

# Financial Statement Analysis for 1996

## I. Overview

In 1996, Korean manufacturing corporations' performance was less favorable than in the previous year. There was a deterioration in their sales growth, business profitability and financial structure, due to their declining price competitiveness following the weakness of the Japanese Yen and the fall in the international price of leading export items, such as semiconductors and iron & steel.

The growth rate of sales dropped from the preceding year's 20.4 per cent to 10.3 per cent and the ratio of ordinary income to sales slumped to 1.0 per cent from the previous year's 3.6 per cent.

The ratio of stockholders' equity to total assets declined slightly to 24.0 per cent from the previous year's 25.9 per cent.

In the construction industry, the growth rate of sales improved, but profitability and financial structures deteriorated, compared to the previous year. The growth rate of sales grew 16.5 per cent from the previous year's 16.1 per cent, thanks to the buoyancy of both infrastructure and overseas construction. Nevertheless, the ratio of ordinary income to sales dropped to 0.7 per cent from the previous year's 1.1 per cent due to the intensified competition.

In the case of wholesale and retail trade, the growth rate of sales registered 18.6 per cent, lower than the previous year's 26.6 per cent. The ratio of its ordinary income to sales slightly eased from 0.7 per cent to 0.6 per cent, due to the higher fixed costs associated with the expansion and establishment of retail outlets. The ratio of stockholders' equity to total assets of retail sales companies stood at 16.4 per cent, higher than the previous year's 15.5 per cent, having been boosted by revaluation gains for some large enterprises.

## II. Growth

### 1. Manufacturing

Over the year under review, the growth rate of sales in manufacturing fell abruptly from the previous year's 20.4 per cent to 10.3 per cent. This setback was attributable to the slowdown in export growth caused by the softening of international prices of main export items, including semiconductors, iron & steel, and petrochemicals, and by the dullness of domestic demand during the protracted business downturn.

Meanwhile, the growth rate of property, plant and equipment showed a comparatively strong performance, recording 18.2 per cent following on from the previous year's 19.0 per cent.

[Table 1]

Manufacturing Growth Trends

	1993	1994	1995	Unit : per cent
Growth rate of sales	9.9	18.2	20.4	10.3
(Export)	13.7	19.9	31.0	7.3
(Domestic)	8.3	17.6	16.1	11.7
Growth rate of property, plant & equipment	13.2	13.2	19.0	18.2

Looking at the growth rate of sales by manufacturing sectors, there was a slowdown in most sectors with a few exceptions including food & beverages and petroleum refining. Most notably, that in chemical products, basic metals, and radio & television equipment dipped sharply, hit by falling export prices.

The growth rate of sales in textiles fell from 9.8 per cent to 5.1 per cent. That in leather and footwear decreased sharply in response to the shift abroad of domestic production. The growth rate in wood & its products also slowed to a crawl, marking only a low 0.9 per cent due to decreased demand from related industries. And the growth rate of sales in chemical products declined to a low level, owing to price reductions of major items. In the case of basic metals, sales growth slowed due to lower export prices and subdued demand. Radio & television equipment also displayed sluggish growth rate in its sales, which was mainly attributable to the plunge in prices.

In contrast, the growth rate of food & beverages was 12.2 per cent, higher

than the previous year's 9.7 per cent, due to price increase and the launch of new products. And the growth rate of refined petroleum products, increased from 21.1 per cent to 31.6 per cent, boosted by a combination of enlarged production capacity and increased prices.

[Table 2] Growth by Manufacturing Sector

	Unit : per cent					
	Growth rate of sales			Growth rate of property, plant & equipment		
	94	95	96	94	95	96
<b>Manufacturing</b>	<b>18.2</b>	<b>20.4</b>	<b>10.3</b>	<b>13.2</b>	<b>19.0</b>	<b>18.2</b>
Food & beverages	13.2	9.7	12.2	12.2	19.5	12.2
Textiles	15.7	9.8	5.1	8.7	12.7	13.4
Wearing apparel	15.6	12.7	9.3	13.4	15.1	10.0
Leather & footwear	2.4	15.5	3.1	4.8	7.2	5.6
Wood & its products	9.0	9.7	0.9	2.1	6.7	-0.3
Pulp & paper	17.3	30.1	6.3	10.6	22.3	15.3
Publishing & printing	32.2	14.6	11.5	10.7	9.8	14.6
Refined petroleum	8.0	21.1	31.6	15.1	27.1	37.5
Chemicals	16.4	21.8	8.1	7.6	11.6	18.5
Rubber & plastic	13.2	18.6	7.7	10.5	8.6	9.1
Non-metallic mineral products	12.6	15.3	7.7	10.7	22.5	9.3
Basic metals	15.0	21.6	5.8	8.8	17.1	20.1
Fabricated metal products	21.1	19.0	13.6	10.8	13.8	10.6
Machinery & equipment	20.0	25.8	10.3	13.7	14.6	6.5
Office & computing machinery	38.7	31.0	14.8	41.5	20.3	14.8
Electric machinery	20.3	26.5	10.6	9.0	23.8	6.1
Radio, TV, communications equipment	28.5	32.3	4.1	24.3	30.9	33.5
Medical, precision equipment	20.4	17.0	8.4	12.8	13.1	3.8
Motor vehicles	22.8	18.3	15.1	14.0	22.1	20.3
Ship building & other transport	22.9	27.0	20.7	26.7	23.9	12.6
Furniture & manufacturing n.e.c.	8.3	6.5	4.0	8.4	8.5	3.4

