



# Management Direction of Doosan

September 2008



# Disclaimer

The information herein is provided for your convenience only.

This document includes forward-looking statements including profit and loss estimates for 2008 and beyond. Such forward-looking statements involve both known and unknown risks, uncertainties and changes in market or other projected circumstances, which may cause actual results or performance to differ materially from stated or implied results or performance. Exchange rates and raw material prices could cause actual profits and revenue to differ materially from those stated and implied by such forward-looking statements.

Please note that projections contained in this document reflect current market situations and management direction of Doosan and its affiliates, and may change or be modified in accordance with changes in market conditions and group strategy.

**The information is for information purposes only. We make no guarantees and assume no responsibility for the use of the information provided.**

**Please do not base your investment decision on the information contained in this document.**

# Doosan is the 6<sup>th</sup> largest conglomerate in Korea

(T KRW)

## Conglomerate ranking in Korea (based on market capitalization)

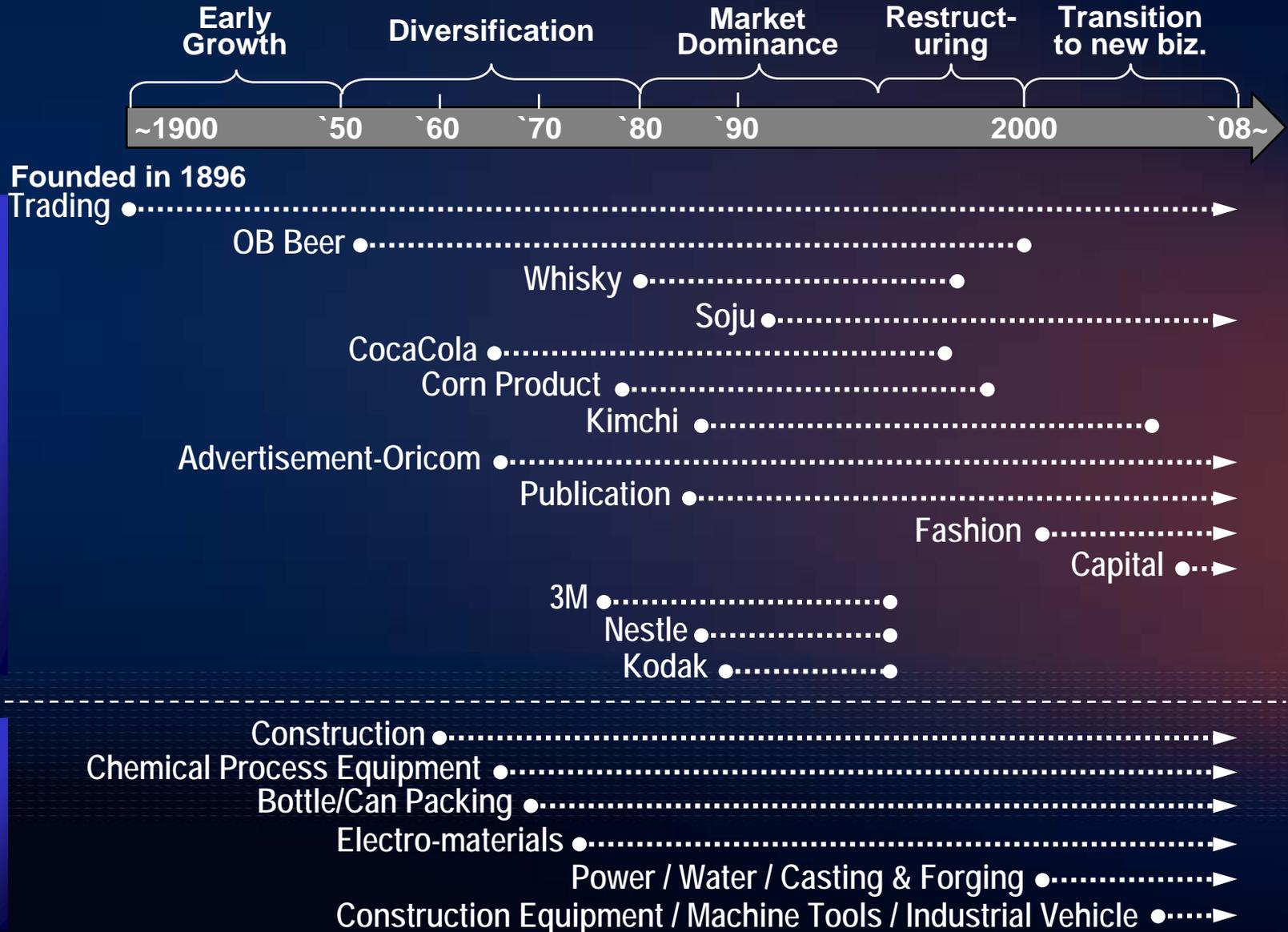
Ranking	Market Cap
1. Samsung	151.5
2. LG	54.5
3. SK	39.5
4. Hyundai Motor Company	38.1
5. Hyundai Heavy Industries	27.5
6. Doosan	18.4
7. Lotte	15.9
8. Kumho Asiana	11.0
9. GS	8.3
10. Hanjin	6.8

## Key facts of Doosan

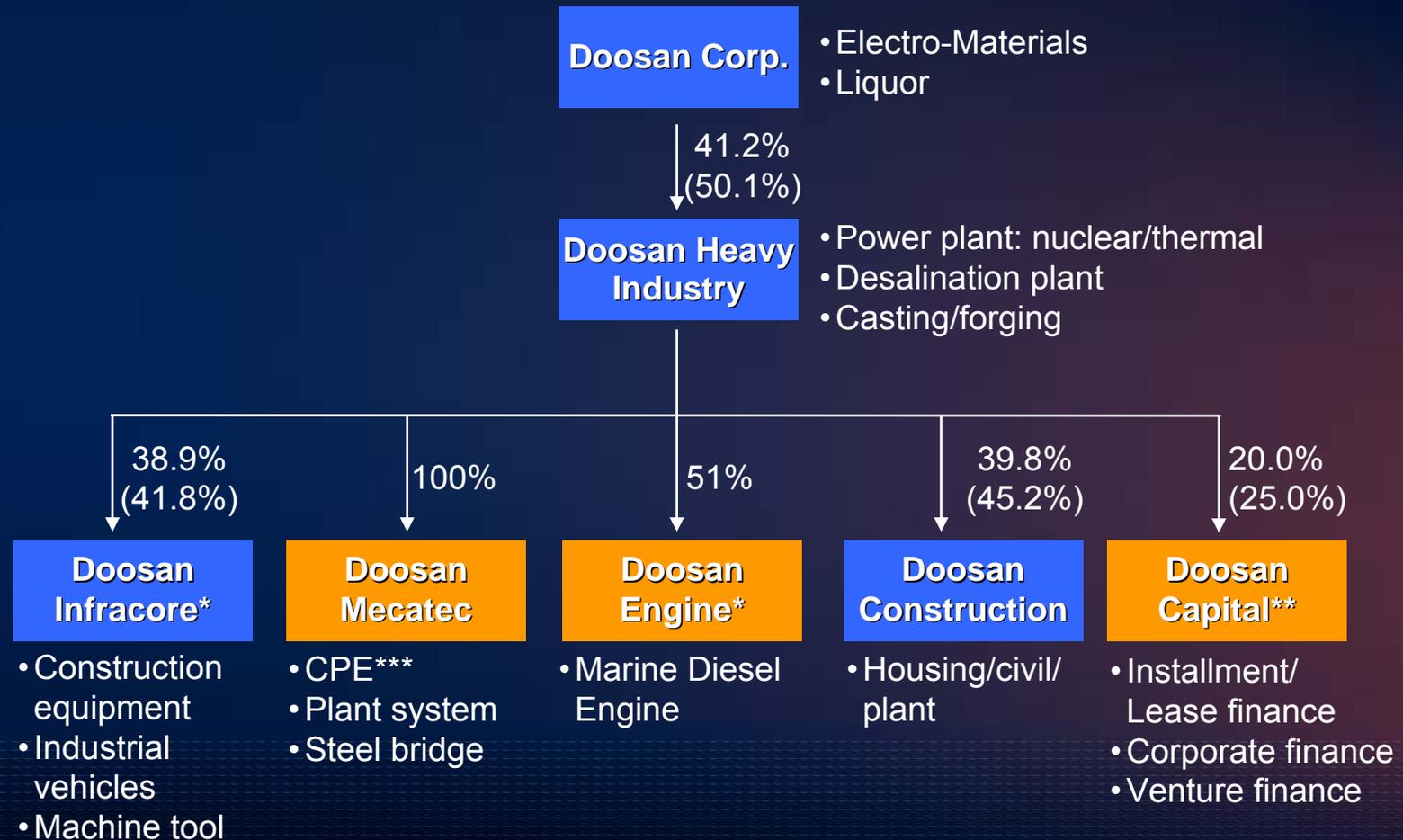
Items	Facts('08 E)
Revenue	23
EBITDA	2.4
Asset	26
Total # of employees (August, '08)	35,300

Source : '08. 7.17. Disclosure by Korea Exchange

# Doosan is the oldest conglomerate in Korea with 112 years of history



# Doosan's major affiliates



\* Doosan Infracore owns 51.8% of DII shares and Doosan Engine owns 48.2%

\*\* Doosan Infracore holds another 20.0% share of Doosan Capital

\*\*\*CPE: Chemical Process Equipment

( ) : % of share based on voting right

Listed  
 Private

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- **Doosan's Management Direction**
- **Growth Strategy of Core Affiliates**
- **Key Financials**

