

DOOSAN INFRACORE CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007

(With Independent Auditors' Report Thereon)

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Balance Sheets	3
Consolidated Statements of Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	10

Independent Auditors' Report

Based on a report originally issued in Korean

To the Stockholders and Board of Directors
Doosan Infracore Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Doosan Infracore Co., Ltd. (the "Company") and subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of the Company as of December 31, 2006, were audited by other auditors, whose report thereon dated March 30, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Doosan Infracore Co., Ltd. and subsidiaries as of December 31, 2007 and the results of its operations, its changes in equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

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

As discussed in note 29 to the financial statements, the Company acquired the business segments of the machine tools and factory automation system of Doosan Mecatec Co., Ltd. on January 1, 2007. As this transaction was a transfer of business between subsidiaries, ₩ 39,997 million (net of ₩ 15,171 million tax effect) of goodwill was deducted first from the capital surplus and then from retained earnings.

As discussed in note 30 to the financial statements, the Company formed a consortium including the Company, Doosan Engine Co., Ltd., and unrelated financial investors to acquire shares of Doosan Infracore International, Inc., a special purpose holding company established in the United States of America, and Doosan Holdings Europe Ltd., a special purpose holding company established in Ireland. Effective December 1, 2007 the consortium consummated the acquisition of the compact equipment business from Ingersoll-Rand Ltd. through these two holding companies whose foreign subsidiaries would operate the compact equipment business of Ingersoll-Rand Ltd. The Company and Doosan Engine Co., Ltd. contributed USD 700 million and USD 650 million to Doosan Infracore International, Inc. and Doosan Holdings Europe Ltd., respectively to acquire common shares. In addition, the financial investors contributed USD 800 million to acquire preferred convertible shares of the two holding companies. The Company's acquisition cost of the common shares of Doosan Infracore International, Inc. and Doosan Holdings Europe Ltd. including other related acquisition costs were ₩ 675,418 million.



In relation to above transactions the financial investors have put options to sell their convertible preferred shares, not converted within 5 years from the date of the remittance at their original investment cost plus interest at 9%, compounded annually. The financial investors shall not sell their shares to third parties without consent of the Company.

As discussed in note 19 to consolidated financial statements, the Company entered into a loan agreement with lenders, including Korea Development Bank and nine other financial institutions, for long-term borrowings of USD 700 million in connection with the Company's capital contributions to Doosan Infracore International, Inc. and Doosan Holdings Europe Ltd. This agreement requires the Company to maintain its EBITDA higher than 1.5 times of its net interest expense and its financial debt should be less than 6 times of the EBITDA.

KPMG Samjong Accountif Corp.

Seoul, Korea
March 19, 2008

This report is effective as of March 19, 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 consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets

As of December 31, 2007 and 2006

In thousands of Won, except share data

	Note	2007	2006
Assets			
Cash and cash equivalents	3,10,17	₩ 25,442,714	54,101,800
Short-term financial instruments	3	505,647	1,111,372
Short-term investment securities	5,10	788,460	690,015
Accounts and notes receivable -trade, less allowance for doubtful accounts of ₩ 55,879,928 in 2007 and ₩ 52,841,822 in 2006	4,9,13,17	793,479,509	705,550,258
Accounts and notes receivable -other, less allowance for doubtful accounts of ₩ 14,238,009 in 2007 and ₩ 13,922,348 in 2006	17	130,521,896	63,901,537
Advance payment		70,815,560	120,634,635
Inventories	10,13	827,032,230	725,836,474
Deferred tax assets	24	40,989,788	19,549,644
Other current assets	6,20,24	41,749,255	64,670,931
Total current assets		<u>1,931,325,059</u>	<u>1,756,046,666</u>
Equity method accounted investments	8,9,13,19,30	829,354,953	161,873,546
Non-current investments	3,7,9,10	8,906,323	37,740,103
Property, plant and equipment, net	10,13,31	825,075,103	790,528,990
Intangible assets	11,31	79,167,666	67,934,592
Other non-current assets	12,24	64,562,090	43,890,690
Total non-current assets		<u>1,807,066,135</u>	<u>1,101,967,921</u>
Total assets		<u>₩ 3,738,391,194</u>	<u>2,858,014,587</u>
Liabilities			
Short-term borrowings	9,13,17	₩ 327,905,660	362,293,835
Accounts and notes payable -trade	9,17	526,923,310	478,870,656
Accounts and notes payable -other	17	265,632,348	202,400,422
Current portion of long-term borrowings, net	9,13,15,17	70,666,739	110,385,599
Advance receipts		98,285,729	176,033,169
Withholdings		11,347,576	16,528,239
Accrued expenses	17	51,116,871	31,909,076
Income taxes payable	24	101,425,033	33,002,956
Provision for product warranties		42,818,238	26,073,736
Other current liabilities	14,20	114,649,323	79,844,403
Total current liabilities		<u>1,610,770,827</u>	<u>1,517,342,091</u>
Long-term borrowings, net	13,15,17,19	707,785,331	60,789,163
Bonds, net	15	180,000,000	120,000,000
Accrual for retirement and severance benefits, net	18	56,206,251	55,126,310
Deferred tax liabilities	24	31,303,118	37,185,809
Other non-current liabilities	16	9,090,069	8,865,388
Total non-current liabilities		<u>984,384,769</u>	<u>281,966,670</u>
Total liabilities		<u>2,595,155,596</u>	<u>1,799,308,761</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets, Continued

As of December 31, 2007 and 2006

In thousands of Won, except share data

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Equity			
Controlling equity		₩ 1,120,161,985	1,058,363,864
Common stock of ₩ 5,000 par value			
Authorized - 400,000,000 shares			
Issued - 168,157,384 shares	1,21	840,786,920	840,786,920
Capital surplus	29	32,899,777	14,420,392
Capital adjustments	21,25,27	(195,877,584)	(198,332,203)
Accumulated other comprehensive income	7,8,20,28	(64,219,766)	(16,331,214)
Retained earnings	22,29	506,572,638	417,819,969
Minority interest		23,073,613	341,962
Total equity		<u>1,143,235,598</u>	<u>1,058,705,826</u>
Total equity and liabilities		₩ <u>3,738,391,194</u>	<u>2,858,014,587</u>

See accompanying notes to consolidated financial statements.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Income

For the years ended December 31, 2007 and 2006

In thousands of Won, except earnings per share

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Revenue	9,31	₩ 4,280,138,950	3,709,958,823
Cost of sales	9	<u>3,186,000,221</u>	<u>2,770,524,355</u>
Gross profit	31	1,094,138,729	939,434,468
Selling, general and administrative expenses	23	<u>708,604,540</u>	<u>636,214,104</u>
Operating income	31	<u>385,534,189</u>	<u>303,220,364</u>
Interest income	7	10,080,723	9,782,986
Interest expense		(52,314,275)	(44,701,666)
Gain on sale of non-current investments, net	9	33,781,856	727,430
Loss on disposal of accounts and notes receivable -trade	4	7,039,428	6,754,029
Foreign currency translation gain, net	17	1,932,256	10,196,968
Foreign currency transaction gain (loss), net		6,901,030	(8,353,854)
Dividend income		39,960	39,960
Equity in loss of equity method accounted investees, net	8	(43,907,488)	(25,735,092)
Reversal of allowance for doubtful accounts		5,159,667	6,500,179
Gain on sale of property, plant and equipment, net		1,981,849	1,269,182
Reversal of impairment losses of property, plant and equipment	10	(18,312,750)	(9,416,335)
Impairment of non-current investment securities	7	(299,980)	-
Gain (loss) on transaction of derivative instruments, net		(13,432,024)	3,096,166
Loss on valuation of derivatives, net	20	(3,648,141)	(27,354,925)
Donations		(9,893,669)	(5,879,011)
Other, net		<u>3,789,120</u>	<u>(15,043,711)</u>
Other expense		<u>(71,102,438)</u>	<u>(98,117,694)</u>
Income before income taxes		314,431,751	205,102,670
Income taxes	24	<u>115,127,546</u>	<u>72,401,521</u>
Net income		₩ <u>199,304,205</u>	<u>132,701,149</u>
Net income for controlling interest	33	₩ <u>193,497,393</u>	<u>132,662,573</u>
Net income for minority interest	33	₩ <u>5,806,812</u>	<u>38,576</u>
Earnings per share			
Basic earnings per share	25	₩ <u>1,238</u>	<u>861</u>
Diluted earnings per share	25	₩ <u>1,236</u>	<u>860</u>

See accompanying notes to consolidated financial statements.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2007 and 2006

In thousands of Won

		Capitall Stock	Capital Surplus	Capital Adjustments	Accumu- lated other compre- hensive income	Retained earnings	Minority interest	Total equity
Balance at January 1, 2006	₩	839,786,920	10,176,234	(75,548,161)	9,828,819	315,383,554	338,376	1,099,965,742
Gain on prior period error correction		-	-	-	-	11,496,424	-	11,496,424
Retained earnings after correction		-	-	-	-	326,879,978	338,376	1,111,462,166
Dividends		-	-	-	-	(40,933,124)	-	(40,933,124)
Balance after appropriation		-	-	-	-	285,946,854	338,376	1,070,529,042
Net income		-	-	-	-	132,662,573	38,576	132,701,149
Exercise of stock option		1,000,000	307,366	-	-	-	-	1,307,366
Acquisition of treasury stock		-	-	(123,472,039)	-	-	-	(123,472,039)
Stock option		-	-	687,997	-	-	-	687,997
Change in fair value of available-for-sale securities, net of tax		-	-	-	7,868,705	-	-	7,868,705
Unrealized loss on valuation of equity method accounted investments		-	-	-	347,449	-	-	347,449
Unrealized gain on valuation of derivative instruments		-	-	-	12,732,902	-	-	12,732,902
Unrealized loss on valuation of derivative instruments		-	-	-	(23,327,764)	-	-	(23,327,764)
Cumulative effect of foreign currency translation		-	-	-	(23,781,325)	-	-	(23,781,325)
Changes in consolidated subsidiary		-	-	-	-	(789,458)	8,023	(781,435)
Other		-	3,936,792	-	-	-	(43,013)	3,893,779
Balance at December 31, 2006	₩	<u>840,786,920</u>	<u>14,420,392</u>	<u>(198,332,203)</u>	<u>(16,331,214)</u>	<u>417,819,969</u>	<u>341,962</u>	<u>1,058,705,826</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2007 and 2006

In thousands of Won

		Capitall Stock	Capital Surplus	Capital Adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest	Total equity
Balance at January 1, 2007	₩	840,786,920	14,420,392	(198,332,203)	(16,331,214)	417,819,969	341,962	1,058,705,826
Dividends		-	-	-	-	(54,727,584)	-	(54,727,584)
Balance after appropriation		-	-	-	-	363,092,385	341,962	1,003,978,242
Net income		-	-	-	-	193,497,393	5,806,812	199,304,205
Goodwill		-	(384,207)	-	-	(39,612,696)	-	(39,996,903)
Adjustment due to issuance of common stock of subsidiaries		-	18,880,577	-	-	-	-	18,880,577
Acquisition of treasury stock		-	-	(145,451)	-	-	-	(145,451)
Stock option		-	-	2,600,070	-	-	-	2,600,070
Change in fair value of available-for-sale securities, net of tax		-	-	-	(15,824,337)	-	-	(15,824,337)
Unrealized gain on valuation of equity method accounted investments		-	-	-	9,171,927	-	-	9,171,927
Unrealized loss on valuation of equity method accounted investments		-	-	-	(6,821,921)	-	-	(6,821,921)
Unrealized gain on valuation of derivative instruments		-	-	-	(13,074,146)	-	-	(13,074,146)
Unrealized loss on valuation of derivative instruments		-	-	-	(25,788,825)	-	-	(25,788,825)
Cumulative effect of foreign currency translation		-	-	-	4,448,750	-	-	4,448,750
Change in minority interests		-	-	-	-	-	16,924,839	16,924,839
Change in consolidated subsidiaries		-	-	-	-	421,895	-	421,895
Other		-	(16,985)	-	-	(10,826,339)	-	(10,843,324)
Balance at December 31, 2007	₩	<u>840,786,920</u>	<u>32,899,777</u>	<u>(195,877,584)</u>	<u>(64,219,766)</u>	<u>506,572,638</u>	<u>23,073,613</u>	<u>1,143,235,598</u>

