



Doosan Infracore

DOOSAN INFRACORE

# 2008 1<sup>st</sup> Investor Meeting

February 2008



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**Mid-term Plan & 2007 Results**

2

**2008 Strategies & Financial Target**

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**DII's 2007 Results & 2008 Target**

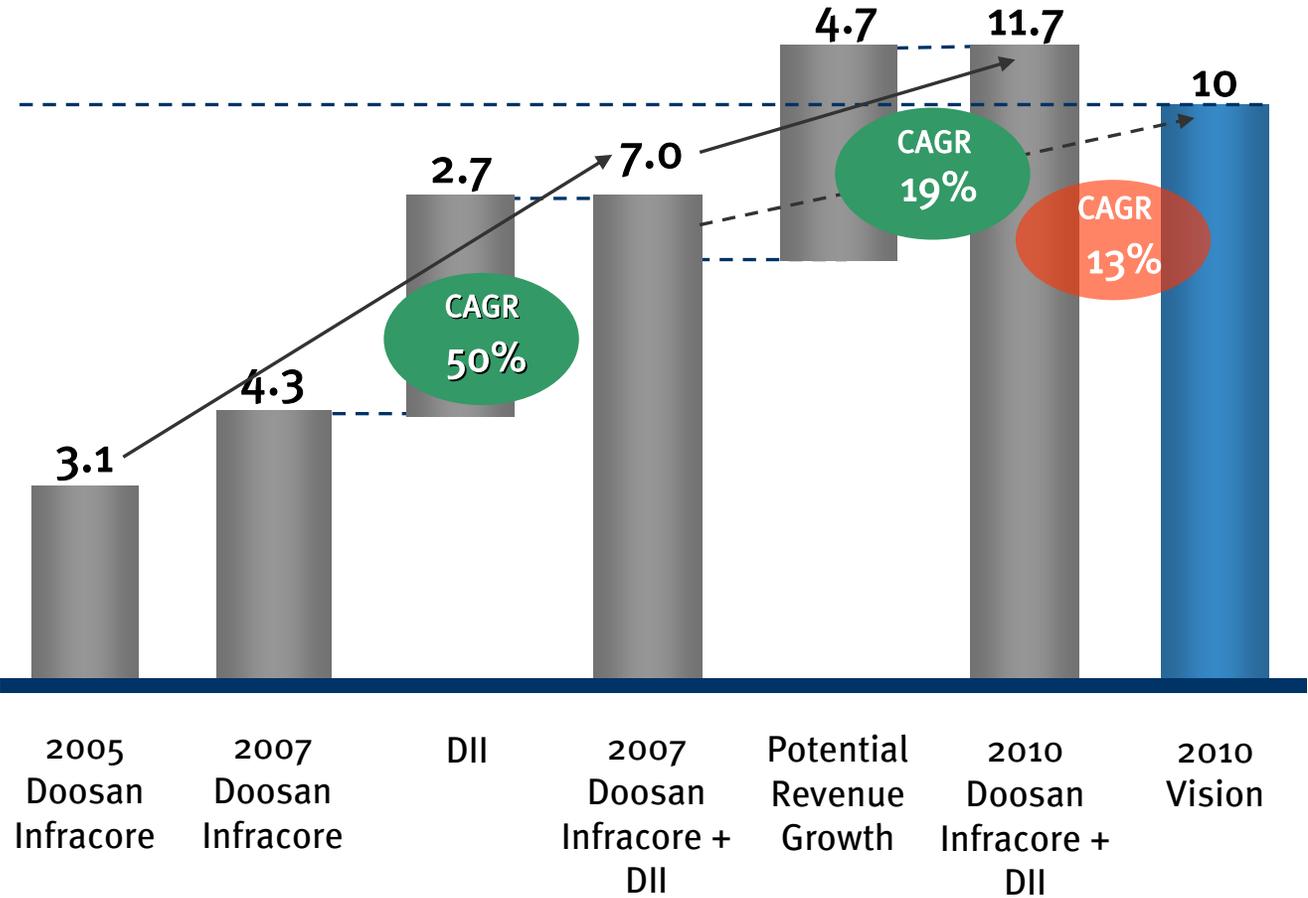
## Disclaimer

The financial numbers and statements included in the following presentation and related comments by management represent statements made before the external review by independent public accountants for the fiscal year 2007 financial results release, and are presented here today solely for the purpose of offering the investor an understanding of the company.

Statements on 2008 outlook and mid-term business plan represent our current judgment on what the future may hold, and while we believe these judgments are reasonable, actual results may differ materially due to numerous external and internal factors.

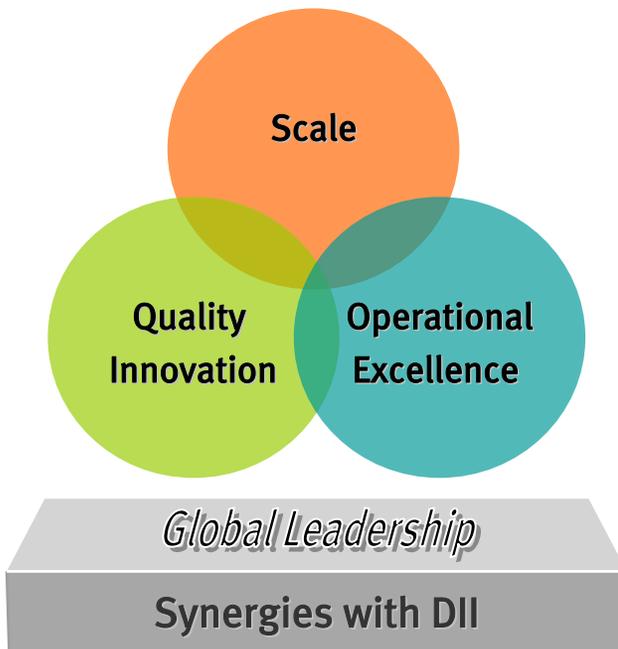
# On track to attain our 2010 vision of KRW10tr sales

Unit : KRW tr



To surpass 2010 revenue target of KRW10 trillion on the back of synergies between Doosan Infracore and DII

# On track to achieve our mid-term target by pursuing consistent strategies, and global capability gained from Bobcat should further advance our schedule



## ■ Scale

- Establishing China as our secondary home market
- Early entrance into emerging market
- Better positioning in developed markets such as US/Europe

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## ■ Quality Innovation & Operational Excellence

- Launch of competitive new products
- Cost reduction from purchasing, design and production
- Secure price premium on the back of enhanced brand equity

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## ■ Global leadership

- Utilize global talents of DII
- Continuous effort to secure more global talents

# Structural change in competitiveness achieved in 2007 thanks to stronger fundamental capabilities and expansion into growth markets

**Scale**

**Stronger foothold in China**  
No. 1 in 1) market share for excavators, 2) customer satisfaction, 3) sales network

**Diversified markets – focus on emerging markets**  
Developing CIS, India, Central & South America, Middle East and other new markets

