



Doosan Infracore

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# Investor Meeting - Capital Injection for DII

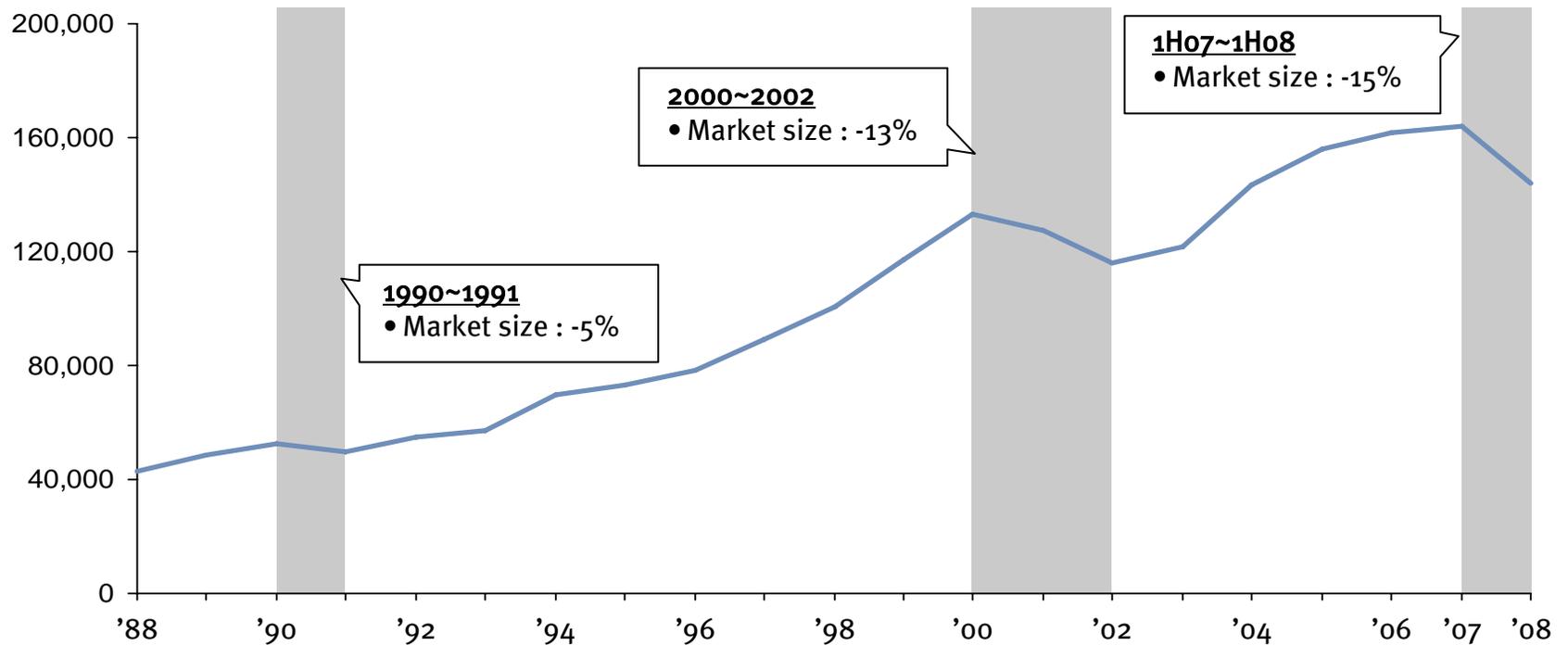
August 2008



# Sharp global market downturn

- North America/Europe market size contracted by 15% in 1Ho8 (9% for the global market) as the global market continued to deteriorate at an accelerated pace
- Based on historic trends, the length of the compact equipment market's downturn is no more than 2 years.

