Letter to Shareholders of Doosan Enerbility (3rd)

Doosan Enerbility's Business Restructuring Plan through Spin-off Merger

Rebuttal Letter to the Material Error in the ISS Report

2024. 12. 03.

DOOSAN

Dear Esteemed Shareholders of Doosan Enerbility (the "Company"):

Most proxy advisory firms, including Glass Lewis, a major global proxy advisory firm, view the proposed spin-off merger as a significant opportunity to enhance the Company's strategic growth and long-term corporate value, and have therefore recommended to vote "for" the spin-off merger. However, Institutional Shareholder Services ("ISS"), one of the proxy advisory firms, issued a voting recommendation on November 28, advising shareholders to vote against this business restructuring plan. The Company believes that the ISS' analysis contains material errors or one-sided claims not consistent with facts and wishes to explain this to respected shareholders.

First, the Company has identified more than ten factual errors, both large and small, in the ISS' report. This suggests that many of the contents and assumptions mentioned in this report do not align with basic facts, leading to strong doubts about whether ISS conducted thorough research and review to prepare an objective and accurate document. For a detailed explanation of the errors in the ISS' report, please refer to the attached document as Appendix.

ISS particularly highlights that this restructuring plan involves a conflict of interest between major and minor shareholders (strengthening the influence and increasing the benefits of the major shareholder over Doosan Bobcat), yet the restructuring was not reviewed by a special committee composed solely of independent directors. However, this is due to a lack of understanding of Korean Commercial Code (the "KCC"). According to the KCC, a spin-off merger that requires shareholder approval cannot be delegated to a committee within the board and must be resolved directly by the board and proposed to the shareholders' meeting. Therefore, it is impossible for a special committee rather than the board to review and decide on this transaction, and such cases have never existed domestically.

Furthermore, the ISS' report opposes the proposal on the grounds that a complex spin-off merger was chosen instead of a simple and effective cash transaction. However, this argument neglects the fact that in the Company's current business environment, the speed and timing of investments are more crucial to business performance than the amount gained from selling Doosan Bobcat shares, making the spin-off merger, which ensures certainty and speed of the transaction, the best option.

In the case of Doosan Bobcat, since most of its operations are overseas, business combination reports are required in more than 10 jurisdictions (including South Korea and the EU) based on the size of Doosan Bobcat's revenue. It is hard to predict when approvals will be finalized, and there is a risk of rejection depending on the purchaser (for reference, the merger between Korean Air and Asiana Airlines currently underway has reportedly taken about four years for overseas antitrust approval). Considering the downturn in Doosan Bobcat's business cycle, delays in the sale transaction and uncertainty about the closing of the sale are more pronounced (recent M&A success rates are around 20%).

Lastly, the ISS' report states that Doosan Bobcat is undervalued compared to its Asian peers. However, when considering core business areas, main sales regions, and sales volumes, none of the companies listed in the ISS report can be considered peers. In particular, in the case of Chinese companies, Chinese domestic policies aimed at economic stimulus influence sales growth, leading to significant variations in multiples, and due to significant market peculiarities, it is standard industry practice to exclude Chinese companies from the peer group. Moreover, it should be noted that the Korean stock market itself is generally undervalued compared to the Japanese and Chinese markets.

Directly comparing Doosan Bobcat's valuation ratio with that of Asian peers without considering these market peculiarities is not valid.

Meanwhile, reflecting the market concerns, the Company has maximized the merger ratio. Initially, the merger ratio was calculated based only on the market price of Doosan Bobcat shares at the initial stage of the business restructuring. However, assuming an external sale of the Doosan Bobcat shares, a management control premium of 43.7% was applied to the market price, valuing Doosan Bobcat share's earnings value at over KRW 70,000. This recognizes nearly 9 to 10 times the current market consensus for Doosan Bobcat's EBIT estimate of KRW 800 billion, suggesting it closely approximates the maximum possible external sale price of the Doosan Bobcat shares.

From the Company's perspective, this spin-off merger is strategically necessary for concentrating capabilities and expanding investments in the energy business, disposing of unrelated assets, improving the financial structure, and reducing debt. On November 22, the day the securities registration statement submitted to the Financial Supervisory Service took effect, the share price rose by 5.7% compared to the previous day, indicating that the market expects this business restructuring to be successfully completed.

Although some shareholders may adopt a passive investment strategy, it is clear that an increase in the Company's share price benefits shareholders' investments. As investors in the Company, we earnestly request that you carefully review whether this business restructuring proposal will be beneficial to the Company's stock price and make a wise decision.

If you have already exercised your voting rights through a proxy or electronic vote, it can be changed and exercised through a proxy form until the general shareholders' meeting. If you have any questions about these procedures, please contact the Company's IR team below at any time for detailed procedural guidance and information.

