



Doosan Infracore

DOOSAN INFRACORE

# 2009 3Q Investor Meeting

November 2009



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**DII 3Q09 Highlights**

# 2009 3Q results

Unit : KRW billion, %

- Despite the low demand season, sales grew QoQ due to solid performances of the construction equipment and engine divisions
- EBIT margin surpassed the level recorded a year earlier thanks to sales mix improvement following greater sales contribution from profitable markets such as China and Korea

	3Q08 *	1Q09	2Q09	3Q09	QoQ	YoY
Sales	901.6	651.6	626.1	653.6	+4.4%	-27.5%
EBIT	63.9	44.9	36.2	63.8	+76.4%	-0.2%
EBIT margin (%)	7.1%	6.9%	5.8%	9.8%	+4.0%p	+2.7%p
EBITDA	81.3	66.9	52.8	78.9	+49.4%	-3.0%
(Financial cost)	11.9	31.3	37.4	38.4	+2.7%	+222.7%
(Equity method)	-65.2	-220.3	-56.1	-81.0	+44.4%	+24.2%
(Asset disposal gains)	-	-	221.6	-0.9	-	-
(F/X related gains)	-52.0	82.2	-45.2	-149.6	-	-
Pretax profit	-58.7	-127.2	141.8	-193.4	-	-

\* Excluded defense division sales and EBIT for apple-to-apple comparison

# 2009 3Q divisional sales & EBIT

Unit : KRW billion, %

- Construction equipment division reported sharp improvement following greater sales contribution from profitable markets such as China and Korea
- Although performance of the machine tools division remains somewhat sluggish due to delayed market recovery, the engine and other divisions posted stable earnings improvement

## Sales

		QoQ	YoY
Construction Equipment	330.4	+18.6%	-12.5%
Machine Tools	91.8	-14.6%	-65.1%
Engines	140.5	+4.9%	-9.4%
Others	90.9	-14.3%	-13.9%
Total	653.6	+4.4%	-27.5%

## EBIT

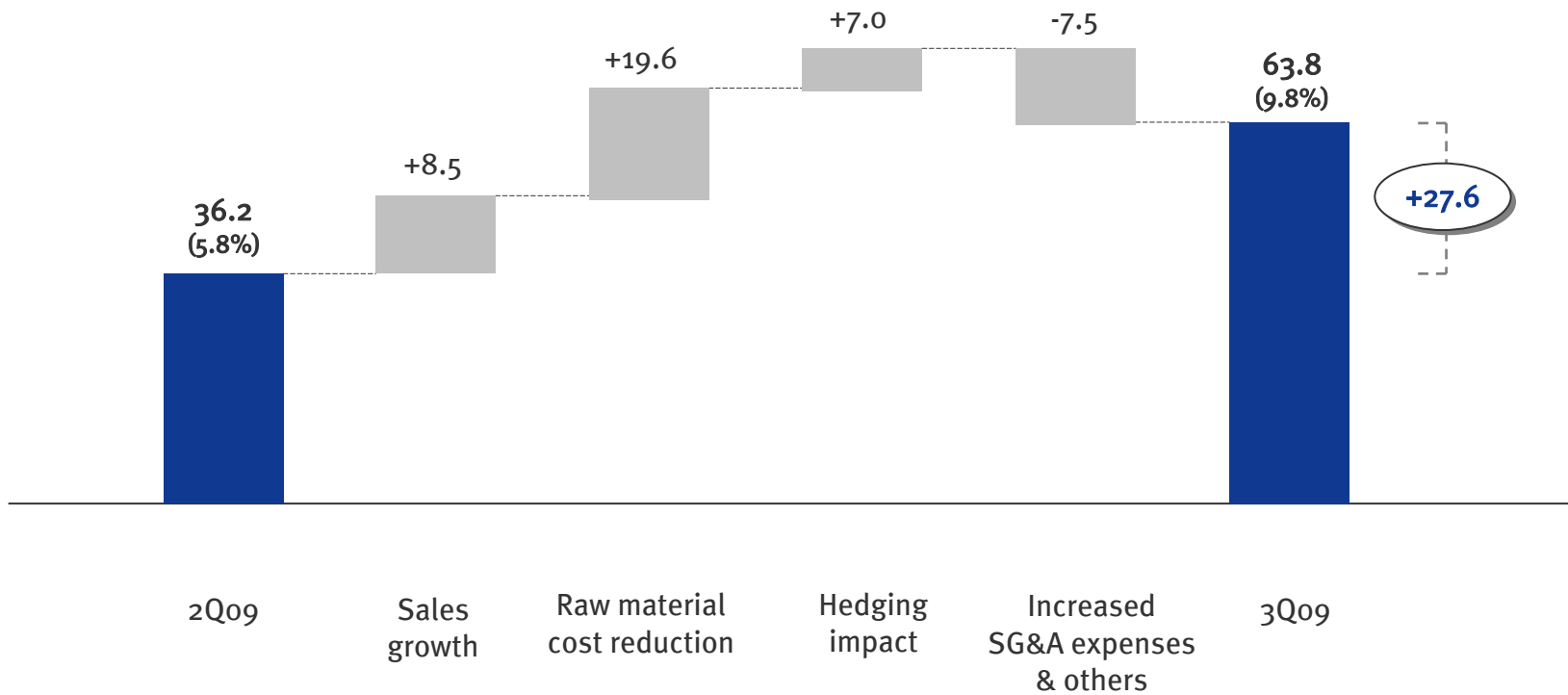
		QoQ	YoY
Construction Equipment	64.0 (19.4%)	+168.5%	+121.1%
Machine Tools	-20.4 (-22.2%)	-	-
Engines	12.9 (9.2%)	+19.7%	-8.8%
Others	7.3 (8.0%)	-28.7%	-
Total	63.8 (9.8%)	+76.4%	-0.2%

# 2009 3Q EBIT analysis

Unit : KRW billion, %

- Despite increased fixed costs such as R&D expenses, EBIT improved QoQ by KRW27.6bn due to sales growth and raw material cost reduction

## QoQ comparison



# 2009 3Q financials

Unit : KRW billion, %

- Total assets and shareholders' equity declined due to increase in equity method losses, but debt remained similar to the previous quarter