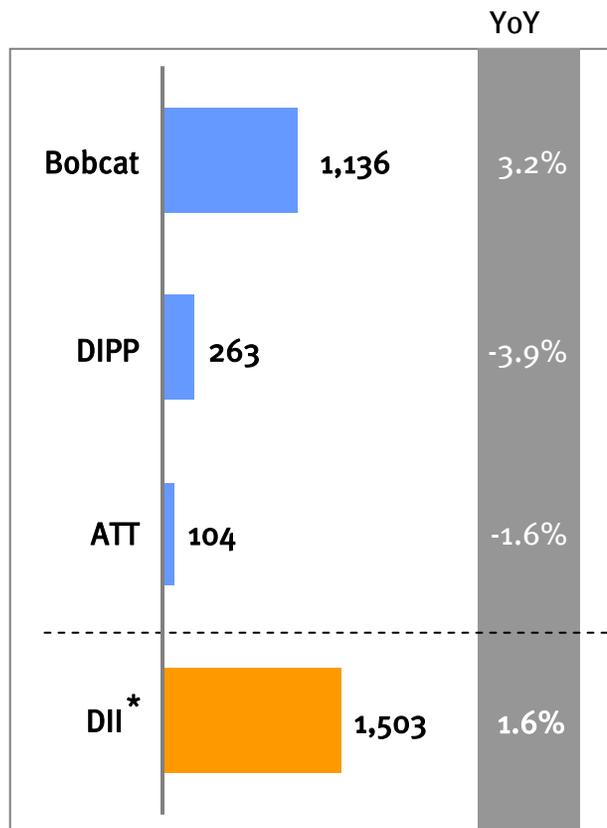
*Market size of North America + Europe (SSL+MX, Based on volume data)*