**Stronger product line-up with new product releases**

**Global top 7 with acquisition of Bobcat**

**Quality Innovation & Operational Excellence**

**Cost reduction efforts via global sourcing, DTC, Lean**

**Significant improvement in product quality index**

**Global Leadership**

**Global talents secured to execute growth strategies**

**Strong performance in 2007 : sales growth of 15% and operating profit growth of 27%**

# Construction Equipment BG achieved a 24% growth backed by enhanced competitiveness in China and emerging markets in 2007

## Growth

**Firm No. 1 position in China**  
24hr service / Increased capacity for mini excavators / More than 10,000 units sold in China for the first time in the industry

M/S expansion : 19.4% → 19.8%

**Accelerated penetration into emerging markets such as CIS and South/Central America**  
Expansion of dealership & stronger product support in Russia / Establishment of South American subsidiary and operation of the Panama Free Zone

Sales growth :  
CIS 300%  
Central & South America 60%

**Successful development & launch of zero tail swing excavators**

70% sales growth of 3-ton mini excavators

## Profitability

**Secured better brand value and price premium after the acquisition of Bobcat**

5~8% price hike by product

**Improvement in cost structure via China sourcing and design optimization**

Average 19% cost reduction by component / application

# Machine Tools BG achieved a 27% growth backed by entry into high growth markets and greater sales contribution from high-end products in 2007

## Growth

### Greater penetration into local Chinese market

6 new models launched specifically for China

China sales growth of 22%

### Sales expansion of high-end products in Europe

Europe sales growth of 55%

### Greater market coverage via new product launch

40% sales contribution from new products

## Profitability

### Greater sales contribution from high-end products thanks to better product support

4 new technical centers

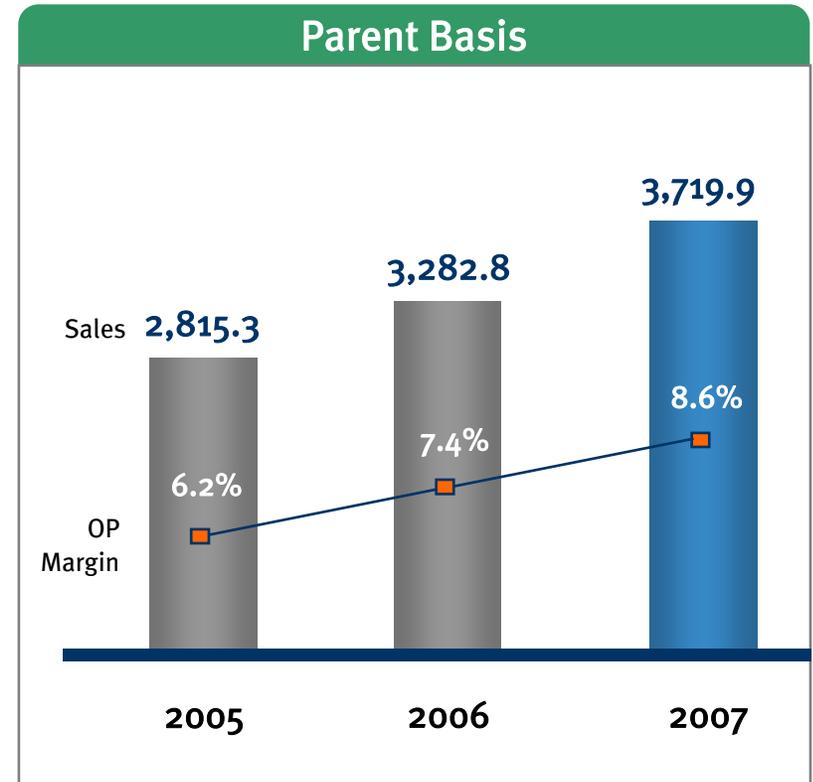
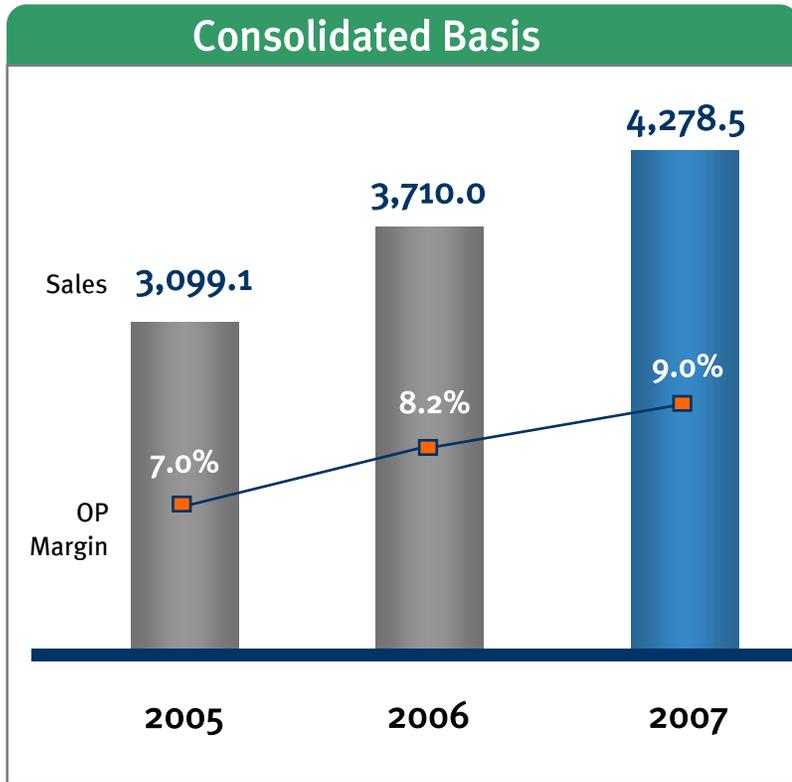
40% sales contribution from high-end products

### Improvement in cost structure via China sourcing and design optimization

Cost reduction of ~KRW15 billion

# 2007 results

Unit : KRW billion, %



	2005	2006	2007	YoY
Sales	3,099.1	3,711.0	4,278.5	15.4%
Operating Profit	216.3	303.2	385.5	27.2%
Recurring Profit	192.1	200.4	309.9	53.6%

