

Global Capital Confidence Barometer Korea

Maintaining a growth course

Growth amid current volatility demands focus on capital optimization

About this survey

Ernst & Young's Capital Confidence Barometer is a regular survey of senior executives from large companies around the world conducted by the Economist Intelligence Unit (EIU).

Our panel, the "Ernst & Young 1,000", is comprised of selected Ernst & Young clients and contacts and regular EIU contributors.

This Korean subset of our findings gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their capital agendas.

Profile of respondents

- ▶ Panel of over 1,000 executives surveyed in July and August 2011.
- ▶ Companies from 51 countries.
- ▶ Cross-section of respondents from over 40 industry sectors.
- ▶ 44 respondents from Korea.
- ▶ Company revenues range from US\$250 million to over US\$10 billion.
- ▶ 32% C-suite respondents.

The Capital Agenda

Based around four dimensions, it helps companies consider their issues and challenges and understand their options to make more informed capital decisions.

1. **Preserving capital:** reshaping the operational and capital base
2. **Optimizing capital:** driving cash and working capital and managing the portfolio of assets
3. **Raising capital:** assessing future capital requirements and assessing funding sources
4. **Investing capital:** strengthening investment appraisal and transaction execution



Our fifth bi-annual *Global Capital Confidence Barometer*, finds that almost half of respondents are focused on growth in the next 12 months, with only 7% now focusing on survival - the lowest number since the barometer was first

published in 2009.

There is a new paradigm with M&A activity and market volatility now able to co-exist. Currently, leading companies are shrugging off continued market upheaval and focusing on growth and M&A. For them, this is not 2008 all over again. They have spent the past three years reducing the financial risk on their balance sheet and taking tough efficiency measures needed to strengthen their positions, which helps them manage in volatile times.

Korean executives are quietly confident about the outlook for their local economy. While closely monitoring current market conditions, they are not rushing to implement defensive measures, and are instead looking beyond the immediate turmoil to maintain growth plans.

Korean respondents:

- ▶ over half (52%) are focusing on growth over the next 12 months
- ▶ believe credit availability is adequate to support growth plans
- ▶ are still focusing on optimizing their capital
- ▶ 34% are likely to divest in the next 12 months to either enhance shareholder value or focus on core assets
- ▶ 50% are expecting to make acquisitions in the next 12 months
- ▶ believe the conditions are positive for deals
- ▶ consider emerging markets, specifically Asia Pacific as the most attractive area for investment

While both global and Korean respondents' attitude to M&A is remarkably robust given the current environment, a slump into a double dip global recession would mean a different story. For the time being companies have the ambition to do deals.

In this issue of the Barometer we reveal Korean companies' views on the economy at both the global and domestic levels. Executives tell us how they are managing their capital today, how they are raising, investing, optimizing and preserving their capital to secure their competitive positions for the future.

Hong-Yeol Yoo - Korea Leader, Transaction Advisory Services

Economic outlook

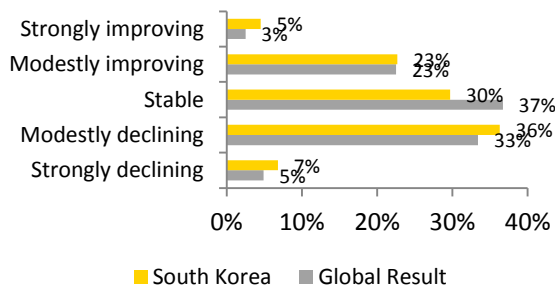
Global economic outlook stable

July and August marked a return to volatility not seen since the early days of the economic crisis. The US credit rating downgrade, debt crisis in the Eurozone and weakening economic data from around the world sparked dramatic stock market activity and ultimately the global re-pricing of risk.

The capital markets in Asia-Pacific¹ have softened further. The number of announced deals dropped by 14% in July 2011. Merger and acquisition activity in Asia-Pacific also slowed by X % in July 2011² and has continued to do so through August.

Despite ongoing uncertainty throughout the survey period³, 59% of Korean respondents felt that the global economy was either stable or improving.

What is your perspective on the state of the global economy today?