	07	08	2Q09	3Q09
Current Assets	1,288.4	1,995.8	1,588.9	1,592.3
Fixed Assets	1,918.9	2,929.8	3,274.8	3,036.1
<b>Total Assets</b>	<b>3,207.3</b>	<b>4,925.6</b>	<b>4,863.7</b>	<b>4,628.4</b>
<b>Total Liabilities</b>	<b>2,098.0</b>	<b>3,379.9</b>	<b>3,438.7</b>	<b>3,412.5</b>
- Debts	1,005.0	1,530.5	2,367.5	2,379.6
(% of long-term debt)	87.1%	66.2%	64.3%	61.6%
<b>Total Shareholders' Equity</b>	<b>1,109.3</b>	<b>1,545.7</b>	<b>1,425.0</b>	<b>1,215.9</b>
<b>Liabilities/Equity Ratio</b>	<b>189.1%</b>	<b>218.7%</b>	<b>241.3%</b>	<b>280.7%</b>

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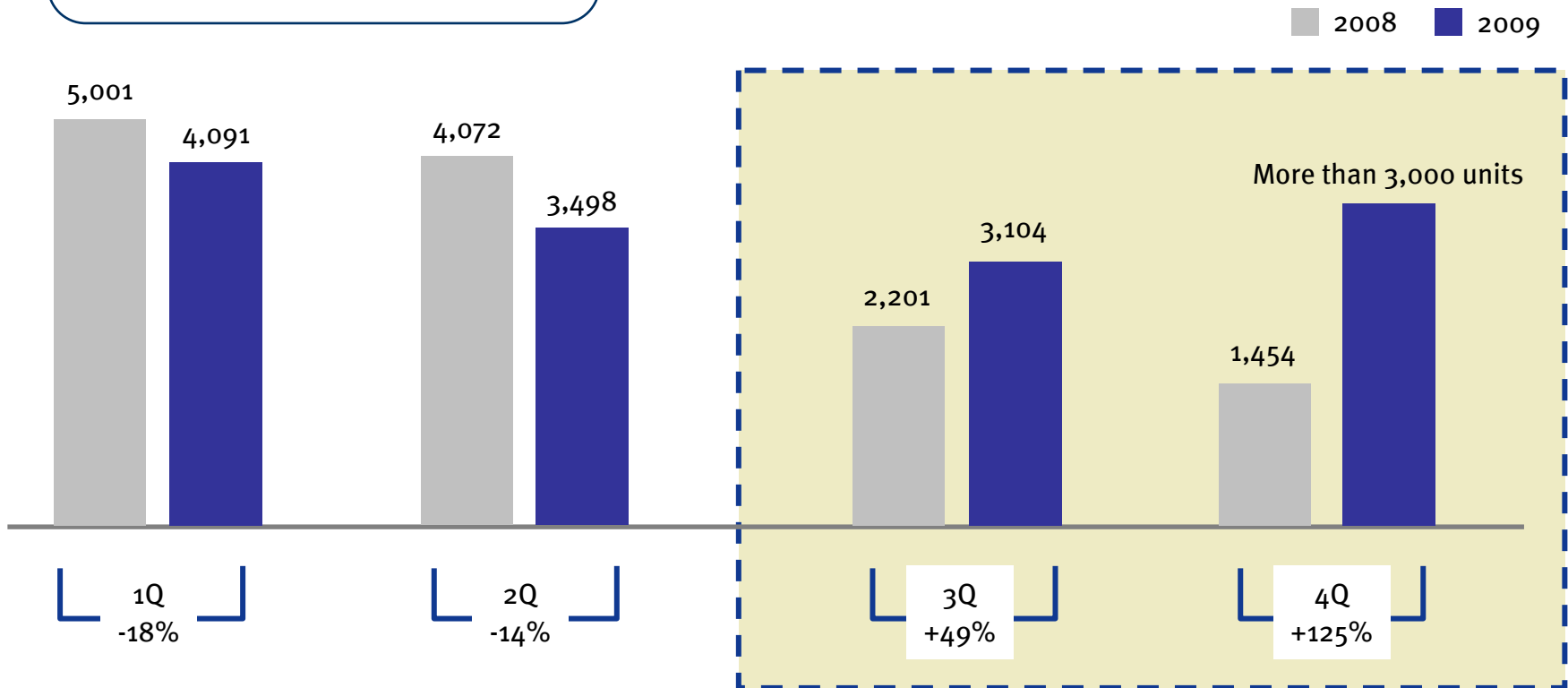


# 1-1 Construction equipment : Accelerated growth in China

Unit : units, %

- Excavator sales turned positive YoY from June and surged 49% YoY in 3Q
- Expected to experience accelerated growth of 125% YoY in 4Q thanks to sizable infrastructure spending by the Chinese government (Note that sales volume in October rose 131% YoY to 1,375 units)