See accompanying notes to consolidated financial statements.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

<i>In thousands of Won</i>	2007	2006
Cash flows from operating activities		
Net income	₩ 199,304,205	132,701,149
Adjustments for:		
Depreciation	62,235,674	82,040,233
Amortization	16,359,706	11,476,780
Provision for retirement and severance benefits	35,968,041	32,235,724
Stock option compensation	2,600,071	1,072,205
Interest expense	481,661	1,814,696
Interest income	-	(570,312)
Reversal of impairment losses on property, plant and equipment	(18,312,750)	(9,416,335)
Impairment of non-current investment securities	299,980	-
Impairment on intangible assets	155,005	1,308,925
Reversal of allowance for doubtful accounts -trade	(5,159,667)	(6,500,179)
Gain on sale of non-current investments, net	(33,781,856)	(727,430)
Equity in loss of equity method accounted investees, net	43,907,488	25,735,092
Gain on sale of property, plant and equipment, net	(1,981,849)	(1,269,182)
Foreign currency translation gain, net	(1,951,820)	(10,267,040)
Loss on valuation of derivatives, net	3,648,141	27,354,925
Loss (gain) on debt repayment	(76,692)	9,773,491
Gain on sale of other non-current assets	(1,090,909)	(2,993,554)
Provision for allowance for doubtful accounts -other	-	24,725
Miscellaneous income	(1,622,214)	-
	<u>300,982,215</u>	<u>293,793,913</u>
Change in inventories	(59,296,284)	(15,003,728)
Change in accounts and notes receivable -trade	(7,454,516)	(158,685,705)
Change in accounts and notes receivable -other	(53,518,800)	6,948,746
Change in accounts and notes payable -trade	(15,576,136)	153,820,396
Change in accounts and notes payable -other	45,546,415	18,000,220
Change in advance payment	50,043,843	(6,121,119)
Change in advance receipts	(81,345,152)	(50,086,069)
Payment of retirement and severance benefit	(41,975,359)	(26,364,708)
Accrued severance benefit transferred from related parties	1,698,807	967,246
Change in accrued expenses	16,897,752	(2,034,510)
Change in income taxes payable	66,349,228	10,760,511
Change in provision for product warranties	14,283,919	12,904,594
Change in withholdings	(5,225,608)	(1,472,471)
Change in deferred tax assets	(21,375,431)	(9,126,869)
Change in other current assets	12,336,868	3,049,036
Change in other current liabilities	(4,656,172)	(11,940,732)
Change in non-current deferred tax assets	(2,371,977)	-
Change in non-current deferred tax liabilities	18,797,105	17,435,791
Change in other non-current liabilities	1,599,504	(3,422,855)
Dividend received	1,000,000	-
	<u>(64,241,994)</u>	<u>(60,372,226)</u>
Net cash provided by operating activities	<u>236,740,221</u>	<u>233,421,687</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2007 and 2006

In thousands of Won

	2007	2006
Cash flows from investing activities		
Proceeds from sale of short-term investments ₩	690,015	23,635
Withdrawal of short-term financial instruments	17,681,252	98,731,681
Decrease in short-term loans	21,859	-
Proceeds from sale of non-current investments	41,086,740	3,317,965
Proceeds from sale of property, plant and equipment	9,806,025	87,876,495
Contribution for capital expenditure	259,316	637,196
Decrease in intangible assets	2,395,021	-
Decrease in long-term loans	34,000	-
Proceeds from sale of other non-current assets	3,898,675	4,446,789
Acquisition of short-term financial instruments	(17,009,132)	-
Increase in short-term loans	(39,426)	(11,843)
Acquisition of non-current investments	(1,375,674)	(193,280)
Acquisition of equity method accounted investments	(709,242,819)	(109,209,520)
Acquisition of property, plant and equipment	(74,606,195)	(59,570,784)
Acquisition of intangible assets	(23,808,928)	(22,181,447)
Acquisition of other non-current assets	(11,359,882)	(9,447,409)
Acquisition of business from Doosan Mecatec Co., Ltd.	(70,546,000)	-
Net cash used in investing activities	(832,115,153)	(5,580,522)
Cash flows from financing activities		
Proceeds from short term borrowings	2,985,306,553	422,908,442
Proceeds from long term borrowings	668,866,934	-
Proceeds from issuance of bond	100,000,000	120,000,000
Exercise of stock option	-	1,000,000
Cash inflows from partial disposition of interest in subsidiaries	20,069,962	-
Repayment of short term borrowings	(3,037,609,085)	(440,467,840)
Repayment of current portion of long term borrowings	(108,349,832)	(91,320,852)
Repayment of long term borrowings	(4,686,381)	(151,177,746)
Dividends paid	(54,727,583)	(40,933,124)
Acquisition of treasury stock	(145,451)	(123,472,039)
Net cash provided by (used in) financing activities	568,725,117	(303,463,159)
Net effect of changes in foreign exchange rate	(1,406,384)	8,175,674
Net increase (decrease) in cash and cash equivalents due to changes in consolidated subsidiaries	(602,887)	205,241
Net decrease in cash and cash equivalents	(28,659,086)	(67,241,079)
Cash and cash equivalents at beginning of year	54,101,800	121,342,879
Cash and cash equivalents at end of year ₩	25,442,714	54,101,800

See accompanying notes to consolidated financial statements.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1 Organization and Description of Business

(a) Summary of Controlling Company

Doosan Infracore Co., Ltd. (the "Parent Company") was incorporated on October 23, 2000 as a spin-off from Daewoo Heavy Industries Ltd. ("DHI") under the Corporate Restructuring Agreement dated January 20, 2000 between DHI and its creditors, which was approved by DHI's shareholders on June 27, 2000. The Parent Company operates and manages DHI's business segment of manufacturing, selling, and construction of industrial machinery and equipment.

In connection with the spin-off, effective September 30, 2000, DHI transferred to the Parent Company certain assets and liabilities amounting to ₩ 2,494 billion and ₩ 2,806 billion, respectively.

The Parent Company was listed on the Stock Market of Korean Exchange (formerly, Korea Stock Exchange) on February 2, 2001, and changed its name to Doosan Infracore Co., Ltd. from Daewoo Heavy Industries & Machinery Ltd. The Parent Company's common stock as of December 31, 2007 amounted to 840,787 million and major stockholders consist of DHI (38.87%), Doosan Mecatec Co., Ltd. (6.04%), and Doosan Engine Co., Ltd. (6.04%).

(b) Summary of Subsidiaries

(i) As of December 31, 2007 the consolidated subsidiaries consist of the followings:

In millions of Won

<u>Subsidiaries</u>	<u>Location</u>	<u>Type of business</u>	<u>Settling date</u>	<u>Capital stock</u>	<u>Ownership</u>
Doosan Infracore China Co., Ltd.	China	Manufacturing, Sales	December 31	₩ 31,764	90%
Doosan Infracore Machine Tools Yantai Co., Ltd.	China	Manufacturing, Sales	"	11,489	90%
Doosan Infracore Europe S.A.	Belgium	Manufacturing, Sales	"	46,002	99.49%
Doosan Infracore America Corp. (***)	U.S.A	Purchases, Sales	"	31,577	100%
Doosan Infracore Germany GmbH. (****)	Germany	Purchases, Sales	"	5,195	100%
Doosan Infracore Japan Corp.	Japan	Purchases	"	100	100%
Doosan Infracore U.K., Ltd.	England	Sales	"	5,393	(*)
Doosan Infracore Liaoning Machinery Co., Ltd.	China	Sales	"	1,318	(**)

(*) Doosan Infracore Europe S.A. has 100% of ownership.

(**) Doosan Infracore China Co., Ltd. has 70% of ownership.

(***) The subsidiary merged Doosan Machinery America Inc. during 2007.

(****) The subsidiary merged Doosan Machinery Europe GmbH. during 2007.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

1 Organization and Description of Business, Continued

(b) Summary of Subsidiaries, Continued

(ii) As of December 31, 2006 the consolidated subsidiaries consist of the followings:

In millions of Won

<u>Subsidiaries</u>	<u>Location</u>	<u>Type of business</u>	<u>Settling date</u>	<u>Capital stock</u>	<u>Ownership</u>
Doosan Infracore China Co., Ltd.	China	Manufacturing, Sales	December 31	₩ 29,407	100.00%
Doosan Infracore Machine Tools Yantai Co., Ltd.	China	Manufacturing, Sales	"	10,555	100.00%
Doosan Infracore Europe S.A.	Belgium	Manufacturing, Sales	"	46,002	99.49%
Doosan Infracore America Corp.	U.S.A	Purchases, Sales	"	31,577	100.00%
Doosan Infracore Germany GmbH.	Germany	Purchases, Sales	"	5,195	100.00%
Doosan Infracore Japan Corp.	Japan	Purchases, Sales	"	100	100.00%
Doosan Infracore U.K., Ltd.	England	Sales	"	1,129	(*)
Doosan Infracore Liaoning Machinery Co., Ltd.	China	Sales	"	1,318	(**)
Doosan Infracore South Africa Pty.Ltd.	South Africa	Sales	"	50	100.00%

(*) Doosan Infracore Europe S.A. has 100% of ownership.

(**) Doosan Infracore China Co., Ltd. has 70% of ownership.

(c) Change in Scope of Consolidation

Subsidiaries which are excluded from scope of consolidation during 2007 are as follow:

<u>Subsidiaries</u>	<u>Description</u>
Doosan Infracore South Africa Pty. Ltd.	Plan to sell all shares during 2008

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(a) Basis of Presenting Financial Statements

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

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

Effective January 1, 2007, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 21 (*Preparation and Presentation of Financial Statements*), No. 22 (*Share-based Payments*), No. 23 (*Earnings per Share*) and No. 25 (*Consolidated Financial Statements*). Certain accounts of the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications have not resulted in any change to reported net income or stockholders' equity.

(b) Changes in Presentation of Financial Statements

According to SKAS No. 21, *Preparation and Presentation of Financial Statements*, and SKAS No. 25, *Consolidated Financial Statements*, the capital adjustment account as of December 31, 2006 has been split into capital adjustments and accumulated other comprehensive income. In addition, earnings per share data are now presented as a separate item in the statement of income in accordance with the adoption of the standards. A statement of comprehensive income has been included in the notes to the financial statements.

(c) Cash Equivalents

The Company considers short-term deposits with maturities of three months or less on acquisition date to be cash equivalents.

