Ross School of Business at the University of Michigan

Independent Study Project Report

TERM : **Winter 1998**

COURSE : **FIN 750**

PROFESSOR : **Joshua Coval**

STUDENT : **Stephen A. Lundin**

TITLE : **Daewoo Motor Company's expansion into Central Europe**

DAEWOO MOTOR COMPANY'S EXPANSION INTO CENTRAL EUROPE:

SUCCESSFUL FINANCING STRATEGY OR PRESCRIPTION FOR FAILURE?

BY: STEPHEN A. LUNDIN
MBA, 1998

A research paper submitted in fulfillment of the requirements for 1.5 credits, **GRADUATE INDEPENDENT STUDY RESEARCH PROJECT, Winter Term *B" 1998, Professor Joshua Coval, Faculty Supervisor.**

Faculty Comments

- Stephen has written a highly-competent analysis of Daewoo's Eastern European expansion and financing strategy.
- This paper will likely become an important case in my 620 course next winter.
- I would be extremely happy to have RAs with a willingness to work hard and an interest and passion in their work as that exhibited by Stephen in this research paper.

Joshua Coval

Asst. professor of finance
Title

TABLE OF CONTENTS

Introduction

Daewoo Corporation, which means the 'whole world' in Korean, is South Korea's third largest chaebol, a close-knit web of companies cemented by equity ties, investments, and tight business relationships. Founded by Kim Woo Chong in the late 1960's, Daewoo is involved in such diverse activity as shipbuilding, consumer electronics, computers, construction equipment, and automobiles. Estimated consolidated sales for 1997 stood at $49 billion.

With support from the South Korean government and with stiff competition in their home market, Daewoo and the other chaebols began to aggressively pursue overseas expansion during the 1970's and 1980's. Daewoo Motor Company (DMC) has been an integral part of this 'segyewha', or globalization. DMC's goal is to be a top 10 global automobile manufacturer. In 1997, DMC was the fastest growing car manufacturer and achieved a 20% gain in total units sold (refer to **Exhibit** 1).

In order to become a global player and to achieve rapid sales growth, DMC chose the developing economies of Central & Eastern Europe to serve as their manufacturing base for local consumption and for export to the European Union. As of early this year, Daewoo Motor Company has pledged roughly $6 billion in regional investment with planned automobile manufacturing capacity of 1.25 million units (refer to **Exhibit 2).**

Even with the ongoing financial crisis in Korea and in the rest of Southeast Asia, DMC continues to pledge massive investments in the developing economies of Central & Eastern Europe. "Daewoo will overcome the crisis through expansionist measures. We cannot embrace the future if we flinch at a time of recession", wrote Chairman Kim in a company newsletter. But his plan may risk corporate suicide.

With a parent company 'at risk of bankruptcy' according to SBC Warburg Dillon Read, how is DMC securing the necessary capital to fund their aggressive strategies in Central & Eastern Europe? What financing structures is Daewoo implementing in order to minimize financial and operating exposures and the cost of capital? Lastly, what does the future hold for Daewoo?

This paper will attempt to develop hypotheses addressing these questions. It is important to recognize that the Korean chaebols lack transparency in reporting financial data. While the chaebols are committed to following international accounting standards by the year 2000, until then researchers must rely on secondary research and 'loosely' reported numbers from which to develop hypotheses.

DAEWOO. THE CHAEBOLS, AND THE KOREAN FINANCIAL CRISIS

A detailed discussion of the Korean chaebols and the Korean economic crisis is beyond the scope of this study; however, to understand DMC's overall corporate strategy and their capital procurement techniques, it is important to gain an appreciation for the development and structure of the chaebols and the current tight credit environment in South Korea.

The Emergence of Chaebols

Frequently in developing economies large conglomerates emerge in order to develop broad product supply and delivery capabilities, to educate and train their labor force, and to build important relationships with the government. To support South Korea's economic growth and recovery following the Korean War, the government encouraged the development of chaebols.