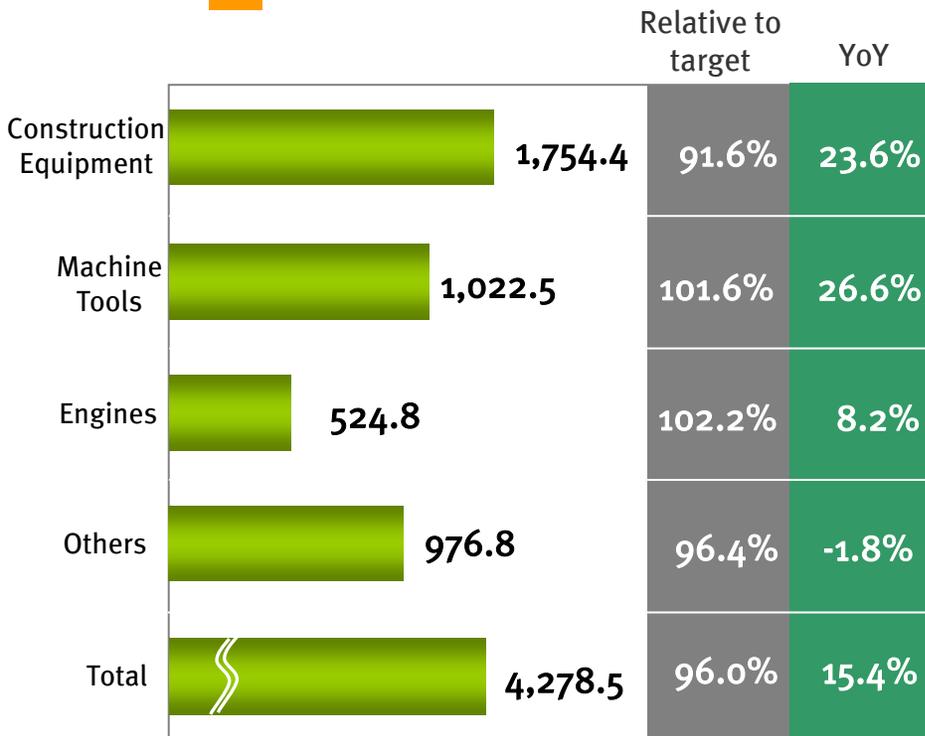
	2005	2006	2007	YoY
Sales	2,815.3	3,282.8	3,719.9	13.3%
Operating Profit	174.5	243.9	321.3	31.7%
Recurring Profit	179.2	191.2	287.0	50.1%

\* DII sales are not reflected in consolidated results, but as equity method gains/losses at the parent level

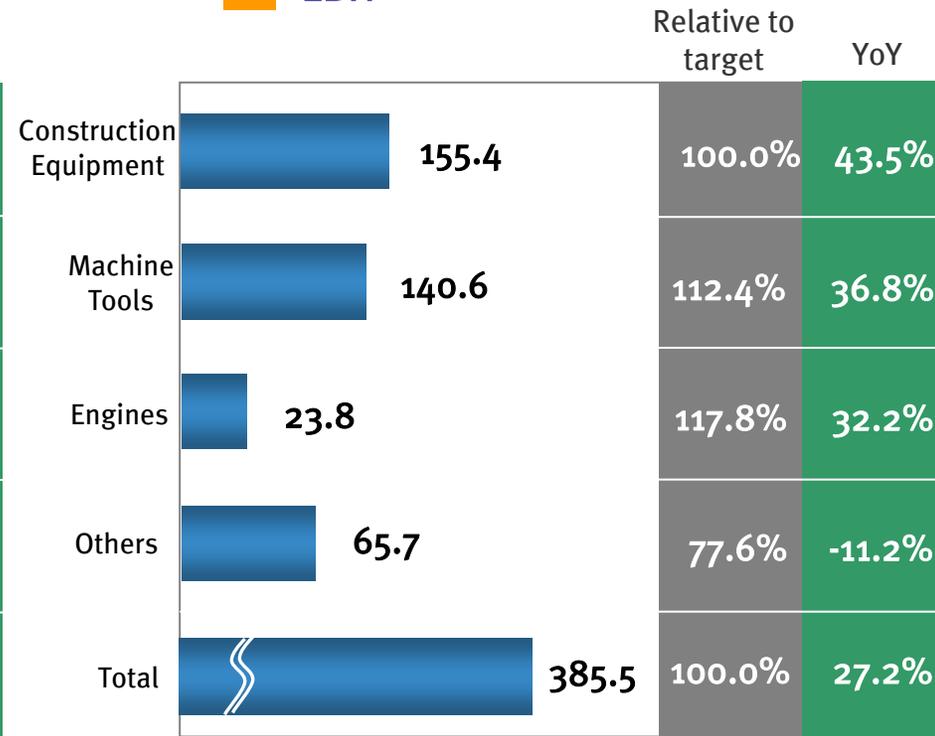
# 2007 divisional sales (Consolidated)

Unit : KRW billion, %

## Sales



## EBIT



\* DII sales are not reflected in consolidated results, but as equity method gains/losses at the parent level

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# Construction Equipment BG should attain a better profit structure faster than expected by focusing on China and other emerging markets in 2008

## Enhanced capability to remain at the top in China

- Launch of models specifically for China
- Commencement of wheel loader business in China
- Sales growth via Doosan Capital

Higher M/S 19.8% → 20.6%

## Expansion of sales network in emerging markets

- Establishment of dealer network in CIS countries
- New model launch and utilization of dealer network in India
- Sales growths in South/Central America, Africa, Middle East

Sales growth of KRW200bn

- 58% in CIS
- 76% in South/Central America
- 80% in Africa
- 26% in Middle East

## Better profitability in Europe

- Visible results from the capacity addition in DIEU

5%p better profitability

## Application of operational excellence worldwide

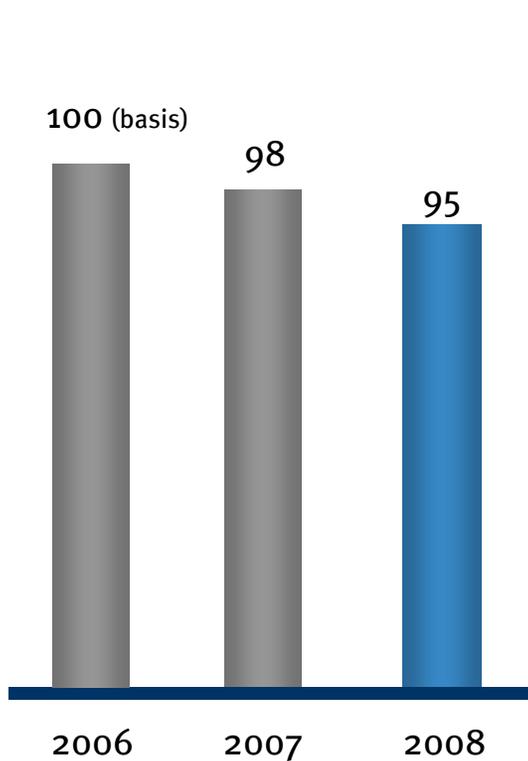
- Application of Lean activity in overseas operations (DICC, DIEU)
- Create visible synergies with DII \*