## Excavator sales forecast

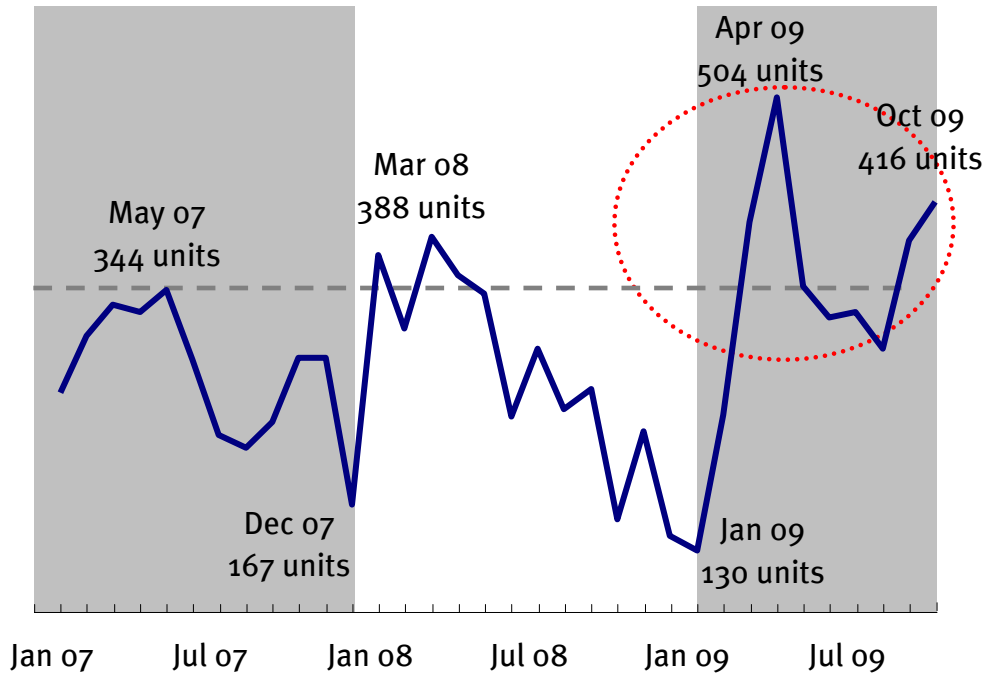


# 1-2 Construction equipment : Full-fledged growth in Korea

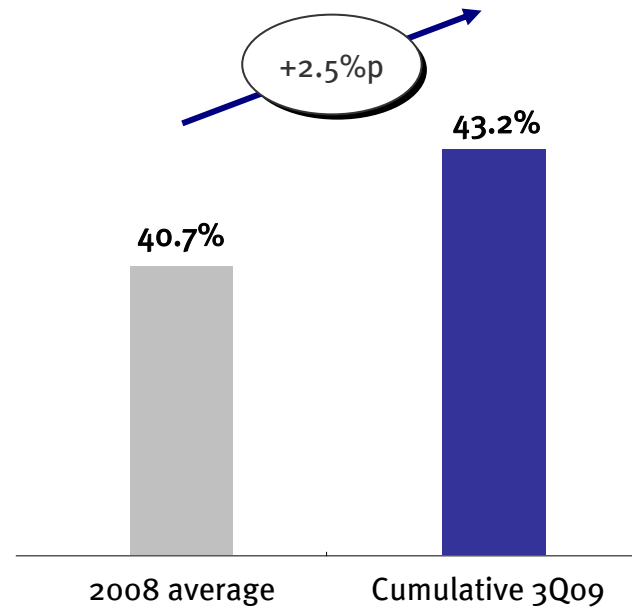
Unit : units, %

- Sales volume improved 25% YoY during 3Q with a solid No. 1 market share position
- With Korea's stimulus package, we anticipate explosive growth of 80% YoY in 4Q. Once impact from the four rivers project becomes fully visible in 2010, we could expect accelerated growth pace (Note that sales volume in October rose 168% YoY to 416 units)

Excavator sales trend in Korea



Market share in 3Q09 \*



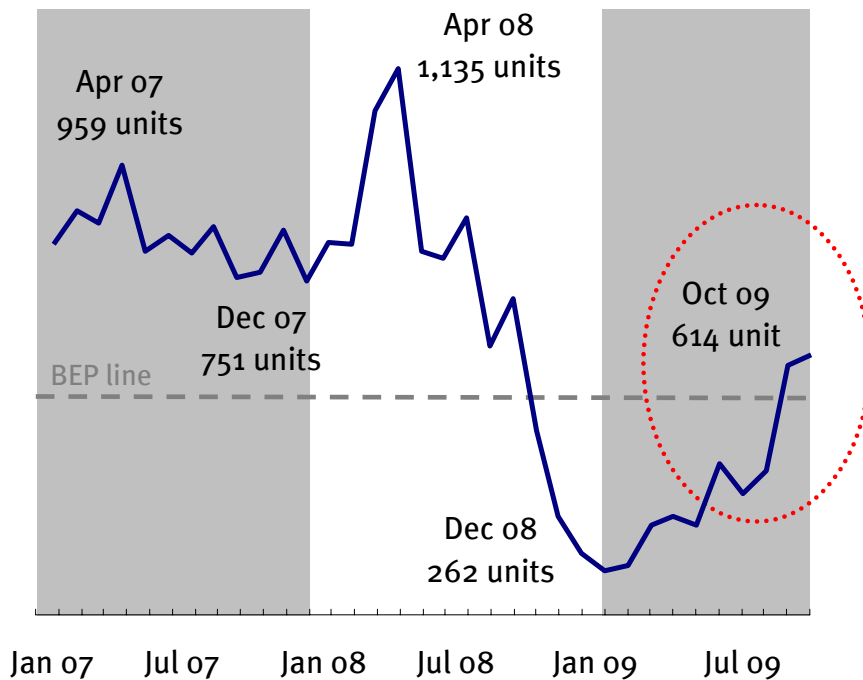
\* Market share for excavators above 5 tons

# 2 Machine tools : Entering a sales growth phase

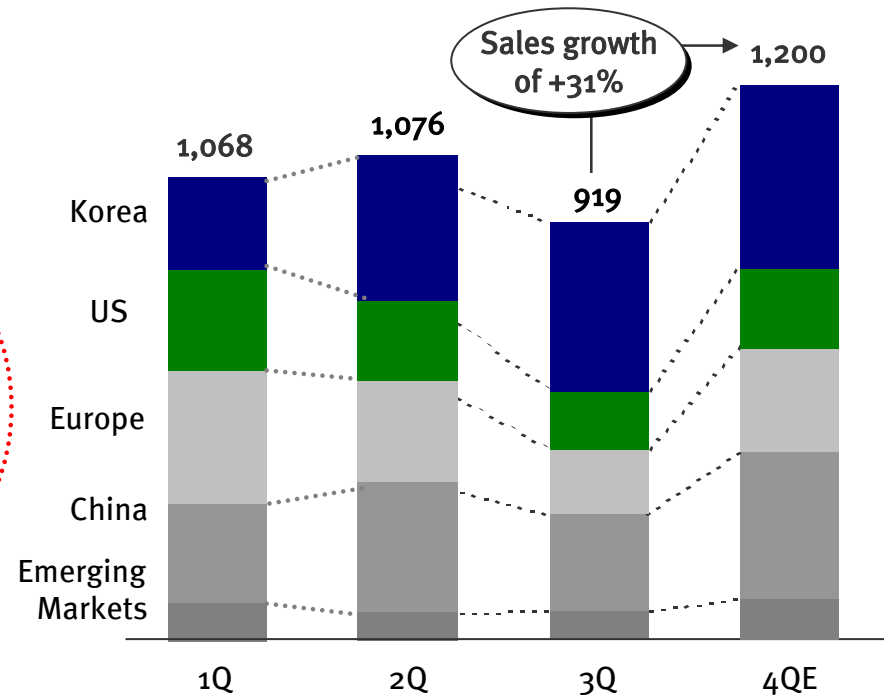
Unit : KRW billion, %

- Sales declined QoQ due to inventory control, low demand season and strong won
- However, we expect sales growth of 31% QoQ in 4Q as a result of accelerated order growth and market share expansion