The growth in chaebols was fueled by state 'policy loans' provided during the period of military dictatorships up until 1987.[1] By having subsidized loans for targeted industry sectors, the chaebols were able to focus on sales growth instead of profits. There was no immediate concern for profitability or for the long-term attractiveness of particular sectors. With the chaebols wielding increasing influence in multiple industries, Korean banks could be easily influenced and practice loose credit control.[2]

Chaebol foreign investment sharply rose in 1992 when the government relaxed restrictions on overseas financing. In Korea at the time, the chaebols had faced a shortage of credit but were now able to access a large source of cheap foreign funds. Korean debt increased from $48.4 billion in June 1994 to $70.2 billion in June 1995 as the chaebols pledged investments throughout the world.[3]

The use of subsidized credit enables a firm to enter into marginal NPV projects. While this may still provide positive returns to shareholders, controls in disciplined expansion are reduced in importance. The long-term effect, as witnessed today in Korea, is that large firms will have non-producing assets and operations in non-core businesses. For example, this is witnessed with Samsung's brand new facility for the production of automobiles in the already over-saturated Korean market.

Government Controls

In 1995 the Korean government took steps to slow chaebol over-expansion (the top four chaebols had pledged $20 billion in foreign investments) and to curb their reliance on

[1] "Radical Korean Investment", Business Central Europe. May 1, 1997
[2] "Face Value", The Economist. February 8, 1997
[3] Burton, John, The Financial Times. October 12, 1995

debt financing. Bureaucrats worried that if these foreign investments failed the government would be responsible for bailing the chaebols out.[4] Additionally, the government feared a transfer of production outside Korea, which ironically they had originally encouraged, which could lead to a decline in local investment in key industries and hurt domestic growth.

In October 1995 the government imposed international capital financing constraints by requiring all investments greater than $100 million to obtain 20% of the capital from within Korea - through retained earnings, the local stock market, and/or government controlled banks. Since interest rates in Korea were high (12%) compared to elsewhere, this increased a firm's borrowing costs and in theory would limit expansion.[5] By increasing costs and making projects with modest returns unprofitable, the government hoped to reduce 'segyewha'.

This step was intended to enforce discipline, boost the local equity market, prevent over-leveraged chaebols from further increasing their debt burden, and end risky investment projects overseas. Additionally, the government hoped to regain a degree of control over the chaebols. Daewoo was expected to have the most difficulty with these regulations given their aggressive expansion plans; however, Daewoo viewed these constraints as an opportunity to solidify their international gains against their chaebol rivals. "Every crisis creates opportunities", says Chairman Kim.[6]

The 1997 Crisis

These governmental controls were not able to avert the Korean debt crisis of 1997. With easy credit available to fuel the conglomerates' global expansion, the chaebols amassed massive amounts of debt - the average debt to equity ratio for the top 30 chaebols is 300%. Additionally, the local banks developed a portfolio consisting of 30% non-performing loans.[7] This is not surprising considering Korean banks continued to lend to the now bankrupt Hanbo, a large chaebol, even when its debt was 20 times equity.

In the first ten months of 1997, ten major chaebols went bankrupt leaving banks with an incredible $27 billion in bad debt. By the end of 1998, South Korea is projected to have $223 billion in debt and with currency depreciation this will be pushed to 69% of GDP.[8]

Although limited in specifics, recent financial data and applicable financial ratios for DMC are provided in Exhibits 3A, 3B, & 3C. In review of this data, the most startling aspect is the massive ramp up in both scale of operations and debt during one year. Total

[4] Burton, John, The Financial Times. October 12, 1995
[5] Narkani, Laxmi, Business Week. October 30, 1995
[6] Kraar, Louis, Fortune. January 12, 1998
[7] "Radical Korean Investment", Business Central Europe. May 1, 1997
[8] The EIU Country Reports - South Korea. 1st Quarter 1998

liabilities increased by over 1500% from 1995 to 1996 while total assets over the same period increased by 2600%. Total liabilities are 12 times shareholders equity and the debt ratio stands at 90% of assets. The creative, and risky, methods Daewoo employs to access capital to fuel their expansion are discussed later.

Like many of the other chaebols, Daewoo is criticized for relying on outside money too often. The consolidated group's debt to equity is about 300%, but this does not include the off-balance sheet guarantees of its overseas subsidiaries' debt. In 1996, guaranteed subsidiary debt was valued at $17 billion.[9] Daewoo Corporation's combined long and short-term debt increased 20% in 1995 to $5.8 billion. Interest payments of $726.9 million surpassed operating income. In fact, Daewoo Corporation was able to report a net profit of $77.8 million because it had $159 million of interest income. These debt numbers look even worse when the subsidiary information is included.