(d) Allowance for Doubtful Accounts and Restructured Accounts Receivable

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

When the terms of trade accounts and notes receivable (the principal, interest rate or term) are varied, either through a court order, such as a reorganization, or by mutual formal agreement, resulting in a reduction in the present value of the future cash flows due to the Company, the difference between the carrying value of the relevant accounts and notes receivable and the present value of the future cash flows is recognized as bad debt expense.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(e) Inventories

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

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period for acquisition, construction or production as an expense in the period in which they are incurred.

(f) Investments in Securities (excluding in associates, subsidiaries or interests in joint ventures)

Classification

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

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

Initial recognition

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

Subsequent measurement and income recognition

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

Fair value information

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

Presentation

Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the balance sheet date or where the likelihood of disposal within one year from the balance sheet date is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the balance sheet date, are presented as current assets. All other available-for-sale securities and held-to-maturity securities are presented as long-term investments.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(f) Investments in Securities (excluding in associates, subsidiaries or interests in joint ventures), Continued

Impairment

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

(g) Investments in Associates and Subsidiaries

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

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

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

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

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Assets acquired through investment in kind or donation, are recorded at their fair value upon acquisition. For assets acquired in exchange for a non-monetary asset, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

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

	<u>Useful lives</u>	
Buildings(half timbered and brick)	40 (20)	years
Structures	20	years
Machinery	10	years
Vehicles	5	years
Tools	5	years
Furniture and fixtures	3~5	years

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition or construction of property, plant and equipment as an expense in the period in which they are incurred.

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

(i) Intangible Assets

An intangible asset is an asset where: (1) it is probable that future economic benefits that are attributable to the asset will flow into the entity and (2) the cost of the asset can be measured reliably. Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Impairment losses are determined as the amount required to reduce the carrying amount of an intangible asset to its recoverable amount. The criteria for determining whether an incurred cost qualifies as an intangible asset and the periods of amortization for each classification of intangible asset are described below.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(i) Intangible Assets, Continued

(i) Research and Development Costs

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the expense generation process into a research phase and a development phase. All costs incurred during the research phase are expensed as incurred. Costs incurred during the development phase are recognized as assets only if the following criteria are met for recognition in SKAS No. 3, *Intangible Assets*: (1) Completion of the intangible asset is technically feasible so that it will be available for use or sale; (2) the Company has the intention and ability to complete the intangible asset and use or sell it; (3) there is evidence that the intangible asset will generate probable future economic benefit; (4) the Company has adequate technical, financial and other resources to complete the development of the intangible asset and the intangible asset will be available; and (5) the expenditures attributable to the intangible asset during its development can be reliably determined.

If the costs incurred fail to satisfy these criteria, they are recorded as expenses as incurred. Where development costs satisfy the criteria, they are capitalized and amortized on a straight-line basis over 5 years. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads.

(ii) Other Intangible Assets

Other intangible assets, which consist of industrial property rights, franchise rights and software, are amortized using the straight-line method over 5~15 years.

(j) Contributions Received for Capital Expenditure

Contributions received from third parties for capital expenditure are presented as a reduction of the acquisition cost of the acquired assets and, accordingly, reduce depreciation expense related to the acquired assets over their useful lives.

Income from grants that do not require the Company to fulfill any subsequent obligations and which is directly related to the Company's operating activities is recognized as operating income, net of related costs. Other income from grants is recognized as other income.

(k) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company (or the bank) in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to a new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(l) Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term cash loans/borrowings and other similar transactions are stated at present value. The difference between the nominal value and present value of these receivables or payables is amortized using the effective interest method. The amount amortized is included in interest expense or interest income.

(m) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩ 938.2 to US\$1, the rate of exchange on December 31, 2007 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

(n) Derivatives

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

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

Hedge accounting

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

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

Fair value hedge

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(n) Derivatives, Continued

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

Derivatives that do not qualify for hedge accounting

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

Separable embedded derivatives

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

(o) Share-based Payments

The Company has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest. For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

(p) Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense generated by the provision is presented net of the amount of expected reimbursement.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(q) Revenue Recognition

The Company's revenue categories principally consist of sales of goods and construction contracts.

Goods sold

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

Construction contracts

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

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

(r) Income Taxes

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

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

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

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

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

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

(s) Earnings Per Share

Earnings per share are calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of shares outstanding during the period.

Diluted earnings per share are determined by adjusting net income attributable to stockholders and the weighted-average number of shares outstanding for the effects of all potentially dilutive shares, which comprise convertible preferred stock and stock options granted to employees.

(t) Use of Estimates

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

(u) Elimination of Significant Inter-company Balances and Transactions

Investments in subsidiaries and equity accounts of subsidiaries were eliminated at the date of the latest acquisition, which resulted in the Company's obtaining control of the subsidiaries. The differences between acquisition cost and net asset acquired are recorded either in goodwill or negative goodwill. If additional shares are purchased after control of the subsidiaries have been obtained, the differences between acquisition cost and net assets acquired are credited or charged to capital surplus. If the acquisition date is not the normal financial reporting date of subsidiaries, the closest normal financial reporting date to the acquisition date is regarded as the acquisition date. All significant inter-company transactions are eliminated in the consolidated financial statements.

3 Restricted Deposits

Deposits which are restricted in use as of December 31, 2007 and 2006 are as follows:

<i>In millions of Won</i>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	₩ 702	-
Short-term financial instruments	66	1,111
Long-term financial instruments	17	200
	<u>₩ 785</u>	<u>1,311</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

4 Transfers of Trade Accounts Receivable

Outstanding trade accounts and notes receivable transferred to and discounted with third parties, and excluded from the accompanying balance sheets, as of December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won and in thousands of foreign currency</i>	2007		2006	
Trade accounts receivable	KRW	199,901	KRW	195,616
	USD	297,316	USD	405,031
	EUR	119,452	EUR	197,908
	JPY	677,280	JPY	828,966
	AUD	4,134	AUD	-
	GBP	18,124	GBP	18,399

As of December 31, 2007, notes discounted with banks for which the Company remained contingently liable amounted to ₩ 84 million.

5 Short-term Investment Securities

Short-term investment securities as of December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won</i>	2007	2006
Held-to-maturity securities (*)	₩ 788	690

(*) Held-to-maturity securities are composed of government bonds and municipal bonds.

6 Other Current Assets

Other current assets as of December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won</i>	2007	2006
Short-term loans	₩ 77	35
Accrued income	1,839	1,038
Prepaid expenses	8,392	9,171
Prepaid taxes	58	4,155
Derivatives	30,909	43,322
Other	474	6,950
	₩ 41,749	64,671

7 Non-current Investments

Non-current investments as of December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won</i>	2007	2006
Available-for-sale securities	₩ 7,797	35,713
Held-to-maturity securities	1,092	1,827
Long-term financial instruments	17	200
	₩ 8,906	37,740

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

7 Non-current Investments, Continued

(a) Available-for-sale securities

As of December 31, 2007 and 2006, available-for-sale securities are composed of marketable securities recorded at fair value and non-marketable securities recorded at cost.

(i) Marketable securities recorded at fair value

Marketable securities recorded at fair value as of December 31, 2007 and 2006 are summarized as follows:

In millions of Won

	2007		2006
	Acquisition cost	Fair value	Fair value
Marketable securities	₩ 1,363	1,831	30,777
Non-marketable securities (*)(**)(***)	₩ 6,256	5,966	4,936
	₩ 7,619	7,797	35,713

(*) Due to the bankruptcy of K2 Power Co., Ltd. the Company recorded impairment loss of ₩ 300 million, which is the total acquisition cost of the securities.

(**) As Doosan Infracore do Brasil Servicos de Suporte Comercial Ltda. with acquisition cost of ₩ 185 million and Doosan Infracore India private Ltd. with acquisition cost of ₩ 557 million are small affiliates and the effect of applying the equity method of accounting is not material, the Company does not apply the equity method to investments.

(***) These non-marketable securities are recorded at cost since their fair value is not readily determinable.

(ii) Changes in unrealized gains

Changes in unrealized gains for the years ended December 31, 2007 and 2006 are summarized as follows:

In millions of Won

	2007	2006
Net balance at beginning of year	₩ 22,294	11,485
Realized gains on disposition of securities	(21,554)	(854)
Unrealized gains (losses) on valuation of securities	(272)	11,663
Net balance at end of year	₩ 468	22,294

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

7 Non-current Investments, Continued

(b) Held-to-maturity securities

(i) Held-to-maturity securities as of December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won</i>	Face value		Book value	
	2007	2006	2007	2006
Government bonds	₩ 592	1,327	592	1,327
Subordinate securities	500	500	500	500
	₩ <u>1,092</u>	<u>1,827</u>	<u>1,092</u>	<u>1,827</u>

(ii) Maturities of debt securities classified as held-to-maturity at December 31, 2007 are as follows:

<i>In millions of Won</i>	Amortized cost	Fair value
Held-to-maturity		
Due within one year	₩ 788	788
Due after one year through to five years	<u>1,092</u>	<u>1,092</u>
	₩ <u>1,880</u>	<u>1,880</u>

During 2007 the Company recorded interest income of ₩ 109 million in relation to the debt securities, above.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

8 Equity Method Accounted Investments

(a) Investments in companies accounted for using the equity method as of December 31, 2007 and 2006 are as follows:

In millions of Won, except percentage of ownership

<u>Company</u>	<u>Percentage of ownership</u>	<u>Cost</u>	<u>Net assets</u>	<u>2007</u>	<u>2006</u>
Doosan Infracore (China) Investment Co., Ltd.	100.00%	₩ 27,703	27,697	27,697	2,482
Doosan Infracore Xinjiang Machinery Co., Ltd. (*)	60.00%	4,055	1,362	-	-
Dajian (Tianjin) Mechanical Construction Co., Ltd. (*) (****)	60.00%	1,782	(462)	-	-
Doosan Infracore South Africa Pty. Ltd. (*) (****)	100.00%	57	3,494	-	-
Daewoo Machinery Co., Ltd. (*) (**) (***)	100.00%	1,308	-	-	-
Daewoo Maquinas E Equipamentos .Ltda. (*) (**) (***)	70.00%	1,181	-	-	-
Doosan Infracore International, Inc. (***)(****)	51.85%	326,228	303,593	317,427	-
Doosan Holdings Europe Ltd. (***)(****)	51.85%	349,190	302,786	317,594	-
Doosan Infracore Suzhou Co., Ltd.	65.00%	1,837	652	1,837	-
Yantai Yuhua Machinery Co., Ltd.	75.00%	7,002	7,002	7,002	-
Doosan (China) Financial Leasing Corp.	10.00%	963	731	731	-
Korea Aerospace Industries, Ltd. (***)	22.23%	159,800	88,584	88,584	84,163
Doosan Capital Co., Ltd. (*****)	19.99%	76,000	39,928	68,483	75,229
		₩ <u>957,106</u>	<u>775,367</u>	<u>829,355</u>	<u>161,874</u>

(*) The Company stopped applying the equity method as the book value of the investment is nil.

(**) The subsidiaries are under liquidation as of December 31, 2007.

(***). Percentage of ownership is calculated by number of common shares.

(****). The Company plans to sell the equity method accounted investments.

(*****) The Company has provided all of its shares in Doosan Holdings Europe Ltd. as collateral in relation to Doosan Holdings Europe Ltd.'s long-term borrowings.