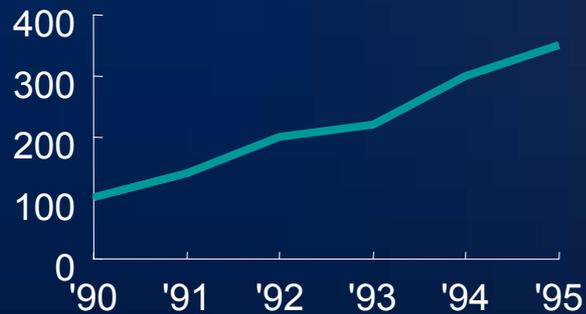
# Crisis in 1995

(B KRW)

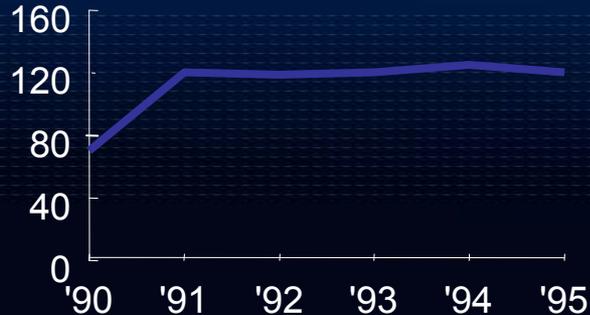
### Cashflow from Operation



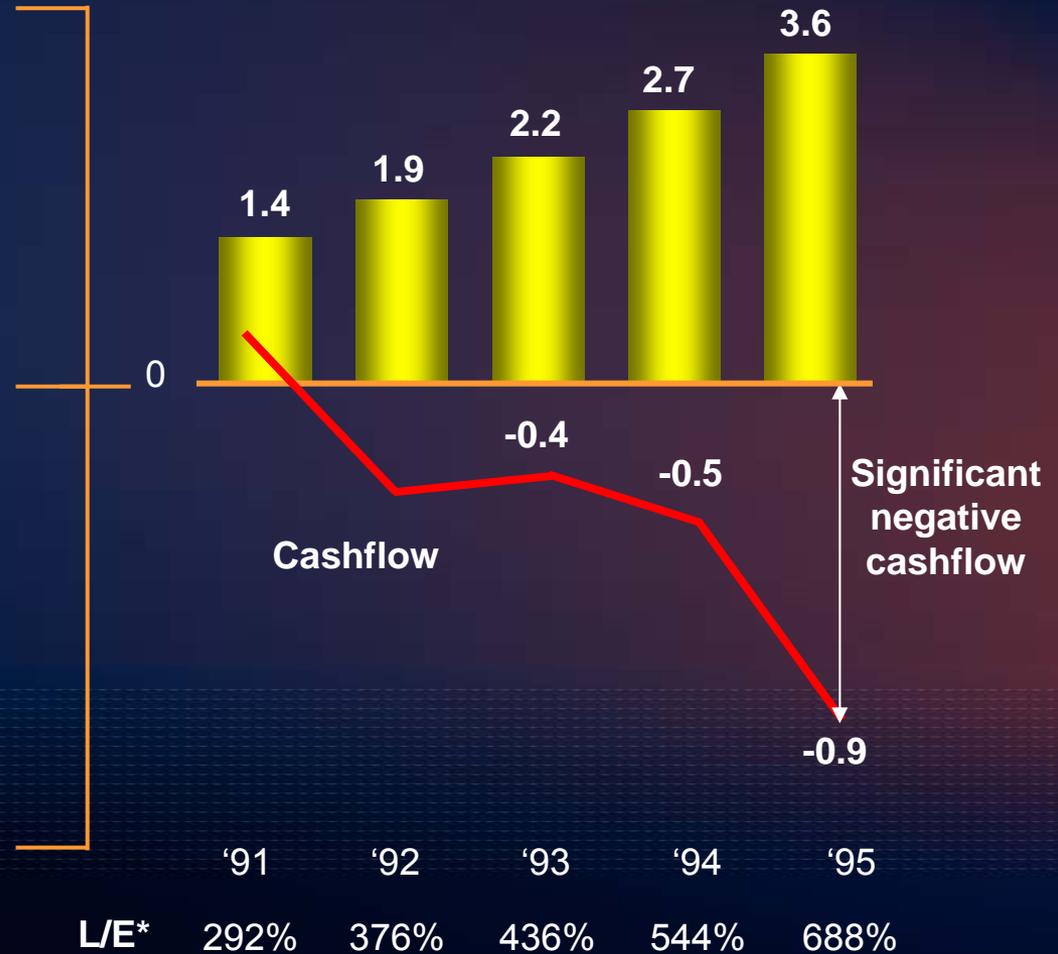
### Interest Expense



### CAPEX for Maintenance

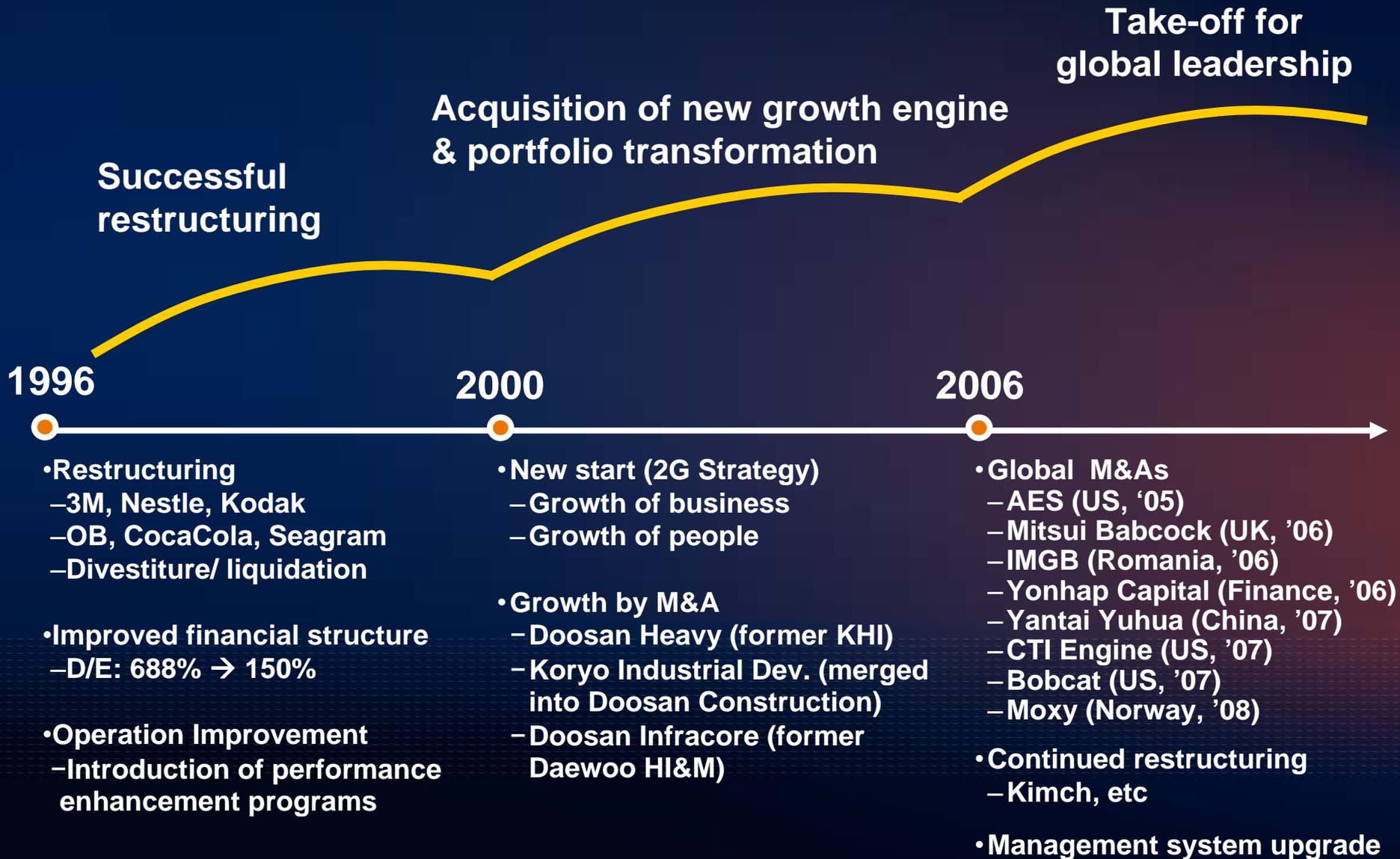


### Debt (T KRW)



\* Liability to Equity

# Strategic changes for the last 10 years



# Doosan's change

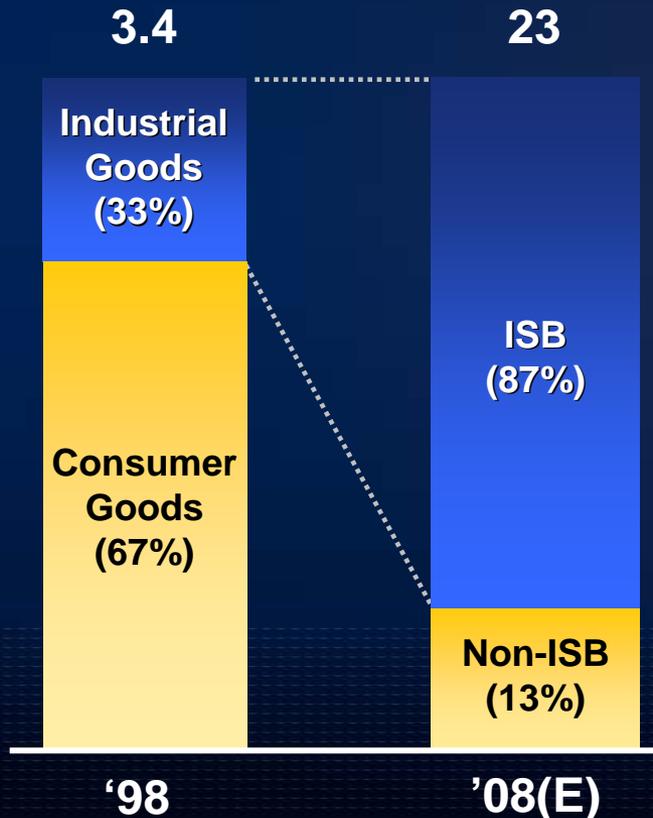
- **Consumer Goods → ISB\***
- **Domestic → Global Company**
- **Local Leader → Global Leader**

