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Press Release

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The Securities and Futures Commission Announces Sanctions against Hynix Semiconductor Inc. for Accounting Violations

The Securities and Futures Commission today announced sanctions against Hynix Semiconductor Inc. for the accounting violations discovered by the Financial Supervisory Service after an extensive audit review of the company's financial statements. The sanctions announced include: a monetary fine of KRW2 billion against the company, referral of the former CEO of the company to the Prosecutors' Office for criminal penalties, a signed pledge of compliance by the current CEO, monetary fines totaling KRW770 million against the company's outside auditor and a recommendation for suspension of future audits for two individual auditors. The monetary fines imposed on the company and its outside auditor by the SFC will be finalized by the Financial Supervisory Commission.

Hynix Semiconductor Inc. was found to have overstated its assets by reporting interest and other expenses as assets for construction-in-progress for the accounting years from 1996 to 1999 and reported depreciation expenses and asset impairment losses from the inflated assets during 2000-2003. The company also improperly deferred selling and administrative expenses from the applicable accounting period.

For the fiscal year 2003, Hynix also misreported as non-operating expenses (rather than as an adjustment to the retained earnings) error corrections totaling KRW568.1 billion from the previous year and made improper footnote entries. The SFC noted that the accounting violations that occurred prior to 2003 have been appropriately addressed and that the company's balance sheet for the fiscal year 2003 did not contain overstated assets or understated liabilities. In addition, Hynix's financial statements beginning with the fiscal year 2004 are not expected to be affected by the previous accounting violations.

The SFC also noted that the sanctions issued against Samil, Hynix's outside auditor, were fully warranted given the auditor's failure to properly account for the numerous shortcomings that have been found in Hynix's books for several years and appropriately reflect in its audit opinion for 2003 past accounting improprieties and incorrect footnote entries.

Please forward questions, comments, or suggestions regarding this press release to the Accounting Supervision Department II (Tel: +82-2-3786-7303), Financial Supervisory Service.