro Technology	-	(7)	-	(7)
Doosan IMGB	-	(47)	-	(47)
	<u>₩ 8,814</u>	<u>₩ 56,741</u>	<u>₩ 373</u>	<u>₩ 65,182</u>

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Changes in investments in subsidiaries and affiliates accounted for using the equity-method are as follows:

<i>(in millions of Korean won</i>								
2007		Acquisition (Disposal)	Valuation Gain/Loss	Accumulated other comprehensive income	Others	Ending		
Investee	Beginning							
Doosan Capital	₩ 39,043	₩ -	₩ 4,218	₩ (2,333)	₩ (1,000)	₩ 39,928		
Doosan Engine	99,818	-	48,253	32,472	(765)	179,778		
Doosan Mecatec	143,836	-	78,729	26,036	-	248,601		
Han-Viet Heavy Industry	4,858	-	884	65	-	5,807		
Celyon Heavy Industry	14,486	-	5,277	1	(5,784)	13,980		
Hanjung Power	9,359	(4,364)	2,906	1,877	(1,964)	7,814		
Doosan Heavy Industries America	1,179	-	197	18	-	1,394		
Doosan Heavy Industries Japan	1,204	-	118	86	-	1,408		
N.Shaper	4,445	-	2,786	-	-	7,231		
New Wave	2,122	-	(335)	-	-	1,787		
Doosan Construction & Engineering	259,885	-	27,333	28,438	-	315,656		
Doosan Infracore	1,267,599	-	24,820	(30,715)	(22,876)	1,238,828		
Nutra Park Inc	-	345	(485)	140	-	-		
National Pension Partnership	7,883	-	1,500	(539)	(1,190)	7,654		
Doosan E&S	1,992	726	78	318	-	3,114		
Doosan Hydro Technology	3,091	-	(3,123)	32	-	-		
Doosan IMGB	18,924	11	(11,647)	1,752	-	9,040		
Doosan Heavy Industries UK	56,122	34,291	9,651	(4,736)	-	95,328		
Doosan Vina	1,500	55,213	(3,267)	375	-	53,821		
Others	115	447	(32)	32	-	562		
Total	₩ 1,937,461	₩ 86,669	₩ 187,861	₩ 53,319	₩ (33,579)	₩ 2,231,731		

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Korean won)

2006								
Investee	Beginning	Acquisition (Disposal)	Valuation Gain/Loss	Accumulated other comprehensive income	Others	Ending		
Doosan Capital	₩ 35,902	₩ -	₩ 4,442	₩ (101)	₩ (1,200)	₩ 39,043		
Doosan Engine	104,462	-	(29,673)	25,029	-	99,818		
Doosan Mecatec	129,610	-	21,812	(7,586)	-	143,836		
Han-viet Heavy Industry	4,040	-	1,179	(361)	-	4,858		
Celyon Heavy Industry	18,718	-	5,368	(2,722)	(6,878)	14,486		
Hanjung Power	13,068	-	(877)	(699)	(2,133)	9,359		
Doosan Heavy Industries America	1,210	-	(28)	(3)	-	1,179		
Doosan Heavy Industries Japan	1,226	-	143	(165)	-	1,204		
N.Shaper	2,863	-	1,582	-	-	4,445		
New Wave	7,356	-	(583)	(751)	(3,900)	2,122		
Doosan Construction & Engineering	196,284	49,970	10,374	3,257	-	259,885		
Doosan Infracore	1,328,769	-	6,413	(51,243)	(16,340)	1,267,599		
Nutra Park Inc	560	359	(1,094)	-	175	-		
National Pension Partnership	1,718	5,250	413	502	-	7,883		
Doosan E&S	208	2,843	(1,031)	(28)	-	1,992		
Doosan Hydro Technology	7,508	180	(4,002)	(595)	-	3,091		
Doosan IMGB	-	17,343	(359)	1,940	-	18,924		
Doosan Heavy Industries UK	-	56,122	-	-	-	56,122		
Doosan Vina	-	1,500	-	-	-	1,500		
Others	227	-	(112)	-	-	115		
Total	₩ 1,853,729	₩ 133,567	₩ 13,967	₩ (33,526)	₩ (30,276)	₩ 1,937,461		

Book and market values of marketable equity method investments are as follows:

2007 (in millions of Korean won)	Number of share owned	Stock price	Market value	Book value
Doosan Construction & Engineering	32,798,928	₩ 16,100	₩ 528,063	₩ 315,656
Doosan Infracore	65,360,467	29,900	1,954,278	1,238,828
Total	98,159,395		₩ 2,482,341	₩ 1,554,484

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Summary of financial information of major equity method investees are as follows:

(in millions of Korean won)

2007				
Investee	Total asset	Total liabilities	Sales	Net income (loss)
Doosan Capital	₩ 2,291,784	₩ 2,092,006	₩ 172,639	₩ 19,552
Doosan Engine	1,857,690	1,377,368	1,221,957	103,001
Doosan Mecatec	753,707	507,229	713,431	76,333
Han-Viet Heavy Industry	34,148	22,453	36,209	2,314
Celyon Heavy Industry	40,979	24,200	60,288	5,342
Hanjung Power	33,988	16,487	26,597	5,335
Doosan Heavy Industries America	20,627	19,234	46,962	248
Doosan Heavy Industries Japan	52,939	51,931	112,967	62
N.Shaper	11,057	2,077	8,825	2,876
New Wave	2,978	-	2	(559)
Doosan Construction & Engineering	1,833,922	1,263,313	1,798,047	74,235
Doosan Infracore	3,207,323	2,098,005	3,865,008	180,262
Nutra Park Inc	561	-	37	(822)
National Pension Partnership	32,944	141	6,631	6,430
Doosan E&S	3,205	91	2,985	570
Doosan Hydro Technology	-	-	-	-
Doosan IMGB	194,272	119,446	69,735	(18,248)
Doosan Heavy Industries U.K.	497,783	402,392	843,804	19,083
Doosan Vina	82,243	11	-	(1,635)
Others	10,620	9,855	1,907	110

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(in millions of Korean won)