In the environment leading up to and during the Korean economic crisis, Daewoo was thought to be in trouble; however, with creative financing techniques to be later described, DMC is able to spread anticipated investment costs over longer periods of time. While this technique insulates them from the near term cash shortage due to plant modernization, this of course does not mitigate investment risks.

DMC INVESTMENT ACTIVITY AND STRATEGY IN CENTRAL & EASTERN EUROPE

Daewoo Corporation's investments in the region total more than $15 billion with activities ranging from construction to shipyards to consumer electronics.[10] Daewoo Motor Company produces vehicles in five countries. While some countries of Central & Eastern Europe have enjoyed rapid growth in GDP and in vehicle sales, there are hard questions being asked about Daewoo's long term viability: expansion in the region is generally a high risk proposition, particularly given the expanding automobile production capacity in the region and the requisite need for increasing consumer purchasing power.

Rationale for Entry

Automobile manufacturers are locating in the region in order to sell to the developing local markets and to develop a low-cost production base for export to the European Union. While established multinational automobile manufacturers are constrained in shifting production to the east due to existing over-capacity and restrictive labor union contracts in Western Europe, manufacturers locating production in the region enjoy:

- Locally sourced, low cost components
- Low wage rates which are approximately 10% of Germany

[9] Schuman, Michael, The Asian Wall Street Journal. May 22, 1996
[10] Brzgewski, Matthew, The Wall Street Journal. May 7, 1997

- Subsidized government loans
- Tax holidays
- Transfer pricing flexibility
- A laboratory for production and labor practice experimentation

To become a top 10 automobile manufacturer, Daewoo recognized the importance of locating in emerging markets with limited existing competition. Daewoo has specific investment criteria that must be satisfied before investing in an emerging market:[11]

- sufficient population to underpin a growing consumer base
- political leadership dedicated to national economic development
- diligent work force
- proximity to a major regional market

Investment Risks

Should a country meet the above criteria, Daewoo then follows a strategy of acquiring or entering into alliances with state-owned car manufacturers. This first mover advantage provides an inherited dealer and repair network, access to an established supplier base, and an immediate massive potential for economies of scale. While these are important advantages, Daewoo has encountered high variability in dealership quality, significant inefficiencies in production, and culture clashes with the existing workforce.

The local acquisition strategy has additional risks. These existing plants have substantial capacity that is not being utilized because of limited current sales potential- as in Romania and Uzbekistan. To be sure, under-utilization of existing assets is also due to factory upgrades and product line extensions; however, from an accounting standpoint Daewoo still must depreciate the assets without offsetting them against revenue gains.

Another risk is the difficulty in educating and integrating local workers in the Korean work approach and ethic. This problem is further compounded by labor contract negotiations. Daewoo signs an initial labor contract guaranteeing local employment, but this usually expires after three years of signing. During renegotiations and the inevitable layoffs, the political fallout and negatively impacted morale could hurt not only production, but also sales.

An additional risk to DMC's massive investments is the economic and political risk of the host country. DMC's viability is directly linked to the economic reforms and stability of the country/region. For instance, Romanian currency devaluation led to a decline in local car sales and left Daewoo with a large inventory of unsold cars.[12] Daewoo

Lee, Charles "Tomorrow the World", Far Eastern Economic Review, 5/1/97
Burton, John, Financial Times. 10/6/97

Corporation's portfolio of diverse industry investments may hedge against systematic risk, but none-the-less all future cash flows hinge on the growing development and prosperity of the regions' emerging economies.

To mitigate risk, DMC's competition first entered the region through 'screw-driver' assembly operations and the import of semi-knocked down kits. While this enabled the firms to avoid prohibitive import duties, the assembly operations also functioned as a 'real option': they provided the flexibility of immediate local production with limited capital investment while providing a foundation for future full-scale manufacturing capability.

DMC's competition, with a broad geographic portfolio of manufacturing capabilities in both mature and developing economies, enjoy a diversified base of markets. While still subject to economic and political risks in Central Europe, they are not on the level of magnitude compared to DMC.

Daewoo does not have this same geographical diversification in their fight to become a top 10 automobile manufacturer. DMC is taking the risky gamble on achieving long term profitable full-scale operations and becoming the top Central European producer of vehicles. Through optimistic targets of volume production and both domestic and export sales, DMC hopes to generate the necessary cash flow to pay off their heavy debt load.