\* Infrastructure Support Business

# Change from consumer goods to ISB\*

(T KRW)

## Business mix (Revenue)



### ISB affiliates : 20

- Doosan Heavy 6.0
- Doosan Infracore 5.3
- D I I 2.9
- Doosan Const. 2.0
- Doosan Engine 1.9
- Doosan Mecatec 0.8
- IMGB / Babcock 1.2

### Non-ISB affiliates : 3

- Doosan Corp
- Oricom
- EM\*\* BG
- Samhwa C&C
- Liquor BG
- Doosan Capital
- Fashion BG
- Neoplux
- Publishing BG
- Doosan Bears
- Techpack BG

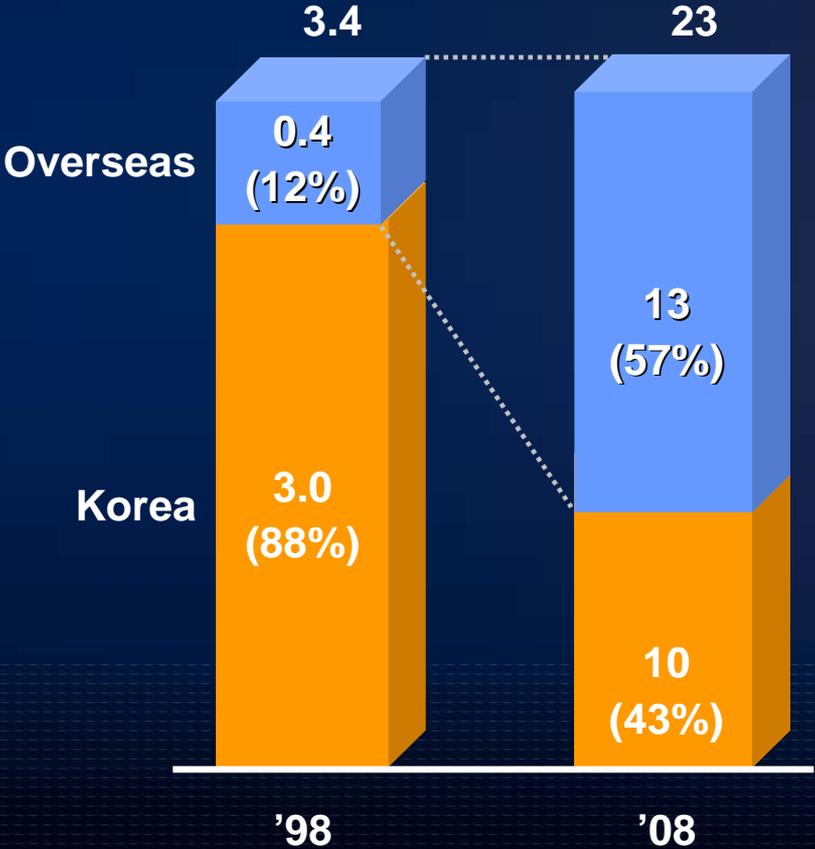
\* Infrastructure Support Business

\*\* Electro-Materials

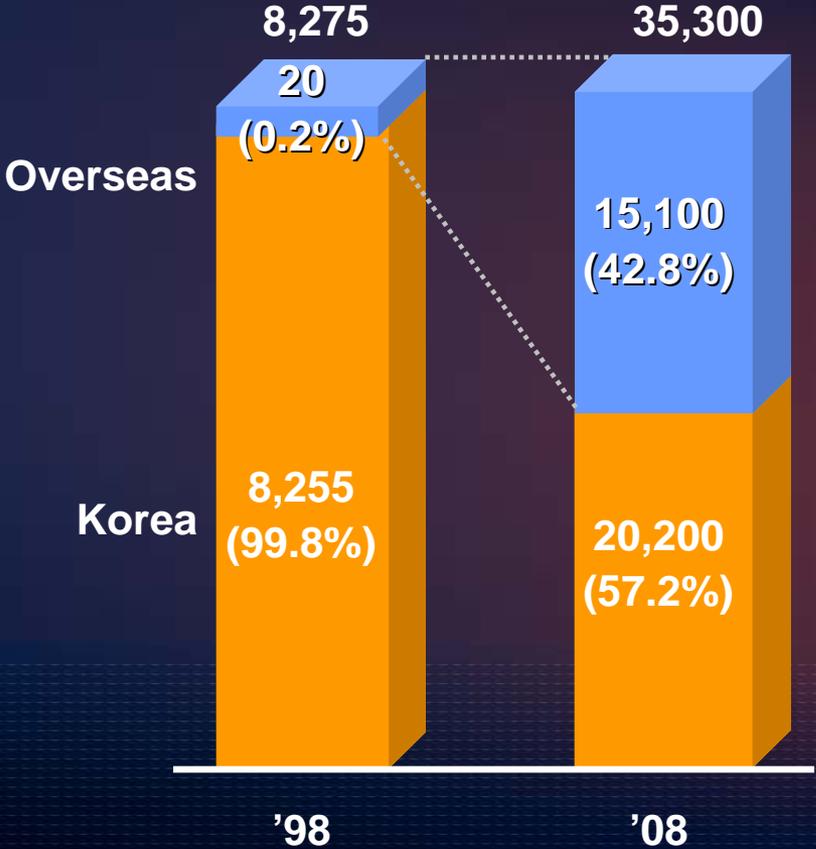
# Change from domestic to Global company

(T KRW, # of people)

## Revenue mix

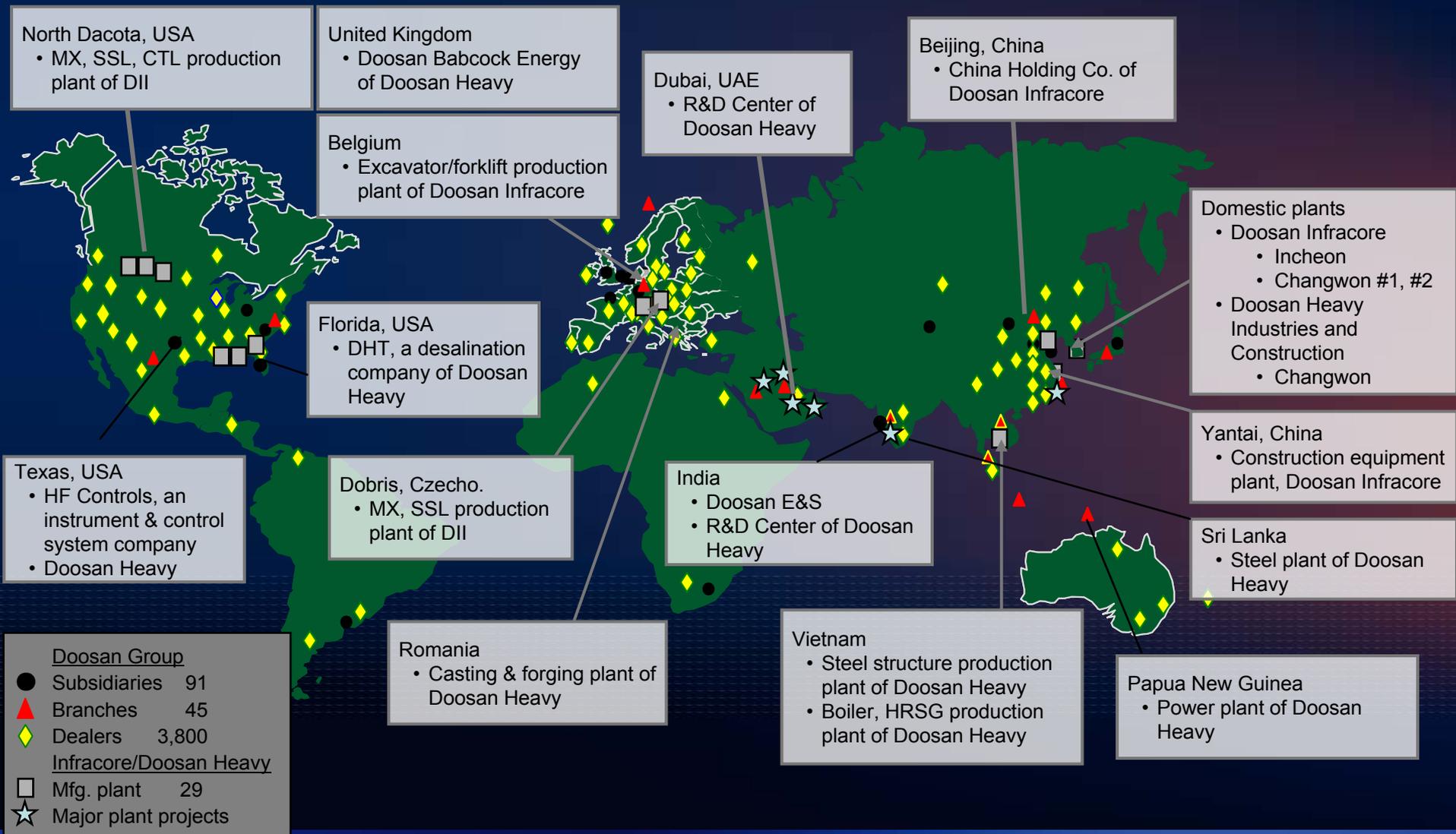


## People mix



# Doosan's global network

91 subsidiaries, 45 branches, 29 plants, 3,800 dealers



# Change from local leader to global leader

## Local Market Position

- Beer : #1 in Korea
- Soju : #2 in Korea
- Beverage\* : #1 in Korea
- Whisky : #1 in Korea
- Publishing : #1 in Korea
- Fast Food : #1 in Korea
- Kimchi : #1 in Korea
- CCL\*\* : #1 in Korea