(*****) Though its ownership is below 20%, the Company accounts for its investment in Doosan Capital Co., Ltd. using the equity method of accounting since it may exercise significant control over the management of the investee.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

8 Equity Method Accounted Investments, Continued

- (b) Changes in goodwill for equity method accounted investments for the year ended December 31, 2007 are as follows:

In millions of Won

Company		Balance at January 1, 2007	Increase	Amortized amount	Balance at December 31, 2007
Doosan Infracore International, Inc.	₩	-	13,892	(58)	13,834
Doosan Holdings Europe Ltd.		-	14,870	(62)	14,808
Doosan Capital Co., Ltd.		36,170	-	(7,615)	28,555
Doosan Infracore Suzhou Co., Ltd.		-	1,185	-	1,185
	₩	<u>36,170</u>	<u>29,947</u>	<u>(7,735)</u>	<u>58,382</u>

- (c) Details of eliminated unrealized gains from intercompany transactions for the year ended December 31, 2007 are as follows:

In millions of Won

Company	Current assets	Investments	Property & equipment	Total
Doosan Infracore Xinjiang Machinery Co., Ltd.	1,705	-	-	1,705
Doosan Infracore South Africa Pty. Ltd.	4,226	-	-	4,226
	₩ <u>5,931</u>	<u>-</u>	<u>-</u>	<u>5,931</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

8 Equity Method Accounted Investments, Continued

- (d) Changes in the opening and closing balances of the investments in companies accounted for using the equity method for the year ended December 31, 2007 are as follows:

In millions of Won

Company	Balance at January 1, 2007	Acquisition	Net income (loss)	Accumulated other comprehen- sive income	Dividend received	Other (*)	Balance at December 31, 2007
Doosan Infracore ₩ (China) Investment Co., Ltd.	2,482	24,493	4,890	(4,168)	-	-	27,697
Doosan Infracore International, Inc.	-	326,228	(13,578)	4,777	-	-	317,427
Doosan Holdings Europe Ltd.	-	349,190	(36,014)	4,418	-	-	317,594
Doosan Infracore Suzhou Co., Ltd.	-	1,746	-	-	-	91	1,837
Yantai Yuhua Machinery Co., Ltd.	-	6,658	-	-	-	344	7,002
Doosan (China) Financial Leasing Corp.	-	928	(232)	-	-	35	731
Korea Aerospace Industries, Ltd.	84,163	-	4,439	(18)	-	-	88,584
Doosan Capital Co., Ltd.	75,229	-	(3,412)	(2,334)	(1,000)	-	68,483
	<u>₩ 161,874</u>	<u>709,243</u>	<u>(43,907)</u>	<u>2,675</u>	<u>(1,000)</u>	<u>470</u>	<u>829,355</u>

(*) Other is due to changes in exchange rates.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

8 Equity Method Accounted Investments, Continued

- (e) Summarized financial information of the equity method accounted investments as of December 31, 2007 and for the year then ended is as follows:

In millions of Won

<u>Company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
Doosan Infracore (China) Investment Co., Ltd. (*)	₩ 28,507	811	4,899	4,890
Doosan Infracore Xinjiang Machinery Co., Ltd. (*)	8,700	6,430	10,385	325
Dajian (Tianjin) Mechanical Construction Co., Ltd. (*)	2,069	2,839	18	(66)
Doosan Infracore South Africa Pty. Ltd. (*)	15,389	11,895	37,332	992
Doosan Infracore International, Inc. (*)	3,027,856	2,079,696	130,810	(26,075)
Doosan Holdings Europe Ltd. (*)	4,001,802	3,030,064	84,639	(69,335)
Doosan Infracore Suzhou Co., Ltd. (*)	1,511	508	-	(144)
Yantai Yuhua Machinery Co., Ltd. (*)	9,346	10	-	-
Doosan (China) Financial Leasing Corp. (*)	9,394	2,084	47	(2,323)
Korea Aerospace Industries, Ltd. (*)	1,084,684	649,160	800,237	4,183
Doosan Capital Co., Ltd.	2,291,784	2,092,006	172,639	19,552

(*) The Company used the unaudited financial statements of these companies when applying the equity method of accounting.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

8 Equity Method Accounted Investments, Continued

- (f) As the book value of the equity method accounted investments is nil, the Company stopped applying the equity method. The amount of unrecognized equity method losses for the year ended December 31, 2007 and the accumulated amount of losses up to 2006 are as follows;

In millions of Won

<u>Company</u>	<u>2007</u>	<u>Accumulated up to 2006</u>	<u>Total</u>
Doosan Infracore Xinjiang Machinery Co., Ltd.	₩ (233)	(110)	(343)
Dajian (Tianjin) Mechanical Construction Co., Ltd.	(73)	(389)	(462)
Doosan Infracore South Africa Pty. Ltd.	543	(1,275)	(732)
	₩ <u>237</u>	<u>(1,774)</u>	<u>(1,537)</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

9 Transactions and Balances with Related Companies

(a) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2007 and 2006 are summarized as follows:

In millions of Won

<u>Relationship</u>	<u>Name</u>	<u>Transaction</u>	<u>2007</u>	<u>2006</u>
Parent	Doosan Corp.	Sales ₩	1,627	1,108
		Purchases	35,053	19,330
	Doosan Heavy Industries and Construction Co., Ltd.	Sales	271	409
		Purchases	126	-
Exercising significant influence over an investee	Doosan Mecatec Co., Ltd. (*)	Sales	18	4,918
		Purchase	77,307	7,867
Equity method investee	Korea Aerospace Industries, Ltd.	Sales	-	2,496
		Purchases	464	-
	Doosan Capital Co., Ltd.	Purchases	-	1,510
	Doosan Infracore South Africa Pty. Ltd.	Sales	27,395	21,897
		Purchases	439	284
Other related party	Doosan Construction & Engineering Co., Ltd.	Sales	-	68
		Purchases	4,311	243
	Doosan Tower	Purchases	87	-
	Oricom	Purchases	10,447	6,012
	Doosan Bears Inc.	Purchases	4,017	4,178
	Doosan Cuvex Co., Ltd.	Sales	34	-
		Purchases	135	24
	Neoplux Co., Ltd.	Purchases	6,448	7,035
	SRS Korea	Purchases	329	160
	Donghyun Engineering Co., Ltd.	Purchases	1,447	1,385
	Doosan Credit Union	Purchases	334	-
	N shaper Corp.	Sales	4	-
		Purchases	994	-
	Samhwa Crown & Closure Co., Ltd.	Sales	27	-
	Doosan Ecobiznet Co., Ltd.	Purchases	4	-

(*) The Company acquired the business segment of the machine tools and factory automation system of the Doosan Mecatec Co., Ltd. on January 1, 2007.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

9 Transactions and Balances with Related Companies, Continued

(b) Account balances with related companies as of December 31, 2007 are as follows:

In millions of Won

Relationship	Name	2007	
		Receivables	Payables
Parent	Doosan Corp.	₩ 856	14,936
	Doosan Heavy Industries and Construction Co., Ltd.	97	108
Exercising significant influence over an investee	Doosan Mecatec Co., Ltd.	540	2,401
	Doosan Engine Co., Ltd.	29,527	-
Equity method investee	Doosan Capital Co., Ltd.	15	171
	Doosan Infracore (China) Investment Co., Ltd.	42	-
	Doosan Infracore South Africa Pty. Ltd.	10,067	441
Other related party	Doosan Construction & Engineering Co., Ltd.	-	4,659
	Doosan Tower	16,131	132
	Oricom	-	8,692
	Doosan Bears Inc.	680	-
	Doosan Cuvex Co., Ltd.	3,324	8
	Neoplux Co., Ltd.	-	1,274
	SRS Korea	-	113
	Donghyun Engineering Co., Ltd.	112	23
	Doosan Credit union	-	54
	N Shaper Corp.	-	1
	Samhwa Crown & Closure Co., Ltd.	30	-
	Doosan Ecobiznet Co., Ltd.	-	5
		₩ 61,421	33,018

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

9 Transactions and Balances with Related Companies, Continued

(c) Account balances with related companies as of December 31, 2006 are as follows:

In millions of Won

Relationship	Name	2006	
		Receivables	Payables
Parent	Doosan Corp.	₩ 14,362	11,769
	Doosan HeavyIndustries and Construction Co., Ltd.	173	-
Exercising significant influence over an investee	Doosan Mecatec Co., Ltd.	8,099	3,072
Equity method investee	Korea Aerospace Industries, Ltd.	257	-
Other related party	Oricom	-	7,138
	SRS Korea	-	71
	Doosan Bears Inc	404	9
	Doosan Cuvex Co., Ltd.	3,109	56
	Donghyun Engineering Co., Ltd.	112	-
	Neoplux Co., Ltd.	-	891
		₩ <u>26,516</u>	<u>23,006</u>

(d) Key management personnel compensations in total and for each of the following categories for the years ended December 31, 2007 and 2006 are as follows:

In millions of Won

Compensation details	2007	2006
Short-term employee benefits, etc	₩ 38,609	32,182
Share-based payment	2,600	1,072
	₩ <u>41,209</u>	<u>33,254</u>

Key management includes registered directors including outside directors, non-registered directors, and Business Group Heads.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

9 Transactions and Balances with Related Companies, Continued

(e) Disposal of shares in Doosan Corp. to related parties for the year ended December 31, 2007 is as follows:

<i>In millions of Won</i>	Description
Disposal date	May 3, 2007
Approval date of B.O.D	May 3, 2007
Description of transaction	Sold 500,000 shares of Doosan Corp. to related parties including Park Jung Won and 9 persons.
Selling price	₩ 40,786 (excluding disposal fee)
Cost	₩ 7,000
Gain on disposal	₩ 33,786

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

9 Transactions and Balances with Related Companies, Continued

(f) Account balances and significant transactions between consolidated companies as of and for the years ended December 31, 2007 and 2006 are as follows:

In millions of Won

Selling company	Purchasing company	2007	
		Account receivables and other	Sales and other
Doosan Infracore Co., Ltd.	Doosan Infracore America Corp.	₩ 99,462	336,237
	Doosan Infracore China Co., Ltd.	118,984	401,178
	Doosan Infracore Europe S.A.	80,387	400,542
	Doosan Infracore Germany GmbH.	19,359	136,277
	Doosan Infracore U.K., Ltd.	35,734	96,580
	Doosan Infracore Machine Tools Yantai Co., Ltd.	271	7,558
	Doosan Machinery America Inc. (*)	-	1,202
	Doosan Machinery Europe GmbH. (**)	-	2,658
Doosan Infracore America Corp.	Doosan Infracore Co., Ltd.	6,754	3,526
Doosan Infracore China Co., Ltd.		9,749	38,263
Doosan Infracore Europe S.A.		6,893	6,874
Doosan Infracore Germany GmbH.		24,432	1,604
Doosan Infracore Japan Corp.		9,733	1,925
Doosan Infracore U.K., Ltd.		1,544	1,753
Doosan Infracore Machine Tools Yantai Co., Ltd.		157	3,991
Doosan Infracore Europe S.A.	Doosan Infracore America Corp.	26	267
	Doosan Infracore U.K., Ltd.	10,139	38,463
Doosan Infracore Japan Corp.	Doosan Infracore Europe S.A.	611	139
Doosan Infracore America Corp.		6	1,777
Doosan Infracore U.K., Ltd.		-	447
Doosan Infracore Germany GmbH.		418	4
Doosan Infracore China Co., Ltd.	Doosan Infracore Liaoning Machinery Co., Ltd.	12,360	13,076
Doosan Infracore Japan Corp.	Doosan Infracore China Co., Ltd.	-	660
Doosan Infracore Machine Tools Yantai Co., Ltd.		3,406	48,310
Doosan Infracore America Corp.	Doosan Infracore U.K., Ltd.	30	1,193
Doosan Infracore U.K., Ltd.	Doosan Infracore America Corp.	4	54
		₩ <u>440,459</u>	<u>1,544,558</u>

(*) 2007, this subsidiary was merged into Doosan Infracore America Corp.