DAEWOO FINANCING STRATEGIES

In early 1997, Daewoo Corporation had over 100 ongoing projects worth $4.5 billion and another $3.3 billion worth of deals being negotiated. While Daewoo pledges billion dollar investments, they indicate the annual funding requirements are not that large since acquisitions take five years to fully establish and thereby spread out the financial burden and risk.[13] For instance, in the three years that DMC has owned FSO, $830 million or roughly half of the pledged total investment has been spent.[14]

In structuring the acquisition and in securing the necessary capital, there are three main players, outside of the global debt markets, which are critical to Daewoo's financing strategy - sister companies, host governments, and local banks.

[13] Lee, Charles "Tomorrow the World", Far Eastern Economic Review. 5/ 1/97
[14] Bobinski, Christopher, Financial Times, 2/19/98

<table>
<tr><td colspan="3">Debt Markets
(Syndicated Loans, Equity Linked Bonds, Depository Receipts)
60%</td></tr>
<tr><td rowspan="2">JV Partner, Host Gov., or Local Bank
18%</td><td colspan="2">Daewoo Corp. - *22%*</td></tr>
<tr><td>DMC
6%</td><td>Daewoo Sisters
16%</td></tr>
</table>

Source: Daewoo Financing Presentation

Daewoo & Sister Companies

As noted earlier, chaebol subsidiaries assist their sister companies in providing investment financing. With the Korean international funding constraints, a significant portion of financing comes from within the firm. Through cross-subsidiary loans and equity investments, Daewoo companies are heavy lenders to each other. This technique reduces the cost of capital for the project, but increases the risk within the firm.

There are obvious agency problems associated with this method and a dangerous extension of financial exposure within the corporation and to outside lenders. A subsidiary or an outside bank, underwriting debt for a Daewoo company in a particular industry, may in fact be exposed to the business risk of a sister company given outstanding guarantees on sister subsidiary debt.

Host Governments

Daewoo is able to take a flexible, far reaching approach to negotiating acquisitions of state-owned firms because of Daewoo's broad industry investments and due to governments' need for cash. "The firm's throw caution to the wind policy of getting in early, investing in unrelated projects in a big way, and promising to stay around for the long term scores well with local cash strapped governments."[15] This approach enables DMC to beat out their competitors when bidding (like overtaking General Motors with FSO) "because governments find the company's pledges to invest in all sorts of deals ranging from cars to telecommunications too tempting", says an analyst at DRI/McGraw-Hill.

Local officials, who are grateful for the job creation (or more likely short term employment continuation) and the needed investment, are then willing to supply Daewoo

Brzgewski, Matthew, <u>The Wall Street Journal</u>. May 7, 1997 with favorable trade terms, protection against competition via import duties, soft credits from state banks, and generous tax exemptions.[16] This can be seen with Daewoo's investment in Uzbekistan: they enjoy a five year tax holiday, a 50% import duty on competitors cars, and as an added benefit, owners of Daewoo vehicles are not required to pay highway tolls.[17]

To be sure, the global automobile manufacturers secure tax holidays that most likely match DMC. Yet it is the breadth and scale of Daewoo Corporation's investments that enable them to achieve greater bargaining power with host governments. This frequently results in firm-specific protection and loan/import subsidies.

Local Banks

After initial capitalization, the local operating company becomes responsible for raising its own finances. To assist in achieving this goal, Daewoo has been aggressively targeting bank acquisitions through their subsidiary Daewoo Securities. In 1997, this subsidiary was negotiating to buy uanks in Poland and Bulgaria, and considering banks in Croatia, Ukraine, and Azerbaijan.[18]

The importance of owned local banks is two-fold. First, and not unlike other auto manufacturers, Daewoo requires local banks to provide consumer lending products to drive DMC sales growth. Yet the Daewoo bank does not truly operate at an arms length from the auto company. So while this may assist volume sales growth for the automobile company, the pressure to provide loans may cause an unprofitable, risky loan portfolio for the bank. Second, the firm requires Daewoo owned local financing institutions to feed cash to Daewoo's operations. This activity, not practiced by western automobile producers, may contribute to keeping a losing firm alive.

This local financing structure propagates the problematic financing techniques of South Korea. An agency problem is introduced by the parent company owning both the lending and borrowing institutions. As seen with cross-subsidiary lending, low cost loans are encouraged to be provided to a sister company for possible negative NPV projects. This increases the probability that the loan will be non-performing. Furthermore, to fuel the sales of the sister firm, the same lending institution provides consumer-financing loans with potentially relaxed credit criteria. This circle of loose lending drastically magnifies the parent's and outside lenders' exposure to financial risk.