KRW24bn cost reduction  
11% improvement in quality index

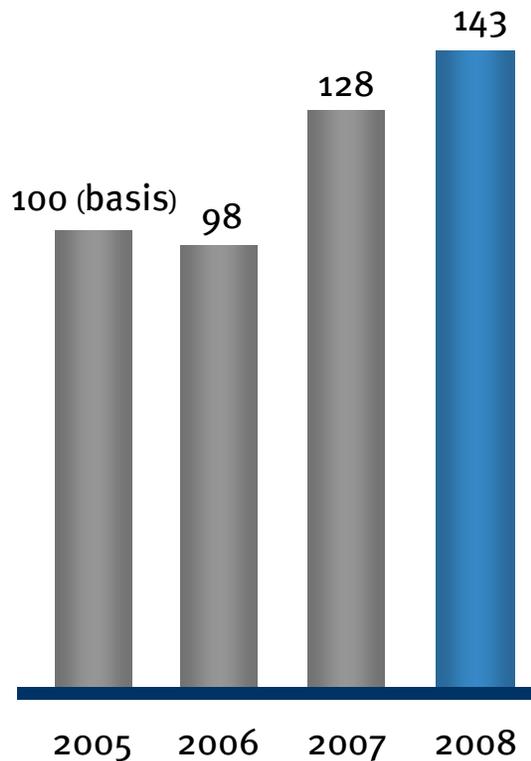
\* We have not factored in any synergies for 2008

# Key competitive indices for construction equipment BG in 2008

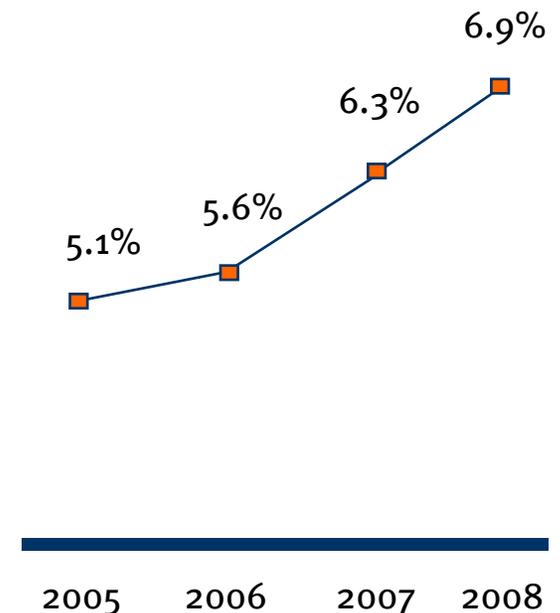
## % of raw material (Cost Index)



## MTBF\* (Quality Index)



## Global M/S for Excavator



\* Mean Time Between Failure

# Machine Tools BG should focus on better product mix and improving its presence in China and other emerging markets in 2008

## Better product mix by focusing on high- end products

- 15 new high-end products to be launched
- Greater sales contribution from high-end products in Europe

41% sales contribution from high-end products

## Expansion into new products or emerging markets

- Increase market coverage by entering into new businesses
- Construction of local plant in India and technical center
- Establish sales network for emerging markets such as South America or Eastern Europe

Market size for new business : ~KRW7tr  
Market share in India : 6.7% → 8.8%

## Stronger presence in China by increased local capacity expansion

- To become operational from June 2008

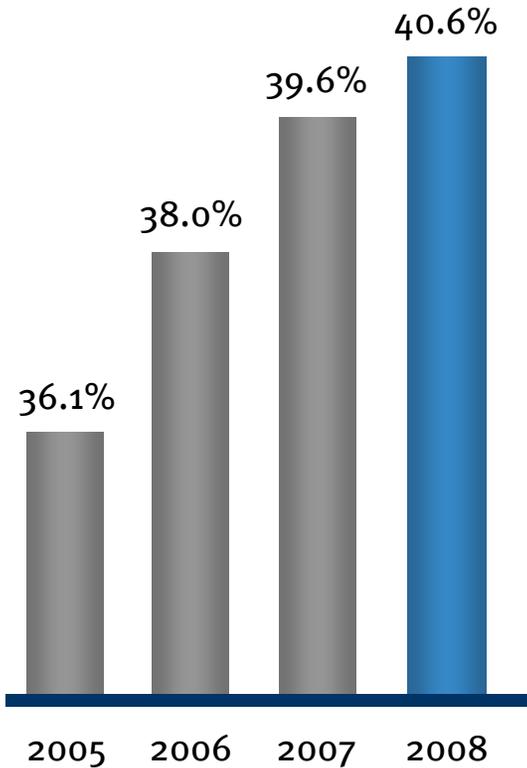
China sales growth : 32%

## Cost and quality competitiveness via operational excellence

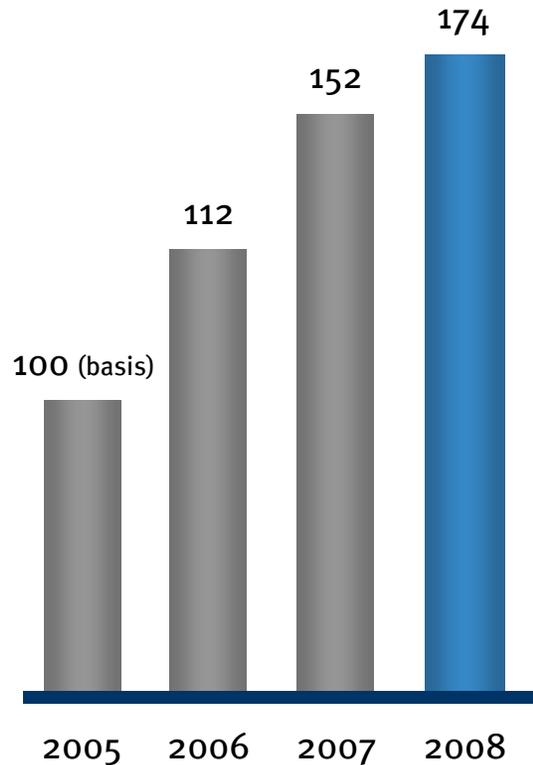
KRW20bn cost reduction  
15% improvement in quality index