## 2. Non-Manufacturing

Looking at the growth rate of sales, that of the construction sector registered 16.5 per cent, a little bit higher than the previous year's 16.1 per cent. The improvement was mainly led by public works such as highways, ports

and airports, and by overseas construction.

The growth rate of sales in the electricity and gas distribution sector also recorded a positive trend, registering 17.2 per cent as against the previous year's 15.9 per cent, being boosted by the expansion of the city gas supply, and local heating schemes.

Meanwhile in the wholesale and retail trade, the growth rate of sales decelerated from the previous year's 26.6 per cent to 18.6 per cent, due to the poor performance of import and export trade. Sales in transport, storage & communications grew 14.8 per cent, much lower than the previous year's 19.2 per cent. It was attributable to the slowdown in transport and storage sector offsetting the stepped up demand for telecommunication and data processing services in response to network expansion and the buoyancy of the mobile telecommunication equipment market.

[Table 3]

**Growth by Industry**

Unit : per cent

	Growth rate of sales			
	1993	1994	1995	1996
Fishing	1.3	11.2	9.0	10.9
Mining	-6.7	-15.5	2.1	7.2
Manufacturing	9.9	18.2	20.4	10.3
Electricity, gas & steam	14.3	18.8	15.9	17.2
Construction	5.5	13.7	16.1	16.5
Wholesale & retail trade	13.3	17.5	26.6	18.6
Transport, storage & communications	15.5	15.6	19.2	14.8
(Communications)	10.9	15.4	20.8	27.9
Real estate, rental & business activities	9.1	27.3	31.2	28.6
Recreational, cultural & sporting activities	8.5	16.6	21.9	20.1