IR Team: [Team leader, Hyuk-jae Lee] / [155, Jeongjail-ro, Bundang-gu, Seongnam-si, Gyeonggi-do, Republic of Korea, hyukjae.lee@doosan.com, +82 31-5179-3175]

Appendix Details of Errors in the ISS Report

Sanghyun Park
CFO & President
Doosan Enerbility

Appendix

Details of Errors in the ISS Report

1. Unjustifiable Logic of ISS' Opposition

The principal basis for ISS' opposition consists of the following three arguments, which are all grounded in factually unsupported and illogical reasoning:

First ISS' Logic for Opposition: Despite viewing this deal as a transaction with conflicts of interest between major shareholders and minority shareholders (strengthening the influence and profits of the major shareholders in Doosan Bobcat), it was not reviewed by a special committee composed solely of independent directors.

(1) First, this transaction is not intended to strengthen the influence or profit for the major shareholders.

Comparing pre- and post-restructuring, there is no change in the voting rights for Doosan Bobcat (46% held by the Company → 46% held by Doosan Robotics), ensuring identical control. Furthermore, Doosan Corporation's voting right in Doosan Robotics will be diluted from 68% to 57%. Additionally, there are no potential gains (such as dividends) obtainable by Doosan Corporation through this transaction, underlining that this is not a transaction with conflicts of interest.

For instance, if Doosan Bobcat pays a dividend of KRW 1,600 per share, Doosan Robotics would receive approximately KRW 74 billion (the same amount the Company would have received), and assuming this entire amount, minus interest expenses of about KRW 40 billion incurred from loans taken over from the Company, is distributed as dividends, Doosan Corporation would receive approximately KRW 19 billion. Considering the interest costs associated with the KRW 370 billion acquisition of Doosan Cuvex by Doosan Corporation through this restructuring, there are essentially no profits gained by Doosan Corporation through dividends.

(2) It is legally impossible for a special committee composed solely of independent directors to decide this spin-off merger.

The KCC stipulates that proposals requiring shareholder meeting approval cannot be delegated to a committee within the board (KCC Article 393-2(2)1). Therefore, the decision on a spin-off merger, which requires a general shareholders' meeting's approval, must be directly resolved by the Board and presented to the general shareholders' meeting. Consequently, deciding a spin-off merger through a special committee instead of the Board is not feasible under the KCC, and no similar instance exists among any domestically listed companies.

In addition, the Company conducted multiple pre-discussion sessions attended only by independent directors prior to the official Board meeting. Through this process, independent directors thoroughly reviewed and deliberated over the spin-off merger, ensuring a fair and independent decision-making process. The decision was ultimately unanimous in favor of the spin-off merger, reached by a board composed of a majority (four out of seven) of independent directors. If this decision-making process had been erroneous, the Financial Supervisory Service's approval for the securities registration statement could not have been obtained.

Second ISS' Logic for Opposition: Rather than opting for a simple and effective cash transaction, a complex spin-off merger was chosen.

Please refer to the main text of this Letter.

Third ISS' Logic for Opposition: Doosan Bobcat is undervalued compared to other Asian peers.

(1) The companies ISS has presented are not appropriate peers for Doosan Bobcat.

Doosan Bobcat is a North America-based small construction equipment company acquired by Doosan Infracore to expand from mid-to-large sized construction equipment to the small construction equipment sector. Considering the main business, key regions of revenue, and size of revenue, none of the companies listed in the ISS report can be seen as peers. In particular, Chinese companies experience significant fluctuations in multiples due to their domestic policies aimed at economic stimulus that affect revenue growth, and their market specificity is large, so excluding them from the peer group is standard practice in the industry.

It should also be considered that the domestic stock market itself is undervalued compared to the Japanese and Chinese markets. Analyzing Doosan Bobcat as undervalued by directly comparing its valuation ratio with that of Asian peers without considering the uniqueness of each market is not reasonable.

(FY 2023)	Listed Country	Main Business	Key Regions of Revenue	Revenue (in KRW trillion)
Doosan Bobcat	Korea	Small Construction Equipment	North America	9.8
XCMG	China	Mining Heavy Equipment	China	16.1
Sany	China	Mining Heavy Equipment	China	13.2
Liugong	China	Mid-to-Large Construction Equipment	China	4.9
Anhui Heli	China	Forklifts	China	3.2
Komatsu	Japan	Mid-to-Large Construction Equipment	Global	34.3
Kubota	Japan	Small Construction Equipment, Engine	Global	27.8

(Source: S&P Capital IQ)

(2) The calculation of the spin-off merger ratio appropriately evaluated Doosan Bobcat according to the legally imposed standards.