# Key competitive indices for machine tools BG in 2008

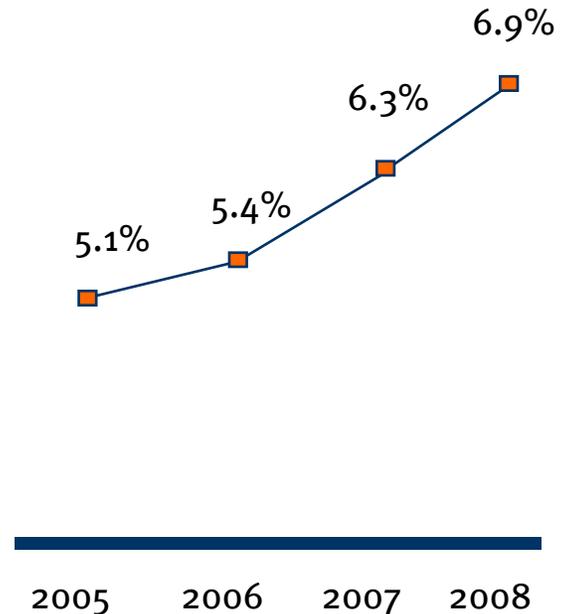
## Contribution of high-end sales



## MTBF\* (Quality Index)



## TC/MC Global M/S



\* MTBF: Mean Time Between Failure

# 64% of incremental sales to be secured from China and other emerging markets

Unit : KRW billion, %

	2008 sales	Increase in sales	Sales growth		Rationale
			2007	2008E	
Korea	1,546.9	170.0	2.7% (13.8%)	12.3% (8.4%)*	<ul style="list-style-type: none"> <li>23% growth in machine tools division thanks to the car industry</li> <li>10% growth in the construction equipment division backed by upbeat construction cycle and price hike</li> </ul>
US	525.0	53.2	-7.0%	11.3%	<ul style="list-style-type: none"> <li>10% growth in machine tools division given increased contribution of high-end markets</li> <li>102% growth in engine sales thanks to HCNG and generator sales in North America</li> <li>Overall impact is negligible due to lower sales contribution</li> </ul>
Europe	1,109.5	103.3	47.0%	10.3%	<ul style="list-style-type: none"> <li>Slower sales growth due to selective sales strategy and focus on profitability</li> </ul>
China	1,188.0	302.6	37.7%	34.2%	<ul style="list-style-type: none"> <li>33% growth in construction equipment division on the back of better product line-up and launch of wheel loaders</li> <li>31% growth in the machine tools division to be achieved given the capacity expansion at DIY</li> </ul>
Emerging Markets	816.6	278.4	1.3%	51.7%	<ul style="list-style-type: none"> <li>53% growth in construction equipment division from the Middle East, Africa, Central &amp; South America and CIS countries</li> <li>25% growth in machine tools division from India, Africa and the Middle East</li> </ul>
<b>Total</b>	<b>5,186.1</b>	<b>907.6</b>	<b>15.4%</b>	<b>21.2%</b>	

\* Exclusive of defense BG

# Sustained high growth expectation for excavators linked with government-led infrastructure investment, despite uncertainties after the Beijing Olympics

## Mid-term Outlook for China

### Market Growth Factor

- 1 Continued sizable development plans in accordance to its 11th economic development plans during 2006~2011
  - Development projects in Western China and North/East China

- 2 Government led infrastructure investment to persist

#### *Sustained fixed capital investment growth trend*

- 24.1% growth expected in fixed capital investment growth in 2008
  - leading to 33.4% growth from Construction Equipment BG
- 26.8% in 2007 → Construction Equipment BG growth of 40.5%
- 24.0% in 2006 → Construction Equipment BG growth of 45.3%

Expecting Sustained Growth Led by Infrastructure Investment by Chinese Government

### Counter Measure For Risk Factors

- 1 Stricter loan regulations in China
  - Continued rise in reserve ratio : 9% (2006) → 14.5% (2007)
  - Interest rate hike : 6.12% (2006) → 7.47% (2007)
  - Restriction on total loan amount

#### *Expected to take on the demand contraction from loan restrictions with the help of Doosan Capital*

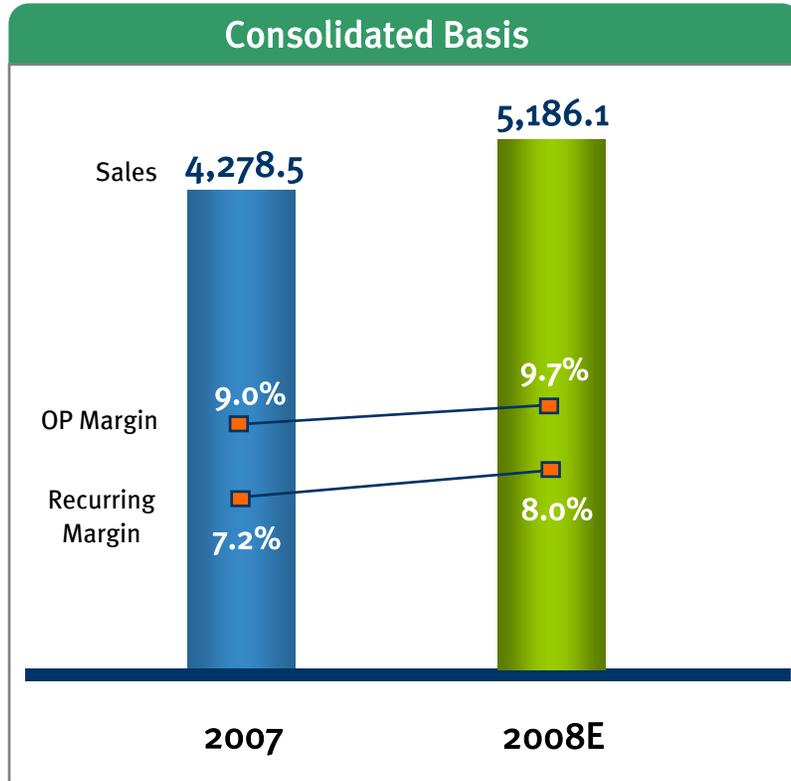
(Plans to sell 15% of excavator through Doosan Capital in 2008)

*Also, Doosan Infracore has already secured the financing budget from local banks for 2008*

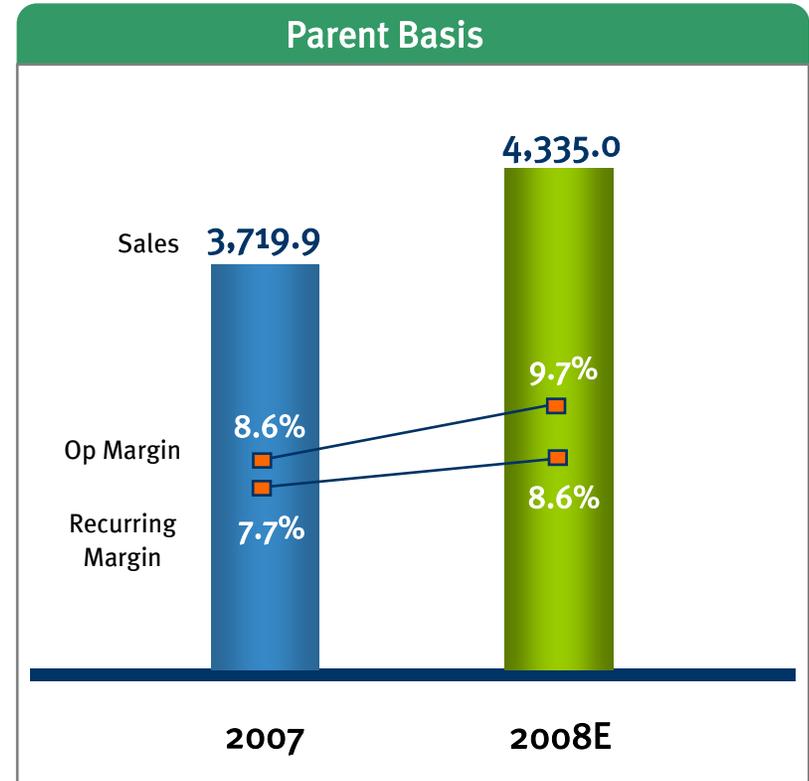
Maintaining Market Leadership in China

# 2008 business plan

Unit : KRW billion



	2007	2008E	YoY
Sales	4,278.5	5,186.1	21.2%
Operating Profit	385.5	500.9	29.9%
Recurring Profit	309.9	417.4	34.7%