### III. Profitability

#### 1. Manufacturing

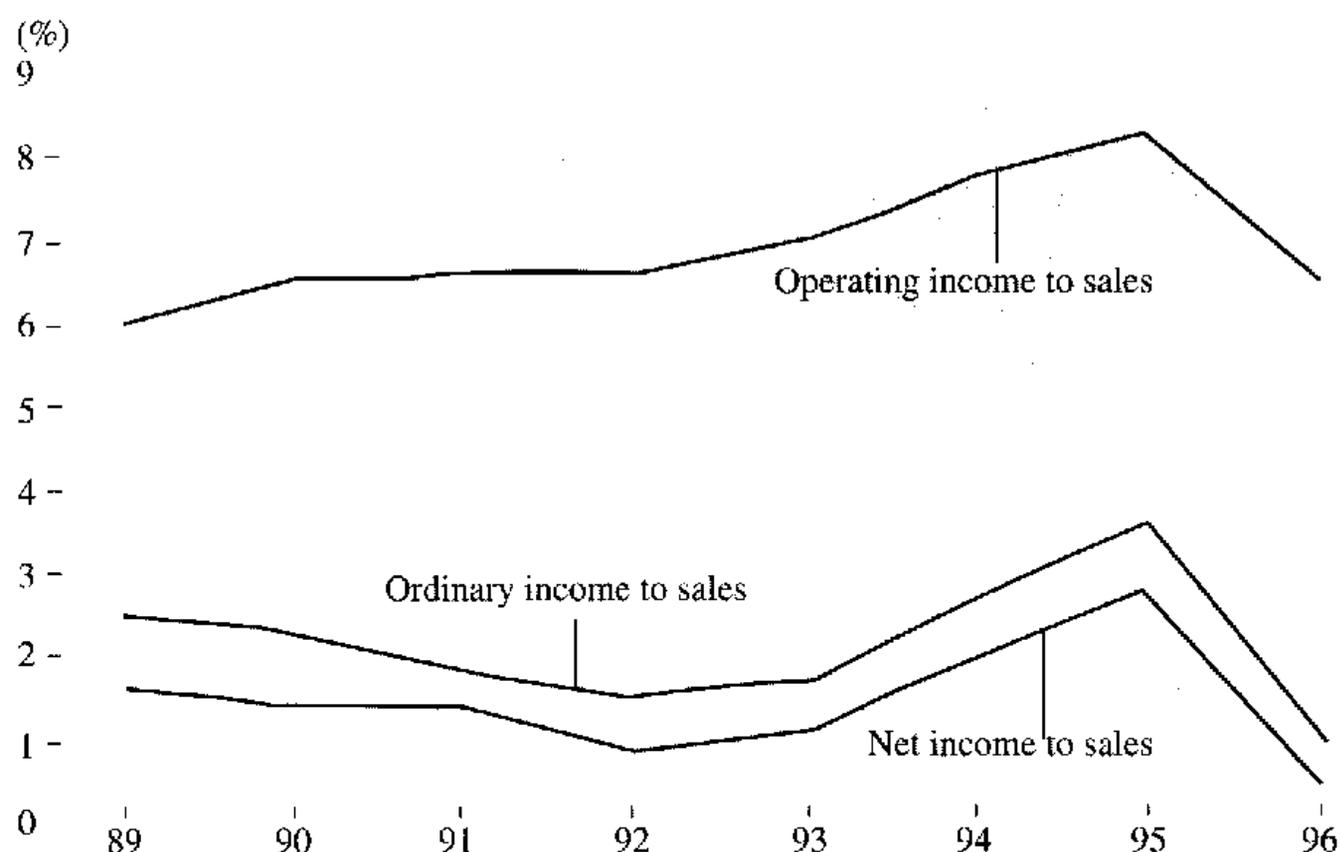
During the year of 1996, the ratio of operating income to sales in manufacturing fell sharply to 6.5 per cent from the previous year's 8.3 per cent, due mainly to the lower export prices for semiconductors and iron & steel. Besides this, non-operating income worsened in response to increased financial

expenses. Even though the average interest rate paid on borrowings eased from 11.7 per cent to 11.2 per cent, the financial expenses ratio(financial expenses/sales) increased to 5.8 per cent from the previous year's 5.6 per cent. This was attributable to higher leveraging: total borrowings and bonds payable to total assets rose from 44.8 per cent to 47.7 per cent. As a result, the ratio of ordinary income to sales in manufacturing dropped to 1.0 per cent from the preceding year's 3.6 per cent.

[Table 4] Ratios on Income and Financial Expenses

	1993	1994	1995	1996
Operating income to sales	7.0	7.7	8.3	6.5
Ordinary income to sales	1.7	2.7	3.6	1.0
Net financial expenses to sales	4.3	4.1	4.0	4.3
Financial expenses to total borrowings	11.2	11.4	11.7	11.2
Total borrowings and bonds payable to total assets	46.8	44.5	44.8	47.7

[Chart 1] Manufacturing Profitability Trend



By industrial sector, most sectors saw a weakening of profitability from the previous year. For textiles, the ratio of ordinary income to sales dipped from -0.3 per cent to -3.7 per cent, reflecting a rise in the financial expenses burden brought about by increased borrowings and reduced selling price. Food & beverages registered a deficit of -0.4 per cent following the previous year's negative profitability, a deficit of -0.1 per cent. Similarly, chemical products, basic metals, and radio & television equipment all saw falls in the ratio of their ordinary income to sales, compared to the previous year. In the case of pulp & paper, profitability worsened as a result of depreciation and financial expenses arising from the expansion of production facilities.