Investee	Total asset	Total liabilities	Revenue	Net income (loss)
	₩ 1,728,743	₩ 1,533,392	₩ 143,718	₩ 21,203
Doosan Capital				
Doosan Engine	934,211	619,059	1,016,816	52,418
Doosan Mecatec	787,023	642,914	707,855	22,080
Han-Viet Heavy Industry	26,108	16,637	32,258	2,185
Celyon Heavy Industry	30,318	12,814	52,169	5,882
Hanjung Power	41,435	20,542	21,131	5,075
Doosan Heavy Industries America	28,087	26,780	58,311	203
Doosan Heavy Industries Japan	15,269	14,009	90,714	71
N.Shaper	6,027	507	5,024	2,040
New Wave	3,542	5	1,503	28
Doosan Construction & Engineering	1,575,695	1,098,381	1,910,342	15,732
Doosan Infracore	2,469,931	1,408,545	3,282,770	134,736
Nutra Park Inc	691	2,331	1,049	(4,249)
National Pension Partnership	33,816	32	2,278	1,774
Doosan E&S	2,019	27	97	(1,031)
Doosan Hydro Technology,	11,918	10,098	11,432	(3,265)
Doosan IMGB	83,463	51,838	9,329	(406)
Doosan Heavy Industries U.K.	465,322	411,423	-	-
Doosan Vina	1,500	-	-	-
Others	8,441	14,967	9,364	(1,096)

The financial statements of investees were adjusted to reflect accounting policy difference as follows:

<i>(in millions of Korean won)</i>	Net asset before adjustment	Adjustment	Net asset after adjustment
Celyon Heavy Industry	₩ 20,184	₩ (3,405)	₩ 16,779
Hanjung Power	20,862	(3,362)	17,500
Doosan IMGB	5,875	7,816	13,691
Doosan Heavy Industries UK	103,000	(7,608)	95,392

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Notes to the Financial Statements
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The changes in the unrecorded losses of the equity-method investees due to the loss exceeding the company's share are as follows:

<i>(in millions of Korean won)</i>	Beginning	Increase	Ending
HFC Holdings	₩ (6,636)	₩ (7,712)	₩ (14,348)
Doosan Hydro Technology	-	(6,732)	(6,732)
Total	₩ (6,636)	(14,444)	₩ (21,080)

The differences of net income and net assets between the non-consolidated and consolidated financial statements as of and for the year ended December 31, 2007, are as follows:

<i>(in millions of Korean won)</i>	2007	
	Net income(loss)	Net assets
Suspension of the equity method loss	₩ (13,978)	₩ (21,080)
Application of Korea Accounting Institute Opinion [06-2]	29,317	29,317

9. Property, plant and equipment

(in millions of Korean won)

	Land	Buildings	Structures	Machinery& Equipment	Heavy Equipment	Vehicles	Others	Construction -in-progress	Total
Balance as of January 1, 2007	₩ 450,703	₩244,751	₩ 47,732	₩ 129,332	₩ 740	₩ 472	₩ 30,010	₩ 61,058	₩ 964,798
Acquisition	-	-	-	716	-	27	483	96,769	97,995
Disposal	-	(814)	(1)	(1,100)	-	(9)	(16)	-	(1,940)
Depreciation	-	(16,883)	(4,791)	(44,592)	(152)	(154)	(13,289)	-	(79,861)
Transfer	15	29,494	2,551	27,840	687	60	12,923	(73,570)	-
Other	(1,035)	-	(4,346)	1,284	-	-	5,988	(13,746)	(11,855)
Balance as of December 31, 2007	₩449,683	₩256,548	₩ 41,145	₩ 113,480	₩ 1,275	₩ 396	₩ 36,099	₩ 70,511	₩ 969,137
Acquisition cost	₩449,683	₩401,946	₩77,815	₩540,467	₩17,045	₩1,519	₩145,010	₩70,511	₩1,703,996
Accumulated depreciation	-	145,397	36,585	426,867	15,770	1,123	108,907	-	734,649
Accumulated impairment	-	1	85	120	-	-	4	-	210

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(in millions of Korean won)

	Land	Buildings	Structures	Machinery & Equipment	Heavy Equipment	Vehicles	Others	Construction -In-Progress	Total
Balance as of									
January 1, 2006	₩ 456,873	₩ 236,877	₩ 47,125	₩ 143,812	₩ 747	₩ 467	₩ 22,590	₩ 43,667	₩ 952,158
Acquisition	-	94	1,832	20,620	30	186	14,194	72,311	109,267
Disposal	(6,170)	(1,668)	(1,892)	(5,814)	-	(14)	(508)	-	(16,066)
Depreciation	-	(15,882)	(4,824)	(46,712)	(137)	(167)	(12,569)	-	(80,291)
Impairment	-	(21)	(85)	(160)	-	-	(4)	-	(270)
Transfer	-	25,351	5,576	17,586	100	-	6,307	(54,920)	-
Balance as of									
December 31, 2006	₩ 450,703	₩ 244,751	₩ 47,732	₩ 129,332	₩ 740	₩ 472	₩ 30,010	₩ 61,058	₩ 964,798
Acquisition cost	₩ 450,703	₩ 373,787	₩ 82,977	₩ 520,095	₩ 16,700	₩ 1,903	₩ 129,382	₩ 61,058	₩ 1,636,605
Accumulated depreciation	-	129,015	35,160	390,603	15,960	1,431	99,368	-	671,537
Accumulated impairment	-	21	85	-	-	-	4	-	270

As of December 31, 2007, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, was ₩512,103 million (2006: ₩449,576 million). Property, plant and equipment covered by insurance policies as of December 31, 2007, are ₩1,028,511 million (2006: ₩1,373,000 million) (Note 31).

As of December 31, 2007, substantial portion of the Company's land, buildings and machinery are pledged as collaterals for the Company's debentures and debt obligations (Note 30).