Order trend (units)



4Q sales forecast

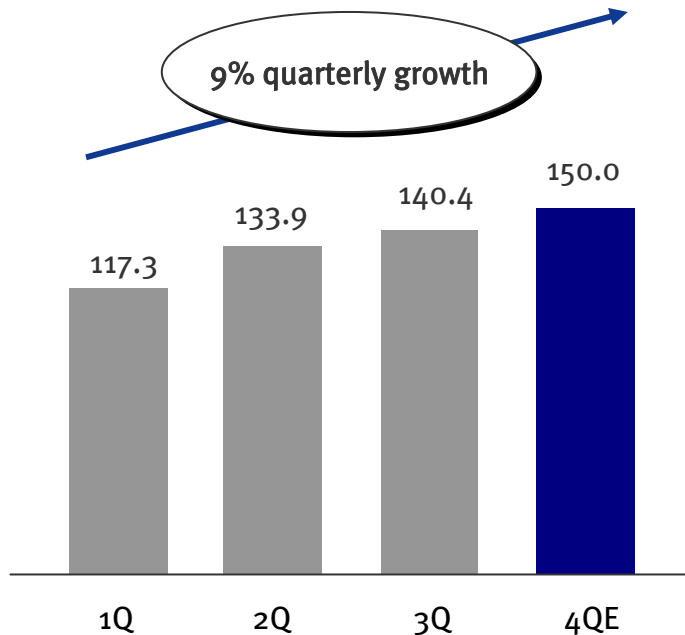


# 3 Engines : Securing platform for mid/long term growth

Unit : KRW billion, %

- 9% quarterly growth projected as a result of increased engine supply to captive & big accounts and penetration into new overseas markets
- Mid/long-term growth engine secured via 1) sizable orders from domestic & overseas markets and 2) joint venture with Xuzhou Construction Machinery Group

## Sales trend & forecast



\* Including internal sales

## Mid/Long-term growth engine

### **A** New captive OEM from the Korean bus market

- Sales of KRW10bn in 2010 and KRW20bn from 2011

### **B** Large commercial vehicle engine order from Iraq & Azarbayjan

- KRW8.4bn in 2009 and KRW12.6bn in 2010 to Tata Truck
- KRW3.4bn in 2009 and KRW4.1bn in 2010 to Daewoo Bus

### **C** Awarded contract from Los Angeles Metro Transit Authority

- Expect sales of KRW9.6bn for CNG engines until June 2011

### **D** Joint venture with Xuzhou Construction Machinery Group

- 50,000 units of annual production capacity from 2013
- To secure production site and captive customer in China

# 4 Great expectations for green technology

- Efforts towards green technology
  - ① Commercialization of hybrid construction equipment
  - ② development of market-leading futuristic excavator
  - ③ development of next generation new combustion-type diesel engine technology

## Background

- Increasing customers' need for more efficient and environmentally friendly products

## Expectations

### A Early entrance in green hybrid construction equipment market

- Developed core parts and hybrid control technology : 2009
- To launch 22-ton hybrid excavator with more than 20% fuel efficiency : 2011
- To commercialize 2-ton hybrid battery-type forklift : 2011

### B Secure core technology in advance and promote green brand image

- Develop green engine with Low-temperature combustion method
- Suggest “*Eco-Transformer*” as the 2018 futuristic concept excavator
- Won world renowned ‘Red dot Design Award’ in August 2009

Futuristic excavator “Eco-Transformer”



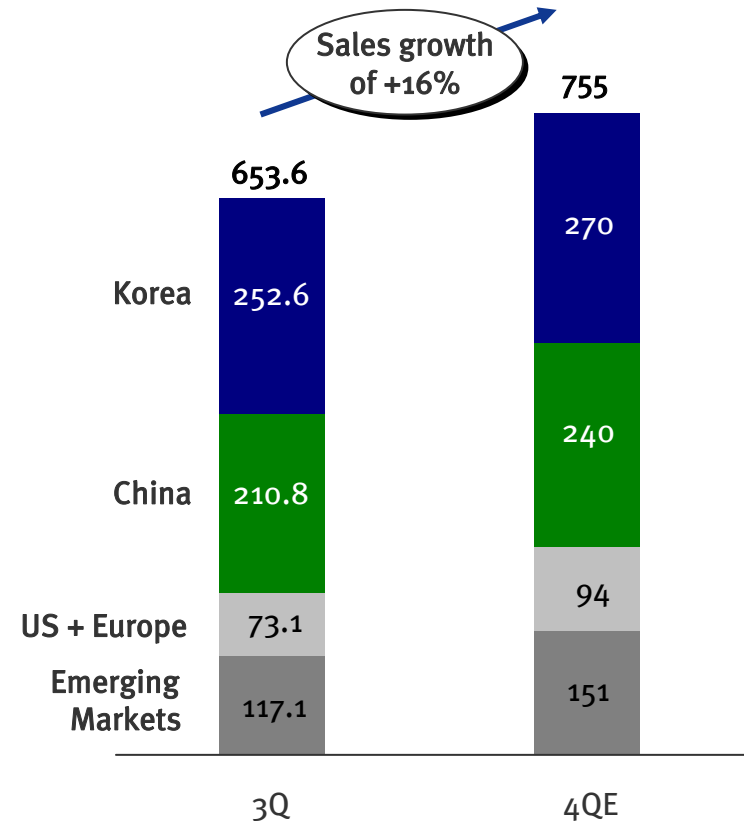
# 4Q09 outlook

Unit : KRW billion, %

- 4Q sales should increase 16% QoQ in light of greater excavator sales volume and order growth for machine tools and engines