[Table 5] Profitability by Manufacturing Sector

	Unit : per cent							
	Operating income				Ordinary income			
	to sales				to sales			
	93	94	95	96	93	94	95	96
<b>Manufacturing</b>	7.0	7.7	8.3	6.5	1.7	2.7	3.6	1.0
Food & beverages	5.9	5.9	4.8	5.0	1.1	1.4	-0.1	-0.4
Textiles	5.8	5.2	4.3	2.2	0.6	0.7	-0.3	-3.7
Wearing apparel	3.9	4.8	5.2	5.2	1.0	2.1	2.1	1.4
Leather & footwear	1.8	3.5	3.6	3.4	-1.5	1.1	1.7	0.7
Wood & its products	5.2	5.3	5.7	5.4	1.3	1.4	1.4	0.2
Pulp & paper	6.9	8.0	9.2	7.6	-0.1	1.2	3.6	0.5
Publishing & printing	1.8	6.1	4.6	4.2	-2.0	2.4	1.2	0.7
Refined petroleum	4.6	4.1	5.1	6.2	1.7	1.9	2.4	1.0
Chemicals	8.9	10.4	10.9	8.8	1.3	2.8	4.3	1.9
Rubber & plastic	6.3	5.4	5.0	6.9	0.5	1.1	0.2	2.1
Non-metallic mineral products	9.3	8.0	7.3	7.3	4.4	2.8	2.2	1.6
Basic metals	8.4	7.3	8.5	7.2	3.4	3.1	4.5	1.7
Fabricated metal products	5.5	5.2	5.6	5.5	1.3	2.7	2.5	2.0
Machinery & equipment	7.6	7.0	6.6	6.3	3.1	3.5	3.5	2.5
Office & computing machinery	12.5	12.2	7.2	6.2	3.3	4.5	3.7	2.5
Electric machinery	6.5	5.7	5.4	6.6	1.5	1.5	1.8	2.0
Radio,TV,communications equipment	10.6	13.5	17.9	9.0	2.3	6.5	11.3	2.2
Medical, precision equipment	5.5	6.9	5.9	5.4	-1.2	0.1	1.2	0.9
Motor vehicles	4.5	5.8	5.7	6.1	-0.1	1.1	1.1	1.1
Ship building & other transport	9.9	9.1	7.2	6.4	6.8	4.2	2.1	-1.2
Furniture & manufacturing n.e.c.	5.5	5.5	4.7	4.3	1.9	2.2	0.9	-0.1

Meanwhile, the ratio of ordinary income to sales in rubber & plastics was higher than that of a year earlier, thanks to higher sales prices and the stability of raw material prices. The profitability of the electric machinery sector also improved to some extent, helped by stable input cost.

## 2. Non-Manufacturing

The construction industry saw a slight decline in profitability. The ratio of operating income to sales fell to 5.1 per cent from the previous year's 5.5 per cent, and the ratio of ordinary income to sales dropped to 0.7 per cent from 1.1 per cent. This was chiefly attributable to the squeezing of profit margins by the intensified competition for orders, which offset the effects of the lessening of financial expenses in connection with the reduction in the backlog of unsold apartments.

In wholesale and retail trade, the ratio of operating income to sales decline from the 1.9 per cent of the previous year to 1.7 per cent, owing to the heavier fixed costs incurred by the opening of new outlets and the expansion of existing facilities.

In transport, storage, and communications, the ratios of operating income to sales and ordinary income to sales also registered comparatively low levels, 5.7 per cent and 1.8 per cent respectively, as against the previous year's 7.6 per cent and 5.1 per cent.

[Table 6]

Profitability by Industry

	Unit : per cent							
	Operating income to sales				Ordinary income to sales			
	93	94	95	96	93	94	95	96
Fishing	2.0	4.5	4.2	3.6	-4.4	0.6	0.2	-1.3
Mining	-11.8	-18.3	-20.0	-19.8	-11.0	-15.2	-18.5	-16.0
Manufacturing	7.0	7.7	8.3	6.5	1.7	2.7	3.6	1.0
Electricity, gas & steam	22.3	21.0	17.2	12.7	14.8	14.6	13.0	7.0
Construction	6.4	6.5	5.5	5.1	2.9	2.6	1.1	0.7
Wholesale & retail trade	1.7	1.9	1.9	1.7	0.6	0.8	0.7	0.6
Transport, storage & communications	9.0	8.9	7.6	5.7	4.3	6.0	5.1	1.8
(Communications)	20.0	18.0	13.2	11.3	15.1	15.2	11.7	8.1
Real estate, rental & business activities	4.0	4.1	4.2	4.0	1.9	2.8	2.5	1.5
Recreational, cultural & sporting activities	5.4	6.6	7.5	7.0	5.4	5.6	7.0	5.3