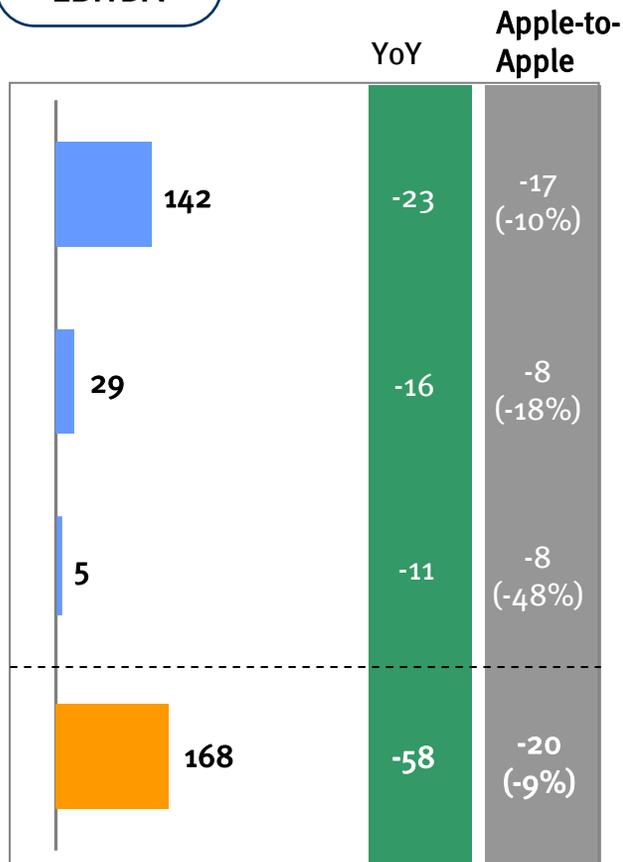
# DII outperformed the market in 1Ho8

Unit: US\$ million

## Sales



## EBITDA

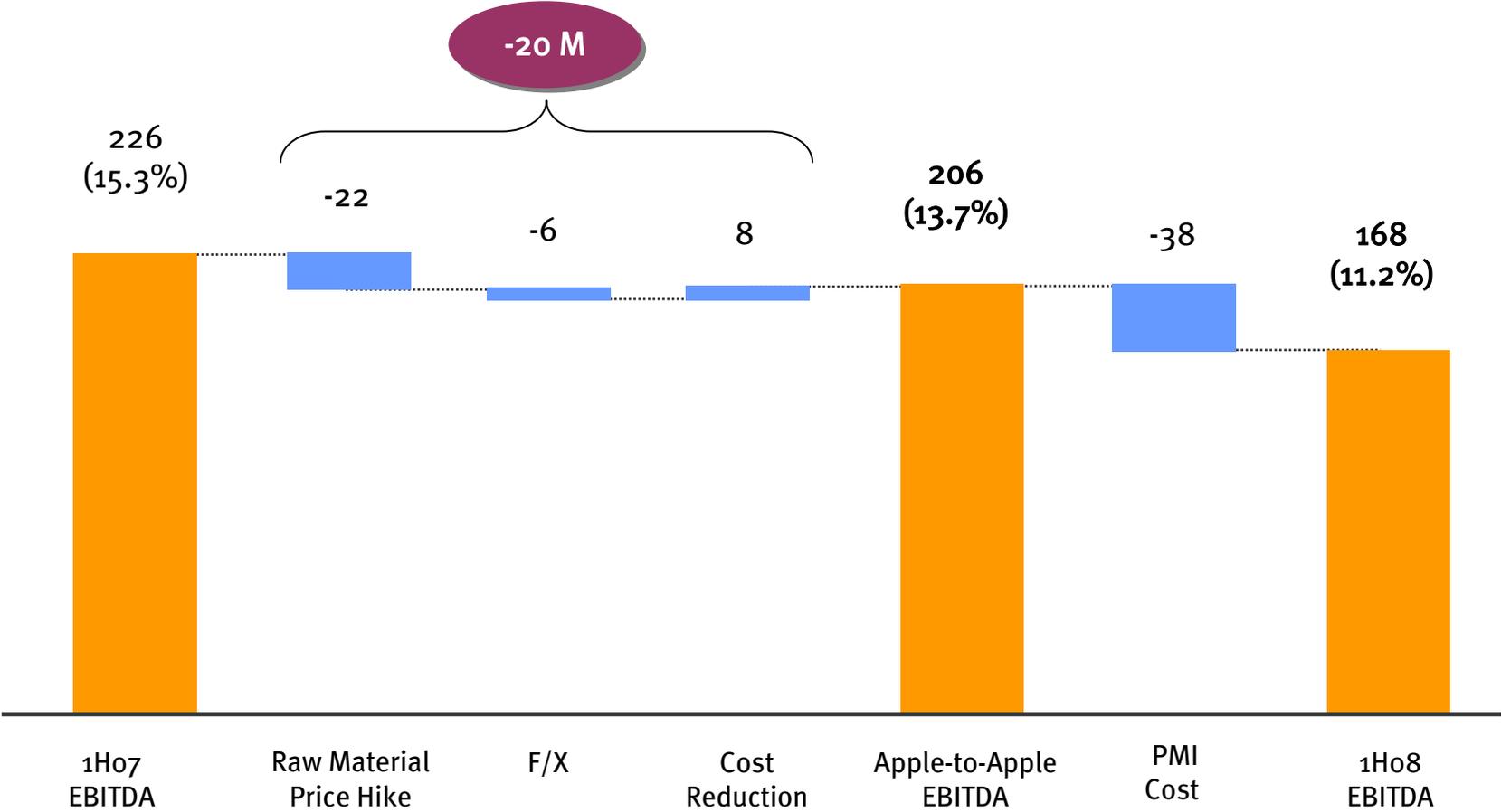


Sales grew 1.6% YoY despite the global market downturn of 9% (-15% in North America and Europe)

EBITDA declined by US\$ 58 million compared to last year. Exclusive of cost-time costs related to the acquisition, EBITDA fell only 9% YoY.