	1Q	2Q	3Q	4QE
Sales	651.6	626.1	653.6	755
- Construction Equipment BG	328.5	278.4	330.4	370
- Machine Tools BG	107.0	107.5	91.8	115
- Engine BG	90.8	104.2	140.5	150
- Others BG	125.2	136.0	90.9	120
EBIT	44.9	36.2	63.8	87
EBIT margin (%)	6.9%	5.8%	9.8%	11.5%

## Regional sales forecast



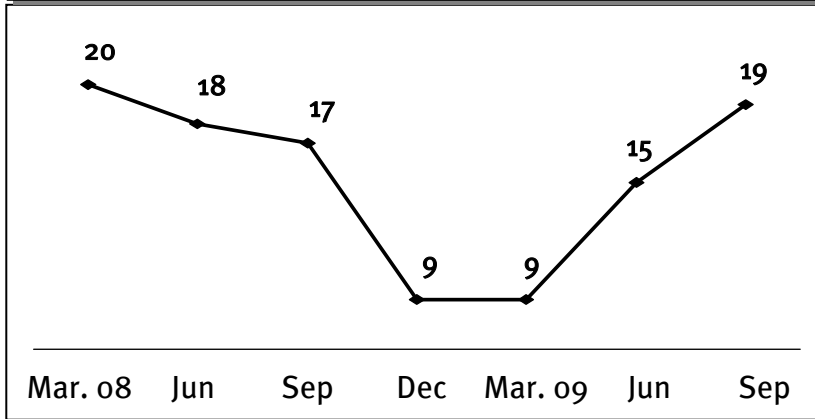
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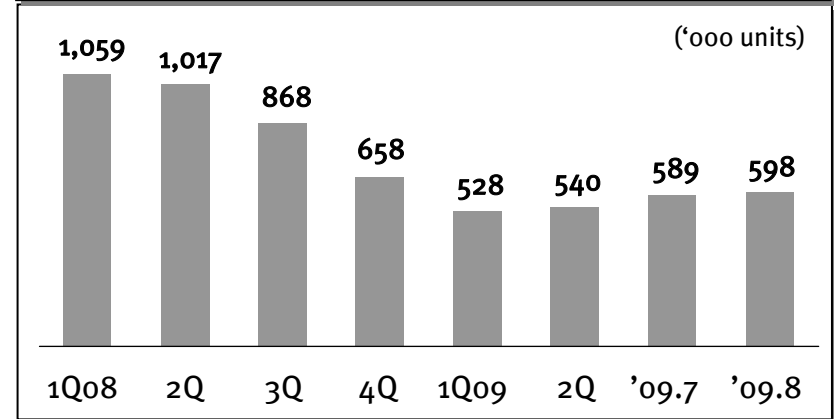
# Recovery in US economic indices – leading indicators of DII's performance

- Gradual recovery in indices such as housing market index, housing starts and ISM show encouraging signs for DII's future earnings recovery

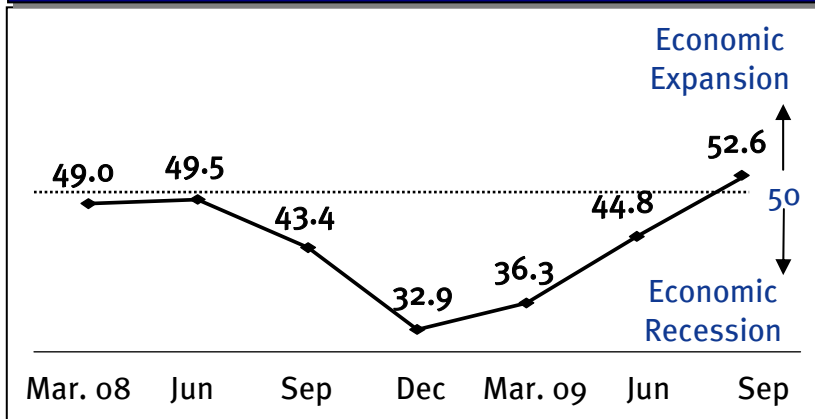
### HMI (Housing Market Index)