## IV. Productivity

### 1. Manufacturing

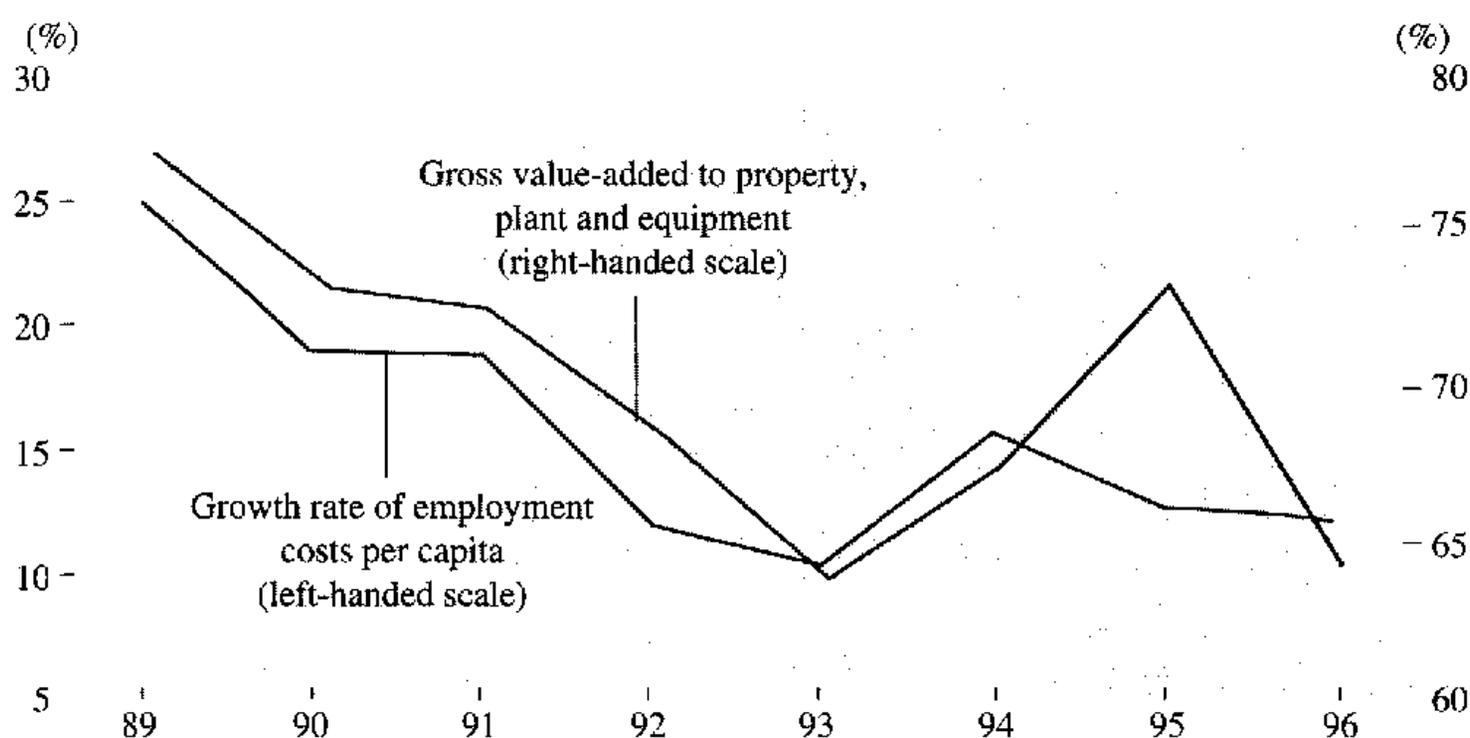
In 1996, the ratio of gross value-added to property, plant and equipment decreased to 64.5 per cent from 73.4 per cent in the preceding year.

The growth rate of sales per capita also declined to 11.0 per cent from the previous year's 18.0 per cent.

[Table 7] **Manufacturing Productivity**

	Unit : per cent			
	1993	1994	1995	1996
Gross value-added to property, plant and equipment	64.1	67.7	73.4	64.5
Growth rate of sales per capita	13.5	16.4	18.0	11.0
Growth rate of employment costs per capita	10.5	15.7	12.8	12.2
Gross value-added to sales	26.1	26.3	26.4	24.4

[Chart 2] **Manufacturing Productivity Trends**



As for the composition of gross value-added, the ratio of ordinary income to gross value-added was 4.1 per cent, sharply down from the previous year's 13.6 per cent. Meanwhile, the ratio of employment costs to gross value-added was 53.0 per cent, slightly higher than the prior year's 47.7 per cent. That of net financial expenses to gross value-added increased from the previous year's 15.0 per cent to 17.5 per cent.

[Table 8] Composition of Manufacturing Gross Value-Added

	Unit : per cent			
	1993	1994	1995	1996
Ordinary income	6.5	10.4	13.6	4.1
Employment costs	52.6	51.2	47.7	53.0
Net financial expenses <sup>1)</sup>	16.5	15.4	15.0	17.5
Rent	3.7	3.9	3.7	4.1
Taxes & dues	1.6	1.5	1.4	1.4
Depreciation	19.2	17.7	18.8	19.9
Gross value-added	100.0	100.0	100.0	100.0

Note : 1) Net financial expenses = Financial expenses - Financial income

Looking at the growth rate of gross value-added per capita in the manufacturing sector, there was an easing in all sectors except for publishing & printing, food & beverages, and the building of ships and other transport equipment, etc.