# One-time cost weighed down on 1Ho8 EBITDA

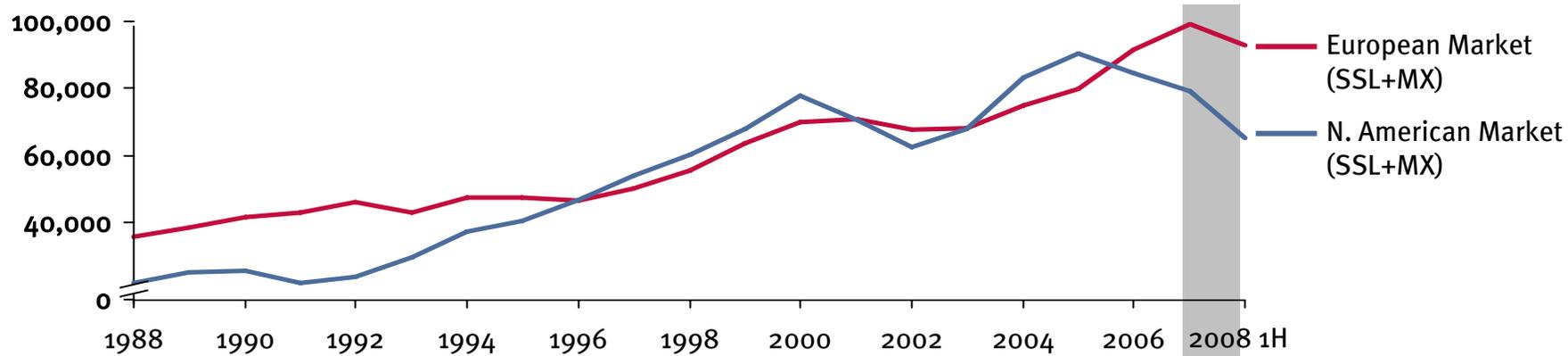
Unit: US\$ million



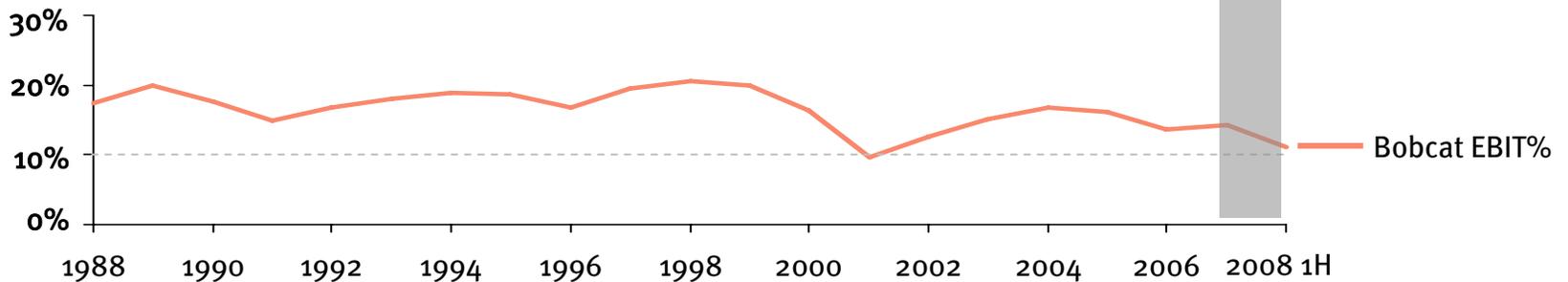
# Bobcat's EBIT margin merely dropped 3% pt even during the lowest point in historic down cycles

- Market downturn is led by North America, followed by Europe
- Historic trend indicates that Bobcat's EBIT margin strongly rebounds after more than a 3~5% pt decline during a down cycle
- Apple-to-apple EBIT margin in 1Ho8 fell 3% pt relative to last year, which is in line with the historic trend

Market size of North America + Europe (SSL+MX, Based on volume data)



EBIT (%)



# 2008 earnings forecast conservatively revised down

- As slow market conditions and raw material impact should persist in 2Ho8, we have lowered our annual EBITDA guidance by US\$ 118 million (-US\$ 42 million based on apple-to-apple numbers) to US\$ 310 million

## Business conditions in 2H

- Sales should decline by 2.4% YoY in 2Ho8 as market conditions will further deteriorate
  - Market contraction (YoY) : 9% ↓ in 1H  
→ 12% ↓ in 2H
  - Price hike (2% in July)
- Reduced profitability in 2H relative to 1H is due to lower volume and resultant decline in marginal profits
  - Profitability should improve in 2009 in line with our efforts to lower fixed cost burden

## 2008 Earnings Forecast

	Unit: US\$ million			
	1H	2H	2008	YoY
Sales	1,503	1,436	2,939	-0.4%
- Growth	1.6%	-2.4%	-0.4%	
EBITDA	168	142	310	-118
(%)	(11.1%)	(9.9%)	(10.5%)	
EBITDA (Apple-to-Apple)	206	180	386	-42
(%)	(13.7%)	(12.5%)	(10.5%)	

# Synergies expected from 2009, despite continued slowdown in North American and European markets

- Although the global market conditions should continue to be sluggish in 2009, sales should grow by 4.7% YoY on the back of efforts to create synergies between DI and DII

## Market growth assumption

	'08	'09
• Market Growth		
- N. America	-18.1%	-7.0%
- Europe	-5.6%	-3.4%
- Others	8.4%	8.5%