**Doosan  
Heavy**

**Doosan  
Infracore**

**Engine/  
Mecatec**

## Global Market Position

- Desalination MSF: #1 in Global (M/S 40%)
- HRSG<sup>1)</sup> : #1 in Global (M/S 32%)
- Crankshaft : #3 in Global (M/S 23%)
- Casting/Forging : #1 in Global
- Nuclear : #1 in Global
- SSL/CTL<sup>2)</sup> : #1 in Global (M/S 39%)
- Attachment : #1 in Global (M/S 8%)
- Portable Air Compressor : #1 in Global (M/S 28%)
- Excavator : #1 in China (M/S 20%)
- Machine Tools : #4 in US (M/S 9%)
- Ship Engine : #2 in Global (M/S 25%)
- CPE : #1 in Global

\* In carbonated soft drink

\*\* Copper Clad Laminate

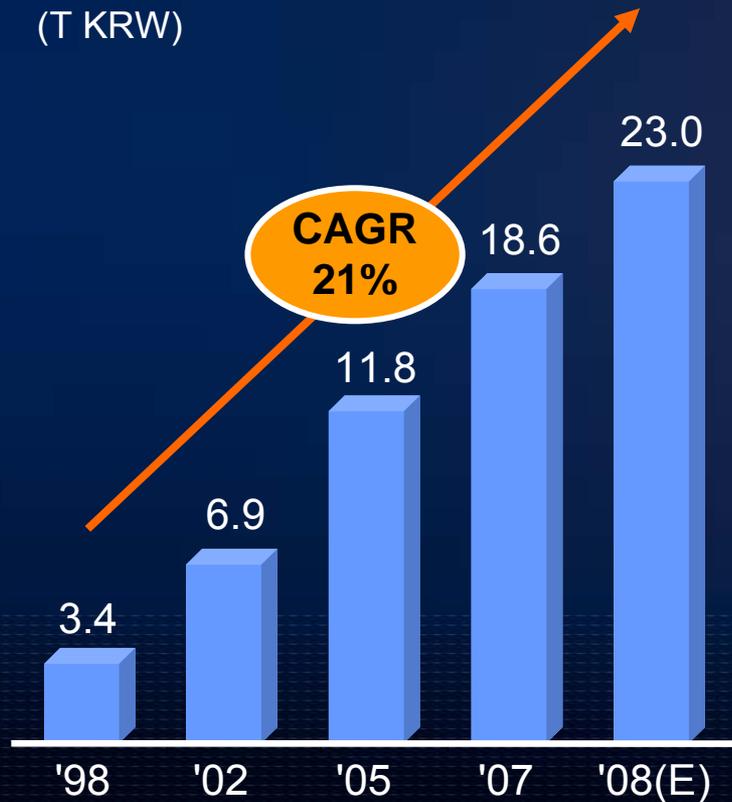
1) HRSG: Heat Recovery Steam Generator

2) SSL : Skid Steer Loader, CTL : Compact Track Loader

# Growth of Doosan

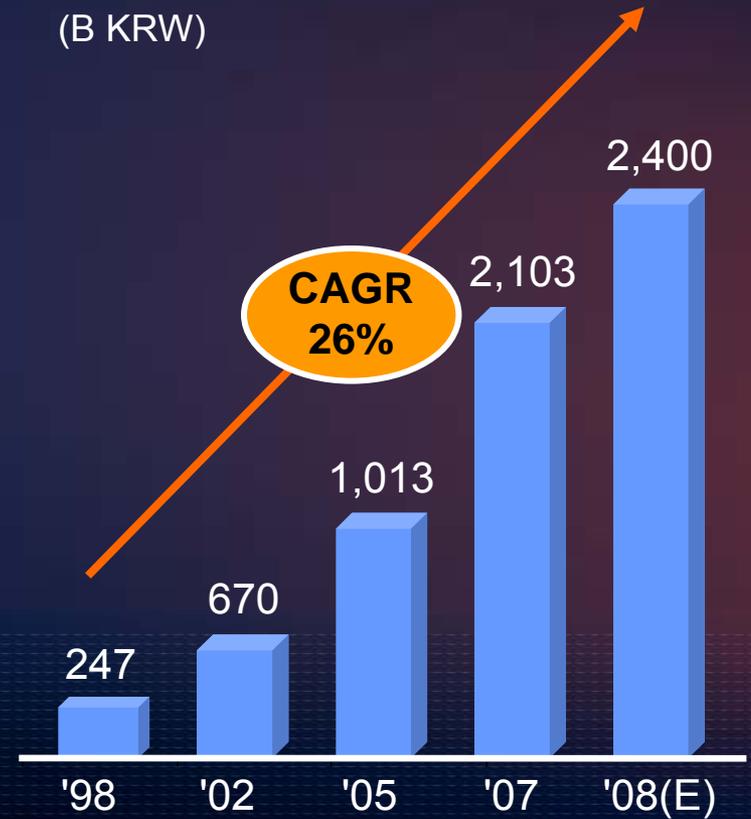
## Revenue

(T KRW)



## EBITDA

(B KRW)



# How did we make it happen?

- **"Cash is king!"**
- **Bold restructuring**
- **Transformation through Proactive M&A**
- **Expertise in Operation**
- **People**

 **Core Skills of management in Doosan**

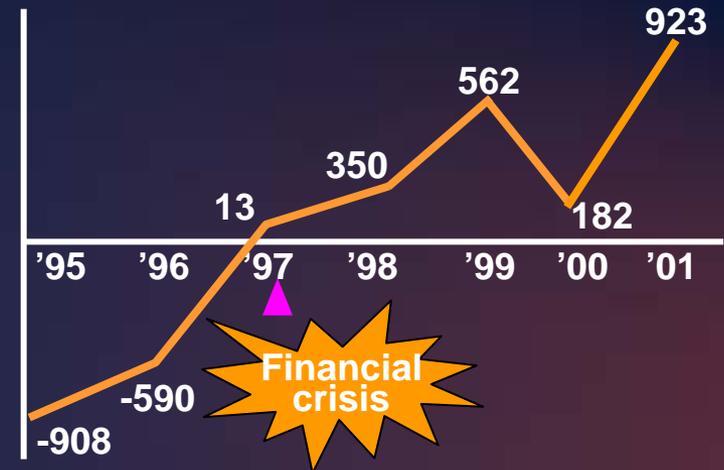
# Cash is king!

- **Cashflow as top business priority**
  - Cashflow based management system unique to Doosan
  - Most important factor for MBO (30%~40%)
- **Restructuring driven by cashflow, not by profit**
  - Asset sales below the book value
  - Exit decision: Endure one-off big loss
- **Working Capital Management**
  - DSO reduction: 154 days (<sup>96</sup>) → 80 days (<sup>01</sup>)
- **Management of adequate Capex and improvement of asset efficiency**
  - Asset turnover: 0.63 (<sup>96</sup>) → 0.73 (<sup>01</sup>)

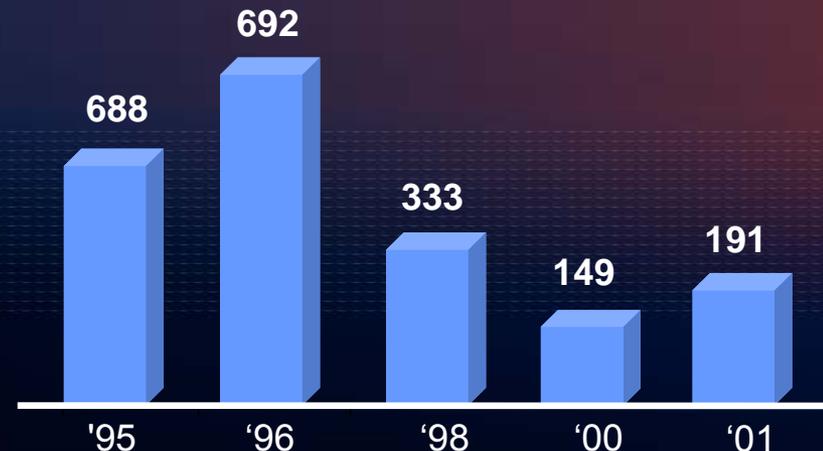
# Bold restructuring

- Portfolio restructuring
  - Sale of key businesses : 13 biz
    - Coca Cola ('97), OB ('98), Whisky ('98), etc
  - Divestiture of 12 businesses
    - Vending machine, Pizza, Milk, etc
- Balance sheet restructuring
  - ROIC < WACC as decision criteria
  - Sale of real estate and idle assets (e.g. Group HQ building)
  - Sale of investment equity (3M, Nestle, Kodak('96))

Cash flow  
(B KRW)



Debt-to-equity\* ratio (%)



\* Total liability

# Proactive M&A and successful PMI

## DHI acquisition

- Stepping stone for transformation from consumer goods company to heavy industry company
- Acquisition based on fair value: 2.1x the market price
  - EBITDA Multiple: 7.5x in '01 → 4.7x in '04
- Successful turnaround: Market cap increase by 25~40x
  - Global leadership in power generation and desalination

## DI acquisition

- Entry in construction equipment business
- Acquisition based on fair value: 2.4x the market price
  - EBITDA Multiple: 14.5x in '05 → 6.8x in '08
- Successful turnaround: Market cap increase by 2.2~5x

## Global M&A

- M&A for global competitiveness: 9 companies
- Became Global Top 7 in construction equipment
  - Product/regional portfolio synergy
  - Basis for Global Top 3 in 2012

# Doosan's principle of M&A: Strategic approach

Pay Fair Value and focus on synergy : Double corp. value within 3~4yrs.