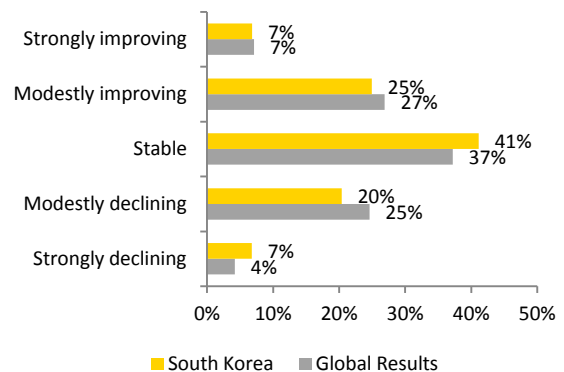


84% of Korean executives are positive about corporate earnings in Korea, remaining stable or improving

Confidence in Korean economy

When asked about their perspective on the Korea economy, 73% cited a stable or improving environment. This is despite concerns by over a third in the short-term market volatility. Several other indicators, including stable or positive corporate earnings (84%), and a belief in a healthy stock market (72%), point to confidence in the domestic economy.

What is your perspective on the state of your local economy today?



73% of Korean executives believe the Korean economy is stable or improving

Employment outlook bright

Eighty-four percent of Korean respondents expect to maintain or increase their workforce over the next 12 months. This is a similar response to global, but Korean executives are slightly more bullish when it comes to new hires.

With regards to employment, which of the following does your organization expect to do in the next 12 months?



¹ Includes Korea, Southeast Asia, China, Hong Kong, Australia, New Zealand, India and Japan

² Mergermarket M&A Round-up for 2011

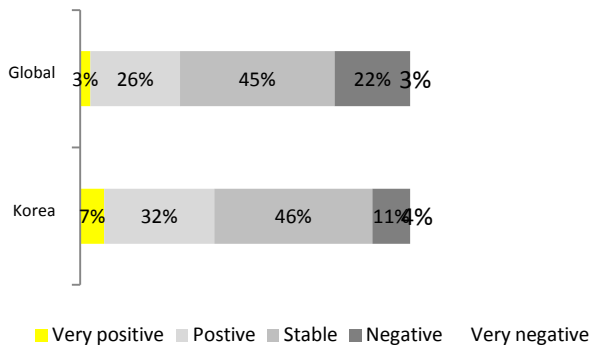
³ July and August 2011

Access to capital

Credit availability supports growth

Korean executives are on the whole confident that local credit markets are adequate to support growth plans, with 85% saying credit availability is stable or positive. And they are slightly more optimistic than their global counterparts when it comes to credit conditions in their own markets (74%).

Please indicate your level of confidence in credit availability at the local level

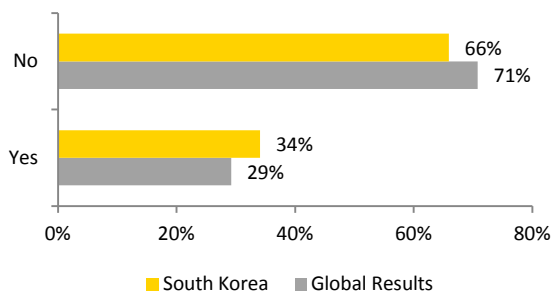


85% of Korean executives say credit availability is stable or positive, and strong enough to support growth plans

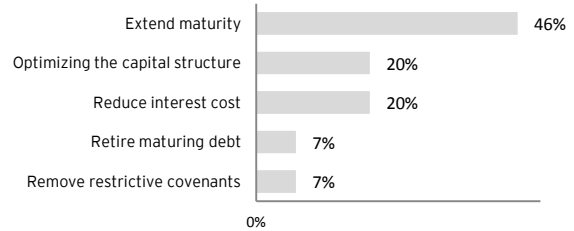
Refinancing to improve capital structure

A third of Korean companies will refinance to strengthening their balance sheets. Of those executives that are taking advantage of available credit, 46% are planning to extend maturities, 20% improve their capital structures, and a further 20% are planning to reduce their interest costs.

Do you plan to refinance loans or debt obligations in the next 12 months?



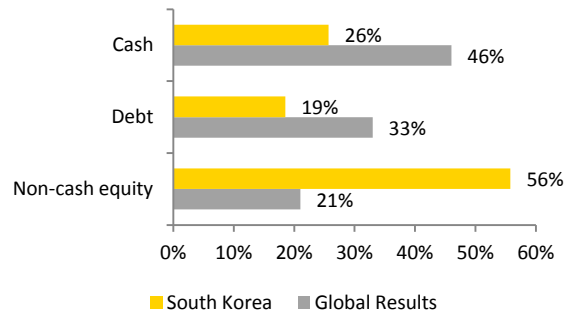
What will be the primary purpose of your refinancing?