[Table 9] Productivity by Manufacturing Sector

	Unit : per cent					
	Growth rate of gross value-added per capita			Growth rate of sales per capita		
	94	95	96	94	95	96
<b>Manufacturing</b>	<b>18.1</b>	<b>19.2</b>	<b>-1.1</b>	<b>16.4</b>	<b>18.0</b>	<b>11.0</b>
Food & beverages	11.8	4.9	11.4	11.2	6.9	12.0
Textiles	15.8	8.1	-2.6	18.6	13.8	11.3
Wearing apparel	20.6	14.7	11.6	16.2	16.5	15.4
Leather & footwear	16.8	21.8	12.5	14.5	28.6	11.3
Wood & its products	13.9	15.6	6.3	10.9	10.3	7.8
Pulp & paper	20.8	27.4	4.4	16.5	30.9	8.1
Publishing & printing	30.6	2.9	7.2	24.4	16.2	13.3
Refined petroleum	12.3	34.0	-4.5	5.8	16.6	25.7
Chemicals	20.9	15.6	2.1	15.1	17.0	8.7
Rubber & plastic	8.1	12.9	12.3	8.9	16.9	5.5
Non-metallic mineral products	8.2	10.6	7.0	12.6	14.4	7.4
Basic metals	12.5	19.1	-0.2	15.0	22.5	7.4
Fabricated metal products	16.6	15.0	8.2	19.3	15.4	9.5
Machinery & equipment	14.9	11.1	9.3	18.0	18.1	10.6
Office & computing machinery	31.1	15.0	6.4	30.9	25.9	15.1
Electric machinery	15.9	20.9	10.1	21.8	25.9	10.9
Radio, TV, communications equipment	29.3	48.1	-20.0	22.4	22.9	3.2
Medical, precision equipment	19.7	14.6	4.8	19.8	17.8	6.6
Motor vehicles	20.1	11.5	9.5	16.6	12.9	12.2
Ship building & other transport	8.3	2.5	11.0	10.5	19.0	18.5
Furniture & manufacturing n.e.c.	10.2	7.5	7.1	15.4	9.9	11.3

## 2. Non-Manufacturing

Reflecting expanded sales in construction, the growth rate of its gross value-added per capita rose from the previous year's 9.7 per cent to 10.8 per cent.

In contrast, the growth rate of gross value-added per capita in the wholesale & retail trade was 9.5 per cent, substantially below the previous year's 15.6 per cent, due to the easing of sales growth and the decrease of profitability.

In transport, storage and communications, the growth rate of gross value-added per capita was lower than that of the previous year due to the slow-down in sales growth.

[Table 10]

Productivity by Industry

	Unit : per cent					
	Growth rate of gross value-added per capita			Growth rate of sales per capita		
	94	95	96	94	95	96
Fishing	29.0	6.6	-1.4	12.0	12.2	12.8
Mining	2.5	4.1	15.0	-15.8	13.3	16.7
Manufacturing	18.1	19.2	1.1	16.4	18.0	11.0
Electricity, gas & steam	16.7	9.8	2.6	18.9	12.3	13.4
Construction	12.7	9.7	10.8	15.6	13.0	20.4
Wholesale & retail trade	16.9	15.6	9.5	17.0	25.2	16.2
Transport, storage & communications	12.9	21.2	6.2	16.4	18.9	12.9
Real estate, rental & business activities	17.3	20.9	18.0	19.4	25.8	20.8
Recreational, cultural & sporting activities	16.5	18.9	3.4	16.4	16.3	7.7