(**) During 2007, this subsidiary was merged into Doosan Infracore Germany GmbH.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

9 Transactions and Balances with Related Companies, Continued

In millions of Won

Selling company	Purchasing company	2006	
		Account receivables and other	Sales and other
Doosan Infracore Co., Ltd.	Doosan Infracore America Corp.	₩ 80,103	361,284
	Doosan Infracore China Co., Ltd.	60,281	278,519
	Doosan Infracore Europe S.A.	58,966	281,483
	Doosan Infracore Germany GmbH.	11,300	72,133
	Doosan Infracore U.K., Ltd.	12,023	51,711
	Doosan Infracore Machine Tools Yantai Co., Ltd.	408	2,627
	Doosan Infracore South Africa Pty. Ltd.	12,989	21,897
Doosan Infracore America Corp.	Doosan Infracore Co., Ltd.	5,482	1,698
Doosan Infracore China Co., Ltd.		3,280	29,456
Doosan Infracore Europe S.A.		4,544	5,246
Doosan Infracore Germany GmbH.		17,128	211
Doosan Infracore Japan Corp.		10,058	169
Doosan Infracore U.K., Ltd.		677	680
Doosan Infracore Machine Tools Yantai Co., Ltd.		240	1,696
Doosan Infracore South Africa Pty. Ltd.		278	284
		₩ <u>277,757</u>	<u>1,109,094</u>

(g) The Company had provided guarantees for consolidated companies as of December 31, 2007 as follows:

Guarantee recipient	Type of borrowings	Guaranteed amount (millions)	Guaranteed amount (thousands)
Doosan Infracore Germany GmbH.	Borrowings	₩ 22,100	EUR 16,000
Doosan Infracore U.K. Ltd.	Borrowings	11,619	GBP 6,200
Doosan Infracore China Co., Ltd.	Borrowings	1,055	USD 1,125
		₩ <u>34,774</u>	

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

10 Property, Plant and Equipment

Property, plant and equipment at December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won</i>		2007	2006
Property, plant and equipment at cost	₩	1,373,666	1,296,464
Accumulated depreciation		(543,661)	(482,693)
Accumulated impairment		(4,930)	(23,242)
Property, plant and equipment, net	₩	825,075	790,529

(a) Changes in property, plant and equipment for the year ended December 31, 2007 are as follows:

<i>In millions of Won</i>		2007					Book value as of December 31, 2007
		Book value as of January 1, 2007	Acquisitions	Disposals	Depreciation	Other	
Land (*)	₩	330,756	6	(2,453)	-	18,388	346,697
Buildings		233,006	663	(3,776)	(9,897)	5,966	225,962
Structures		34,499	1,755	(96)	(3,180)	3,436	36,414
Machinery		116,605	13,295	(1,297)	(25,493)	33,233	136,343
Vehicles		3,925	2,094	(33)	(1,771)	140	4,355
Tools		29,695	7,934	(124)	(11,035)	1,664	28,134
Furniture and fixtures		20,672	13,938	(46)	(10,860)	1,366	25,070
Construction- in- progress		21,371	34,921	-	-	(34,192)	22,100
	₩	790,529	74,606	(7,825)	(62,236)	30,001	825,075

(*) The Company reactivated the Gunsan factory in 2007 and reversed the amount of impairment loss previously recognized as the estimated recovery amount, which is the larger amount of value of use or net sales amount, exceeds the book value of the Gunsan factory land.

(b) Changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

<i>In millions of Won</i>		2006					Book value as of December 31, 2006
		Book value as of January 1, 2006	Acquisitions	Disposals	Depreciation	Other	
Land	₩	404,163	403	(79,165)	-	5,355	330,756
Buildings		238,416	1,428	(5,469)	(10,031)	8,662	233,006
Structures		34,930	3,206	(751)	(3,235)	349	34,499
Machinery		144,107	8,598	(559)	(44,492)	8,951	116,605
Vehicles		4,692	1,772	(511)	(1,802)	(226)	3,925
Tools		29,509	11,155	(29)	(11,405)	465	29,695
Furniture and fixtures		22,730	8,558	(123)	(11,075)	582	20,672
Construction- in- progress		14,443	24,451	-	-	(17,523)	21,371
	₩	892,990	59,571	(86,607)	(82,040)	6,615	790,529

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

10 Property, Plant and Equipment, Continued

(c) Insurance

In millions of Won and in thousands of foreign currency

Type of insurance	Assets		Amount	Insurance company
Comprehensive insurance	Property, plant, equipment and inventory	KRW	1,426,467	Korea Fire Protection Association, etc
	Property, plant, equipment and inventory	USD	9,000	Federal Insurance Company
	Property, plant, equipment and inventory	GBP	10,567	HSBC
Product liability	Excavator, forklift, etc	KRW	2,326,600	Samsung Fire & Marine Insurance Co., Ltd., etc
	Excavator, forklift, etc	KRW	936,364	MERITZ Fire & Marine Insurance Co., Ltd.
	Excavator, forklift, etc	GBP	50,000	HSBC
Burglary insurance	Cash and securities	KRW	287	Samsung Fire & Marine Insurance Co., Ltd.
	Property, plant, equipment	EUR	296	AXA
Comprehensive insurance	Construction equipment BG heavy machinery parts	KRW	701	Hyundai Fire & Marine Insurance Co., Ltd., etc
Assembly insurance	Defense industry equipment	KRW	75,777	Korea Fire Protection Association
Fire insurance	Inventory and equipment	GBP	300	HSBC
Transport insurance	Property, plant, equipment	EUR	20,296	AXA

In addition as of December 31, 2007, the Company maintained automobile insurance, industrial accident compensation insurance, medical insurance, etc. and the Company's rights for insurance benefits are pledged as collateral to Korea Development Bank to guarantee its debt payment.

- (d) The officially declared value of land at December 31, 2007, as announced by the Minister of Construction and Transportation, is as follows:

<i>In millions of Won</i>	Book value	Declared value
Land	₩ 346,697	438,752

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

11 Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2007 are as follows:

In millions of Won

		2007			
		Development costs	Government subsidy	Industrial property rights	Other
Net balance at beginning of year	₩	53,138	(1,816)	3,897	12,717
Increases		15,658	(259)	568	7,582
Amortization		(13,286)	172	(519)	(2,727)
Other changes (*)		2,219	1,508	(1,036)	1,352
Net balance at end of year	₩	<u>57,729</u>	<u>(395)</u>	<u>2,910</u>	<u>18,924</u>

(*) Other changes include transferred development cost from Doosan Mecatec.Co., Ltd. and other intangible assets transferred from construction-in-progress.

(b) Changes in intangible assets for the year ended December 31, 2006 are as follows:

In millions of Won

		2006			
		Development costs	Government subsidy	Industrial property rights	Other
Net balance at beginning of year	₩	48,067	(1,347)	4,304	8,868
Increases		15,852	(638)	712	5,618
Amortization		(9,103)	168	(1,043)	(1,498)
Other changes		(1,678)	-	(76)	(271)
Net balance at end of year	₩	<u>53,138</u>	<u>(1,817)</u>	<u>3,897</u>	<u>12,717</u>

(c) Research and development costs incurred for the years ended December 31, 2007 and 2006 are ₩ 78,157 million and ₩ 65,845 million, respectively.

12 Other Non-current Assets

Other non-current assets as of December 31, 2007 and 2006 are summarized as follows:

In millions of Won

	2007	2006
Long-term loans	₩ 84	-
Guarantee deposits, less allowances for doubtful accounts		
₩ 237 million in 2007 and 2006	36,583	26,588
Memberships	17,654	17,303
Non-current deferred tax assets	10,241	-
	<u>₩ 64,562</u>	<u>43,891</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

13 Pledged Assets and Guarantees

- (a) The following assets are pledged as collateral for the Company's short-term borrowings and long-term borrowings as of December 31, 2007:

In millions of Won and in thousands of foreign currency

Asset	Lender	Type of borrowings	Borrowing amount	Collateralized amount
Property, plant and equipment	Korea Development Bank	Construction	KRW 220,000	KRW 184,413
			USD 35,126	USD 95,026
			-	DM 84,000
Account receivable, inventory	Bank of America	Foreign currency borrowings	USD 66,795	USD 80,000
Equity method accounted investments	Korea Development Bank and others	Long term borrowings (*)	USD 2,900,000	USD 2,900,000

(*) Long-term borrowings to finance the acquisition of the business from Ingersoll-Rand Ltd.

- (b) Guarantees provided and assets pledged as collateral on behalf of third parties as of December 31, 2007 are as follows:

Guarantee/asset	Third party	Guaranteed amount (thousands)	Lender
Guarantee	DW Machinery Co., Ltd.	JPY 28,429	
Guarantee	Daewoo International / Daewoo Engineering & Construction	EUR 9,522	AKA Bank
Guarantee	Daewoo Electronics de Mexico	USD 845	The Export- Import Bank of Korea
Guarantee	Daewoo Avia A.S.	USD 1,564	Daewoo U.K. Ltd. Recovery Company

14 Other Current Liabilities

Other current liabilities as of December 31, 2007 and 2006 are as follows:

In millions of Won

	2007	2006
Derivatives	₩ 99,622	64,856
Other	15,027	14,988
	₩ 114,649	79,844

15 Long-term Borrowings

- (a) Long-term local currency borrowings as of December 31, 2007 and 2006 are summarized as follows:

In millions of Won

Lenders	Description	Annual interest rate	2007	2006
Kookmin Bank	Housing	3.00%	₩ -	603
Current portion			-	(34)
			₩ -	569

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

15 Long-term Borrowings, Continued

(b) Long-term foreign currency borrowings as of December 31, 2007 and 2006 are summarized as follows:

Lenders	Annual interest rate	2007		2006	
		Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won equivalent (millions)
Kookmin Bank	3M Libor+0.48%	USD 1,346	₩ 1,263	USD 1,795	₩ 1,668
Korea Asset Management Corporation	0~3M Libor+0.58%	USD 10,668	10,009	USD 14,224	13,223
Korea Development Bank	3M Libor+0.74%	USD 35,126	32,955	USD 55,670	51,751
	6M Libor+0.70%	USD 10,000	9,383	CNY 119,930	11,133
	Libor+0.70%	USD 1,125	1,056	CNY 26,354	3,136
Woori Bank	4.8%	-	-	EUR 63,583	80,000
The Export-Import Bank of Korea	3M Libor+0.65%	USD 17,753	16,655	-	-
AKA Bank	6M Eulibor+0.45%	EUR 5,966	8,241	EUR 5,900	7,211
GEMSA Loan Services	6.93%	USD 2,302	2,160	USD 2,641	2,455
ING Bank	-	-	-	EUR 11	13
Kookmin Bank (*)	6M Libor+1.60%	USD 18,000	16,888	-	-
Korea Development Bank (*)	"	USD 248,000	232,674	-	-
Woori Bank (*)	"	USD 90,000	84,438	-	-
The Export-Import Bank of Korea (*)	"	USD 130,000	121,966	-	-
Industrial Bank of Korea (*)	"	USD 50,000	46,910	-	-
Shinhan Bank (*)	"	USD 90,000	84,438	-	-
Hana Bank (*)	"	USD 35,000	32,837	-	-
Korea exchange Bank (*)	"	USD 21,000	19,702	-	-
Hongkong and Shanghai Banking Corporation (*)	"	USD 9,000	8,444	-	-
First Gulf Bank (*)	"	USD 9,000	8,444	-	-
			₩ 738,463		₩ 170,590
Current portion			(30,673)		(110,360)
			₩ 707,790		₩ 60,230