Cash is the primary funding source for deals.

Eighty-two percent of Korean companies plan to use cash or non-cash equity as their primary funding source for deals. Debt as a source of deal financing is viewed negatively by the market. However, the majority (56%) of Korean executives prefer to use non-cash equity, a somewhat different trend compared to their global peers who prefer cash (46%).

What is your primary source of deal financing in the next 12 months?

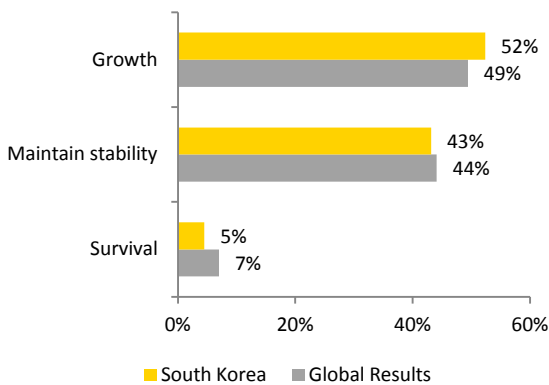


Growth

Growth and stability of equal focus

Most Korean companies (52% of respondents) are making growth the top priority over the next 12 months. And 43% are focused on maintaining stability. Only 5% cite survival as an imperative. Executives are more confident and companies are in good shape despite market volatility.

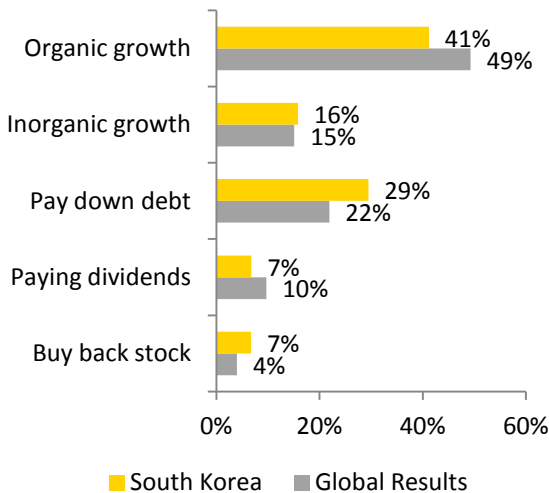
Which statement best describes your organization's focus over the next 12 months?



52% of Korean executives are making growth their top priority over the next 12 months

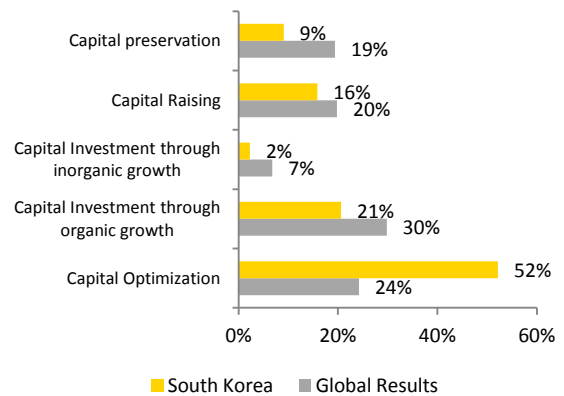
For those companies with excess cash in the next 12 months, over half (57%) prioritize investing in growth, followed by 29% who plan to pay down debt.

If you have excess cash, which of the following will be your priority over the next 12 months?



Korean respondents' priorities are tempered by well-understood lessons from recent financial crisis. When asked which capital management issue they were placing the greatest focus on *today*, over half (52%) said optimizing capital. Growth is not at the expense of maintaining sound balance sheets, or unlocking cash flows from working capital.

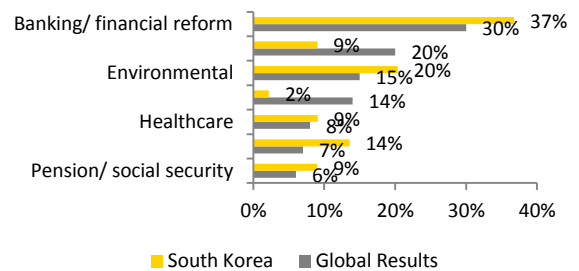
On which of the following capital management issues is your company today placing the gre



Regulation environment impact on growth

Eighty-four percent of Korean respondents are concerned that mounting regulatory pressures across a number of areas could potentially impede growth. Banking and financial reform are viewed to have the broadest potential impact. Government scrutiny and supervision continues to tighten. Banking regulations are increasing, such as the government's oversight of the BIS for banking institutions. Environmental regulatory framework is next highest concern.