	2007	2008E	YoY
Sales	3,719.9	4,335.0	16.5%
Operating Profit	321.3	422.4	31.5%
Recurring Profit	287.0	373.8	30.2%

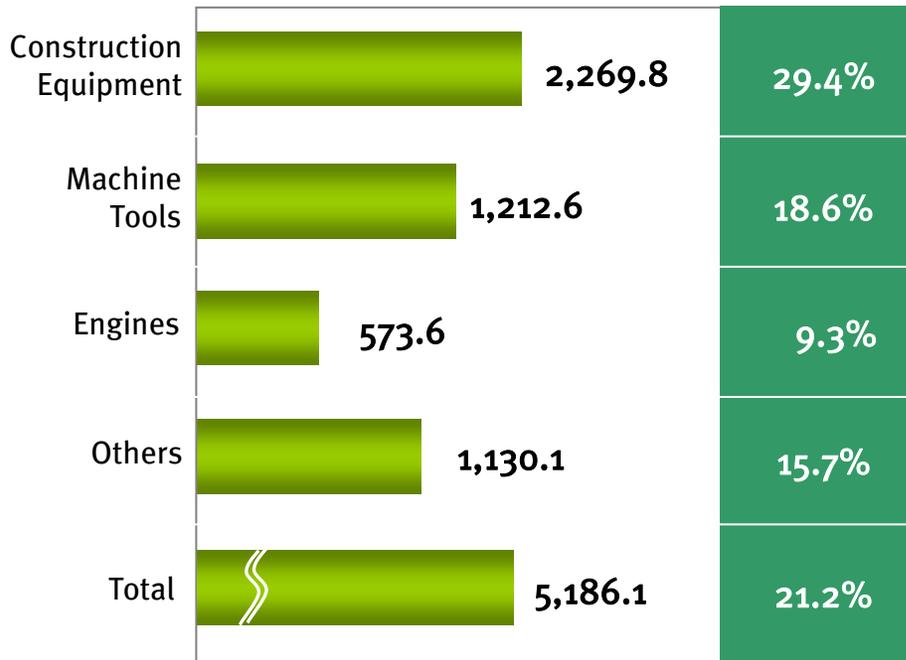
\* Sales and profits of DII are not reflected in 2008 projections

# Divisional sales in 2008 (Consolidated)

Unit : KRW billion

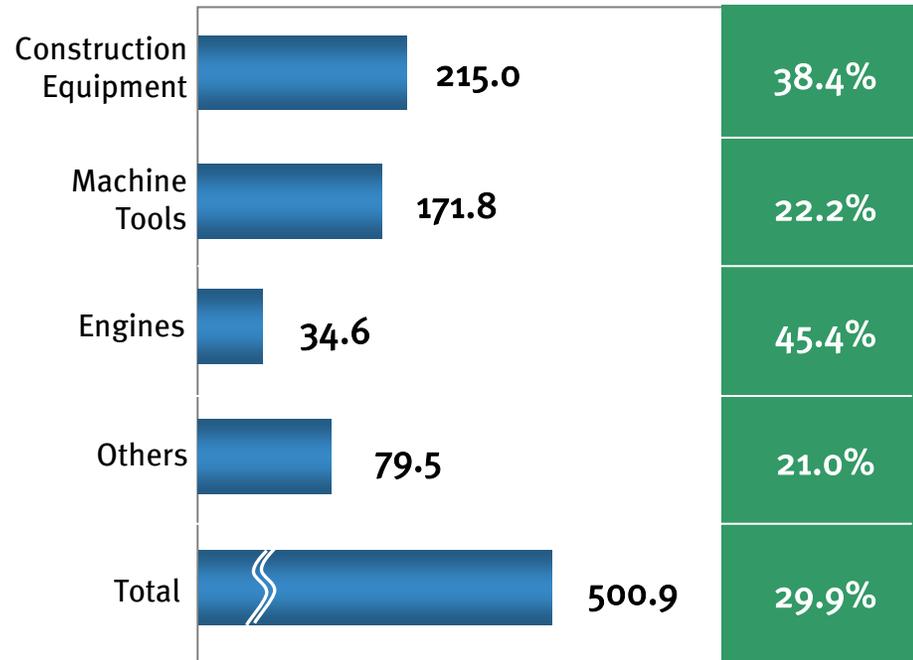
## Sales

YoY



## EBIT

YoY



\* Sales and profits of DII are not reflected in 2008 projections

# Financial structure

- Maintained sound financial structure despite increased debt burden following the acquisition of Bobcat in 2007
- Marked improvement in liabilities/equity ratio and Debt/EBITDA in 2008

## Parent basis

	2005	2006	2007	2008E
Liabilities/equity ratio	124.4%	132.7%	190.7%	128.3%
Debt/EBITDA	2.5x	1.2x	2.6x	1.9x
ROE	12.3%	12.8%	16.5%	18.6%

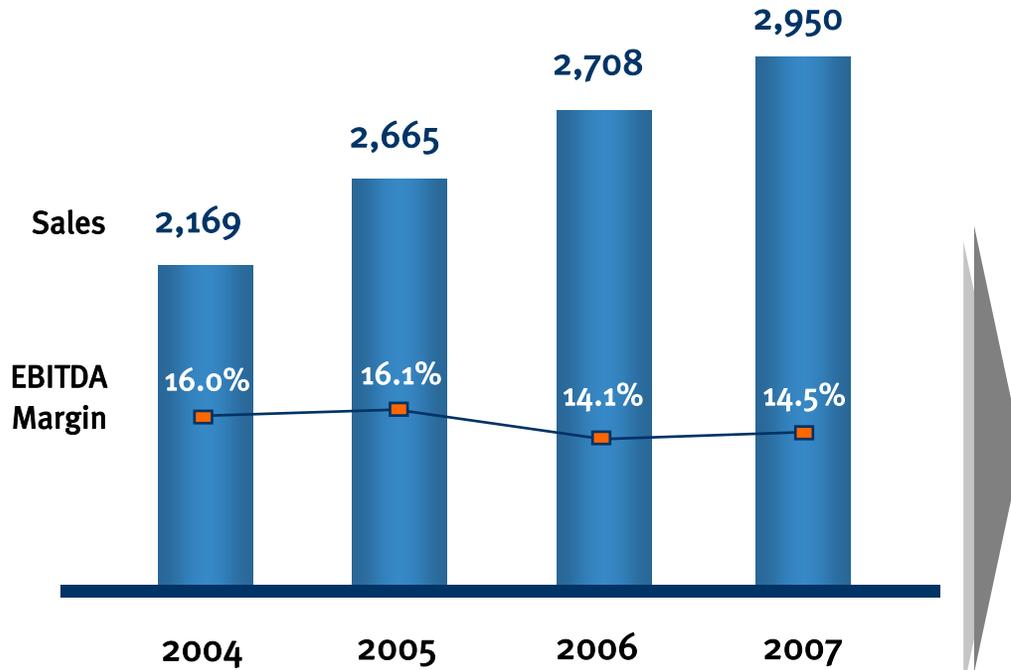
\* Also sound financial structure at Doosan Engine of Debt/EBITDA ratio of 0.76x, which is the joint investor of DII