10. Intangible assets

(in millions of Korean won)	Industrial Property Rights	Development Cost	Donated Asset	Others	Total
Balance as of					
January 1, 2007	₩ 235	₩ 96,068	₩ -	₩ 35,317	₩ 131,620
Acquisition	59	53,191	-	5,150	58,400
Disposal	-	-	-	-	-
Depreciation	(41)	(7,513)	(226)	(9,733)	(17,513)
Impairment ¹	-	(23,307)	-	-	(23,307)
Transfer	-	(7,271)	5,692	12,883	11,304
Balance as of					
December 31, 2007	₩ 253	₩ 111,168	₩ 5,466	₩ 43,617	₩ 160,504
Acquisition cost	₩ 399	₩ 280,280	₩ 5,692	₩ 64,710	₩ 351,081
Accumulated depreciation	146	137,774	226	21,093	159,239
Accumulated impairment	-	31,338	-	-	31,338

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<i>(in millions of Korean won)</i>	Industrial Property Rights	Development Cost	Others	Total
Balance as of January 1, 2006	₩ 151	₩ 81,285	₩ 33,362	₩ 114,798
Acquisition	114	25,584	9,593	35,291
Depreciation	(30)	(10,775)	(7,638)	(18,443)
Impairment ¹	-	(26)	-	(26)
Balance as of December 31, 2006	<u>₩ 235</u>	<u>₩ 96,068</u>	<u>₩ 35,317</u>	<u>₩ 131,620</u>
Acquisition cost	₩ 340	₩ 234,360	₩ 46,677	₩ 281,377
Accumulated depreciation	105	130,261	11,360	141,726
Accumulated impairment	-	8,031	-	8,031

¹ The differences between the carrying value and their estimated realizable value are recognized as impairment loss amounting to ₩23,307 million (2006: ₩26 million) for the year ended December 31, 2007.

Amortization of intangible assets is charged to the following accounts :

<i>(in millions of Korean won)</i>	2007	2006
Production costs	₩ 7,769	₩ 9,520
Selling and administrative expenses	9,744	8,923
	<u>₩ 17,513</u>	<u>₩ 18,443</u>

Major intangible assets

(in millions of Korean won)

Account	Description	Amount	Residual useful lives
Development cost	USC generating turbine development	₩ 12,764	Under development
"	250Kw MCFC	8,118	Under development
"	Medium size steam turbine development	6,623	5 years
"	Steam turbin transtage rotor	6,411	Under development
"	USC material for the generating plant	5,369	5 years
"	USC generating boiler design	5,332	Under development
"	Generating small size gas turbine	5,264	Under development
Other	Oracle ERP	18,555	3 years
Other	Babcock boiler license	11,595	9 years
Other	F/W CFB technology fee	8,701	14 years
Industrial property rights ¹	Right to use wharf	5,466	20 years

¹ In accordance with the contract with the government, the Company constructed and donated wharf, and has the exclusive right to use for 21 years after the donation.

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Research costs charged to:

(in millions of Korean won)

Account	Selling and administrative		Cost of sales		Total	
	2007	2006	2007	2006	2007	2006
Research costs	₩ 25,701	₩ 24,312	₩ 92	₩ 112	₩ 25,793	₩ 24,424

11. Borrowings

Long-term borrowings in local currency

(in millions of Korean won)

Type	Creditor	Interest rate at 12/31/2007(%)	Amount		Payment schedule
			2007	2006	
Job training promotion loan	Korea Development Bank	3.00	₩ 387	₩ 1,367	Installment
Industry foundation fund	"	5.00	1,812	2,509	Installment
Energy fund	"	5.50	1,242	1,739	Installment
Energy fund	"	4.25	188	281	Installment
Technical development loan	"	5.22	105	740	Installment
Specific facility loan	"	1.00	172	390	Installment
Operating loan	"	6.48	50,000	250,000	Redemption at maturity
Operating loan	"	5.70	200,000	-	Redemption at maturity
Technical development loan	Kookmin Bank	5.38	119	214	Installment
Industry foundation fund	"	5.25	214	401	Installment
Industry foundation fund	Korea Exchange Bank	-	-	76	Installment
Industry foundation fund	Shinhan Bank	-	-	119	Installment
Specific loan	The Military Mutual Aid Association	-	-	200,000	Redemption at maturity
Subtotal			254,239	457,836	
Less: Current portion			(52,235)	(453,597)	
Long-term borrowings, net of current portion			₩ 202,004	₩ 4,239	

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Long - Term borrowings in foreign currency

(in millions of Korean won and thousands of US dollars)

Type	Creditor	Interest rate (%)	2007	2006	Payment schedule
General loan	Woori Bank	5.93	\$ -	\$ 107,089	Redemption at maturity
General loan	"	5.94	107,262	107,262	Redemption at maturity
Total			<u>\$ 107,262</u>	<u>\$ 214,351</u>	
Korean won equivalent			₩ 100,633	₩ 200,000	
Less: current portion			(100,633)	(100,000)	
Long - term borrowings in foreign currency			<u>₩ -</u>	<u>₩ 100,000</u>	

The above long-term borrowings are secured by property, plant and equipment (Note 30).

Debentures

(in millions of Korean won)

	Issuance date	Maturity date	Interest rate at 12/31/2007 (%)	2007	2006
Privately placed bonds 28-1	4/28/06	10/28/08	5.03	₩ 100,000	₩ 100,000
Privately placed bonds 28-2	4/28/06	4/28/09	5.08	100,000	100,000
Privately placed bonds 28-3	4/28/06	10/28/09	5.22	100,000	100,000
Privately placed bonds 28-4	4/28/06	4/28/10	5.26	100,000	100,000
Privately placed bonds 28-5	4/28/06	10/28/10	5.4	100,000	100,000
Privately placed bonds 28-6	4/28/06	4/28/11	5.44	100,000	100,000
Public subscription bond 29-1	12/20/07	12/20/10	5.41	47,500	-
Public subscription bond 29-2	12/20/07	12/20/10	5.27	28,146	-
Subtotal				<u>675,646</u>	<u>600,000</u>
Less : Discounts on debentures				(341)	-
Less: Current portion				(100,000)	-
Total				<u>₩ 575,305</u>	<u>₩ 600,000</u>

The above debentures are secured by property, plant and equipment (Note 8) and are guaranteed by a financial institution (Note 29).

The payment schedule of debentures and long-term borrowings is as follows:

(in millions of Korean won) Year	Long-term borrowing in local currency	Debentures
2009	₩ 201,338	₩ 200,000
2010	666	275,646
2011	-	100,000
Total	<u>₩ 202,004</u>	<u>₩ 575,646</u>

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12. Accrued severance benefits

<i>(in millions of Korean won)</i>	2007	2006
Balance at the beginning of the year	₩ 164,200	₩ 143,659
Provision for severance benefits	38,726	36,380
Transferred from/to affiliated companies, net	899	100
Provision for severance benefits	<u>22,329</u>	<u>15,939</u>
Balance at the end of the year	181,496	164,200
Less : Severance insurance deposits	(85,210)	(59,758)
Cumulative deposits to the National Pension Fund	<u>(2,395)</u>	<u>(2,887)</u>
Accrued severance benefit	<u>₩ 93,891</u>	<u>₩ 101,555</u>

As of December 31, 2007, the Company estimates severance payable to all employees to be ₩181,496 million (2006: ₩164,200 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 47% (2006:18%) of severance payable through severance insurance deposits in The Korea Development Bank and other financial institutions.