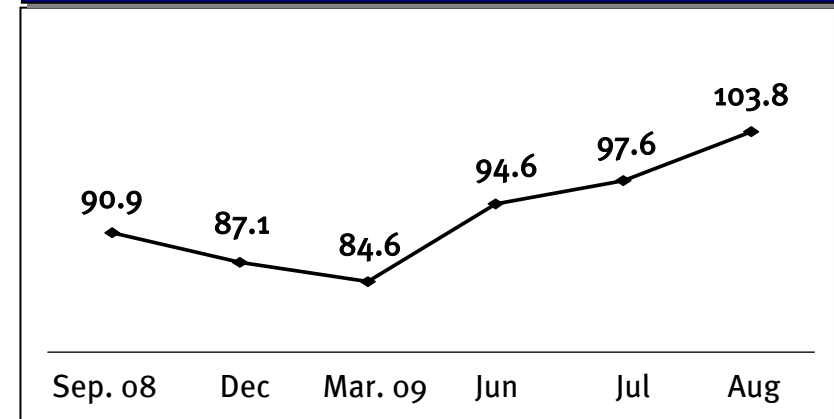
### Housing Starts



### ISM (Institute for Supply Mgmt Index)



### PHSI (Pending Home Sales Index)

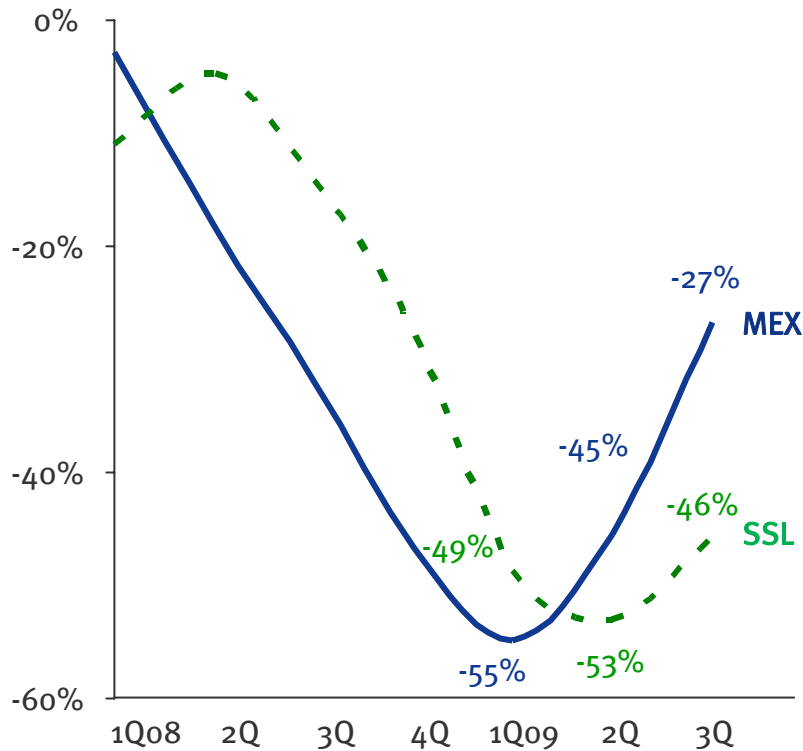




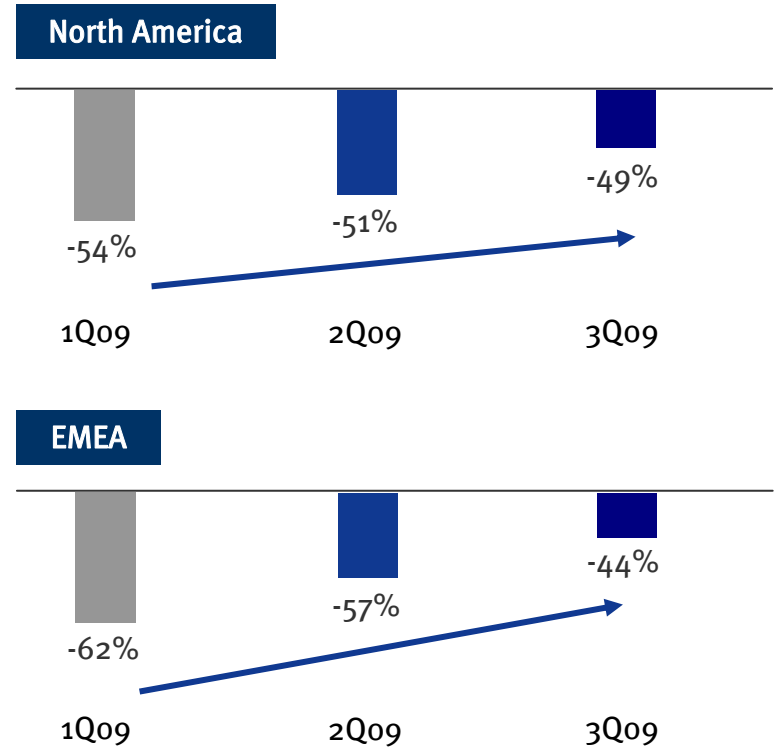
# Global compact equipment market also bottoming out

- Global compact equipment market on the rebound as evidenced by the year-on-year improvement

### Global Market Growth by Product (YoY)



### Global Market Growth by Region (YoY)



# 3Q09 results

Unit : US\$ million, %

- 8% QoQ sales growth thanks to demand recovery, introduction of new models and reduced price discounts
- EBITDA excluding restructuring costs improved QoQ by US\$22million

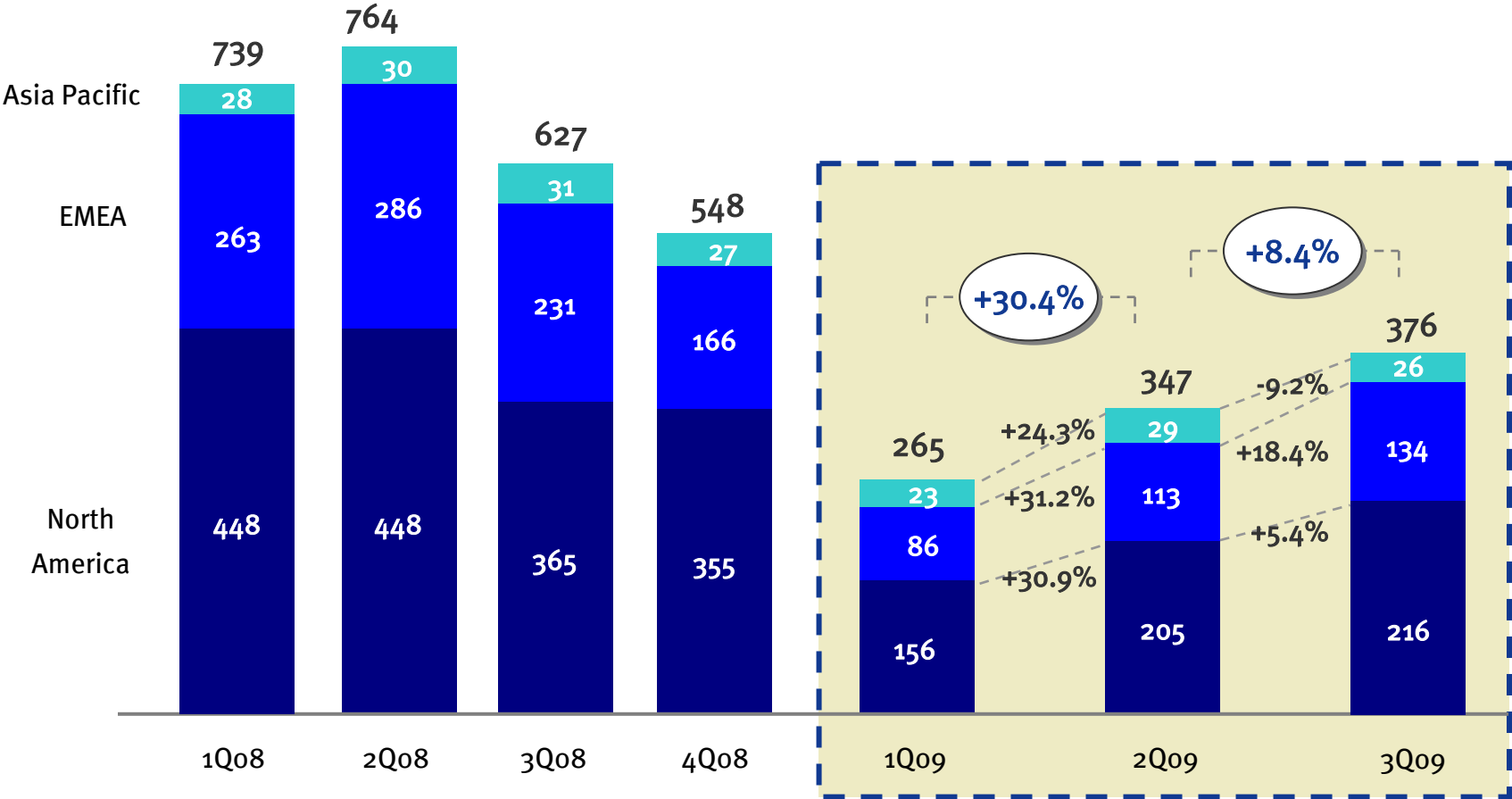
	3Q08	1Q09	2Q09 *	3Q09	QoQ	YoY
Sales	627.3	265.6	346.5	375.7	8.4%	-40.1%
EBIT	-3.8	-111.3	-91.1	-81.2	+9.9	-77.3
EBITDA	22.7	-81.6	-63.0	-49.6	+13.4	-72.3
(excl. restructuring costs)	22.7	-73.2	-58.6	-36.4	+22.2	-59.1
- Financing Cost	43.9	40.4	53.4	28.5	-24.8	-15.4
Pretax Profit	-81.6	-163.4	-121.7	-98.4	+23.3	-16.8
Net Profit	-83.7	-159.9	-121.4	-98.4	+23.0	-14.7