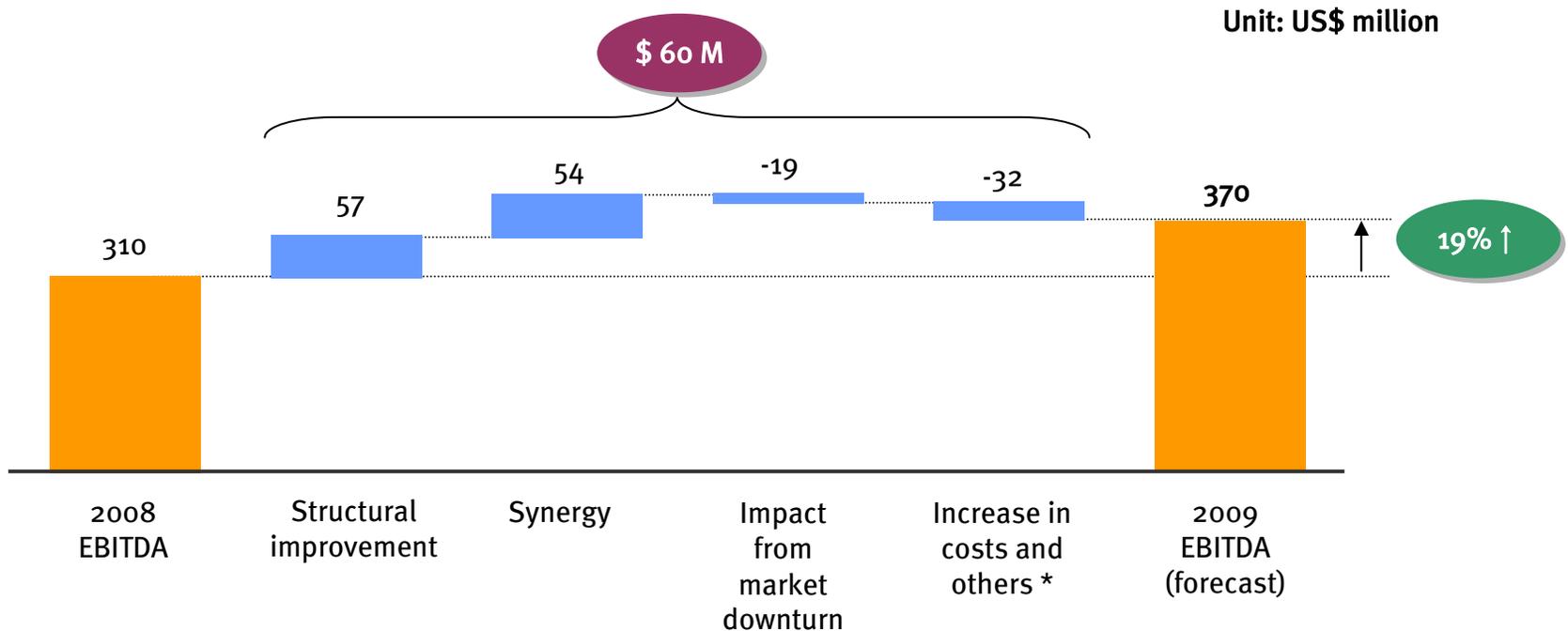
## 2009 Earnings Forecast

Unit: US\$ million

	2008	2009	YoY
Sales	2,939	3,076	4.7%
- Synergies		(131)	
EBITDA	310	370	65
(%)	10.5%	12.0%	1.6%P

# Expecting firm EBITDA growth in 2009

- We expect market will remain on the down cycle (e.g. -7% YoY in North America) in 2009. Accordingly, we plan to overcome the adverse conditions via structural improvement such as fixed cost reduction and synergy creation
  - Fixed cost reduction : Optimization of production site, disposal of low-profit generating assets, reduction of SG&A and indirect manufacturing expenses
  - Synergy creation : Global sourcing, cross selling and others



# Full-fledged market turnaround for compact equipments from 2010

Research Institution	Product	'08 YoY	'09 YoY	'10YoY
Yengst	MX	-15%	-7%	+8%
	SSL	-13%	-8%	+8%
	CTL	-16%	-7%	+13%
	CE	-14%	-7%	+10%
Manfredi	MX	-10%		
	SSL	-13%		
	CE	-20% from 2007 thru 2009		
AEM*	CE	-1.7%		

## Short-term market outlook (~2010)

- Based on historic trends, the down cycle persisted for as long as 2 years and made a sharp recovery afterwards. Based on the company's past experience, we expect a full-fledged recovery from 2010
- Specialist on the construction equipment market are also guiding towards a similar forecast
  - Morgan Stanley quoted “The US construction equipment market should contract by 15~20% in 2008 and further into 2009”
  - Yengst projects market growth of 8~13% in 2010

\* AEM : Associates of equipment manufacturers  
 Source : Machinery market research (Mar. 2008)