## V. Financial Stability

### 1. Manufacturing

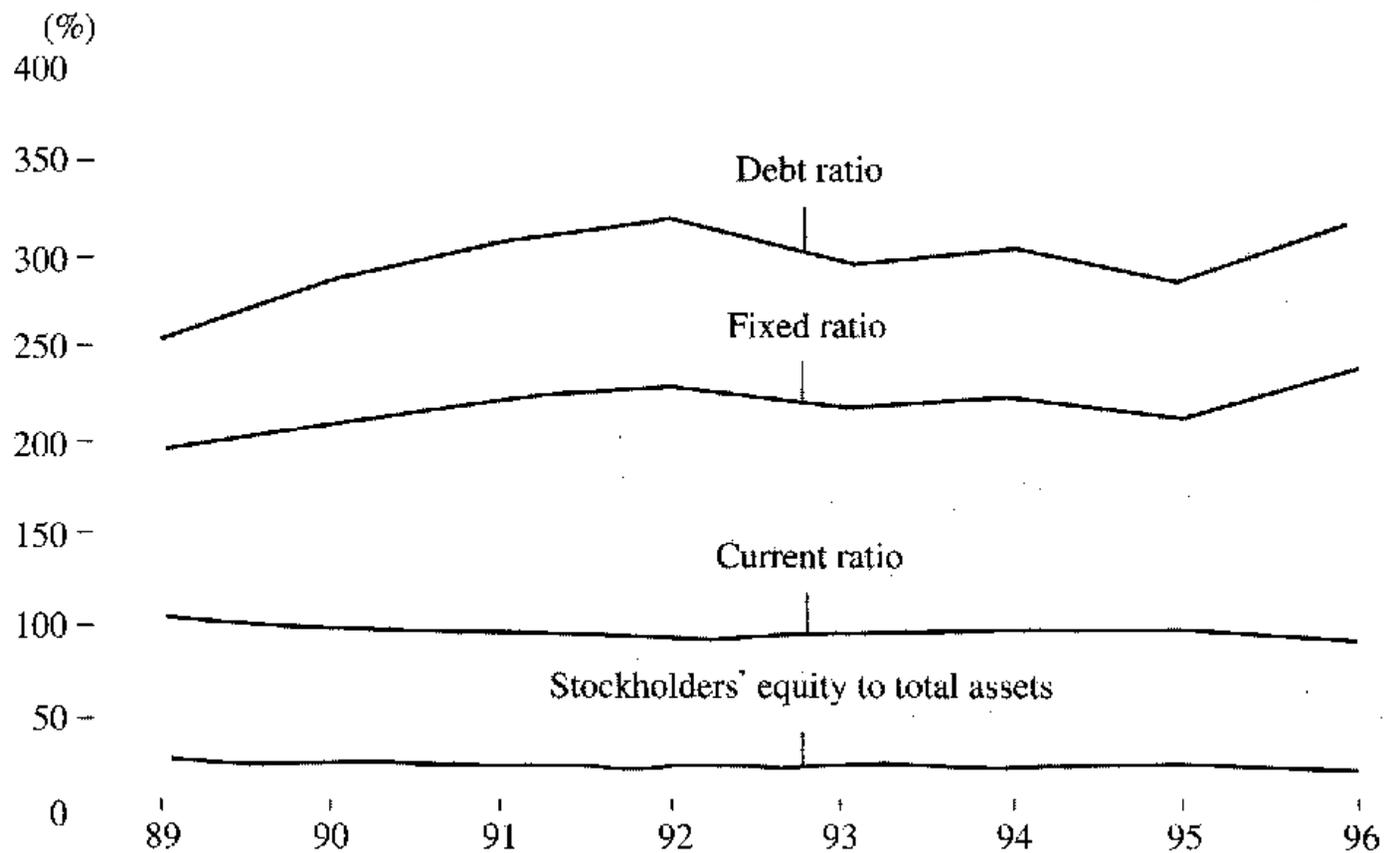
As of the end of 1996, the ratio of stockholders' equity to total assets declined from the prior year's 25.9 per cent to 24.0 per cent. Meanwhile, that of total borrowings & bonds payable to total assets advanced from the previous year's 44.8 per cent to 47.7 per cent.

The debt ratio—the ratio of liabilities to stockholders' equity—similarly moved up from 286.8 per cent the year before to 317.1 per cent in the year under review.

[Table 11] Indicators of Financial Stability in Manufacturing

	Unit : per cent			
	1993	1994	1995	1996
Stockholders' equity to total assets	25.3	24.8	25.9	24.0
Current ratio	94.1	94.6	95.4	91.9
Fixed ratio	218.5	220.2	212.5	237.0
Debt ratio	294.9	302.5	286.8	317.1
Total borrowings and bonds payable to total assets	46.8	44.5	44.8	47.7

[Chart 3] Trends of Indicators of Financial Stability in Manufacturing



The current ratio, which indicates the degree of short-term solvency, registered 91.9 per cent, lower than the previous year's 95.4 per cent in reflection of the business recession. The fixed ratio (the ratio of fixed assets to stockholders' equity) rose to 237.0 per cent from 212.5 per cent the year before, showing a setback in the trend toward long-term financial stability.