13. Income taxes

Income tax expense for the years ended December 31, 2007 and 2006, consists of :

<i>(in millions of Korean won)</i>	2007	2006
Current income taxes	₩ 64,960	₩ 19,714
Deferred income tax from temporary differences ¹	73,424	12,914
Deferred income tax charged to equity ²	<u>(35,740)</u>	<u>4,525</u>
Income tax expenses	<u>₩ 102,644</u>	<u>₩ 37,153</u>

¹ Details of deferred income tax from temporary differences are as follows:

Description	2007	2006
Beginning balance of deferred tax assets	₩ 12,282	₩ 25,196
Ending balance of deferred tax assets	<u>(61,142)</u>	<u>12,282</u>
Deferred income taxes due to temporary differences	<u>₩ 73,424</u>	<u>₩ 12,914</u>

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² Deferred income tax charged directly to the shareholders' equity are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Loss on valuation of equity-method investments	₩ (17,195)	₩ 11,764
Gain on valuation of equity-method investments	(17,631)	(7,907)
Gain on valuation of available-for-sale securities	(417)	553
Gain on valuation of derivative instruments	10,604	816
Loss on valuation of derivative instruments	(11,101)	(701)
	<u>₩ (35,740)</u>	<u>₩ 4,525</u>

The differences between taxable income and net income before income taxes for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2007		2006	
Account	Temporary differences	Permanent differences	Temporary differences	Permanent differences
Provision for severance benefit	₩ (9,937)	₩ -	₩ (28,732)	₩ -
Depreciation	(11,329)	-	(48,463)	-
Property, plant and equipment	319	-	1,385	-
Dividends income	33,579	-	30,451	-
Reserve for research and development	14,100	-	(35,234)	-
Investments	(288,281)	-	33,716	-
Development cost	16,912	-	14,885	-
Withholdings	18,861	-	6,950	-
Trade accounts payable	14,113	-	(2,927)	-
Others	48,927	60,586	(41,650)	(350)
Total	<u>₩ (162,736)</u>	<u>₩ 60,586</u>	<u>₩ (69,618)</u>	<u>₩ (350)</u>

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The changes in major temporary differences for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

2007	Temporary differences			
	Beginning Balance	Adjustment in beginning	Increase (Decrease)	Ending Balance
Provision for severance benefit	₩ 49,640	₩ -	₩ (9,937)	₩ 39,703
Depreciation	56,498	788	(11,329)	45,957
Property, plant and equipment	10,479	-	319	10,798
Dividends income	76,993	-	33,579	110,572
Reserve for research and development	(106,767)	-	14,100	(92,667)
Investments	(146,015)	-	(288,281)	(434,296)
Development cost	34,876	-	16,912	51,788
Withholdings	5,132	-	18,861	23,993
Trade accounts payable	26,496	-	14,113	40,609
Others	(3,339)	4,479	48,927	50,067
Subtotal	3,993	5,267	(162,736)	(153,476)
Non-recognizable temporary differences	(26,980)	2,580	93,259	68,859
Recognizable temporary differences	30,973	2,687	(273,628)	(222,335)
Tax effect	8,518	739	(75,248)	(61,142)
Tax credit	3,764	(1,006)	(2,758)	-
Deferred tax asset(liability)	₩ 12,282	₩ (267)	₩ (78,006)	₩ (61,142)

(in millions of Korean won)

2006	Temporary differences			
	Beginning Balance	Adjustment in beginning	Increase (Decrease)	Ending Balance
Provision for severance benefit	₩ 78,407	₩ (35)	₩ (28,732)	₩ 49,640
Depreciation	76,907	28,054	(48,463)	56,498
Property, plant and equipment	4,916	4,178	1,385	10,479
Dividends income	46,542	-	30,451	76,993
Reserve for research and development	(71,533)	-	(35,234)	(106,767)
Investments	(179,731)	-	33,716	(146,015)
Development cost	19,991	-	14,885	34,876
Withholdings	(1,818)	-	6,950	5,132
Trade accounts payable	34,995	(5,572)	(2,927)	26,496
Others	73,440	(35,130)	(41,650)	(3,339)
Subtotal	82,116	(8,505)	(69,618)	3,993
Non-recognizable temporary differences	(9,506)	-	(17,474)	(26,980)
Recognizable temporary differences	91,622	(8,505)	(52,144)	30,973
Tax effect	25,196	(2,339)	(14,340)	8,518
Tax credit	-	-	3,764	3,764
Deferred tax asset(liability)	₩ 25,196	₩ (2,339)	₩ (10,576)	₩ 12,282

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Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion and recognized the deferred income tax asset since all the future (deductible) tax benefits are determined to be realizable as of December 31, 2007, excluding equity method related temporary differences which will not reverse in the foreseeable future.

The gross balances of deferred tax assets and liabilities including non-recognizable temporary difference are as follows:

<i>(in millions of Korean won)</i>	2007		2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current	₩ 52,567	₩ (22,727)	₩ 65,286	₩ (47,130)
Non - current	142,402	(233,383)	70,268	(76,142)

Temporary differences that were not recognized as a deferred tax asset

<i>(in millions of Korean won)</i>	2007	2006	Reason of exceptions
Equity method investments	₩ 70,573	₩ (22,686)	Not reverse in foreseeable future
Land revaluation reserve	(1,714)	(4,294)	No plan to dispose the land
Total	<u>₩ 68,859</u>	<u>₩ (26,980)</u>	

Effective tax rate

For the year ended December 31, 2007, the statutory tax rate including resident tax surcharge is 27.5% (2006: 33.8%), while the effective tax rate is 25.6%.