## Strategic objective

Technology / Skill



Product / Capacity



Market / Network



## M&A targets

- AES (desalination)
- Mitsui Babcock (generation)
- Yonhap Capital (financing)
- CTI (engine)
- Bobcat (construction equipment)
  
- IMGB (casting & forging)
- Yantai Yuhua (wheel loader)
- Bobcat(compact equipment)
- Tong Myung Motrol (CE core parts)
- Moxy (ADT, RDT\*)
  
- Daewoo HI&M
- Bobcat(network in US and Europe)

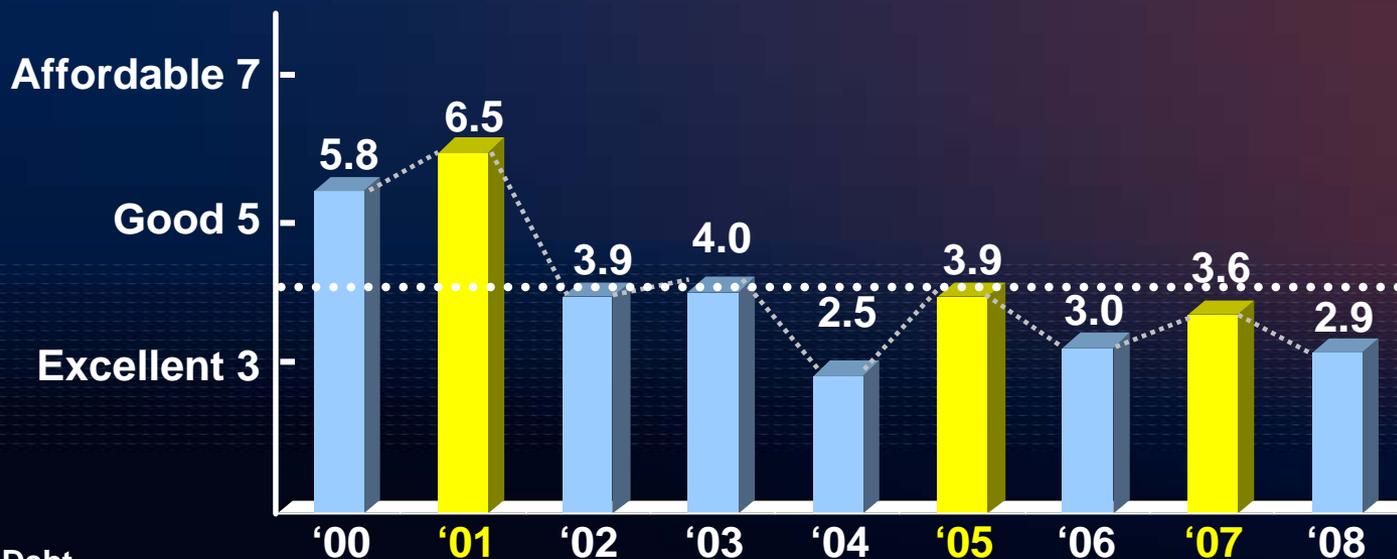
\* ADT: Articulated Dump Truck  
RDT: Rigid Dump Truck

# Doosan's principle of M&A: Stick to financial guideline

## Revenue growth

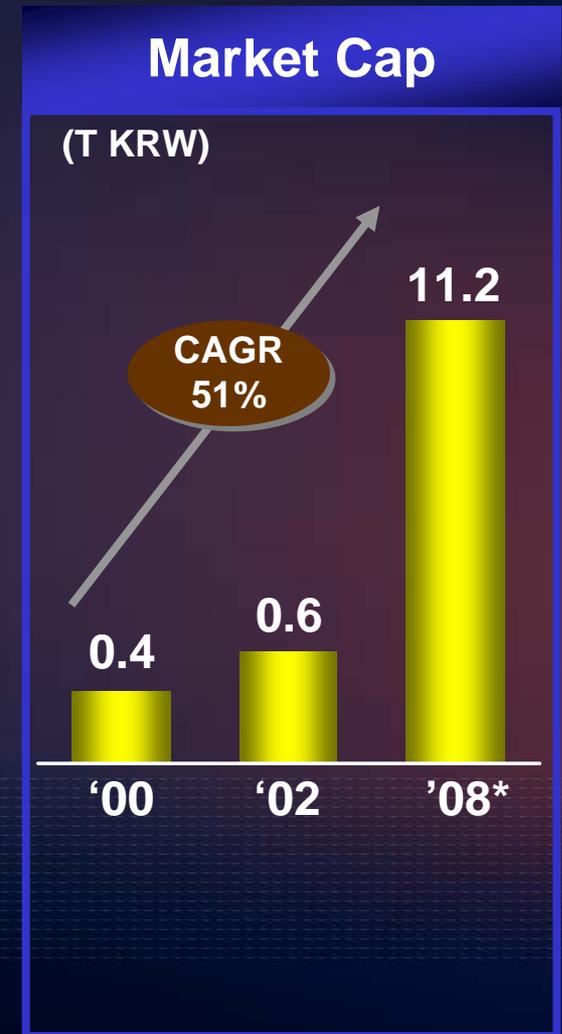
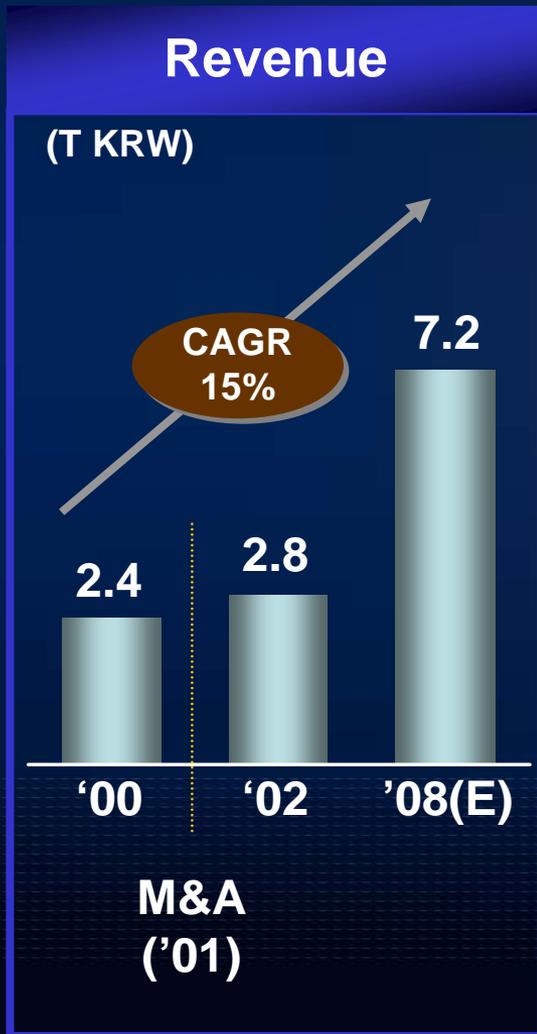


## Debt to EBITDA\*



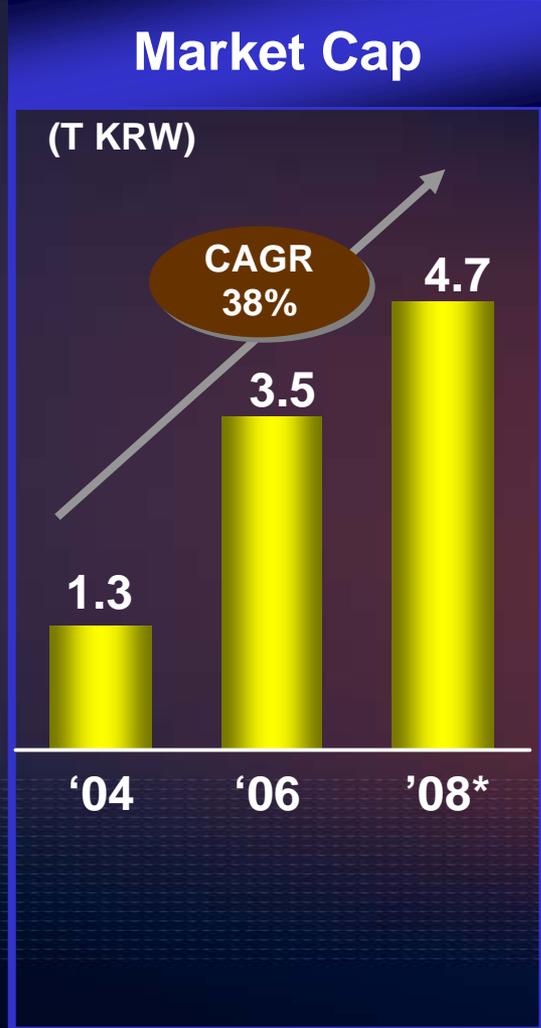
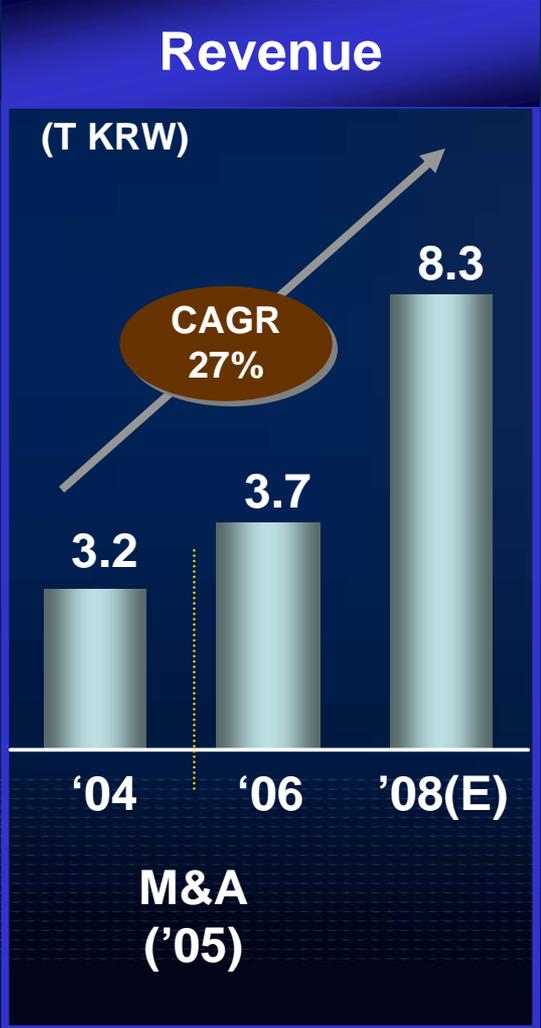
\* Based on Net Debt

