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Press Release

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Improved Financial Structure of Domestic Companies Listed in Korea Stock Exchange and KOSDAQ Five Year After the 1997 Financial Crisis

A recent FSC/FSS analysis on the financial structure of domestic companies publicly traded in the Korea Stock Exchange (KSE) and the KOSDAQ showed an overall improvement in debt-to-equity ratios, financial expenses, and profitability in the past five years following the 1997 Asian financial crisis.

The analysis indicated that, as of the end of March this year, the debt-to-equity ratio of KSE- and KOSDAQ-traded manufacturing companies had fallen to 174.4% from 368.6% at the end of 1997, a level comparable to that found in most leading economies and a clear sign of the financial stability of domestic companies. The principal causes for these positive developments can be traced to the large capital increases through stock issuance during 1998 to 1999 and increases in cash reserves and retained earnings driven by profit-focused business management and strategies beginning in 2001.

KSE- and KOSDAQ-Listed Manufacturing Companies' Debt-to-Equity Ratio and Stock Issuance[1]

(In percent and trillions of won)

	1997	1998	1999	2000	2001	2002.3	US (2001)	Japan (2000)
Debt-to-Equity[2]	368.6 (396.3)	299.2 (303.0)	199.7 (214.7)	215.3 (210.6)	184.9 (182.2)	174.4	159.4	159.7
Stock Issuance[3]	3.4	14.2	41.1	14.3	12.2	2.6	-	-

Note: 1) Source: Bank of Korea Corporate Business Analysis;
2) The figures in the parentheses indicate the debt-to-equity ratio of all listed and unlisted companies;
3) The figures for stock issuance are for KSE- and KOSDAQ-listed companies.

The drop in net financial expenses-to-sales ratio of domestic companies—from 5.1% at the end of 1997 to 3.1% at the end of the first quarter of 2002 on the back of improved financial strength—was one of the key reasons behind the recent surge in corporate profitability.

Interest Coverage Ratio and Profitability

(In percent)

	1997	1998	1999	2000	2001	1st Qtr. 2001	1st Qtr. 2002
Interest coverage ratio	129.1	68.3	96.1	157.2	132.6	191.9	245.5
Operating income / sales	8.3	6.1	6.6	7.4	5.5	8.8	9.2
Income from continuing operation / Sales	-0.3	-1.8	1.7	1.3	0.4	3.7	8.0

Note: Source: Bank of Korea Corporate Business Analysis; Figures from 1997 to 2001cover all listed and unlisted companies; Figures for the first quarters of 2001 and 2002 cover KSE- and KOSDAQ-listed manufacturing companies.

The emerging trend toward financial stability and improving profitability of domestic companies has been particularly striking in the first half of this year, and there are reasons to believe that this trend is not a temporary phenomenon, but a reflection of the strength of fundamentally restructured domestic companies.

As shown in the table below, a comparison of the debt-to-equity ratio, interest coverage ratio, and operating income-to-sales ratio of KSE- and KOSDAQ-traded companies (excluding financial service companies) for the first half of this year versus the first half of 2001 clearly points to the significantly improved profitability and debt-servicing ability of domestic companies.

Debt-to-Equity Ratio and Profitability[1]

	1st Half of 2001	1st Half of 2002
Debt-to-equity ratio	127.7%	112.5%
Interest coverage ratio[2]	276.6%	470.7%
Operating income-sales ratio	7.4%	8.1%
Income from continuing operation-sales ratio	4.3%	8.7%

Note: 1) Source: KSE and KOSDAQ semiannual reports;
2) Figures for interest coverage ratio cover KSE-listed companies.

It is also noteworthy that, unlike in the past when corporate profitability was often exaggerated by the sheer size of businesses, the recent surge in corporate profitability came amid slowing sales, which suggest that it is an outcome of years of successful corporate restructuring.

In many ways, the embracing of profit-driven management by domestic companies also reflects a wide array of positive management changes domestic companies instituted after the 1997 financial crisis as well as the efforts of the government to bring Korea's corporate governance and transparency up to international standards.

Assets, Liabilities, and Profitability[1]

(In trillions of won)

	1st Half of 2001	1st Half of 2002	Change
Sales	277	283	2.2%
Assets	538	537	-0.2%
Liabilities	302	284	-5.8%
Income from continuing operation	12	25	105%

Note: 1) Source: KSE and KOSDAQ semiannual reports

On another promising note, the return on equity (ROE) of KSE- and KOSDAQ-traded companies also showed strong improvement in the first half of this year at 6.9% and 3.5%, respectively, compared with 2.5% and 2.2% a year earlier, thus making equity financing attractive to both the companies themselves and the investors.

In order for these positive developments and trends to continue, corporate accounting and management transparency must continue to improve, and investor confidence must be preserved in the capital markets. These will remain the principal objectives of the FSC/FSS.

Please forward all questions, suggestions, and comments regarding this press release to the International Cooperation Office (Tel: +82-2-3786-7912; Fax: +82-2-3786-7899; Email: bylee@fss.or.kr).