(*) Long-term borrowings to finance the acquisition of the business from Ingersoll-Rand Ltd.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

15 Long-term Borrowings, Continued

(c) Bonds as of December 31, 2007 and 2006 are summarized as follows:

In millions of Won

Bonds & debentures	Maturity	Annual interest rate		2007	2006
Bonds	2008.10.28	CD91 rate+0.33%	₩	20,000	20,000
	2008.10.28	5.03%		20,000	20,000
	2009.04.28	CD91 rate+0.33%		20,000	20,000
	2009.04.28	5.08%		20,000	20,000
	2009.10.28	CD91rate+0.43%		20,000	20,000
	2009.10.28	5.22%		20,000	20,000
	2010.04.10	5.655%		100,000	-
			₩	220,000	120,000
Less current portion of long-term debt				(40,000)	-
			₩	<u>180,000</u>	<u>120,000</u>

(d) Aggregate maturities of the Company's long-term borrowings as of December 31, 2007 are as follows:

In millions of Won

Maturity		Foreign currency debt	Bonds	Total
2008	₩	30,673	40,000	70,673
2009		27,702	80,000	107,702
2010		147,445	100,000	247,445
2011		132,524	-	132,524
2012 and thereafter		400,119	-	400,119
	₩	<u>738,463</u>	<u>220,000</u>	<u>958,463</u>

16 Other Non-current Liabilities

Other non-current liabilities as of December 31, 2007 and 2006 are summarized as follows:

In millions of Won

		2007	2006
Long-term accounts payable, net	₩	7,246	6,922
Leasehold deposit received		(503)	12
Provision for construction losses		12	169
Other		2,335	1,762
	₩	<u>9,090</u>	<u>8,865</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

17 Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won equivalent (millions)
Assets				
Cash and cash equivalents	USD 7,282	₩ 6,832	USD 2,973	₩ 2,764
	EUR 3,923	5,419	EUR 7,531	9,205
	GBP 933	1,749	GBP 1,899	3,465
	JPY 5,565	46	JPY 13,815	108
Accounts and notes receivable - trade	USD 473,750	444,472	USD 243,032	225,929
	EUR 81,105	112,027	EUR 56,040	67,963
	GBP 11,496	21,545	GBP 7,104	12,959
	JPY 56,073	467	JPY 86	1
	CNY 6,674	857	CNY 3,333	397
	LIT 2,147	2	LIT 2,147	1
	AUD -	-	AUD 409	301
Accounts and notes receivable - other	USD 8,322	7,808	USD 9,664	8,984
	EUR 20,793	28,721	EUR 802	981
	GBP 13	24	GBP 22	40
	JPY 3,997	33	JPY 11,247	88
	CNY 74,356	9,550	CNY -	-
Total assets	USD 489,354		USD 255,669	
	EUR 105,821		EUR 64,373	
	GBP 12,442		GBP 9,025	
	JPY 65,635		JPY 25,148	
	CNY 81,030		CNY 3,333	
	LIT 2,147		LIT 2,147	
	AUD -	₩ 639,552	AUD 409	₩ 333,186

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

17 Assets and Liabilities Denominated in Foreign Currency, Continued

	2007				2006			
	Foreign currency (thousands)		Won equivalent (millions)		Foreign currency (thousands)		Won equivalent (millions)	
Liabilities								
Accounts and notes payable - trade	USD	13,637	₩	12,794	USD	9,425	₩	8,761
	EUR	26,402		36,468	EUR	14,735		18,010
	GBP	6,306		11,818	GBP	768		1,402
	JPY	1,442,142		12,013	JPY	1,250,867		9,780
	SGD	-		-	SGD	3		2
	CAD	-		-	CAD	109		88
Accounts and notes payable -other	USD	36,401		34,151	USD	21,933		20,389
	EUR	8,105		11,195	EUR	8,991		10,989
	GBP	368		690	GBP	441		805
	JPY	112,925		941	JPY	275,223		2,152
	CNY	120,549		15,483	CNY	849		101
	BEF	72		2	BEF	72		2
	CHF	57		47	CHF	-		-
	AUD	282		232	AUD	610		448
	HKD	19		2	HKD	-		-
	MYR	60		17	MYR	-		-
	SGD	218		141	SGD	-		-
Short-term borrowings	USD	146,937		137,856	USD	99,933		92,897
	EUR	87,057		120,248	EUR	23,276		28,449
	GBP	6,203		11,625	GBP	623		1,136
	JPY	109,981		916	JPY	-		-
	CNY	162,600		20,884	CNY	-		-
Long-term borrowings (including current portion of long-term borrowings)	USD	778,320		730,222	USD	71,689		66,642
	EUR	5,966		8,241	EUR	69,483		87,211
Accrued expenses	USD	5,935		5,568	USD	2,978		2,769
	EUR	-		-	EUR	2,689		3,286
	GBP	4		7	GBP	18		33
Total liabilities	USD	981,230			USD	205,958		
	EUR	127,530			EUR	119,174		
	GBP	12,881			GBP	1,850		
	JPY	1,665,048			JPY	1,526,090		
	CNY	283,149			CNY	849		
	BEF	72			BEF	72		
	CHF	57			CHF	-		
	SGD	218			SGD	3		
	AUD	282			AUD	610		
	HKD	19			HKD	-		
	MYR	60			MYR	-		
	CAD	-	₩	1,171,561	CAD	109	₩	355,352

In relation to assets and liabilities denominated in foreign currencies, the Company recorded foreign currency translation gain, net amounting to ₩ 1,932 million.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

18 Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won</i>	<u>2007</u>	<u>2006</u>
Estimated retirement and severance benefits at January 1, 2007	₩ 139,225	123,934
Provision for retirement and severance benefits	35,968	32,236
Payments	(19,909)	(17,912)
Transferred from related parties	1,699	967
Other increment (*)	7,791	-
Estimated retirement and severance benefits at December 31, 2007	<u>₩ 164,774</u>	<u>139,225</u>

(*) Other increment includes the transferred amount from Factory Automation segment of Doosan Mecatec Co., Ltd. and the amount recognized as construction-in-progress.

The Company maintains an employees' severance benefit insurance arrangement with Korea Development Bank. Under this arrangement, the Company has made a deposit in the amount equal to 65% and 59% of the reserve balances of retirement and severance benefits as of December 31, 2007 and 2006, respectively. This deposit is to be used to guarantee the required payments to the retirees and is accounted for as a reduction in the reserve balance.

19 Commitments and Contingencies

(a) As of December 31, 2007, three blank notes had been provided to Korea Asset Management Co., Ltd. and Korea Defense Industry Association as collateral for borrowings and transaction agreement.

(b) The Company is involved in 11 lawsuits aggregating to ₩ 8,751 million, USD 49,000 thousand, and CNY 2,830 thousand as a defendant and 44 lawsuits aggregating to ₩ 31,999 million, USD 3,417 thousand, CAD 907 thousand and CNY 52,750 thousand as a plaintiff as of December 31, 2007. The ultimate outcome of the lawsuit cannot presently be determined.

(c) The Company formed a consortium including the Company, Doosan Engine Co., Ltd., and unrelated financial investors to acquire shares of Doosan Infracore International, Inc. and Doosan Holdings Europe Ltd.. Regarding this transaction, significant provisions are as follows:

(i) Put option

In relation to the above transactions, the financial investors have put options to sell their convertible preferred shares, in case the shares are not converted within 5 years from the date of the remittance, at their original investment cost plus a 9% interest, compounded annually. The financial investors shall not sell their shares to third parties without consent of the Company.

(ii) Financial covenant

The Company entered into a loan agreement with lenders, including Korea Development Bank and nine other financial institutions, for long-term borrowings of USD 700 million in connection with the Company's capital contributions to Doosan Infracore International, Inc. and Doosan Holdings Europe Ltd. This agreement requires the Company to maintain its EBITDA higher than 1.5 times of its net interest expense and its financial debt, should be less than 6 times of the EBITDA.

(d) The Company entered into agreements with various banks for the guarantees of letters of credit and usance bills related to the Company's exports and imports, totaling USD 7,462 thousand and EUR 158 thousand. In addition the Company entered into contracts with Seoul Guarantee Insurance Company, Machinery Financial Cooperative, and Korea Defense Industry Association for the guarantees related to contracts and warranties as of December 31, 2007.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

20 Derivative Instruments

(a) Details of derivative instruments outstanding as of December 31, 2007 and 2006 are as follows:

Purpose	Hedging item	Contract description
Cash flow hedge	Foreign currency forwards	A contract to avoid cash flow risk arising from forecasted export and import transactions.
	Interest swap	A contract to receive floating rate indexed to Libor in foreign currency and pay fixed interest in foreign currency at the date of payment to avoid risk of increasing Libor rate.

(b) Details of cash flow hedge as of December 31, 2007 are as follows:

Hedged item	Hedging item	Contract date	Expiration date
Forecasted transaction	Foreign currency forwards	2006.05.08~2007.12.28	2008.01.10~2009.12.24
Libor rate	Interest swap	2006.04.28	2009.10.28

(c) Details of gain and loss on valuation of derivatives instruments as of December 31, 2007 and 2006 are as follows:

In millions of Won

Description	Hedging item	Gain on valuation		Loss on valuation	
		2007	2006	2007	2006
Cash flow hedge	Foreign currency forwards	₩ 21,665	40,513	(71,038)	(35,467)
	Interest swap	879	65	-	-
		22,544	40,578	(71,038)	(35,467)
	Tax effect	(6,200)	(11,159)	19,536	9,754
		₩ 16,344	29,419	(51,502)	(25,713)

The gains and losses on ineffective portions of such derivatives are recognized immediately in the income statement. For the years ended December 31, 2007 and 2006, a gain (loss) of ₩ 10,884 million (₩ 14,532 million) and ₩ 2,744 million (₩ 30,099 million) are recognized due to hedge ineffectiveness, respectively.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

21 Stockholders' Equity

Transactions in stockholders' equity for the years ended December 31, 2007 and 2006 are summarized as follows:

In millions of Won, except number of shares

	2007		2006	
	Number of shares	Amount	Number of shares	Amount
At the beginning of the year	168,157,384 ₩	840,787	167,957,384 ₩	839,787
Increase in capital stock without consideration	-	-	200,000	1,000
At the end of the year	<u>168,157,384 ₩</u>	<u>840,787</u>	<u>168,157,384 ₩</u>	<u>840,787</u>

There were 11,800,000 shares of the treasury stock without voting rights at December 31, 2007.

22 Retained Earnings

(a) Legal reserve

The Korean Commercial Code requires the Parent Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stock in connection with a free issue of shares.