At the initial decision and public announcement of the spin-off merger, the merger ratio was calculated based on the market price of Doosan Bobcat shares, consistent with standard practice for intrinsic value evaluation in spin-off mergers. Subsequently, reflecting market concerns, control premiums of 43.7% above the market price (benchmarked at KRW 50,612 per share) were applied to Doosan Bobcat shares, valuing them at the highest conceivable level within the legal limits.

This evaluated Doosan Bobcat shares at over KRW 70,000 per share, a price level never exceeded since listing, corresponding to a recognition of approximately nine to ten times the consensus market estimate for Doosan Bobcat's EBIT of KRW 800 billion.

This valuation of Doosan Bobcat shares underwent a fair assessment by three independent accounting firms—Deloitte Anjin, Morison Global Echon & Co., and Baker Tilly Woori Accounting Corporation. Given that selecting only one accounting firm is typically sufficient based on the KCC for spin-off merger evaluations, the independence and fairness of the valuation is indisputable.

(3) In 2021, ISS supported a spin-off merger transaction that valued Doosan Bobcat using market prices.

Only three years ago, in 2021, the Company acquired Doosan Bobcat shares through a spin-off merger with Doosan Infracore, with ISS then recommending approval for the transaction. At that time, even with the valuation based solely on market price (KRW 33,077 per share) without additional premium, ISS had supported the proposal.

2. Basic Factual Errors in the ISS Report

In addition to the unfairness of the logic opposing the restructuring plan, we would like to first express doubts about whether the ISS report was prepared objectively and accurately, based on thorough investigation and review, by highlighting the errors in the basic facts below:

- The ISS assumes the transaction is progressing separately as a spin-off and a merger, and the ISS cites Article 522-3 of the Korean Commercial Code (the "KCC") (regulations related to mergers) as the legal basis. However, this is a single transaction, known as a spin-off merger, and the legal basis is Article 530-3 of the KCC. Given that there are errors at the fundamental level of the transaction concept and legal basis, it is clear that the overall report's analysis cannot be appropriate.

- Despite the sale of Doosan E&C being completed at the end of 2021, ISS still misleadingly includes it as a business unit of the Company.

- There is confusion in identifying the chairmen of the boards for both the Company and Doosan Robotics.

- The appraisal right exercise limits are KRW 600 billion for the Company and KRW 500 billion for Doosan Robotics, but they have been listed in reverse.

- Despite the crucial change in the spin-off merger ratio resolved at the Board meeting on October 21, ISS analyzes the post-merger Doosan Robotics shareholding ratio by Doosan Corporation as 59%, which was the stake before the merger ratio change, instead of the corrected 57%.

- In the section analyzing appraisal rights, there is an error indicating that the rights pertain to Doosan Robotics instead of the Company. Moreover, the report refers the current stock price as KRW 17,600 evaluating it as lower than the appraisal right price of KRW 20,890, but it is incorrect reference amount which is not related with the current stock price of the Company at all. In fact, as of the ISS evaluation date (November 28), the Company's stock price was higher at KRW 21,450 (it had not dipped into the KRW 17,000 range since October 5. This is a material error given that major consideration factors according to the ISS voting guidelines were not accounted for.

- The report asserts that the spin-off merger will lead to dilution and changes in shareholder composition for the Company, although no such dilution or changes will occur.

- ISS mentions a 10% price increase in Doosan Robotics' shares following the public announcement of the merger ratio change on October 21. However, since the announcement was made after the market closed on October 21, the subsequent change in the share price should have been assessed based on October 22. After the announcement, Doosan Robotics' share price actually fell by about

5% on October 22 and continued to fall by approximately an additional 3% on October 23 and 24. This fundamental error in stock trend calculation, disregarding the timing of the announcement, undermines the reliability of the entire report's conclusion.

- In addition to the foregoing, numerous other errors have been identified.

According to ISS' internal Due Diligence Package,[1] a strict system and controls are necessary to ensure the quality of analysis reports, emphasizing adherence to "robust data consistency and quality checks." Despite numerous communications and the Company providing explanations and documentation, fundamental factual inaccuracies remain in the report. This suggests non-compliance with ISS' regulations on analysis procedures, necessitating a revised publication of the report by ISS. It is doubtful whether the reliability of the ISS' report recommending opposition, which was prepared based on numerous significant and minor inaccuracies, can be deemed reliable.

We kindly ask for the continued support of all our shareholders.
Thank you.

22, Doosan volvo-ro, Seongsan-gu, Changwon-si, Gyeongsangnam-do, Republic of Korea

+82 55-278-6114

www.doosanenerbility.com

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[1] *See* Due-Diligence-Compliance-Package-Feb-2022.pdf (issgovernance.com).