\* 2Q results revised after external audit

# 2009 3Q regional sales

Unit : US\$ million, %

• After hitting the trough in 1Q, 3Q sales improved 8% QoQ as the markets recovered in North America and EMEA

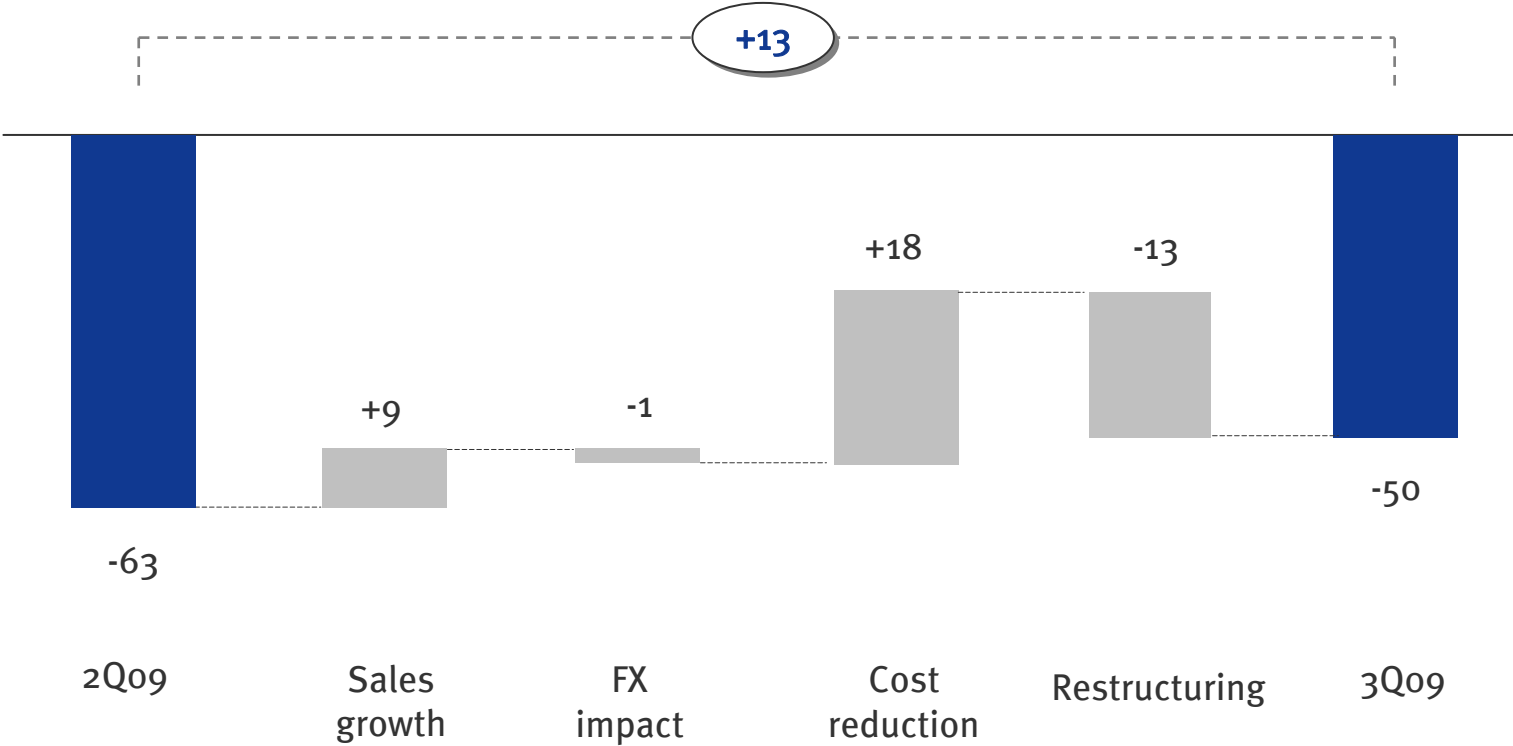


# 2009 3Q EBITDA analysis

Unit : US\$ million

• EBITDA improved in 3Q as sales growth and cost reduction efforts offset the cost of restructuring