# Value creation after M&A – DHI(incl. overseas)



\* Average of 2008

# Value creation after M&A – DI(incl. overseas)



\* Average of 2008

# Expertise in Operation

## Operational Improvement

TOP<sup>1)</sup>

- Cost reduction
  - Streamline production
  - Improve quality

PSM<sup>2)</sup>

- Strategic procurement mgmt. and reduction of raw material cost

DTC<sup>3)</sup>

- Cost reduction at the point of design

Lean Mfg.

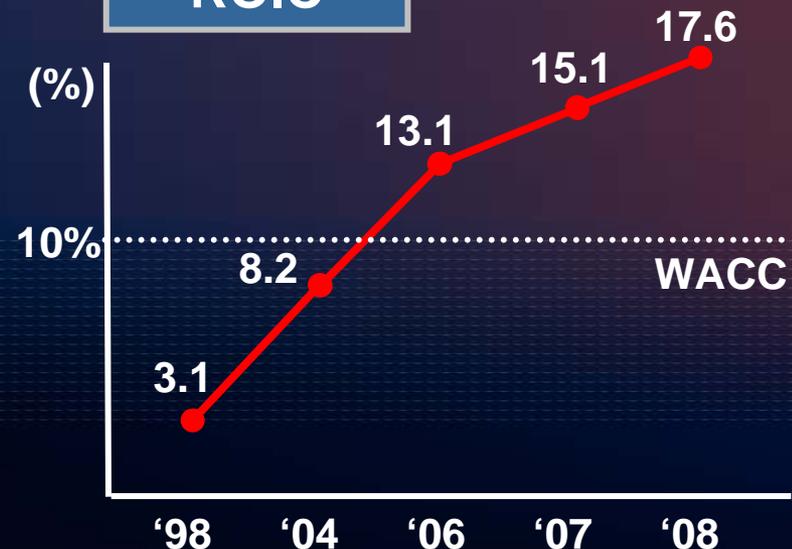
- Production system improvement

➔ Leverage as core skill in PMI

## EBIT Margin



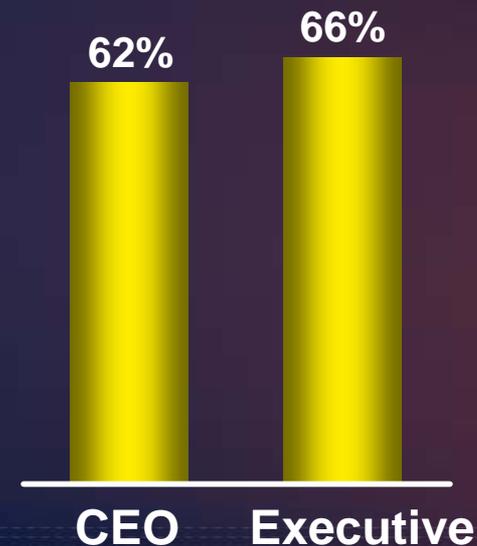
## ROIC



# People

- **2G Strategy**
  - Pursue 'Growth of Business'  
by 'Growth of People'
- **Open Door Policy**
- **Keep management of target company after M&A**
- **Advanced evaluation & compensation**
  - Aggressive compensation tied with performance
  - People Program
- **Utilize external professionals**
- **Doosan Leadership Institute: top-notch institute for people development**

## Management from outside



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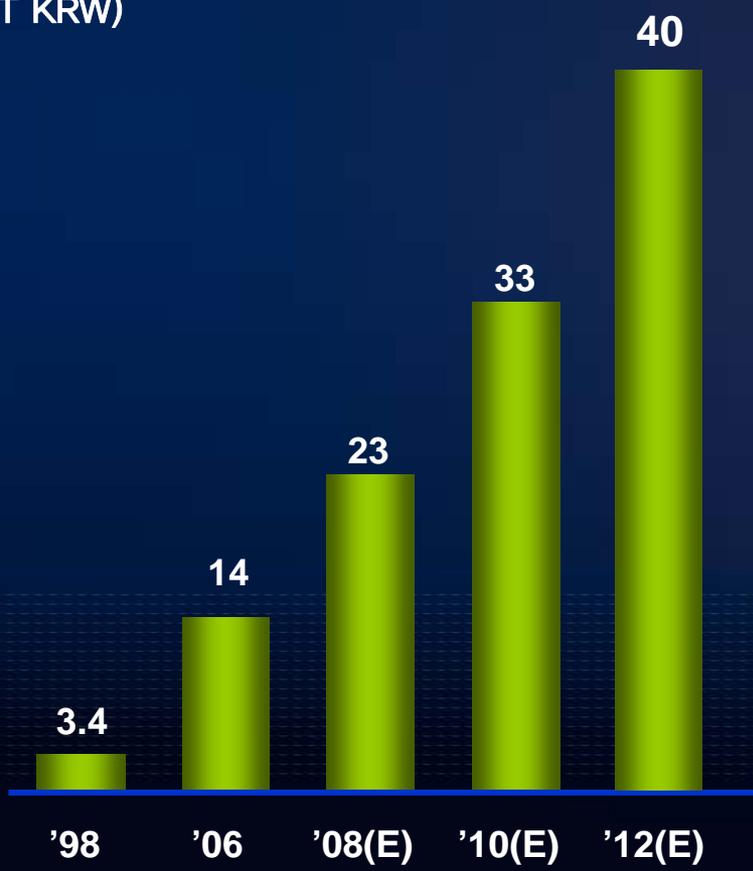
# Doosan's Tomorrow

- **Growth Target**
- **Global Leader in ISB**
- **Transition to Holding Company Structure**
- **On-Going Restructuring**

# Growth Target by 2012

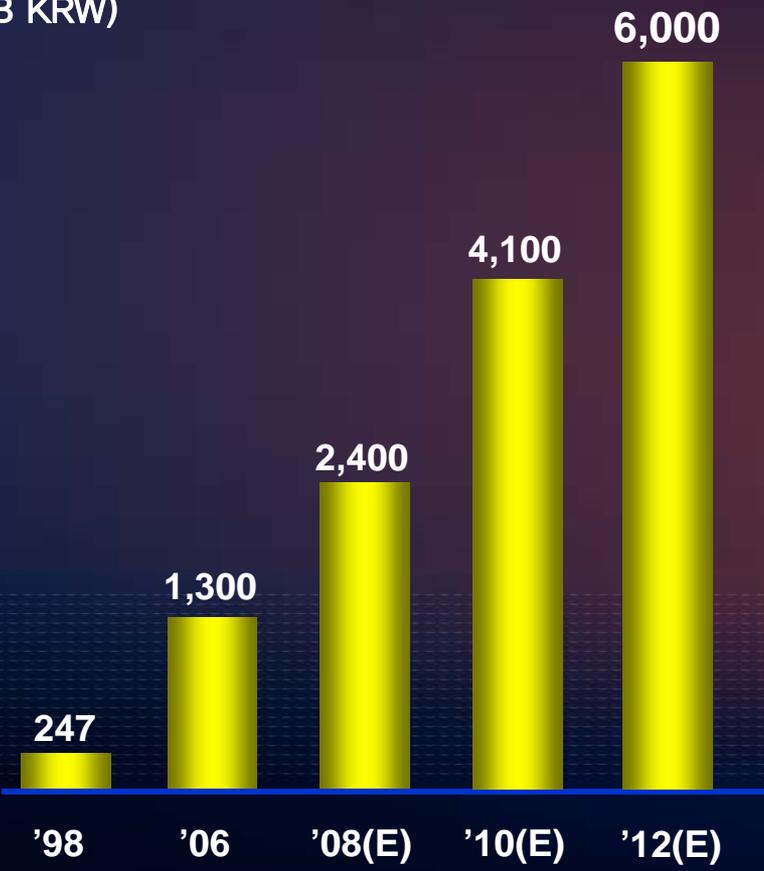
## Revenue

(T KRW)



## EBITDA

(B KRW)



# Global Leader in ISB

## Major Biz.

## Today

## Future

• Power generation	Focus in main equipment and EPC	Global 1 <sup>st</sup> Tier
• Desalination	Focus in desalination plant	Global Top Tier water company
• Nuclear	World class manufacturing	Global Champion in main equipment
• Cons. Equipment	Global Top 7	Global Top 3
• Manufacturing Tools	Global Top 4	Global Top 3
• Ship Engine	Global Top 2	Global No.1