Brzgewski, Matthew, The Wall Street Journal. May 7, 1997
"Radical Korean Investment", Business Central Europe. May 1, 1997
"Cash Cows", Business Central Europe. May 1, 1997

The Impact

It is evident that much of Daewoo's expansion into Central & Eastern Europe is funded either directly or indirectly by debt. This leaves the firm dangerously exposed to a cash crunch should something go wrong in their host countries. Even with Poland, Hungary, and Czech Republic ascension into NATO, security and political stability in the region is not guaranteed. Furthermore, while some countries in the region have enjoyed fast GDP growth, countries like Romania, Russia, Uzbekistan, and the Ukraine are certainly far from prosperous and continue to struggle with privatization and free market reforms.

Since Daewoo's foreign investments are risky, debt markets will demand a higher interest rate and will provide less capital. With no cash cow in Daewoo's portfolio of companies, in the event of a financial emergency the firm would have to borrow more leaving banks to decide its fate. Additionally, with Daewoo funding their expansion through debt and sometimes new equity rather than stable cash flows, the firm's earnings will be depressed and long term narrow profit margins will result.

A VIEW TOWARDS THE FUTURE

Because of their relative weakness against foreign competition, Daewoo has made aggressive high risk/high reward bets in uncertain emerging markets. In continuing their belief that moving quickly and boldly will strengthen their long term position, Daewoo is practicing the same strategic and financial formula in Central & Eastern Europe as they once did in Korea: rapid growth, broad industry investment, use of government tax and investment subsidies, and cross-subsidiary lending.

By following a strategy of 'fast and furious', Daewoo encourages limited investment discipline. Daewoo believes they are in a stronger position than the popular press indicates since their pledged investments are allocated over a five to ten year period. While this reduces their immediate need for financing, their statements do not provide an indication on the underlying value and risk of their investments. In fact, DMC's local acquisitions require massive modernization of the product line and the production and distribution capabilities. Furthermore, DMC is relying on a huge expansion of consumer demand in Central Europe to provide necessary cash flow - an important element beyond management control.

An additional threat to DMC's competitive position is the continuing global over-expansion in automobile production capacity. In a recent Coopers & Lybrand study, by 2002 the industry will build 20 million more cars than demanded globally (two million in over-capacity in Korea).[19] In addition to the macro-economic threats to DMC's regional investments, over-capacity could further constrain future cash flows.

Feast, Robert, Automotive Industries. 9/1/97

Required Reforms for Daewoo Corporation

Daewoo must end mutual debt guarantees by subsidiaries. This practice encourages cross-subsidization of subsidiary projects and can lead to investment in negative NPV projects. Perhaps even more dangerous is the potential for a 'domino effect': one poor performing business unit unable to pay internal interest payments which in turn could constrain sister companies ability to make requisite interest payments leading to the eventual financial distress of the entire chaebol.

Daewoo must implement international accounting standards in order to achieve transparency. Instead of gaining preferential government treatment through such tools as subsidized loans and duty protection, Daewoo must be more open to market evaluation. Through this external 'check', Daewoo will be forced to implement the proper internal controls and incentive systems to assure positive contributions to shareholder/stakeholder value.

Related to the above two suggestions, Daewoo should shed non-performing assets and spin-off marginal activities. This will improve Daewoo's balance sheet by reducing the heavy debt load and by providing an improved corporate focus.

In fact, these suggestions gained chaebol agreement in January during discussions with the International Monetary Fund. Daewoo agreed to commence reforms with the intention of improving their business methodologies by early next century. Additionally, DMC is in negotiations with General Motors to receive an equity infusion of cash. While Daewoo may share production facilities and provide GM with an entry into their home market, this will provide relief from any cash flow problems and assist in influencing internal reforms.

Daewoo Motor Company will remain in a precarious situation for the near and medium term. Because they are heavily invested in developing economies, they will struggle to generate cash flow to pay off their debt burden. This operating environment demands corporate structural reform: sale of non-performing assets, corporate restructuring to provide proper incentives and controls, and a reduction in corporate debt. While some of these reforms are taking place, they must be done aggressively and boldly to preserve the long-term viability of Daewoo.