What areas of regulation pose the most significant risks to growth and profitability for your organization over the next 12 months?

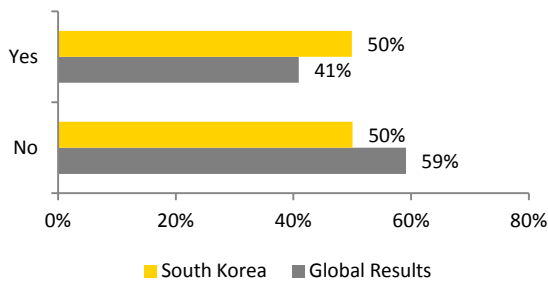


Mergers and acquisitions outlook

Appetite for deals solid

At the time of the survey 50% of Korean respondents indicated that they expected to make acquisitions in the next 12 months, a slightly stronger result compared to global. Korean respondents' attitude to M&A is robust given the current volatility, but a slump into a double dip global recession would alter the trend.

Does your company expect to make acquisitions in the next 12 months?

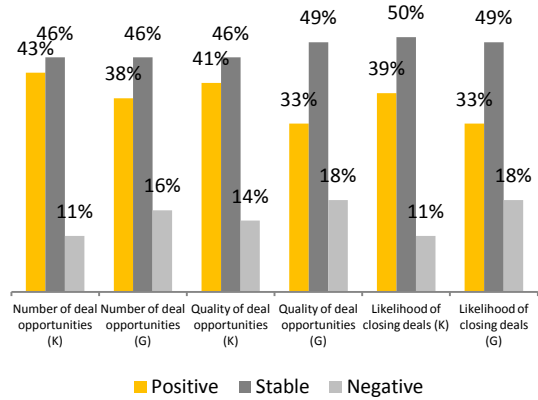


Most indicators favourable for deal making

When asked to express their confidence around the volume and quality of deals, Korean executives shared a similar favourable sentiment with their global peers. Not only were they comfortable with volume and quality, 81% of Korean respondents were confident about the likelihood of closing deals.

And the downturn in the economy has also created opportunities. Korean companies are anticipating a surge in cross-border opportunities.

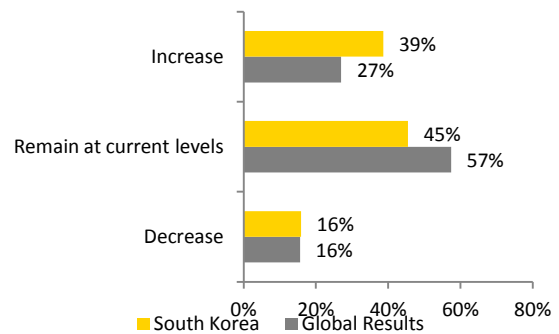
Please indicate your level of confidence in the following at the local level:



A mixed view on valuation levels

Overall more Korean respondents (45%) are confident that asset valuations will remain static over the next 12 months. However, at least 39% expect asset prices to increase, suggesting that Korean companies are expecting more tension than their global counterparts between buyers and sellers.

What do you expect the price/valuation of assets to do over the next 12 months?



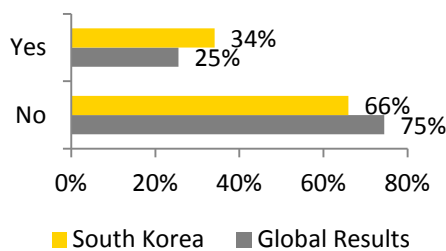
50% of Korean executives indicated that they expected to make acquisitions in next 12 months

An appetite for divestments

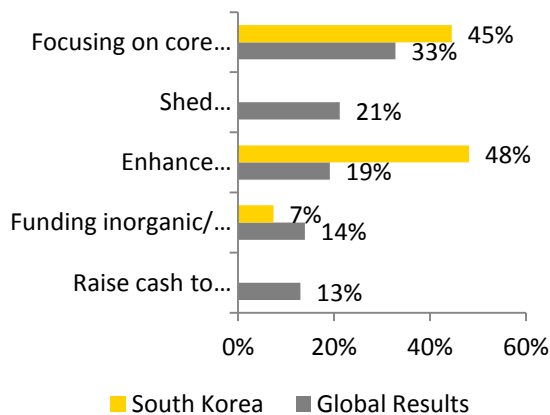
Willingness of companies to divest assets is obviously an important element to the deal market. Thirty-four percent of Korean respondents say they are likely or highly likely to pursue divestments over the next 12 months. This is stronger than the global response (25%).