(b) Reserve for business rationalization

Until December 10, 2002 under the Special Tax Treatment Control Law, investment tax credits were allowed for certain investments. The Parent Company was, however, required to appropriate from retained earnings the amount of tax benefits received and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Parent Company was no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

(c) Reserve for research and development

Pursuant to the Korea Tax Law, the Parent Company is allowed to claim the amount of retained earnings appropriated for research and development as deduction from taxable income. This amount is not available for dividends until used for the specified purposes or reappropriated into a discretionary reserve.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

23 Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2007 and 2006 are as follows:

In thousands of Won

		2007	2006
Salaries	₩	167,582,161	136,417,994
Provision for retirement and severance benefits		14,190,755	13,031,676
Other employee benefits		31,303,449	28,925,490
Supplies		2,630,580	1,973,879
Publications and printing		1,931,994	1,430,739
Freight and custody		115,469,895	90,989,456
Communications		3,082,707	2,561,222
Utilities		2,887,145	2,352,809
Rent		8,868,551	9,046,668
Maintenance		2,245,562	3,289,163
Insurance		4,099,885	4,331,884
Car allowance		2,737,468	2,272,631
Depreciation		9,380,905	9,647,403
Amortization		3,246,875	11,272,370
Research and development		78,157,090	65,845,267
Advertising		36,990,892	32,242,441
Sales commission		61,435,341	67,791,307
Sales promotion		7,368,872	6,155,209
Taxes and dues		5,414,624	5,387,594
Travel		16,978,007	12,573,062
Sundry		41,004,722	51,671,505
Entertainment		5,170,616	4,545,715
Training		3,951,876	5,696,229
Administrative service		1,488,346	-
After-sales service		70,573,868	60,031,587
Packing		3,281,553	2,760,831
Lease		214,994	142,287
Office maintenance		4,517,610	3,827,686
Miscellaneous		2,398,197	-
	₩	<u>708,604,540</u>	<u>636,214,104</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

24 Income Taxes

- (a) The Company is subject to a number of income taxes on taxable income at the following normal tax rates:

<u>Taxable income</u>	<u>Thereafter</u>
Up to ₩ 100 million	14.3%
Over ₩ 100 million	27.5%

- (b) The components of income tax expense for the years ended December 31, 2007 and 2006 are summarized as follows:

<i>In millions of Won</i>	<u>2007</u>	<u>2006</u>
Current	₩ 120,609	64,937
Deferred	(37,564)	7,270
Direct charge to accumulated other comprehensive income	32,083	195
Income tax charge	<u>₩ 115,128</u>	<u>72,402</u>

- (c) The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, are approximately 36.61% and 35.30% for the years ended December 31, 2007 and 2006, respectively.

- (d) The tax effects of temporary differences that resulted in significant portions of deferred tax assets and liabilities at December 31, 2007 and 2006 are presented below:

<i>In millions of Won</i>	<u>2007</u>	<u>2006</u>
Deferred tax assets		
Advances from government	₩ 3,006	3,185
Allowance for doubtful accounts in excess of tax limit	5,043	5,938
Provision for construction losses	4,066	3,394
Impairment loss on property	153	5,189
Present value discount	587	670
Accrual for retirement and severance benefits	29,174	22,218
Accrued income and loss	31,203	-
Other	60,721	32,224
Total deferred tax assets	<u>133,953</u>	<u>72,818</u>
Deferred tax liabilities		
Investment securities	(25,943)	(5,928)
Individual severance insurance	(29,174)	(22,218)
Provision for temporary depreciation	(9,931)	(10,097)
Reserve for research and development	(45,220)	(59,876)
Total deferred tax liabilities	<u>(110,268)</u>	<u>(98,119)</u>
Deferred tax assets with low probability of realization	(16,851)	(1,812)
Deferred tax liabilities with low probability of realization	13,094	9,477
Net deferred tax assets (liabilities)	<u>₩ 19,928</u>	<u>(17,636)</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

24 Income Taxes, Continued

(e) Temporary differences which have not been recognized as deferred tax assets as of December 31, 2007 and 2006 are as follows:

<i>In millions of Won</i>	<u>2007</u>	<u>2006</u>
Doosan Infracore Machine Tools Yantai Co., Ltd.		
-Cumulative effect of foreign currency translation ₩	-	1,564
Doosan Infracore America Corp.		
-Cumulative effect of foreign currency translation	-	3,525
Doosan Infracore (China) Investment Co., Ltd.		
-Equity in net loss of equity method accounted investees	-	728
-Unrealized loss on valuation of equity method accounted investments	4,169	-
Doosan Infracore International, Inc.		
-Equity in net loss of equity method accounted investees	13,578	-
Doosan Infracore Europe Ltd.		
-Equity in net loss of equity method accounted investees	36,014	-
Doosan Capital Co., Ltd.		
-Equity in net loss of equity method accounted investees	5,212	800
-Unrealized loss on valuation of equity method accounted investments	2,305	-
₩	<u>61,278</u>	<u>6,617</u>

In relation to the above equity method accounted investments, deferred tax assets have not been recognized because it is not probable that future profits will be available against which the Company can utilize the related benefit.

Temporary differences amounting to ₩ 56,066 million (tax effect ₩ 15,418 million) which were recognized as deferred assets at December 31, 2006 were determined to be not realizable as of December 31, 2007. These deductible differences are recognized as current income taxes and unrealized loss on valuation of the equity method accounted investments.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

24 Income Taxes, Continued

- (f) Temporary differences have not been recognized as deferred tax liabilities as of December 31, 2007 and 2006 are as follows;

<i>In millions of Won</i>	<u>2007</u>	<u>2006</u>
Doosan Infracore (China) Investment Co., Ltd.		
-Equity in income of equity method accounted investees ₩	4,162	-
Doosan Infracore International, Inc.		
-Unrealized gain on valuation of equity method accounted investments	4,777	-
Doosan Infracore Europe Ltd.		
-Unrealized gain on valuation of equity method accounted investments	4,418	-
Doosan Capital Co., Ltd.		
-Unrealized gain on valuation of equity method accounted investments	-	29
Provision for temporary depreciation	34,259	34,463
₩	<u>47,616</u>	<u>34,492</u>

Temporary differences amounting to ₩ 13,357 million (tax effect ₩ 3,673 million) which were recognized as deferred liabilities at December 31, 2006 were determined to be not realizable as of December 31, 2007. These taxable differences are recognized as current income taxes and unrealized gain on valuation of equity method accounted investments.

- (g) Deferred tax assets and liabilities that are directly charged or credited to accumulated other comprehensive income as of December 31, 2007 are as follows:

<i>In millions of Won</i>	<u>Temporary differences</u>	<u>Deferred tax assets (liabilities)</u>
Unrealized gain on valuation of available-for-sale securities ₩	(21,827)	6,002
Unrealized gain on valuation of equity method accounted investments	9,163	9
Unrealized loss on valuation of equity method accounted investments	(6,954)	132
Unrealized gain on valuation of derivatives	(18,033)	4,959
Unrealized loss on valuation of derivatives	(35,571)	9,782
Cumulative effect of foreign currency translation	(17,064)	(4,135)
Retained earnings (goodwill)	(44,135)	15,171
Subsidiaries' retained earnings	(478)	163
₩	<u>(134,899)</u>	<u>32,083</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

24 Income Taxes, Continued

(h) In accordance with SKAS No. 16, *Income Taxes*, deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. As of December 31, 2007 and 2006, aggregate deferred tax assets, liabilities and related accounts are as follows:

<i>In millions of Won</i>	2007			2006		
	Current	Non-current	Total	Current	Non-current	Total
Deferred tax assets	₩ 50,228	49,905	100,133	34,259	42,420	76,679
Deferred tax liabilities	(9,238)	(70,967)	(80,205)	(14,709)	(79,606)	(94,315)
Income tax payable			(102,110)			(51,457)
Prepaid income tax			743			22,608

25 Earnings Per Share

(a) Basic earnings per share for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Net income for controlling interest	₩ 193,497,392,681	132,662,573,489
Weighted-average number of common shares outstanding (*)	156,357,853	154,029,593
Earnings per share	₩ 1,238	861

(*) Weighted average number of common shares outstanding

	2007	2006
Issued common shares at January 1	156,364,524	167,957,384
Effect of treasury stocks held	(6,671)	(8,988,139)
Effect of shared issued	-	116,630
Weighted average number of common shares at December 31	156,357,853	154,029,593

(b) Diluted earnings per share for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Net income for controlling interest	₩ 193,497,392,681	132,662,573,489
Weighted-average number of common shares outstanding (*)	156,566,218	154,244,660
Earnings per share	₩ 1,236	860

(*) Diluted earnings per share are calculated on the assumption that share options were exercised at the beginning of the fiscal year.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

25 Earnings Per Share, Continued

(c) As of December 31, 2007, the following instruments are outstanding and could potentially become dilutive in the future. These instruments are not included in the calculation of diluted earnings per share, because to do so would have been anti-dilutive.

	<u>Par value</u>	<u>Exercise period</u>	<u>Number of common shares to be issued</u>
Share option 2 nd grant	₩ 5,000	2009.03.17~2016.03.16	303,900
Share option 3 rd grant	₩ 5,000	2010.03.17~2017.03.16	472,500
			<u>776,400</u>

26 Dividends

(a) Details of dividends for the years ended December 31, 2007 and 2006 are as follows:

		<u>2007</u>	<u>2006</u>
Dividend amount	₩	54,725,084,400	54,727,583,400
Net income for controlling interest	₩	193,497,392,681	132,662,573,489
Dividends as a percentage of net income		28.28%	41.25%
Par value	₩	5,000	5,000
Dividends as a percentage of par value		7.00%	7.00%

(b) Dividend yield ratio for the years ended December 31, 2007 and 2006 is as follows:

		<u>2007</u>	<u>2006</u>
Dividend per share	₩	350	350
Market price as of year end	₩	29,900	21,050
Dividend yield ratio		1.17%	1.66%

27 Share-based Payments

(a) The terms and conditions of grants as of December 31, 2007 are as follows:

<u>Type of share option</u>	<u>Equity-settlement</u>	<u>Alternative-settlement</u>	
	<u>Issue of new stock</u>	<u>Issue of new stock or cash-settled</u>	
Grantee	Directors	Directors	Directors
Date of grant	2002.07.16	2006.03.17	2007.03.16
Number granted	250,000	303,900	472,500
Contractual life	7 years	10 years	10 years
Vesting conditions	2 years' service and achievement of a target share price and target ratio of net income to total asset	2 years' service	2 years' service

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

27 Share-based Payments, Continued

(b) Assumptions used in determining fair value of stock options are as follows:

Description	1 st grant	2 nd grant	3 rd grant
Risk free rate;	6.30%	5.13%	4.81%
Treasury bond rate			
Expected exercisable period	5 years	5 years	5 years
Expected standard deviation of stock price	60.58%	55.97%	47.08%
Expected dividend yield ratio	0.00%	0.90%	1.23%
Expected right termination period	0.00%	0.00%	0.00%

(c) The number and weighted average exercise prices of share options as of December 31, 2007 are follows:

In Won, except number of options

	Equity-settlement		Alternative-settlement	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1, 2007	250,000	₩ 5,000	344,000	₩ 15,900
Granted	-	-	474,900	₩ 20,100
Forfeited or exercised	-	-	(42,500)	₩ 16,137
Outstanding at December 31, 2007	<u>250,000</u>	₩ 5,000	<u>776,400</u>	₩ 18,456
Exercisable at December 31, 2007	<u>250,000</u>	₩ 5,000	<u>-</u>	-

(d) Details of total expense recognized as employee costs for the years ended December 31, 2007 are as follows:

In millions of Won

	2007
Total expense recognized for the year arising from share-based payment transactions	
-Cost of goods manufactured	₩ 453
-Selling and administrative expense	<u>2,147</u>
	<u>2,600</u>
Remaining expense to be recognized in the future years (only for shares and share options)	₩ <u>2,570</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

28 Comprehensive Income

Comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

<i>In millions of Won</i>		2007	2006
Net income	₩	199,304	132,701
Change in fair value of available-for-sale securities, net of tax effect of ₩ 6,002 in 2007 and ₩ (2,984) in 2006		(15,824)	7,869
Unrealized gain on valuation of equity method accounted investments using equity method, net of tax effect of ₩ 9 in 2007 and ₩ (9) in 2006		9,172	23
Unrealized loss on valuation of equity method accounted investments using equity method, net of tax effect of ₩ 132 in 2007 and ₩ (123) in 2006		(6,822)	324
Foreign business translation loss, net of tax effect of ₩ (4,135) in 2007 and ₩ (707) in 2006		4,449	(23,781)
Unrealized gain on valuation of derivatives, net of tax effect of ₩ 4,959 in 2007 and ₩ (4,830) in 2006		(13,074)	12,733
Unrealized loss on valuation of derivatives, net of tax effect of ₩ 9,782 in 2007 and ₩ 8,848 in 2006		(25,789)	(23,328)
Comprehensive income	₩	<u>151,416</u>	<u>106,541</u>

29 Transfer of Business between Subsidiaries

The Parent Company took over the business segment of the machine tools and factory automation system of the Doosan Mecatec Co., Ltd. on January 1, 2007.