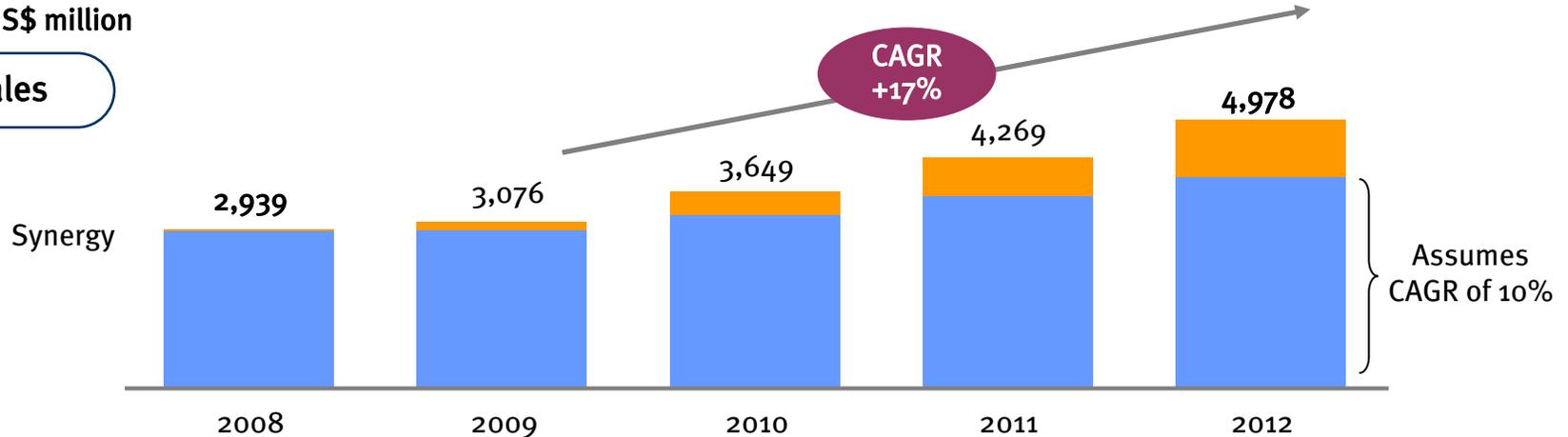
Yengst Associates - Agricultural and construction equipment 2008 outlook (Nov. 30, 2007) ; Manfredi - 2007-2008 outlook for construction equipment business(2007)  
 AEM - Construction equipment industry sales (Jun. 18, 2008) ; Morgan Stanley - Machinery/Multi-industry (May 19, 2008) ;  
 Bear Stearns - Industrial equipment and service (Jun. 13, 2008) ; RBC Capital Markets

# Strong earnings improvement from 2010

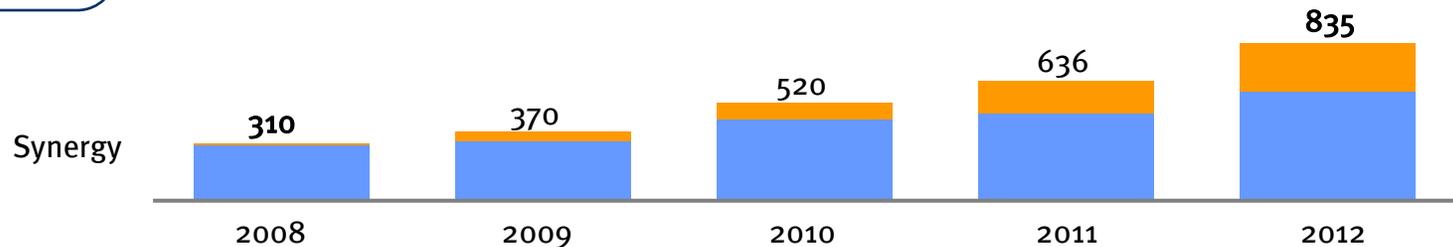
- We anticipate a full-fledged recovery from 2010 once the construction equipment market starts to recover and DII shows more visible synergies with DI

Unit: US\$ million

## Sales



## EBITDA



\* Applying conservative assumptions relative to past down cycles  
 - North America : CAGR of 7.7%~12% following a down cycle  
 - Europe : CAGR of 9.6%~10% following a down cycle

# DII : Long-term synergy forecast of US\$1.4 bn sales and US\$300mn EBIT in 2012

Unit: US\$ million

	Key Issues	2012 Sales Synergy	EBIT Synergy
Cross Selling	<ul style="list-style-type: none"> <li>Selling DI's mid- to large-sized equipment via Bobcat sales channel to secure better margin</li> <li>DI/DII strengthening channel together in emerging markets</li> </ul>	470	47
Global Leadership In Mini-Excavators	<ul style="list-style-type: none"> <li>Secure global leadership for mini excavators by integrating sales channel and brand of DI/DII                             <ul style="list-style-type: none"> <li>To secure combined market share of 20% in Europe until 2012</li> <li>To secure the No. 1 market share position in emerging markets</li> </ul> </li> <li>To sell Bobcat's mini excavator developed for the Chinese market (Dragon Project) via DI's sales channel</li> </ul>	768	77
Attachment Growth	<ul style="list-style-type: none"> <li>Selling DI's products equipped with DII's attachments in Europe</li> <li>Selling DII's breakers via DI's Chinese sales channel</li> </ul>	154	15
Global Sourcing	<ul style="list-style-type: none"> <li>Enhanced bargaining power in view of the volume growth as DI/DII source from China/Korea for raw materials</li> <li>Reduction of purchasing costs by developing proprietary core parts technology via DI, DII and Doosan Motorol</li> </ul>	N/A	150