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# Results in 2007

Units : US\$ mn, %



- Achieved sales growth in 2007 amidst the US market downturn thanks to increased market share

Sales expansion in Europe and Central/South America  
 - 27% growth in Europe and 36% in Central/South America

- High sales growth and profit contribution from DIPP and attachment businesses

	2004	2005	2006	2007	YoY
Sales	2,169	2,665	2,708	2,950	8.9%
EBITDA	348	430	382	428	12.0%

# Plans to attain high growth in 2008 by launch of high-end products and expansion of sales channel into emerging markets

## Enhanced cost competitiveness

- Enhanced cost competitiveness by sourcing from low cost countries
- Optimization of global plants
- Cost leadership based on operational excellence

## Expansion into high growth markets and new sales channels

- Expanded sales channel into high growth markets such as the Middle East, Eastern Europe and CIS countries
- Targeting oil industry related demand, which is showing high growth in the current oil price environment
- Strengthened rental dealer network in North America and existing channels

## Product innovation and better product portfolio

- Launch of new products in key product groups (All products such as loaders, mini excavators and telescopic handlers)
- Launch of region-specific models
- Competitive edge based on quality enhancement

## Increased local production capacity in Europe and Asia

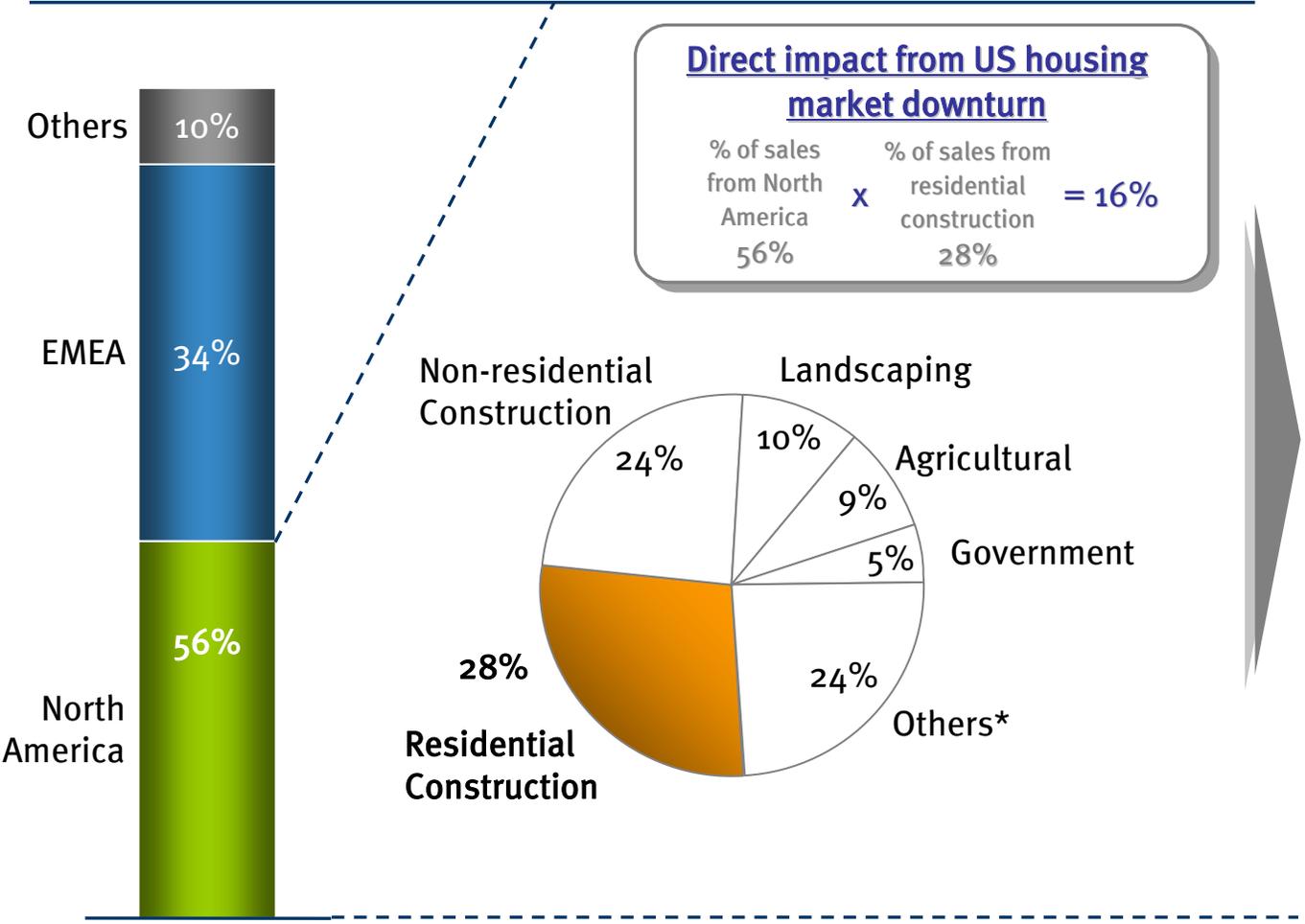
## Create visible synergies between DI and DII

To achieve high growth target in 2008

- More than 10% sales growth
- Above 15% EBITDA growth

# US housing market downturn will not significantly dent DII's sales

Estimated sales mix of DII by region/end market



- Direct impact from the US housing market downturn is merely ~16% of the end market sales
- Any decrease in DII's US sales could be offset by
  - 1) demand growth from emerging markets such as CIS and Middle East
  - 2) demand from mining or oil/gas field developments

\* Others include industrial products & service, buildings & grounds, oil & gas, demolition, mining and utility

# Synergies between DI and DII are not reflected in 2008; However, growth potential should be remarkable if synergies become visible