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14. Monetary assets and liabilities denominated in foreign currencies:

Account	2007		2006	
	<i>in thousands of US dollars</i>	<i>in millions of Korean won</i>	<i>in thousands of US dollars</i>	<i>in millions of Korean won</i>
Cash and cash equivalents	US \$ 39	₩ 37	US \$ 4,257	₩ 3,958
Trade accounts receivable	210,639	197,621	123,773	115,060
Others	52,493	49,249	32,706	30,403
Total assets	<u>US \$263,171</u>	<u>₩ 246,907</u>	<u>US \$ 160,736</u>	<u>₩ 149,421</u>
Accounts payable	US \$ 59,640	₩ 55,954	US \$ 58,733	₩ 54,598
Short-term borrowings	317,786	298,146	341,519	317,476
Accounts and notes payable - other	64,347	60,371	67,400	62,655
Current portion of long-term debt	107,262	100,633	107,089	100,000
Long-term borrowings	50,629	47,500	107,262	100,000
Long-term accounts payable-other	-	-	2,901	2,696
Others	36,186	33,950	28,769	26,743
Total liabilities	<u>US \$ 635,850</u>	<u>₩ 596,554</u>	<u>US \$ 713,673</u>	<u>₩ 664,168</u>

All assets and liabilities denominated in other foreign currencies are presented in their U.S. dollars equivalents.

15. Capital stock

Details of changes in the Company's capital stock due to the exercise of stock options are as follows:

<i>(in millions of Korean won)</i>	Number of shares (in thousands)	Common Stock	Capital surplus	Total
January 1, 2007	104,399	₩ 521,996	₩ 1,866	₩ 523,862
June 7, 2007	222	1,111	1,281	2,392
August 7, 2007	105	525	694	1,219
October 9, 2007	4	21	22	43
December 12, 2007	13	62	62	124
December 31, 2007	<u>104,743</u>	<u>₩ 523,715</u>	<u>₩ 3,925</u>	<u>₩ 527,640</u>

The Company is authorized to issue 400,000,000 shares of capital stock with a par value of ₩5,000 per share and has 104,742,900 shares (2006 : 104,399,200) issued as of December 31, 2007.

As of December 31, 2007, treasury stock of 18,648,234 shares (2006: 18,648,234 shares) have no voting rights pursuant to the Commercial Law.

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16. Retained earnings

<i>(in millions of Korean won)</i>	2007	2006
Legal reserve	₩ 68,363	₩ 65,263
Discretionary reserves		
Reserve for business stabilization	42,807	42,807
Reserve for technology development	107,445	72,212
Reserve for business expansion	207,320	207,320
Reserves for sinking funds	544,733	542,733
Total	₩ 902,305	₩ 865,072

Under tax laws, the Company appropriates retained earnings as a reserve for the amount the company records deductible allowance for tax purpose. These reserves may be distributed as dividends when the Company meets the requirement of the related tax law.

17. Treasury stock

The Company acquired 18,648,234 of its own shares for ₩159,709 million through purchases on the Korean Stock Exchange to stabilize its stock price in the market.

18. Share-based payments

The Company grants the stock options to its executives and entitles the board of directors to choose whether to grant the new stocks, treasury stocks or margin compensation. Stock options are available for exercise after over two years from approval date of the board of directors.

The total shares issued upon the exercise of stock options as of December 31, 2007, are as follows:

Grant date	Shares to be issued	Exercise period	Exercise price per share	Presumed fair value on the grant date
2002/04/29	7,500	2005/04/29 – 2012/04/28	₩ 10,800	₩ 3,568
2004/05/13	11,900	2007/05/14 – 2014/05/13	7,400	567
2005/03/18	232,000	2008/03/19 – 2015/03/19	12,900	4,021
2006/02/27	158,600	2009/02/27 – 2016/02/27	33,200	12,950
2007/03/16	139,000	2010/03/17 – 2017/03/16	50,200	11,445
Total	<u>549,000</u>			

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Changes of the stock options for the year ended December 31, 2007, are as follows:

(in millions of Korean won)

Grant date	Shares to be issued in the exercise					Valuation amount				
	Beginning balance	Newly granted	Exercise	Retirement and cancel	Ending balance	Beginning balance	Exercise	Cancel	Increase	Ending balance
2002/04/29	82,200	-	74,700	-	7,500	₩ 293	₩ 266	₩ -	₩ -	₩ 27
2004/05/13	284,900	-	269,000	4,000	11,900	1,467	715	11	(710)	31
2005/03/18	251,700	-	-	19,700	232,000	605	-	56	384	933
2006/02/27	169,500	-	-	10,900	158,600	617	-	58	1,335	1,894
2007/03/16	-	139,000	-	-	139,000	-	-	-	1,246	1,246
	788,300	139,000	343,700	34,600	549,000	₩ 2,982	₩ 981	₩ 125	₩ 2,255	₩ 4,131

The weighted-average price per share measured on the exercise date is ₩96,478 and the weighted-average remaining period, from December 31, 2007 until expiration, is 7.94 years.

The compensation costs for stock options amounted to ₩2,141 million (2006: ₩830 million) for the year ended December 31, 2007. In addition, the remaining compensation costs to be recognized in the future amounted to ₩2,051 million as of December 31, 2007.

The Company applies the fair value method in accounting for stock options and primary assumptions used to determine compensation costs under the fair value method are as follows:

	Risk-free interest rate(%) ¹	Expected exercise period	Volatility of the underlying stock price (%)	Expected dividend rate (%)
2002/04/29	6.33	3 years	67.69	2.33
2004/05/13	4.41	3 years	65.57	2.16
2005/03/18	4.11	3 years	50.95	2.33
2006/02/27	5.01	3 years	53.87	1.69
2007/03/16	4.79	3 years	49.33	5.67

¹ The risk-free interest rate is interest rate of 3-year matured government bond as of the grant date.

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19. Construction Contracts

Changes of contract balances related to construction and product revenues are as follows:

(in millions of Korean won)

2007	Beginning	Increase (Decrease)¹	Construction revenue	Ending
Power plants	₩ 4,447,113	₩ 4,954,993	₩ 2,045,668	₩ 7,356,438
Desalination plants	812,754	228,920	663,631	378,043
Industrial plants	196,583	276,068	207,517	265,134
Castings & Forgings	288,804	508,702	481,614	315,892
Plant construction	72,372	587,969	107,450	552,891
General construction	1,484,515	588,128	583,662	1,488,981
Total	₩ 7,302,141	₩ 7,144,780	₩ 4,089,542	₩ 10,357,379

(in millions of Korean won)

2006	Beginning	Increase (Decrease)¹	Construction revenue	Ending
Power plants	₩ 4,136,704	₩ 2,021,136	₩ 1,664,742	₩ 4,493,098
Desalination plants	1,445,848	2,255	635,350	812,753
Industrial plants	234,895	108,833	193,130	150,598
Castings & Forgings	292,045	413,618	416,859	288,804
Plant construction	147,960	42,320	125,625	64,655
General construction	1,528,513	436,678	472,959	1,492,232
Total	₩ 7,785,965	₩ 3,024,840	₩ 3,508,665	₩ 7,302,140

¹ The increase (decrease) column includes new and additional contracts as well as amendments to existing contracts.