# DI : Long-term synergy forecast of US\$1.2 bn sales and US\$200mn EBIT in 2012

Unit: US\$ million

	Key Issues	2012 Sales Synergy	EBIT Synergy
Cross Selling	<ul style="list-style-type: none"> <li>Selling DI's mid- to large-sized equipment via Bobcat sales channel                             <ul style="list-style-type: none"> <li>– 25 of Bobcat's dealers to sell DI products (N. America)</li> <li>– Selling DI products via DII's company owned stores</li> </ul> </li> <li>Emerging market (such as India, Russia and S. America)                             <ul style="list-style-type: none"> <li>– Weigh the strength of DI and DII dealers and appoint regional dealers after review</li> <li>– Supply other product lines for Bobcat</li> </ul> </li> </ul>	432	43
Global Leadership In Mini-Excavators	<ul style="list-style-type: none"> <li>Secure global leadership for mini excavators by integrating sales channel and brand of DI/DII                             <ul style="list-style-type: none"> <li>– To secure combined market share of 20% in Europe until 2012</li> <li>– To secure the No. 1 market share position in emerging markets</li> </ul> </li> <li>Replace Terex's mini excavators supplied to Bobcat as OEM</li> </ul>	392	34
Global Sourcing	<ul style="list-style-type: none"> <li>Enhanced bargaining power over direct/indirect raw material costs by utilizing Bobcat's North America and Europe operations</li> <li>Reduction of purchasing costs by developing proprietary core parts technology via DI, DII and Doosan Motorol</li> </ul>	N/A	116
Engine Business expansion	<ul style="list-style-type: none"> <li>Development and supply of core parts</li> <li>Supply of DI's mid-sized engines for DIPP's air compressors and generators</li> </ul>	406	21

# Doosan Infracore to focus on its core biz as indicated by the remarkable improvement in financial structure via capital injection

Unit: US\$ million

## Key Financials

	'07	'08(E)
Sales	2,950	2,939
EBITDA	428	310
(%)	14.5%	10.5%
<hr/>		
Total Assets	5,950	6,104
Total Liabilities	3,783	3,830
- Debts	2,906	2,906
Total Shareholders' Equity	2,167	2,274

### DII's current financial structure does not allow for additional investment

- Investment is required during a down cycle in preparation for a rebound
- It is imperative to invest into new product development, emerging market penetration and expansion of product line-up. However, DII's current financial structure deprives such opportunities.

### Necessary to revise the initial strategy on financial structure at the time of acquisition

- Booked US\$2.9 billion in LBO loan to alleviate the investment burden at Doosan Group
- Doosan Group investment minimized at US\$1.35 billion  
→ Liabilities/Equity ratio of 175% limits the investment prospect (Below 100% for average US companies)

### Enhance DII's financial structure to facilitate investment via capital injection

- Capital injection : US\$ 1 billion (DI US\$519mn, DE US\$481mn)
- Liabilities/Equity ratio : 175% in 2007 → 93% in 2008

### To attain globally competitive level of financial structure in the long run

- To secure above A credit rating by Moody's within the next 4~5 years  
(Debt/EBITDA below 2x, liabilities/equity ratio below 50%)

# Plan to raise US\$ 1 billion without external debt financing

- To utilize internal funding opportunities such as free cash flow and idle assets  
⇒ We have no plans to external debt financing to raise the capital injection size

*Capital  
injection*

- Total capital injection : US\$ 1 billion (DI : US\$519mn, DE : US\$481mn)

Unit: US\$ million

*Financial  
Structure  
Post capital  
injection*

	'07	'08	'09	'10	'11	'12
Sales	2,950	2,939	3,076	3,649	4,269	4,978
EBITDA	428	310	370	520	636	835
(%)	14.5%	10.5%	12.0%	14.3%	14.9%	16.8%
Financing cost	-	204	126	118	106	87
Total Assets	5,950	6,104	6,097	6,115	6,082	5,955
Total Liabilities	3,783	2,941	2,845	2,677	2,375	1,841
- Debts	2,906	2,106	1,967	1,763	1,451	891
Total Shareholders' Equity (Capital Injection)	2,167	3,163 1,000	3,251	3,438	3,707	4,114
Liabilities/Equity Ratio	175%	93%	88%	78%	64%	45%