## Outline of synergies

### 1 Cost competitiveness

- Integration of global sourcing (low cost country sourcing) and optimization of local sourcing
  - Opportunities for volume discount
  - Optimization by sharing vendors
- Introducing cost reduction programs such as DTC, Lean, PSM
- Global manufacturing footprint

### 2 Channel / Account Leverage

- Sales of DII products via sales channel or market access of DI (China, Korea)
- Joint entry into new emerging markets
- Using attachments on DI products
- Utilize DII's re-marketing know-how

### 3 Technology

- Use more proprietary components via joint development
- Co-development of next generation products such as mid/compact excavators
- Share development process for technology/product
- Share R&D personnel and best practice



**Action plans to outline more details within 1H 2008**

# Financial burden alleviated thanks to recent 2%pt decline in interest rates; Interest coverage ratio to remain above 2x

Units : US\$ mn, %

## Financial structure

	2007
Total Assets	5,950
Total Liabilities	3,783
Debts	2,904
Total Shareholders' Equity	2,167
Liabilities/Equity Ratio	174.6%

## Financial soundness

	2007	2008E	Based on lowered interest rate *	Impact
Interest Rate (6M LIBOR)	7.6% (4.9%)	7.6% (4.9%)	5.6% (2.9%)	-2.0%P (-2.0%P)
Financial Burden	-22	-224	-191	-33

- Reflective of the recent decline in LIBOR, financial cost should drop by US\$57mn per year (Given that interest rate will be adjusted every 6 months, the actual impact in 2008 should be US\$33mn)
- Also, Debt/EBITDA is projected to improve from 6.8x in 2007 to 5.0~5.5x in 2008 and interest coverage ratio above 2x
- Annual debt repayment should lower liabilities / equity ratio

# Appendix

- 2007 Divisional/Regional Sales Breakdown
- Long-term Business Plan

# 2007 Breakdown By Division (Parent)

Unit : KRW billion

	Total			Construction Equipment BG			Machine Tools BG			Industrial Vehicles BG			Engines BG			Others		
	05	06	07	05	06	07	05	06	07	05	06	07	05	06	07	05	06	07
Sales	2,815.3	3,282.8	3,719.9	934.4	1,144.5	1,372.3	602.9	725.3	920.9	400.2	447.5	500.8	351.8	365.6	379.7	526.0	599.9	546.1
YoY	-2%	17%	13%	-1%	22%	20%	15%	20%	27%	1%	12%	12%	-24%	4%	4%	-1%	14%	-9%
Domestic Sales	1,194.4	1,321.2	1,315.6	221.4	225.5	252.5	180.5	202.9	251.8	153.5	171.2	185.9	179.0	176.7	163.9	460.0	544.9	461.5
YoY	-17%	11%	0%	-40%	2%	12%	9%	12%	24%	-8%	12%	9%	-36%	-1%	-7%	0%	18%	-15%
Exports	1,620.9	1,961.6	2,404.3	713.0	919.0	1,119.8	422.4	522.4	669.1	246.7	276.4	314.9	172.8	188.9	215.8	66.0	55.0	84.6
YoY	15%	21%	23%	24%	29%	22%	18%	24%	28%	7%	12%	14%	-6%	9%	14%	-5%	-17%	54%
Operating Profit	174.5	243.9	321.3	57.1	70.3	129.1	60.6	97.0	122.3	10.8	13.6	3.0	7.7	18.0	23.8	38.4	45.0	43.1
OP Margin	6.2%	7.4%	8.6%	6.1%	6.1%	9.4%	10.0%	13.4%	13.3%	2.7%	3.0%	0.6%	2.2%	4.9%	6.3%	7.3%	7.5%	7.9%

# 2007 Breakdown of Exports by Region (Parent)

Unit : KRW billion

	2006	2007	2006				2007			
			Americas	Europe	China	Others	Americas	Europe	China	Others
Total	1,961.6	2,404.3	470.1	612.9	388.3	490.3	438.9	1,002.7	505.6	457.1
(YoY)		22.6%					-6.6%	63.6%	30.2%	-6.8%
Construction Equipment	919.0	1,119.8	174.8	273.7	268.1	202.4	128.2	481.3	356.1	154.3
(YoY)		21.8%					-26.7%	75.8%	32.8%	-23.8%
Machine Tools	522.4	669.1	164.0	202.3	85.0	71.1	187.7	326.9	98.3	56.3
(YoY)		28.1%					14.4%	61.6%	15.6%	-20.9%
Industrial Vehicles	276.4	314.9	101.6	95.8	12.3	66.7	97.6	142.4	18.1	56.8
(YoY)		13.9%					-3.9%	48.7%	46.9%	-14.8%
Engines	189.1	215.8	16.6	22.7	12.9	136.9	10.1	29.9	19.2	156.6
(YoY)		14.1%					-39.1%	31.8%	48.8%	14.4%
Others	54.7	84.6	13.1	18.4	10.0	13.2	15.4	22.1	14.0	33.2
(YoY)		54.7%					17.2%	20.3%	39.9%	151.2%

# Long-term Business Plan (Consolidated)

Unit : KRW billion

	2007P	2008E	2009E	2010E	2011E	2012E	CAGR
Sales	4,278.5	5,186.1	6,509.5	7,961.5	8,878.9	10,252.6	19.1%
Construction Equipment	1,754.4	2,269.8	2,957.9	3,508.1	4,135.8	4,647.6	21.1%
Machine Tools	1,022.5	1,212.6	1,441.2	1,793.5	2,013.9	2,202.3	16.6%
Industrial Vehicles	523.2	578.8	628.2	673.6	762.4	850.5	10.2%
Engines	524.8	573.6	737.8	834.6	995.2	1,443.6	22.4%
Others	453.6	551.3	744.4	1,151.7	971.6	1,108.6	19.6%
Operating Profit	385.5	500.9	689.1	901.6	1,079.1	1,321.6	27.9%
Construction Equipment	155.4	215.0	311.0	381.4	476.1	568.4	29.6%
Machine Tools	140.6	171.8	204.8	256.8	291.4	321.2	18.0%
Industrial Vehicles	2.1	6.7	21.1	31.6	49.1	62.1	96.9%
Engines	23.8	34.6	54.1	76.3	106.9	173.9	48.8%
Others	63.6	72.8	98.1	155.5	155.6	196.0	25.2%
Operating Margin	9.0%	9.7%	10.6%	11.3%	12.2%	12.9%	
Construction Equipment	8.9%	9.5%	10.5%	10.9%	11.5%	12.2%	
Machine Tools	13.8%	14.2%	14.2%	14.3%	14.5%	14.6%	
Industrial Vehicles	0.4%	1.2%	3.4%	4.7%	6.4%	7.3%	
Engines	4.5%	6.0%	7.3%	9.1%	10.7%	12.0%	
Others	14.0%	13.2%	13.2%	13.5%	16.0%	17.7%	

\* Sales and profits of DII are not reflected in 2008 projections (Exclusive of 2007)

# Thank You

## IR Team

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