Details of the transfer of business are as follows;

(a) Description of transfer of business

- Transferred business segment: Machine tools and factory automation system.
- Shareholders meeting date: November 28, 2006
- Date of the transfer: January 1, 2007
- Bid amount: ₩ 70,546 million

(b) Details of transferred assets, liabilities, and goodwill are as follows;

<i>In millions of Won</i>		2007
Assets		
Current assets	₩	56,284
Non-current assets		11,455
	₩	<u>67,739</u>
Liabilities		
Current liabilities	₩	47,279
Non-current liabilities		5,082
	₩	<u>52,361</u>
Net assets purchased	₩	15,378
Less considerations given		
Cash		70,546
Goodwill	₩	<u>55,168</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

29 Transfer of Business between Subsidiaries, Continued

(c) Condensed financial statements of Doosan Mecatec Co., Ltd. are as follows:

(i) Condensed balance sheets of Doosan Mecatec Co., Ltd. as of December 31, 2006 and 2005.

<i>In millions of Won</i>		2006	2005
Current assets	₩	339,899	242,239
Non-current assets		444,924	447,767
Total Assets	₩	784,823	690,006
Current liabilities	₩	515,259	365,348
Non-current liabilities		125,455	194,757
Total Liabilities		640,714	560,105
Total Equity		144,109	129,901
Total Equity and liabilities	₩	784,823	690,006

(ii) Condensed statements of income of Doosan Mecatec for the years ended December 31, 2006 and 2005.

<i>In millions of Won</i>		2006	2005
Sales	₩	707,855	518,158
Gross profit		144,913	67,961
Selling, general and administrative expenses		45,270	34,090
Operating income		99,643	33,871
Income before tax		35,571	18,819
Net income	₩	22,080	17,903

(d) Accounting operation

As the Company and Doosan Mecatec Co., Ltd. are both subsidiaries of Doosan corp., the consideration received in excess of the book value of net assets of Doosan Mecatec Co., Ltd. shall be deducted first from the capital surplus and then from the retained earnings.

<i>In millions of Won</i>		Deduction	Tax effect	Net deduction
Capital surplus				
Paid-in capital	₩	307	-	307
Other		77	-	77
		384	-	384
Retained earnings				
Reserve for business rationalization		663	-	663
Reserve for research and development		8,950	-	8,950
Reserve for utilities		30,000	-	30,000
Unappropriated retained earnings		15,171	(15,171)	-
		54,784	(15,171)	39,613
	₩	55,168	(15,171)	39,997

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

30 Acquisition of the Compact Equipment Business from Ingersoll-Rand Ltd.

(a) Description

The Company formed a consortium including the Company, Doosan Engine Co., Ltd., and unrelated financial investors to acquire shares of Doosan Infracore International, Inc., a special purpose holding company established in the United States of America, and Doosan Holdings Europe Ltd., a special purpose holding company established in Ireland. Effective December, 2007, the consortium consummated the acquisition of the compact equipment business from Ingersoll-Rand Ltd. through these two holding companies whose foreign subsidiaries would operate the compact equipment business of Ingersoll-Rand Ltd..

(b) Date of approval by board of directors

- September 14, 2007 : Approval for the incorporation of foreign companies regarding this transaction.
- November 5, 2007 : Approval for the Investment agreement with financial investors and loan agreement regarding this transaction.

(c) Description of acquired business

- Acquired business : Bobcat, Utility, and Attachment business of Ingersoll-Rand Ltd.
- Acquired companies : 5 holding companies of 48 subsidiaries which are continuing compact

(d) Description of contribution

The following table provides information for contribution to Doosan Infracore International, Inc. and Doosan Holdings Europe Ltd. as of and for the year ended December 31, 2007:

Investors	Type of share	Doosan Infracore International, Inc.		
		Number of shares	Owner-ship	Amount invested (thousands)
The Company	Common share	6,762	32.56%	USD 338,100
Doosan Engine Co., Ltd.	Common share	6,279	30.23%	313,950
Financial Investors	Convertible preferred share (*)	7,728	37.21%	386,400
		<u>20,769</u>	<u>100.00%</u>	<u>USD 1,038,450</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

30 Acquisition of the Compact Equipment Business from Ingersoll-Rand Ltd., Continued

(d) Description of contribution, Continued

Investors	Type of share	Doosan Holding Europe Ltd.		Amount invested (thousands)	
		Number of shares	Owner-ship		
The Company	Common share	7,238	32.56%	USD	361,900
Doosan Engine Co., Ltd.	Common share	6,721	30.23%		336,050
Financial Investors	Convertible preferred share (*)	8,272	37.21%		413,600
		<u>22,231</u>	<u>100.00%</u>	<u>USD</u>	<u>1,111,550</u>

(*) Non-cumulative and non-participating preferred stock.

Excludes convertible preferred stock held by Mirae Asset, all stocks do not possess voting rights.

The Company's acquisition cost of its common shares of Doosan Infracore International, Inc. and Doosan Holdings Europe Ltd. including other related acquisition costs are ₩ 326,228 million and ₩ 349,190 million, respectively, totaling ₩ 675,418 million.

(e) Investment agreement with financial investors

Significant provisions of investment agreement are as follows:

(i) Conversion

A holder of the preferred shares is entitled to exercise all or part of its conversion rights, during the period starting on the third anniversary of the date such holder remits funds to subscribe for first issued preferred shares and ending on the date marking five years and fourteen calendar days after the remittance date. One non-cumulative preferred share is to be converted into one common share, and the holder may not assign or delegate its conversion rights to any third party other than the Company.

(ii) Put option

In the event that a holder of the preferred shares elects not to exercise its conversion rights after five years have elapsed since the remittance date, the holder may exercise a put option against the Company or any third party designated by the Company to buy its shares. The strike price of this put option is the compounded amount of initial investment at 9% annually during a period starting on the next day of remittance day and ending on the date of payment less total amount of dividend received during the holding period.

(iii) Preferred purchase option

In the event that a holder of the preferred shares or converted common shares is to sell its shares, the Company may exercise a preferred purchase option where the Company or any third party designated by the Company is entitled to a priority right to purchase the shares.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

31 Segment Information

(a) General information regarding business groups

Business segment	Main products
Engines	Engine of the commercial car and bus, others
Construction equipment ("CE")	Crawler excavator
Industrial vehicle ("IV")	Lift truck
Machine tools ("MT")	Machining tools and factory automation system
Component and others ("Other")	Infantry defense vehicles, components of excavator and forklift

The following table provides information for each business segment as of and for the year ended December 31, 2007:

In millions of Won

		Revenue	Gross profit	Operating income	Depreciation/ amortization	Fixed assets
Engines	₩	381,515	85,434	23,818	25,757	215,691
CE		2,637,663	474,851	174,901	19,194	195,890
IV		727,382	107,332	3,298	7,083	87,789
MT		1,432,131	325,488	142,952	10,724	114,944
Other		642,969	146,601	64,649	15,838	289,930
Reconciliation		(1,541,521)	(45,567)	(24,084)	-	-
Consolidated amount	₩	<u>4,280,139</u>	<u>1,094,139</u>	<u>385,534</u>	<u>78,595</u>	<u>904,243</u>

The following table provides information for each business segment as of and for the year ended December 31, 2006:

In millions of Won

		Revenue	Gross profit	Operating income	Depreciation/ amortization	Fixed assets
Engines	₩	368,321	80,041	18,030	30,702	217,223
CE		2,158,514	264,879	106,254	21,751	183,859
IV		651,745	83,288	15,087	6,662	92,383
MT		1,071,874	206,741	108,929	11,588	103,095
Other		677,246	101,534	60,339	22,876	262,384
Reconciliation		(1,217,741)	202,951	(5,419)	-	(480)
Consolidated amount	₩	<u>3,709,959</u>	<u>939,434</u>	<u>303,220</u>	<u>93,579</u>	<u>858,464</u>

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

31 Segment Information, Continued

(b) Geographic information

The following table provides revenue information for each geographical segment as of and for the year ended December 31, 2007:

In millions of Won

		2007					
		Engines	CE	IV	MT	Other	Total
Domestic	₩	164,494	252,530	185,874	251,048	461,618	1,315,564
America		10,114	196,641	193,146	428,043	39,638	867,582
Europe		30,261	961,310	230,305	487,715	67,084	1,776,675
Asia		56,661	1,150,680	81,805	257,559	57,378	1,604,083
Other		119,985	76,502	36,251	7,765	17,253	257,756
Reconciliation		(1,179)	(881,678)	(204,275)	(410,045)	(44,344)	(1,541,521)
Consolidated amount	₩	380,336	1,755,985	523,106	1,022,085	598,627	4,280,139

The following table provides revenue information for each geographical segment as of and for the year ended December 31, 2006:

In millions of Won

		2006					
		Engines	CE	IV	MT	Other	Total
Domestic	₩	178,144	225,511	171,168	202,907	544,074	1,321,804
America		17,840	277,712	197,961	372,252	34,090	899,855
Europe		24,448	638,322	174,362	288,929	48,160	1,174,221
Asia		43,026	917,055	44,140	183,325	36,534	1,224,080
Other		104,863	99,914	64,114	24,461	14,388	307,740
Reconciliation		(831)	(740,324)	(176,044)	(264,244)	(36,298)	(1,217,741)
Consolidated amount	₩	367,490	1,418,190	475,701	807,630	640,948	3,709,959

32 Added Value

The components of selling, general and administrative expenses and manufacturing costs which are necessary in calculating added value at December 31, 2007 and 2006 are as follows:

In millions of Won

	2007	2006
Salaries	₩ 396,762	339,371
Provision for retirement and severance benefits	35,968	32,236
Other employee benefits	92,638	85,783
Rent	16,934	13,784
Depreciation	62,236	82,040
Taxes and dues	22,854	8,063

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

December 31, 2007 and 2006

33 Calculation of Net Income for Controlling Interest and Minority Interest

Description of net income for controlling interest and minority interest are as follows:

<i>In millions of Won</i>		Amount
Net income for controlling interest	₩	193,497
Net income for minority interest		
-Doosan Infracore China Co., Ltd.		5,491
-Doosan Infracore Machine Tools Yantai Co., Ltd.		361
-Doosan Infracore Europe S.A.		(50)
-Doosan Infracore Liaoning Machinery Co., Ltd.		5
Net income	₩	<u>199,304</u>