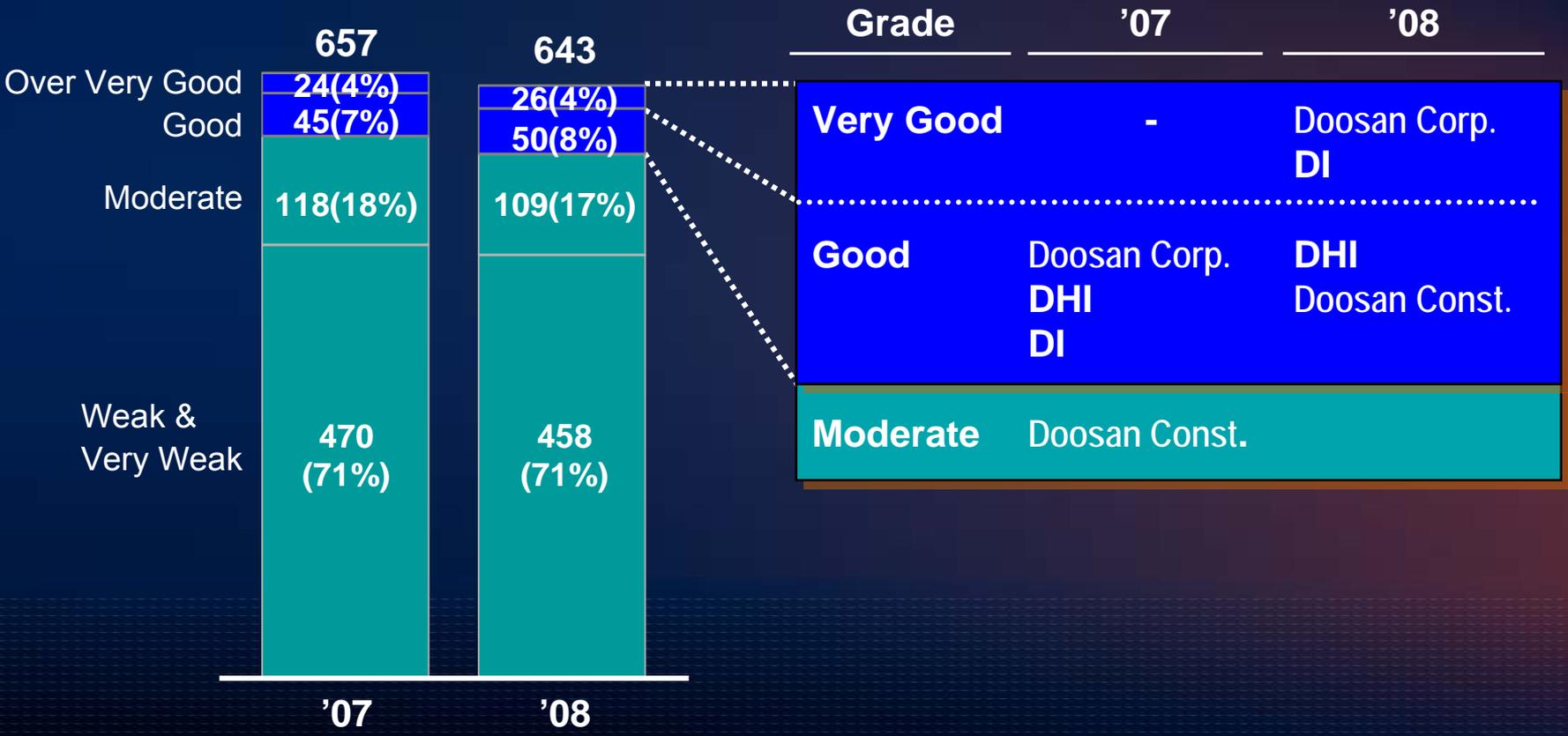
# Transition to HoIco and enhancement of transparent governance

- **Doosan Corp. : Transition to HoIco ('08)**
  - HoIco that also has its own business model
  - Vehicle for restructuring driven by IRR
  - Intangible asset value creation as HoIco

➔ **Focus on maximizing Total Shareholder Return**
- **Enhancing transparent governance**
  - Independent management of affiliates by BOD
  - Key committees run 100% by outside directors
    - Outside director nomination committee
    - Audit, Internal transaction committee
  - Written ballot introduced

➔ **Recognized core affiliates as a company with excellent corporate governance\***

# 2008 Corporate Governance Grade



Source : CGS (Corporate Governance Service)

# On-Going Restructuring

- **Focus on ISB**
- **Divest non-core business**
- **Continued business replacement for more synergy**

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## Operating Entity

- **Operating HoIco that has its own business cashflow and growth engines**
  - **Structure that grows with affiliates**

## Investment Vehicle

- **Investment vehicle that constantly restructures biz. portfolio to maximize ROIC and IRR**

## Intangible Value Creation

- **Value-Adding Service Provider through management capability and IP\* offering to affiliates**

\* Intellectual Property: Core technology license, brand license, etc.

- **Existing biz. : focus on maximizing cash flow based on market leadership**
  - **Electro-Materials : restructure product portfolio with more focus on high value-added products**
  - **Liquor : Improve soju M/S by reinforcing marketing capability**
  - **Fashion : Expand existing product lines**
  - **Spin-off Techpack and Publishing**
- **New biz. : continuously explore and develop new growth business**
  - **Doosan motrol : Develop comprehensive parts business in ISB (Acquired 94% share)**
  - **Glonet : Develop comprehensive logistics service business**

# Financial plan (Operating Entity)

## Revenue

(T KRW)



## EBITDA

(B KRW)



## Brand royalty/ License Fee

- **Manage and provide Doosan brand value**
  - Payment from 6 affiliates using Doosan brand
  - 0.2% ~ 0.5% of revenue will be paid upon the valuation of Doosan brand
- **License fee for acquired core technology**

## Shared Service

- **Provide management capability to affiliates**
  - Restructuring skill and capability to improve asset efficiency
  - Operational improvement : TOP\*, PSM\*, DTC\*, etc.
  - Management infra : strategy, talents, system, etc.
- **IT, Accounting, Treasury, Internal Control, etc**

\* TOP : Total Operational Performance, PSM : Purchasing & Supply Management, DTC : Design to Cost

# DHI's major business lines

DHI

(B KRW)

		Major products	Revenue* (2008)
Power		<ul style="list-style-type: none"><li>• Nuclear Steam Supply System</li><li>• Thermal power boilers</li><li>• Heat Recovery Steam Generators (HRSG)</li><li>• EPC Services</li></ul>	5,034
Desalination		<ul style="list-style-type: none"><li>• Multi-stage flash distillation system</li><li>• Reverse osmosis filtration system</li><li>• Engineering, Procurement, Construction</li></ul>	471
Casting & forging		<ul style="list-style-type: none"><li>• Power plant turbine shafts</li><li>• Steel mill work rolls</li><li>• Marine engine crankshafts</li></ul>	651
Construction		<ul style="list-style-type: none"><li>• Nuclear/thermal power plants</li><li>• Irrigation and water treatment</li><li>• High-speed railways</li></ul>	812

\* Incl. overseas

# Key strategy

(T KRW)

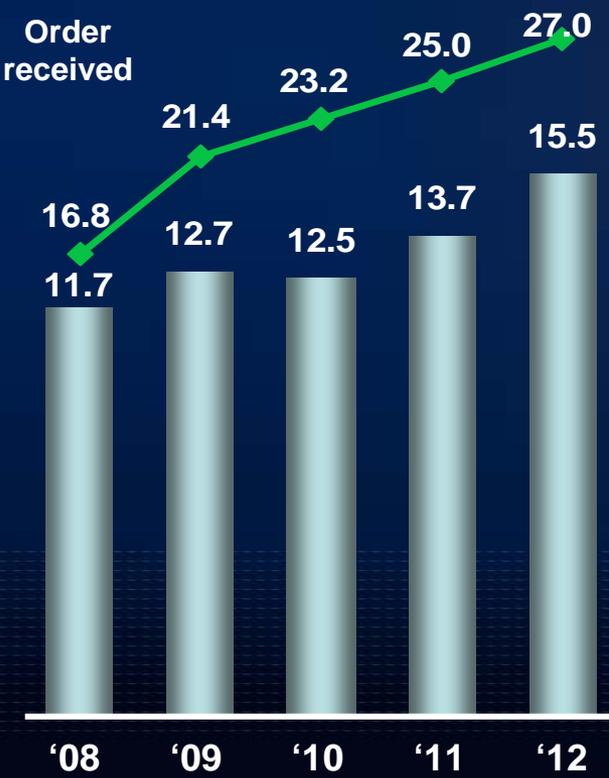
	Market size (`08~12)	Order target* (`08~`12)	Strategic direction
<b>Power</b>	1,150~1,350 (1,000GW)	47	<ul style="list-style-type: none"> <li>Coal/ nuclear generation industry starts picking up due to oil price hike</li> <li>Expand EPC capability and maximize synergy with Doosan Babcock</li> <li>Secure core technology and build manufacturing base in Vietnam</li> </ul>
<b>Desalination</b>	60	8	<ul style="list-style-type: none"> <li>Demand for desalination increases from Middle East</li> <li>Core technology for RO-type desalination and diversified market was acquired by M&amp;A of AES</li> <li>Enter the market of Membrane type Water treatment</li> </ul>
<b>Casting &amp; Forging</b>	13	4	<ul style="list-style-type: none"> <li>Continued order for Crankshaft, core part of shipping engine</li> <li>Capacity expanded in Korea and Romania to support growth</li> </ul>
<b>Construction</b>	700~800 (Domestic 500)	9	<ul style="list-style-type: none"> <li>Focus on generation plant and LNG tank in domestic market</li> <li>Expand to Middle East and Asia with focus on plant and related development business</li> </ul>