EXHIBITS

EXHIBIT 1

RANK	MANUFACTURER	1997 SALES	% CHANGE OVER 1996	% UNIT GROWTH ATTRIBUTABLE TO POLAND
1	General Motors	8,776,000	6.2%	
2	Ford	6,943,000	4.4%	
3	Toyota	4,843,089	1.8%	
4	Volkswagen	4,260,000	7.3%	7.4%
5	Fiat	2,864,800	14.6%	2.5%
6	Chrysler	2,864,329	-3.5%	
7	Nissan	2,832,000	1.1%	
8	PSA Peugeot	2,106,400	5.0%	
9	Honda	2,037,000	-3.6%	
10	Mitsubishi	1,911,980	-2.0%	
11	Renault	1,909,309	3.1%	
12	Suzuki	1,834,156	4.6%	
13	Hyundai	1,242,895	-5.2%	
14	BMW	1,196,096	3.9%	
15	Daimler Benz	1,132,909	14.1%	
16	Mazda	933,857	9.7%	
17	Daihatsu	780,319	9.4%	
18	*Daewoo*	*749,758*	*20.7%*	*22%*
19	AutoVaz	738,000	9.4%	
20	Isuzu	710,794	3.1%	

EXHIBIT 2

LOCATION	INVESTMENT	1997 CAPACITY	PLANNED CAPACITY
Warsaw, Poland	$2 billion	220,000	545,000
Craiova, Romania	$850 million	150,000	200,000
Rostov-on-Don, Russia	$1.3 billion	20,000	120,000
Zaparozhye, Ukraine	$1.3 billion	(Start 1998/9)	150,000
Asaka, Uzbekhistan	$600 million	100,000	200,000
Total Investment	$6.05 billion	*Total Planned Capacity*	1,215,000

Exhibit 3A

Daewoo Motor Corporation
Balance Sheet

Period Ending	31-Dec-96		31-Dec-95		31-Dec-94	
Year End Spot ROE		0.00118		0.00129		0.00127
Currency	Won	USD	Won	USD	Won	USD
Units	million		million		million	
Assets						
Quick Assets	1,175,519	$ 1,387.1	13,475	$ 17.4	16,486	$ 20.9
Inventories	188,866	$ 222.9	6,402	$ 8.3	5,555	$ 7.1
Other Current Assets	8,395	$ 9.9	992	$ 1.3	1,255	$ 1.6
Total Current Assets	**1,372,780**	**$ 1,619.9**	**20,869**	**$ 26.9**	**23,296**	**$ 29.6**
Invested Assets	30,225	$ 35.7	2,062	$ 2.7	645	$ 0.8
Other Assets	296,633	$ 350.0	2,399	$ 3.1	4,109	$ 5.2
Total Investment & Other Assets	**326,858**	**$ 385.7**	**4,461**	**$ 5.8**	**4,754**	**$ 6.0**
Tangible Fixed Assets	226,370	$ 267.1	45,852	$ 59.1	40,973	$ 52.0
Intangible Fixed Assets	54	$ 0.1	10	$ 0.0	13	$ 0.0
Total Fixed Assets	**226,424**	**$ 267.2**	**45,862**	**$ 59.2**	**40,986**	**$ 52.1**
Total Deferred Assets	**18**	**$ 0.02**	-	$ -		$ -
TOTAL ASSETS	**1,926,080**	**$ 2,272.8**	**71,192**	**$ 91.8**	**69,036**	**$ 87.7**
Liabilities						
Current Liabilities	1,739,040	$ 2,052.1	91,580	$ 118.1	78,859	$ 100.2
Fixed Liabilities	40,126	$ 47.3	15,904	$ 20.5	16,732	$ 21.2
Total Liabilities	**1,779,166**	**$ 2,099.4**	**107,484**	**$ 138.7**	**95,591**	**$ 121.4**
Shareholders' Equity						
Capital Stock	98,000	$ 115.6	18,000	$ 23.22	18,000	$ 22.86
Capital Surplus	89,477	$ 105.6	7,495	$ 9.67	7,495	$ 9.52
Deficit	(39,600)	$ (46.7)	(61,787)	$ (79.71)	(52,050)	$ (66.10)
Capital Adjustment (Equity Stock)	(963)	$ (1.1)	-	$ -		$ -
Total Shareholders Equity	**146,914**	**$ 173.4**	**(36,292)**	**$ (46.8)**	**(26,555)**	**$ (33.7)**
TOTAL LIABILITY & SE	**1,926,080**	**$ 2,272.8**	**71,192**	**$ 91.8**	**69,036**	**$ 87.7**

Note: All data converted at the year end spot rate.