Details of the Company's contracts on the ongoing projects are as follows:

(in millions of Korean won)

2007	Cumulative construction cost	Cumulative construction income	Cumulative construction gain	Advances received	Receivables	Billed amount	Unbilled amount
Power plants	₩ 5,960,690	₩ 7,176,428	₩ 1,215,738	₩ 361,891	₩ 88,824	₩ 6,785,788	₩ 479,464
Desalination plants	1,699,730	1,669,077	(30,653)	10,455	53,167	1,546,265	175,979
Industrial Plants	592,883	667,037	74,154	11,590	16,563	621,842	61,758
Castings & forgings	320,554	341,158	20,604	10,941	76,262	352,099	-
Plant construction	264,829	300,160	35,331	2,287	1,238	287,214	14,184
General construction	1,598,645	1,819,612	220,967	50,194	64,435	1,864,716	19,331
Total	₩ 10,437,331	₩ 11,973,472	₩ 1,536,141	₩ 447,358	₩ 300,489	₩ 11,457,924	₩ 750,716

Doosan Heavy Industries and Construction Co., Ltd.
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(in millions of Korean won)

2006	Cumulative construction cost	Cumulative construction income	Cumulative construction gain	Advances received	Receivables	Billed amount	Unbilled amount
Power plants	₩ 5,910,253	₩ 6,869,526	₩ 959,273	₩ 108,735	₩ 110,323	₩ 6,500,003	₩ 478,258
Desalination plants	1,250,774	1,278,589	27,815	38,350	28,673	1,025,520	291,419
Industrial Plants	561,444	622,257	60,813	4,867	32,127	564,060	63,064
Castings & forgings	253,704	398,985	145,281	6,788	93,192	405,773	-
Plant construction	410,533	464,867	54,334	1,424	6,363	461,632	4,659
General construction	1,580,128	1,818,223	238,095	48,574	43,554	1,834,234	32,563
Total	₩ 9,966,836	₩ 11,452,447	₩ 1,485,611	₩ 208,738	₩ 314,232	₩10,791,222	₩ 869,963

As of December 31, 2007, the Company accrued provision for construction losses of ₩17,608 million for the estimated construction losses and ₩1,339 million (2006: ₩1,339 million) remains uncollected due to disagreement for warranty reserve with customers.

Provisions for other liabilities and charges

(in millions of Korean won)

2007	Beginning	Increase	Decrease	Ending
Provision for penalty of construction delays	₩ 2,280	₩ 5,446	₩ 1,437	₩ 6,289
Provision for construction warranties	41,052	15,760	21,771	35,041
Provision for construction losses	19,338	494	2,224	17,608
Total	₩ 62,670	₩ 21,700	₩ 25,432	₩ 58,938

(in millions of Korean won)

2006	Beginning	Increase	Decrease	Ending
Provision for penalty of construction delays	₩ 2,466	₩ 1,020	₩ 1,206	₩ 2,280
Provision for construction warranties	56,714	17,623	33,285	41,052
Provision for construction losses	18,572	3,629	2,863	19,338
Total	₩ 77,752	₩ 22,272	₩ 37,354	₩ 62,670

Doosan Heavy Industries and Construction Co., Ltd.
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20. Commitments and contingencies

The Company has provided banks with 26 notes and checks, including one blank note and three blank checks, as collaterals for the borrowings and guarantees.

Unmatured trade accounts receivable sold as of December 31, 2007, amounted to ₩7,306 million.

The Namdong Thermal Power Plant is seeking compensation of ₩88,800 million from the Company in relation with the stoppage of operations stop of the Youngheung thermal power plant. As of December 31, 2007, the final outcome of the claim cannot be reasonably determined.

Other than the above claim, the Company is a defendant in a lawsuit claiming compensation of ₩5,874 million, and as of December 31, 2007, the final outcome of this suit cannot be reasonably determined.

As of December 31, 2007, the Company has entered into technical assistance agreements with GE and other 29 companies, whose terms range from March 28, 1977 to July 31, 2022, and for which royalties in 2007 amounted to ₩26,607 million.

As of December 31, 2007, payment guarantees by commercial banks are provided for the Company with regards to constructions amounting to ₩4,509,100 million (2006: ₩2,972,500 million).

As of December 31, 2007, the Company has provided guarantees amounting to ₩ 572,800 million for its overseas affiliates. For the borrowings of Doosan Hydro and other affiliated companies, the guarantees provided by the Company amounted to US \$ 108,798 thousand, EUR 23,500 thousand, INR 70,512 thousand, SAR 615 thousand. The Company is provided with guarantees by GS E&G and other companies amounting to ₩320,900 million relating to performance of construction, and has provided joint liability on guarantees amounting to ₩61,800 million in relation with performance of construction. The Company has also provided guarantees amounting up to ₩1,545,000 million for the operations of domestic construction project.

21. Derivatives

Details of the changes in valuation gain or loss on derivatives are as follow:

2007 <i>(in millions of Korean won)</i>	Trading		Hedge		Other comprehensive income ¹
	Valuation gain	Valuation loss	Valuation gain	Valuation loss	
Foreign currency forward	₩ -	₩ -	₩ 16,390	₩ 34,301	₩ 32,735
Interest rate swap	-	-	-	-	10,316
Foreign currency Interest rate swap	-	-	-	-	997
	₩ -	₩ -	₩ 16,390	₩ 34,301	₩ 44,048

Doosan Heavy Industries and Construction Co., Ltd.
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2006 <i>(in millions of Korean won)</i>	Trading		Hedge		Other comprehensive income ¹
	Valuation gain	Valuation loss	Valuation gain	Valuation loss	
Foreign currency forward	₩ -	₩ -	₩ 1,133	₩ -	₩ 42,461
Interest rate swap	-	-	-	-	(218)
Foreign currency interest rate swap	-	1,251	-	-	-
	<u>₩ -</u>	<u>₩ 1,251</u>	<u>₩ 1,133</u>	<u>₩ -</u>	<u>₩ 42,243</u>

¹ Net amount after tax, ₩31,394 million (2006: ₩ 30,626 million), was charged to other comprehensive income.