\* Incl. overseas

# Financial plan (DHI, overseas included)

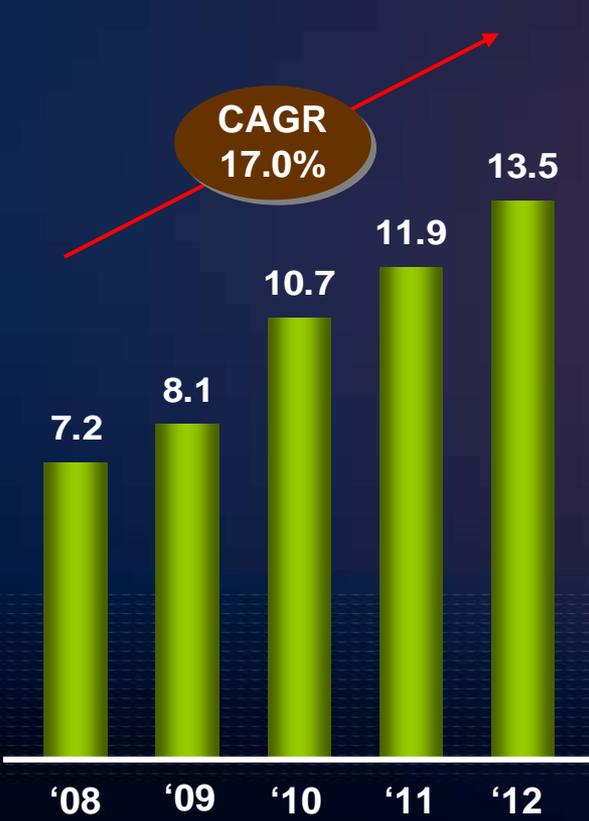
## Order received

(T KRW)



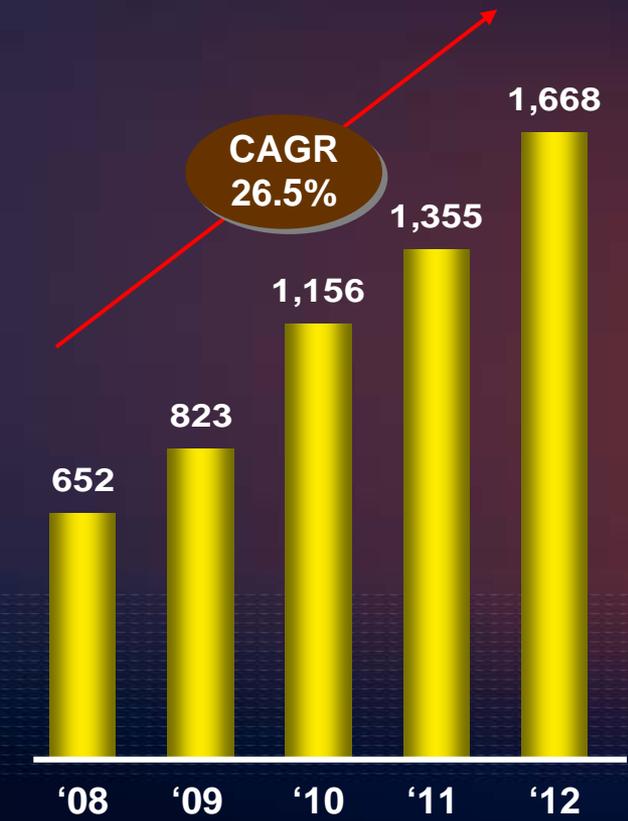
## Revenue

(T KRW)



## EBITDA

(B KRW)



# DI's major business lines

(B KRW)

	Major product line		Revenue* (2008)
<b>Construction equipment</b>	 <ul style="list-style-type: none"> <li>• Excavator</li> <li>• Mini excavator</li> </ul>	 <ul style="list-style-type: none"> <li>• Wheel Loader</li> <li>• SSL**</li> <li>• ADT**</li> </ul>	4,771
<b>Machine tools</b>	 <ul style="list-style-type: none"> <li>• Turning center</li> <li>• Machining center</li> <li>• Automation system</li> </ul>	 <ul style="list-style-type: none"> <li>• NC boring machine</li> <li>• EDM**</li> </ul>	1,154
<b>Industrial vehicle</b>	 <ul style="list-style-type: none"> <li>• Forklift               <ul style="list-style-type: none"> <li>- Combustion engine type</li> <li>- Electric motor type</li> </ul> </li> </ul>	 <ul style="list-style-type: none"> <li>• Forklift               <ul style="list-style-type: none"> <li>- Electric reach type</li> </ul> </li> </ul>	551
<b>Engine</b>	 <ul style="list-style-type: none"> <li>• Bus/truck diesel engine</li> <li>• Excavator/forklift diesel engine</li> </ul>	 <ul style="list-style-type: none"> <li>• Marine engine</li> <li>• Electricity generator</li> </ul>	630

\* incl. overseas \*\* SSL (Skid Steer Loader), ADT (Articulated Dump Truck), EDM (Electric Discharge Machine)

# Key strategy

(T KRW)

	Market size (`12)	Revenue* target (`12)	Strategic direction
<b>Construction Equipment</b>	<ul style="list-style-type: none"> <li>Excavator 51</li> <li>Wheel loader 18</li> </ul>	9.9	<ul style="list-style-type: none"> <li>Pursue global top 3</li> <li>Clear #1 in China (excavator + wheel loader)</li> <li>Top-tier player in emerging markets</li> <li>Synergy maximization with newly acquired companies (DII, Moxy, etc)</li> </ul>
<b>Machine Tools</b>	<ul style="list-style-type: none"> <li>Total 27</li> <li>- Turning center 10</li> <li>- Machining center 13</li> </ul>	2.2	<ul style="list-style-type: none"> <li>Pursue global top 3</li> <li>Strengthen positioning with focus on high-end product</li> <li>Explore additional growth engines in new biz.</li> </ul>
<b>Industrial Vehicle</b>	<ul style="list-style-type: none"> <li>17</li> </ul>	0.9	<ul style="list-style-type: none"> <li>Global Production : Expand facilities in China and Europe</li> <li>Enhance product lineup</li> </ul>
<b>Engine</b>	<ul style="list-style-type: none"> <li>186</li> </ul>	1.4	<ul style="list-style-type: none"> <li>Establish new growth platform</li> <li>- JV in China, Expand CNG engine biz.</li> </ul>

\* incl. overseas

## Revenue

(T KRW)



## EBITDA

(B KRW)



# Strategic direction of other key affiliates

## Strategic direction

## Revenue Growth

### Construction

- Become Top 5 in Korea by '12
- Build stable portfolio by expanding non-housing biz. (civil engineering & plant)
- Improve profitability by reinforcing sourcing & design management capability



### Engine

- Establish optimal production system
- Enter medium speed engine market in full scale
- Seek opportunity to enter into low/medium speed engine market for generator



### Mecathec

- Enhance target market through global expansion strategy
- Boost small/medium CPE market to stabilize plant in Vietnam
- Secure technology for high-end CPE
- Expand specialized plants with focus on energy and petrochemical



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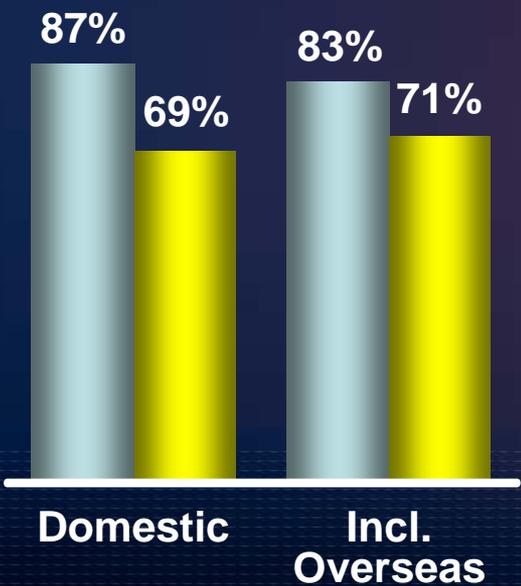
- **Change of Doosan**
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- **Growth Strategy of Core Affiliates**
- **Key Financials**

# 2008 Key Financials of Doosan

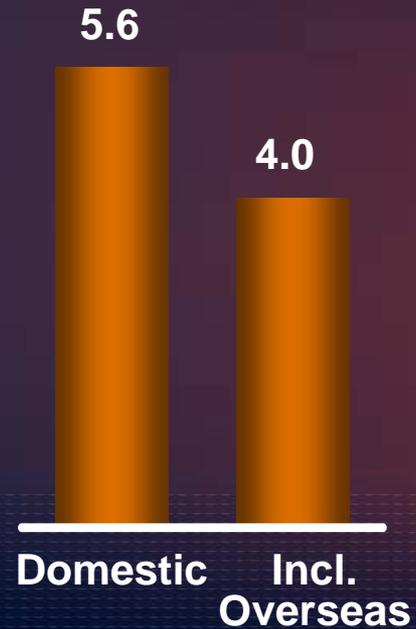
Debt to EBITDA



Debt to Equity Ratio



ICR



 : excl. FX evaluation impact

\* Net Debt

A tall, modern skyscraper with a grid of windows, featuring the 'DOOSAN' logo at the top. The building is set against a dark blue background with a horizontal line. The text 'E.O.D' is overlaid in white.

**E.O.D**