FINANCIAL RATIOS

Liquidity Ratios			
Current Ratio	0.79	0.23	0.30
Quick Ratio	0.68	0.16	0.22
Leverage Ratios			
Debt Ratio	0.92	1.51	1.38
Liabilities/Shareholder Equity	12.11	-	-
Profitability Ratios			
Net Profit Margin	0.96%	-41.16%	-64.95%
Gross Profit/Total Assets	15.30%	15.26%	11.00%
Return on Equity	14%	-	-
Activity Ratios			
Net Sales/Total Assets	1.12	0.32	0.25
Iventory Turnover	9.91	1.88	1.73
Fixed Asset Turnover	9.57	0.50	0.42

Exhibit 3B

Daewoo Motor Corporation
Statement of Cash Flows

Period Ending	31-Dec-96			31-Dec-95		
Year End Spot ROE			0.00118			0.00129
Currency	Won		USD	Won		USD
Operating Activities						
Net Income	20,831,861,370	$	24,581,596	(9,419,184,958)	$	(12,150,749)
Inclusion of Expenses without Outflow of Cash	1,439,692,942,308	$	1,698,837,672	8,306,285,869	$	10,715,109
Balance of Revenue without inflow of cash	(1,172,766,594,507)	$	(1,383,864,582)	(12,406,237,205)	$	(16,004,046)
Additions to Cash	**287,758,209,171**	**$**	**339,554,687**	**(13,519,136,294)**	**$**	**(17,439,686)**
Investing Activities						
Cash Inflow	3,386,986,925,390	$	3,996,644,572	2,999,442,102	$	3,869,280
Cash Outflow	(3,946,834,045,163)	$	(4,657,264,173)	(10,614,000,930)	$	(13,692,061)
Additions to Cash	**(559,847,119,773)**	**$**	**(660,619,601)**	**(7,614,558,828)**	**$**	**(9,822,781)**
Financing Activity						
Cash Inflow	1,683,027,655,658	$	1,985,972,634	207,118,592,445	$	267,182,984
Cash Outflow	(1,259,422,238,859)	$	(1,486,118,242)	(190,189,718,596)	$	(245,344,737)
Additions to Cash	**423,605,416,799**	**$**	**499,854,392**	**16,928,873,849**	**$**	**21,838,247**
Increase (Decrease) of Cash	**151,516,506,197**	**$**	**178,789,477**	**(4,204,821,273)**	**$**	**(5,424,219)**

Exhibit 3C

Daewoo Motor Corporation
Income Statement

Period Ending	31-Dec-96			31-Dec-95			31-Dec-94		
Year End Spot ROE			0.00118			0.00129			0.00127
Currency	Won	USD		Won	USD		Won	USD	
Units	million			million			million		
Sales	**2,166,591**	**$**	**2,556.6**	**22,882**	**$**	**29.5**	**17,204**	**$**	**21.8**
Cost of Goods Sold	1,871,907	$	2,208.9	12,016	$	15.5	9,612	$	12.2
Gross Profit	**294,684**	**$**	**347.7**	**10,866**	**$**	**14.0**	**7,592**	**$**	**9.6**
SG&A	284,709	$	336.0	11,440	$	14.8	12,142	$	15.4
Operating Profit (Loss)	9,975	$	11.8	(574)	$	(0.7)	(4,550)	$	(5.8)
Non-Operating Profit	64,515	$	76.1	1,376	$	1.8	3,370	$	4.3
Non-Operating Expenses	54,428	$	64.2	10,355	$	13.4	7,901	$	10.0
Ordinary Profit (Loss)	20,062	$	23.7	(9,553)	$	(12.3)	(9,081)	$	(11.5)
Special Profit	1,225	$	1.4	222	$	0.3	5	$	0.0
Special Loss	453	$	0.5	88	$	0.1	2,098	$	2.7
Income Net of Taxes	20,834	$	24.6	(9,419)	$	(12.2)	(11,174)	$	(14.2)
Income Taxes	2	$	0.0		$	-		$	-
NET INCOME (LOSS)	**20,832**	**$**	**24.6**	**(9,419)**	**$**	**(12.2)**	**(11,174)**	**$**	**(14.2)**