Divestment is driven by two clear, almost equally consistent reasons, to enhance shareholder value (48%) and focus on core assets (45%).

Does your company expect to make divestments in the next 12 months?



What are the main drivers of your company's planned divestment activity?



Emerging markets top destination for Korean investment capital

No surprise that Asia-Pacific is the number 1 area for inbound global investment. And it's a similar trend with Korean companies. Over two thirds of Korean respondents say the number 1 acquisition driver is to gain share, either product or geography, in *new* markets. Driving share in *existing* markets is secondary (14%). So, it's also no surprise that the top 2 investment destinations are China and India.

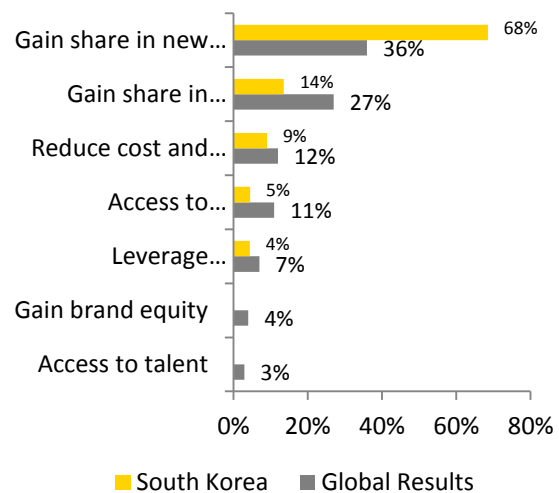
Singapore, Malaysia and Indonesia—Southeast Asia—take up 3rd place. Again, all located in Asia-Pacific, and all with high growth potential, expanding domestic demand and resilience to current market volatility.

The top five countries Korean executives are considering for cross-border investment are

1. China
2. India
3. Singapore
4. Malaysia
5. Indonesia

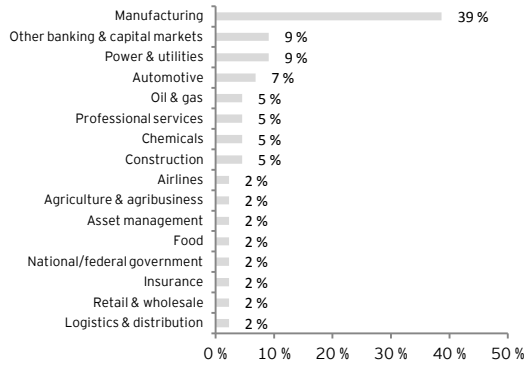
68% of Korean respondents say the number of acquisitions is to gain share, either product or geography in *new* markets

What are the main drivers of your company's planned acquisition in your chosen market/country?

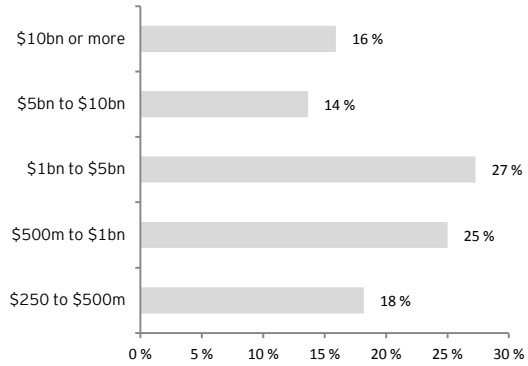


Survey demographics

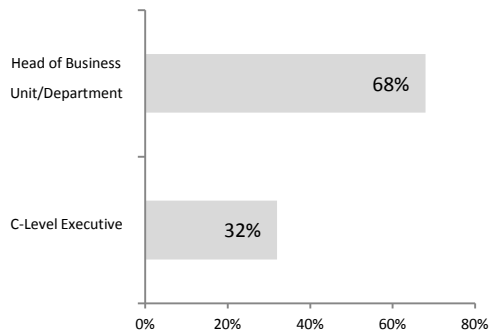
What is your primary industry?



What are your company's annual global revenues in US dollars?



What is your position in the organization?



If you would like to discuss your company's capital agenda please contact your usual Ernst & Young advisor, or any of the contacts listed below.

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*The Ernst & Young 1,000 is a panel Ernst & Young clients and contacts and Economist Intelligence Unit contributors who participate in the Capital Confidence Barometer on a biannual basis.

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