The Company uses foreign currency interest rate swaps to manage exposures to fluctuations in cash flows from variable-interest borrowings, which are designated as cash-flow hedges.

The Company applies cash flow hedge accounting and is exposed to fluctuations in cash flows until March 22, 2022. Total realized gain and loss on derivative transactions recognized upon the expiration of contracts during the year ended December 31, 2007, amounted to ₩65,093 million and ₩800 million, respectively.

Doosan Heavy Industries and Construction Co., Ltd.
Notes to the Financial Statements
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22. Selling and administrative expenses

<i>(in millions of Korean won)</i>	2007		2006	
Salaries and wages	₩	85,639	₩	85,561
Severance benefits		8,477		9,938
Employee fringe benefits		18,181		17,528
Travel and transportation		9,308		8,458
Training expenses		7,725		5,940
Taxes and dues		2,259		1,621
Service fees		33,615		25,395
Rental expenses		6,293		6,458
Bad debt expenses		5,306		-
Depreciation		7,612		8,961
Intangible assets depreciation		9,744		8,923
Insurance premium		4,180		4,248
Research expenses		25,701		24,312
Overseas marketing expenses		10,565		7,181
Advertising		19,887		19,842
Others		32,881		30,349
	₩	<u>287,373</u>	₩	<u>264,715</u>

23. Value added information

<i>(in millions of Korean won)</i>	Manufacturing cost		Selling and Administrative expenses		Total	
	2007	2006	2007	2006	2007	2006
Salaries	₩ 291,951	₩ 244,543	₩ 85,639	₩ 85,561	₩ 377,590	₩ 330,104
Severance benefits	30,249	26,442	8,477	9,938	38,726	36,380
Employee fringe benefits	35,809	33,055	18,181	17,528	53,990	50,583
Rent	14,951	14,616	6,293	6,458	21,244	21,074
Depreciation	72,249	71,330	7,612	8,961	79,861	80,291
Taxes and dues	16,501	16,426	2,259	1,621	18,760	18,047
	<u>₩ 461,710</u>	<u>₩ 406,412</u>	<u>₩ 128,461</u>	<u>₩ 130,067</u>	<u>₩ 590,171</u>	<u>₩ 536,479</u>

Doosan Heavy Industries and Construction Co., Ltd.
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24. Comprehensive Income

<i>(in millions of Korean won)</i>	2007	2006
Net income	₩ 298,690	₩ 74,165
Accumulated other comprehensive income		
Gain on valuation of equity-method investments, net of taxes of ₩17,631 million (2006: ₩ 7,907 million)	54,435	20,845
Loss on valuation of equity-method Investments, net of taxes of ₩ 17,195 million (2006: ₩ 11,764 million)	(35,942)	(50,339)
Unrealized gain on valuation of available-for-sale securities, net of taxes of ₩ 417 million (2006: ₩ 553 million)	1,100	(1,671)
Gain on valuation of derivative instruments, net of taxes of ₩ 11,101 million (2006: ₩ 701 million)	29,264	(1,849)
Loss on valuation of derivative instruments, net of taxes of ₩ 10,604 million (2006: ₩ 816 million)	(27,956)	1,546
Comprehensive income	<u>₩ 319,591</u>	<u>₩ 42,697</u>

25. Earning per share

Basic earnings per share

	2007	2006
Net income attributable to common stocks	₩ 298,690,059,056	₩ 74,164,962,570
Weighted average number of common stocks outstanding ¹	85,921,484	85,734,199
Basic earnings per share	₩ 3,476	₩ 865

¹Weighted average number of common stocks are as follows:

	2007	2006
Number of outstanding shares	104,742,900	104,399,200
Number of treasury stock	(18,648,234)	(18,648,234)
Number of common stock outstanding	86,094,666	85,750,966
Number of accumulated	<u>31,361,341,590</u>	<u>31,292,982,590</u>
Weighted average number of common stock outstanding	<u>85,921,484</u>	<u>85,734,199</u>

Doosan Heavy Industries and Construction Co., Ltd.
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Diluted earnings per share

	2007	2006
Diluted net income attributable to common stock	₩ 298,690,059,956	₩ 74,164,962,570
Weighted average number of common stock for diluted earnings per share ²	86,285,777	86,184,907
Diluted earnings per share	3,462	861

² Weighted average number of common stock is as follows:

	2007	2006
Weighted average number of common stock outstanding	85,921,484	85,734,199
Unexercised stock options ¹	364,293	450,708
Weighted average number of common stock for diluted earnings per share	<u>86,285,777</u>	<u>86,184,907</u>

¹ The dilutive effect is computed using the treasury method, which assumes all share-based awards are exercised and the hypothetical proceeds from exercise are used by the Company to purchase common stock at the average market price during the period.

26. Dividends

	2007	2006
Number of shares eligible for dividends:		
Common stock	86,094,666	85,750,966
Dividend rate	10.00%	7.00%
Dividend per share	₩ 500	₩ 350
Dividend payout ratio (Dividends/Net income)	14.41%	40.47%
Dividend yield ratio (Dividend per share/Market price)	0.40%	0.80%

The 18,648,234 treasury shares as of the balance sheet date are deducted from shares eligible for dividends.

Doosan Heavy Industries and Construction Co., Ltd.
Notes to the Financial Statements
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27. Significant non-cash transactions

<i>(in millions of Korean won)</i>	2007	2006
Reclassification to buildings, machinery and others from construction-in-progress	₩ 87,315	₩ 54,920
Reclassification of current maturities of long-term debts in won	102,235	453,597
Reclassification of current maturities of long-term debts in foreign currency	100,633	100,000
Total	<u>₩ 290,183</u>	<u>₩ 608,517</u>

28. Related party transactions

Details of the parents and subsidiaries are as follows:

Companies

Parent company	Doosan Co., Ltd.
Consolidated subsidiaries	Doosan Infracore Co., Ltd and its subsidiaries, Doosan Mecatec Co.,Ltd, Doosan Engine Co.,Ltd and its subsidiaries, Doosan Construction Co.,Ltd. and its subsidiaries, Doosan capital Co.,Ltd, Doosan Heavy Industries European Holdings and its subsidiaries, Ceylon Heavy Industries and Construction Co.,Ltd. Hanjung Power Limited, Han-Viet Heavy Industries and Construction Corp., Doosan Heavy Industries America Corp., Doosan Heavy Japan Corp., HF Controls Corp., Doosan Hydro Technology, Inc., Doosan Malaysia SDN. BHD, Doosan Vina
Equity-method investees	Hailong Cement J/V, Doosan Projects India (the former. INKOR), Nutra Park Inc., Doosan Engineering and Services India Pvt. Ltd., The second New wave investment association, N-shaper, National pension 05-5 partnership
Other related parties	Oricom Inc., Doosan Ecobiz-net, Doosan Bears Inc., Neoplux Co., Ltd., SRS Korea Co., Ltd., Samhwa Crown & Closure Co., Ltd.