IRR : 15.5% ~ 20.1% / 19.9%~ 26.7%(reflective of DI synergy)

# DI expects to beat its target even after the capital injection

Unit : KRW billion

## Synergy

### • Annual sales/EBIT synergy projection

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2008~2012</u>
Sales	30.0	109.0	384.0	560.0	1,221.0	2,304.0
EBIT	2.0	11.0	57.0	132.0	213.0	415.0

## Revised Business Plan

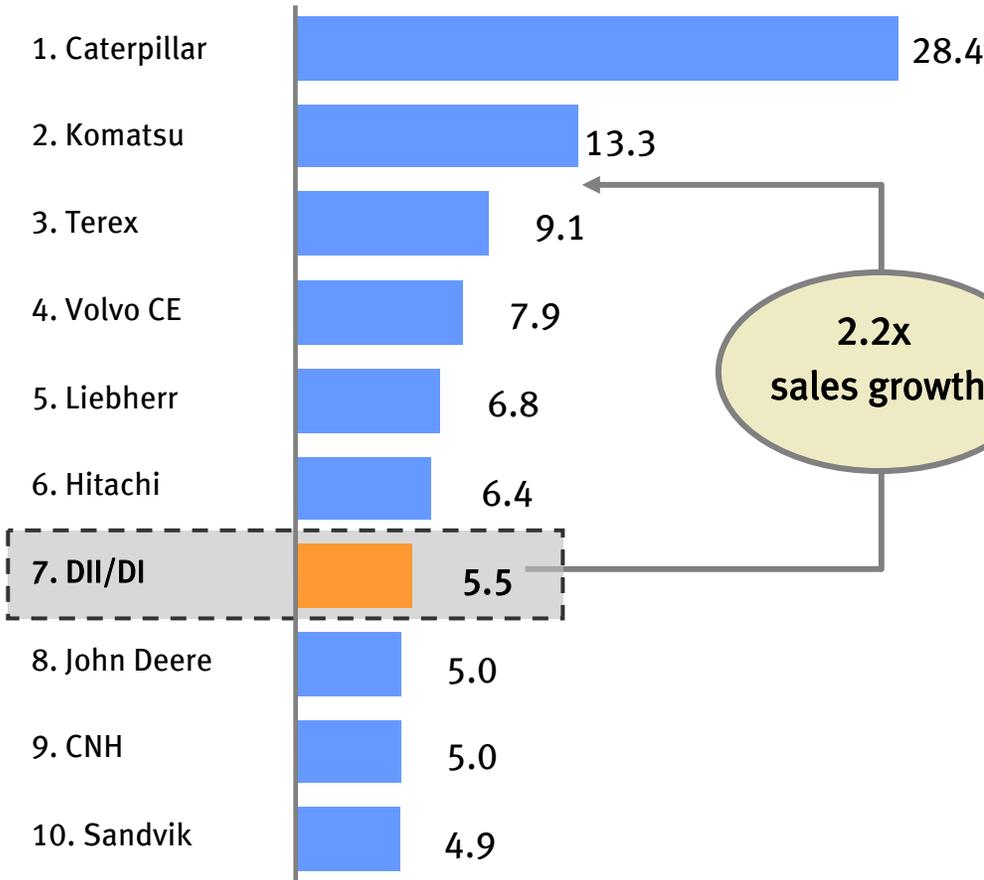
	<u>2008</u>		<u>2009 ~2012</u>			
	<u>Previous</u>	<u>Revised</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Sales	5,186.1	5,391.9	6,391.4	7,996.0	9,108.9	11,155.1
EBIT	500.9	560.1	682.4	931.9	1,176.0	1,498.0
(%)	10%	10%	11%	12%	13%	13%

\* Above business plan is based on consolidated figures (exclusive of DII performance)

# 2012 Joint vision of DI & DII

Unit: US\$ million

## Ranking of global construction equipment players (Revenue basis)



2.2x sales growth

### Joint vision between DI's construction equipment division and DII

“Global top 3 construction equipment player in 2012”

- Sales target in 2012 : US\$ 12 billion
- Primary partner with globally competitive market position and brand value to support dealers and customers

Note: Based on construction equipment sales

DI includes construction equipment and industrial vehicle divisions revenue only

Source: International Construction, Apr 2008

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