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SK Corp. Chairman Is Sentenced To Five Years Probation

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In ruling Friday to suspend the three-year sentence of the head of South Korea's largest oil refiner for a $1.2 billion accounting fraud, Korea's highest court lost an opportunity to demonstrate that authorities are taking seriously calls to improve management and corporate governance standards at Korea's top companies, foreign investors and Korean activists say.

The appellate court upheld the 2003 fraud conviction of SK Corp. Chairman Chey Tae Won, but granted him five years' probation instead of a three-year prison term, allowing him to continue at the company's helm. "The decision was taken more out of consideration for Chey's main responsibility to run the company in the future, rather than his wrongdoings in the past," High Court Judge Kim Young Kyun said, according to Reuters.

The decision is the latest of several court actions in recent months that have enabled senior executives at top Korean companies to remain in their posts. Foreign investors, who hold 45% of Korea's stock market, are growing increasingly impatient with governance standards in the nation.

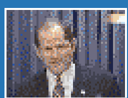
In 2003 authorities uncovered a $1.2 billion accounting fraud at an SK affiliate that brought the company to the brink of bankruptcy and led to the convictions of Mr. Chey and two other executives. Mr. Chey has been free on bail since September.

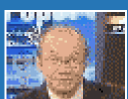
His appeal was answered by Friday's judgment, which represents the denouement of a two-year-long shareholder battle to oust Mr. Chey, led by the company's largest shareholder, Dubai-based Sovereign Asset Management. Sovereign, which holds 15% of SK Corp., essentially lost its fight in March, when shareholders voted to keep Mr. Chey.

On Sunday, Sovereign repeated its call for his removal. "Mr. Chey's guilt in defrauding company shareholders has been placed beyond doubt by the court's reconfirmation of his conviction," Sovereign said. Mr. Chey's ability to stay in his job "sends a terrible message to the future generation of young Korean business leaders," the firm said.

Korean activists echoed that message. "This will make corporations continue with their illegal behavior," said Kim Sang Jo, executive director of the People's Solidarity for Participatory Democracy, a local activist group for reforming corporate governance in Korea.

The company, which has supported Mr. Chey throughout his legal woes, applauded the decision. "We think this is a very good signal for us to go forward," says Whang Kyu Ho, head of corporate relations at SK Corp. As Mr. Chey went through the process of appealing the 2003 conviction, SK





Corp. took steps to clean up corporate governance. It added five outside directors to a 10-member board and created board subcommittees, including corporate governance and transparency subcommittees, which are chaired by outside members.

Mr. Whang says the company also may institute other changes, such as a pyramid-like structure that would simplify accountability of SK's subsidiaries, such as SK Telecom and SK Communications.

Friday's court ruling comes at a sensitive juncture for Korea Inc. The country's economic growth has waned recently. In addition, several hugely profitable sales by private equity firms, which bought assets at fire sale prices after the financial turmoil of a few years ago, has inflamed public resentment against foreign intervention in Korean business. Three months ago, as Sovereign mounted its efforts to depose Mr. Chey, the firm failed to garner support from major Korean investors, such as the National Pension Corp., which sided with SK Corp. and voted to keep him in his post.

The decision regarding Mr. Chey also falls in line with other recent rulings that have made it possible for convicted felons to remain in high-level positions at Korea's family-founded conglomerates, or chaebols. In September, a vice chairman of Samsung Electronics Co. Ltd., was granted a suspended prison term for political funding violations during the 2002 presidential race. Separately, the former chairman of collapsed Daewoo Group, Kim Woo Choong, a fugitive for the past six years, is expected to return to his home country this week to face arrest on charges of falsifying Daewoo's accounts and diverting funds overseas. Daewoo crumbled in the aftermath of the 1997 Asian financial crisis. It is as-yet unclear whether Mr. Kim will serve jail time or ever be permitted to resume work at a Korean company.

Foreigners own 44% of shares in Korea's stock market. Worry over foreigners' rising influence has prompted a frenzy of share buybacks by Korean companies, as defensive measures against foreign takeovers. "There is a growing realization that the day is coming when shareholders will vote out management who were appointed by founding families," says Henry Seggerman, president of New York-based International Investment Advisers, which manages a Korea fund.

--Lina Yoon contributed to this article.

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