QoQ comparison

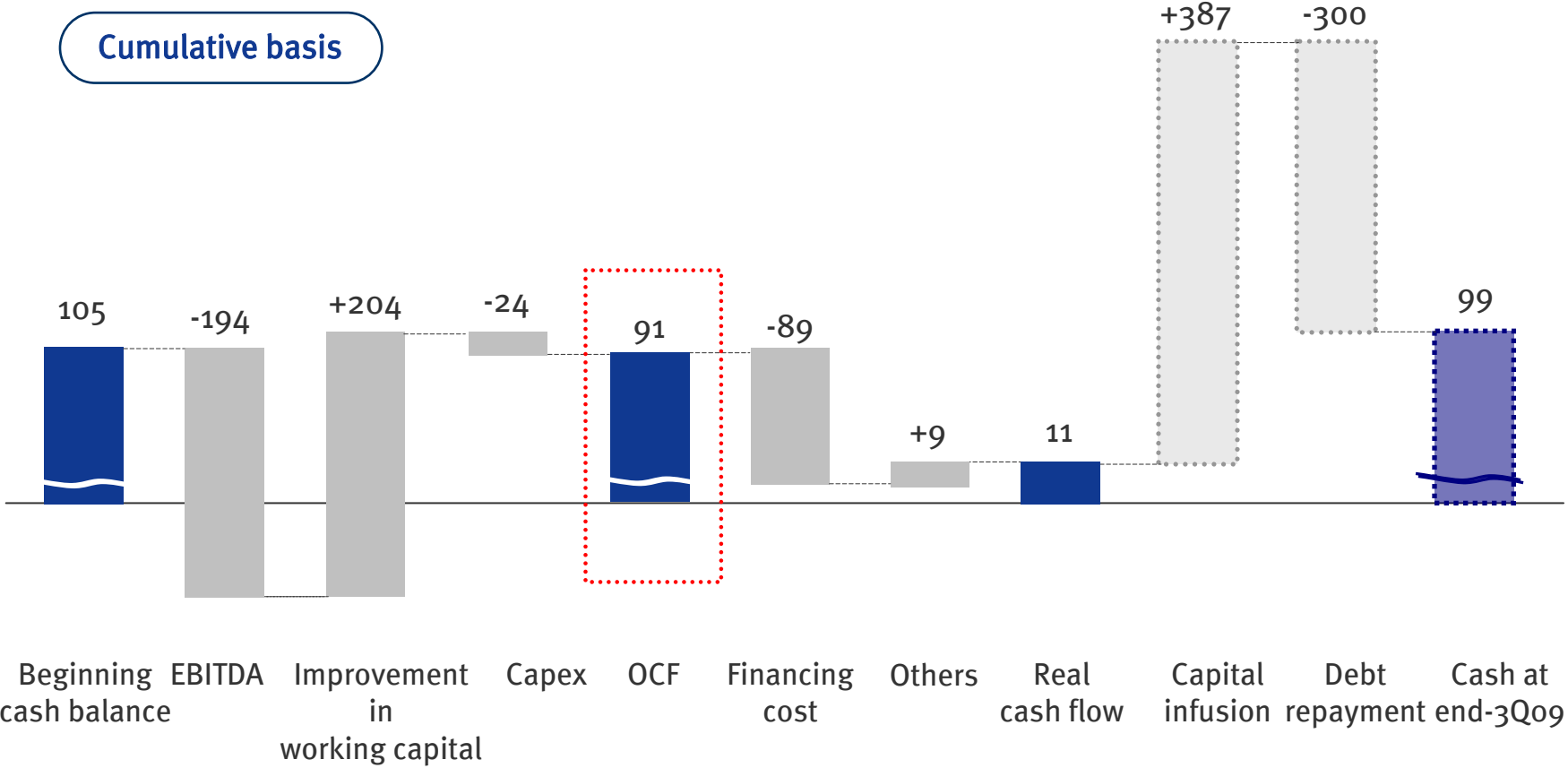


# Cash flow remains positive

Unit : US\$ million

• Improvement in working capital offset the negative EBITDA and financing cost, while the capital infusion was used for early debt repayment

Cumulative basis



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# 1 Better cost structure to weather a downturn

Unit : US\$ million

- Once impact from past restructuring efforts becomes fully visible in 2010, we anticipate annual earnings improvement of approximately US\$120 million
- Going forward, DII will have an enhanced cost structure and lower break-even point, which will allow DII to withstand any market recession

## Impact from restructuring

### Restructuring Efforts

Labor restructuring	15% YoY lower headcount as of September - from 5,187 at end-2008 to 4,395 in Sep 09
Business restructuring	Bismarck plant closure etc.
Disposal of company owned stores	7 company owned stores sold
Other cost reduction efforts	Reduced transportation and market expenses

Annual Savings	
2009	2010
+30.9	+123.1

## 2 Synergy with DI accelerating

### Synergy

### Key results and description of synergy for DI + DII

#### Brand/ Channel (Cross-Selling)

- Creating financial value of **US\$48mn** through cross-selling
  - Cross-selling accelerating through 29 shared distribution in NA & EMEA
  - 26% of DI channel in emerging markets integrated with DII & speeding up cross-selling
- Getting deals by jointly attacking large-sized accounts and government bidding

#### Global Sourcing

- Cost savings of **US\$15mn** under global CPO organization
  - Attaining better pricing power via integrated sourcing process and system

#### Mini excavator global leadership

- New product sales in a high pitch with combined sales increment of **US\$45mn** for DI and DII
  - Pheonix sales boomed (173% increase in Q3 vs. Q2 sales)
  - DI's E55W/ E60R/ E80R in a continuous growth
- Increasing penetration to National Rental Accounts & taking major competitor's deals

#### New Business Growth

- Montabert's advance into China breaker business well in progress reporting sales of **US\$5mn**
  - Sales in China in a growing trend (85 units / month)
  - Export to emerging markets & U.S started from Sep.



**Thank You**