Significant transactions, which occurred in the normal course of business with related companies, and their related balances are as follows:

<i>(in millions of Korean won)</i>	2007	Sales	Purchases	Receivables	Payables
Parent company	₩ 2	₩ 26,674	₩ 312	₩ 8,938	
Subsidiaries	243,513	257,551	55,752	37,877	
Equity-method investees	112	4,378	106	198	
Other related parties	-	8,783	726	7,175	
	<u>₩ 243,627</u>	<u>₩ 297,386</u>	<u>₩ 56,896</u>	<u>₩ 54,188</u>	

Doosan Heavy Industries and Construction Co., Ltd.
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(in millions of Korean won)

2006	Sales	Purchases	Receivables	Payables
Parent company	₩ 2	₩ 19,595	₩ 427	₩ 6,568
Subsidiaries	201,958	190,454	74,197	46,881
Equity-method investees	-	633	8	-
Other related parties	-	8,934	474	8,004
	<u>₩ 201,960</u>	<u>₩ 219,616</u>	<u>₩ 75,106</u>	<u>₩ 61,453</u>

Details of the compensation for key management are as follows:

(in millions of Korean won)

	2007	2006
Salaries	₩ 35,357	₩ 25,319
Severance pay	622	-
Share-based compensation	2,141	1,943
	<u>₩ 40,127</u>	<u>₩ 29,268</u>

Key management refers to the directors who have significant control and responsibilities on the Company's operations and business.

29. Segment information

Overview of the segment information is as follows:

	Products	Major Customers
Power plants	Hydro/Thermal power/ Nuclear Power Turbine/Generator, Main Plants	Korea Electric Power Corp., GE
Desalination plants	Desalination plants	ME
Industrial plants	Conveying plants, Environmental Plants	SWCC
Construction	Road construction, Apartment building, Various construction ordered by government	Public Procurement Service
Castings& Forgings	Casting and forging, Crank shafts, Molds and tool steel, Work rolls	Daewoo Shipbuilding & Marine Engineering Co., Ltd., Hanjin Heavy Industries & Construction Co., Ltd.

Doosan Heavy Industries and Construction Co., Ltd.
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Financial information by segments is as follows:

(in millions of Korean won)

2007	Power plants	Desalination plants	Industrial plants	Construction	Castings & Forgings	Total
Total segment sales	₩2,106,133	₩ 664,104	₩ 207,976	₩ 708,833	₩ 536,441	₩4,223,487
Inter-segment sales	60,465	473	459	17,721	54,827	133,945
Revenue	2,045,668	663,631	207,517	691,112	481,614	4,089,542
Operating income	100,932	(15,932)	20,603	60,861	116,843	283,307
Property, plant, equipment and intangible assets	679,187	125,750	39,815	886	284,002	1,129,640
Depreciation and amortization	56,976	3,435	2,967	306	33,691	97,375

(in millions of Korean won)

2006	Power plants	Desalination plants	Industrial plants	Construction	Castings & Forgings	Total
Total segment sales	₩1,784,852	₩ 661,913	₩ 201,747	₩ 648,159	₩ 466,807	₩3,733,478
Inter-segment sales	90,474	26,563	11,889	38,539	57,348	224,813
Revenue	1,664,378	653,350	189,858	609,620	409,459	3,508,665
Operating income	85,727	(23,248)	9,348	43,246	93,291	208,364
Property, plant, equipment and intangible assets	657,507	120,842	55,110	1,105	261,854	1,096,418
Depreciation and amortization	57,622	3,513	3,217	1,542	32,840	98,734

Geographical segment information is as follows:

	Products and Services	Major Customers
Korea	Hydro/Thermal power/Nuclear power Turbine/Generator Road/Apartment construction and others	Korea Electric Power Corp., Public Procurement Service., etc.
Asia	Turbine/Generator Main facilities And others	National Thermal Power., etc.
Middle East	Desalination plants	ME., others
Others	Conveying plants, Industrial Plants	SWCC., others

Doosan Heavy Industries and Construction Co., Ltd.
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Financial information by geographical segments is as follows:

<i>(in millions of Korean won)</i>	2007		2006	
	Sales	Operating income	Sales	Operating income
Domestic	₩ 2,082,408	₩ 169,212	₩ 21,176,516	₩ 129,254
Asia	393,613	31,984	491,594	29,193
Middle East	1,361,540	61,365	740,358	43,967
Others	251,981	20,476	100,197	5,950
Total	₩ 4,089,542	₩ 283,037	₩ 3,058,665	₩ 208,364

30. Collateralized Assets

Property, plant and equipment of ₩535,967 million has been pledged as collateral for borrowings of ₩945,727 million from Korea Development Bank.

31. Insured Assets

As of December 31, 2007, the Company's property, plant and equipment are insured with the Korea Fire Insurance Association and other insurance companies for up to ₩5,061,329 million. In addition, the Company carries general loss and comprehensive liability insurance coverage on its vehicles.

32. Interim results

Operating results for the three-month periods ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2007	2006
Sales	₩ 1,450,921	₩ 1,126,660
Operating income	118,492	100,834
Net income	110,237	43,142
Net income per share(won)	1,281	480

**Report of Independent Accountants'
Review of Internal Accounting Control System**

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

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Doosan Heavy Industries and Construction Co., Ltd. (the "Company") as of December 31, 2007. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2007, the Company's IACS has been designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2007, and we did not review management's assessment of its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
February 29, 2008

Report on the Operations of the Internal Accounting Control System

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”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2007.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, 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 reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

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, 2007, in all material respects, in accordance with the IACS standards.

February 4, 2008
Sung Hee Lee
Internal Accounting Control Officer

Nam Doo Lee
Chief Executive Officer and Vice Chairman