Broken down by manufacturing sector, ratios of stockholders' equity to total assets dropped in all sectors except in fabricated metal products and in office, accounting & computing machinery, etc.

In the basic metals sector, it fell to 30.0 per cent from the previous year's 32.9 per cent owing to reduced profitability as a result of price-cutting. In

the radio & television equipment sector, there was a similar decrease from the previous year's 33.8 per cent to 29.1 per cent. Here it reflected the decline in profitability resulting from the drop in semiconductor prices.

In the motor vehicles sector, the ratio of stockholders' equity to total assets fell sharply from the 18.4 per cent of the end of 1995 to 17.8 per cent, owing to the recourse to external borrowings to finance facilities investment. In the food & beverage and the leather and footwear sectors, there was a similar decline from the previous year's figures, as reduced profits resulted in a fall in retained earnings.

[Table 12] Financial Stability by Manufacturing Sector

Unit : per cent

	Stockholders' equity to total assets			Total borrowings and bonds payable to total assets		
	94	95	96	94	95	96
<b>Manufacturing</b>	<b>24.8</b>	<b>25.9</b>	<b>24.0</b>	<b>44.5</b>	<b>44.8</b>	<b>47.7</b>
Food & beverages	16.8	17.1	16.9	48.4	49.4	53.5
Textiles	23.6	23.7	21.7	45.3	46.5	49.2
Wearing apparel	18.7	22.8	20.5	39.5	43.0	44.9
Leather & footwear	19.4	21.5	18.3	48.7	42.3	48.0
Wood & its products	15.6	17.3	17.2	42.1	45.2	46.9
Pulp & paper	23.4	25.9	25.4	49.3	50.8	52.8
Publishing & printing	18.5	20.2	20.2	37.3	37.0	40.8
Refined petroleum	25.4	24.2	20.3	53.3	57.4	59.9
Chemicals	28.8	29.6	28.1	49.2	47.8	50.1
Rubber & plastic	23.5	22.7	23.1	44.9	45.9	47.3
Non-metallic mineral products	28.0	28.6	27.9	42.5	40.5	44.4
Basic metals	32.0	32.9	30.0	45.2	40.4	45.2
Fabricated metal products	26.2	24.0	24.5	34.6	38.8	38.2
Machinery & equipment	23.8	20.8	21.5	35.0	36.8	39.5
Office & computing machinery	28.0	32.0	34.0	42.3	35.9	40.5
Electric machinery	24.1	24.1	23.7	40.3	43.7	41.0
Radio, TV, communications equipment	28.2	33.8	29.1	42.7	40.9	44.3
Medical, precision equipment	10.7	17.8	18.8	52.5	48.7	40.6
Motor vehicles	18.1	18.4	17.8	45.1	47.0	45.9
Ship building & other transport	27.3	25.2	21.6	41.2	47.4	53.2
Furniture & manufacturing n.e.c.	19.5	17.6	14.6	42.9	44.8	47.0

## 2. Non-Manufacturing

Surveying the financial structure of non-manufacturing corporations in 1996, the ratio of stockholders' equity to total assets in the construction sector fell from the previous year's 19.1 per cent to 15.1 per cent, reflecting the increased borrowings and the decline in profits.

The ratio of stockholders' equity to total assets in the transport, storage and communications sector also fell from the previous year's 24.5 per cent to 21.4 per cent, due to reduced profits and higher external borrowings.

In wholesale & retail trade, the ratio of stockholders' equity to total assets rose from the end of previous year's 15.5 per cent to 16.4 per cent, helped by assets revaluations by several large companies.

[Table 13] Indicators of Financial Stability by Industry

Unit : per cent

	Stockholders' equity to total assets			Total borrowings and bonds payable to total assets		
	94	95	96	94	95	96
Fishing	9.4	6.2	4.7	50.4	54.8	53.6
Mining	18.4	24.6	22.3	44.1	42.1	43.0
Manufacturing	24.8	25.9	24.0	44.5	44.8	47.7
Electricity, gas & steam	46.2	45.9	47.3	34.3	32.2	35.1
Construction	21.0	19.1	15.1	44.1	46.4	49.9
Wholesale & retail trade	16.0	15.5	16.4	34.9	35.9	36.4
Transport, storage & communications	23.6	24.5	21.4	27.8	26.2	31.4
(Communications)	41.0	38.9	34.8	4.9	10.5	16.0
Real estate, rental & business activities	29.5	25.6	25.6	17.4	18.7	23.5
Recreational, cultural & sporting activities	46.5	41.6	32.3	15.8	19.1	23.2