POSCO
Form 20-F
May 06, 2003

Table of Contents

As filed with the Securities and Exchange Commission on May 6, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

Form 20-F

ANNUAL REPORT PURSUANT TO

SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission file number 1-13368

POSCO

(Exact name of Registrant as specified in its charter)

POSCO

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

Finance Division

POSCO Center
892 Daechi-4-dong
Kangnam-ku
Seoul, Korea
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Class	Name of each exchange on which registered
American Depositary Shares, each representing one-fourth of one share of Common Stock	New York Stock Exchange, Inc.
Common Stock, par value W5,000 per share	New York Stock Exchange, Inc.*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

$200,000,000 6 5/8% Notes due 2003

$200,000,000 7 1/8% Notes due 2004

$250,000,000 7 3/8% Notes due 2005

$300,000,000 7 1/8% Notes due 2006

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

81,738,519 shares of common stock, par value W5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark which financial statement item the registrant has elected to follow. o Item 17 þ Item 18

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS

DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. o Yes o No

---

* Not for trading, but only in connection with the registration of the American Depositary Shares.

TABLE OF CONTENTS

TABLE OF CONTENTS

Table of Contents

GLOSSARY

ADR	American Depositary Receipt evidencing ADSs.
ADR depositary	The Bank of New York.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
common stock	Common stock, par value W5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of September 26, 1994, among POSCO, the ADR Depositary and all holders and beneficial owners from time to time of ADRs issued thereunder, as amended by amendment no. 1 thereto dated June 25, 1997.
Dollars , $ or US$	The currency of the United States of America.
Government	The government of the Republic of Korea.
Korean GAAP	Generally accepted accounting principles in the Republic of Korea.
Kwangyang Works	Kwangyang Steel Works.
We	POSCO.
Pohang Works	Pohang Steel Works.
Republic	The Republic of Korea.
Securities Act	The United States Securities Act of 1933, as amended.
tons	Metric tons (1,000 kilograms), equal to 2,204.6 pounds.
U.S. GAAP	Generally accepted accounting principles in the United States.
Won or W	The currency of the Republic of Korea.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Table of Contents

Item 3. ***Key Information***

SELECTED FINANCIAL DATA

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto, Operating Results and other historical financial information included elsewhere in this annual report. The selected financial data for each of the three years in the period ended December 31, 2002 is derived from our consolidated financial statements included elsewhere in this annual report, which have been audited by Samil Accounting Corporation, a member firm of PricewaterhouseCoopers.

Our Consolidated Financial Statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP.

INCOME STATEMENT DATA

	Year Ended December 31,					
	1998	1999	2000	2001	2002	2002
	(In billions of Won and millions of Dollars, except per share data)					
Korean GAAP:						
Sales(1)	W13,613	W12,701	W13,776	W13,121	W14,355	US$12,101
Cost of goods sold(2)	10,931	10,005	10,752	10,680	11,338	9,558
Selling, general and administrative expenses	781	685	718	854	967	815
Operating income	1,901	2,011	2,306	1,587	2,050	1,728
Interest expense	677	439	464	451	332	280
Foreign exchange transaction and translation gains (losses), net(3)	85	53	(173)	(10)	135	114
Donations(4)	181	123	449	83	50	42
Income taxes	321	698	689	337	398	336
Net earnings	953	1,554	1,634	846	1,089	918
Earnings per share of common stock(5)	10,157	16,204	19,131	10,366	13,295	11.21
Dividends per share of common stock	1,250	1,750	2,500	2,500	3,500	2.11
U.S. GAAP(6):						
Operating income	W2,037	W1,972	W2,475	W1,657	W2,086	US$ 1,759
Net earnings (loss)(7)	2,138	1,532	1,743	908	1,018	858
Basic and diluted earnings (loss) per share of common stock	22,791	15,976	20,410	11,126	12,430	10.48

Table of Contents

BALANCE SHEET DATA

	Year Ended December 31,					
	1998	1999	2000	2001	2002	2002
	(In billions of Won and millions of Dollars)					
Korean GAAP:						
Working capital(8)	W1,826	W1,458	W960	W1,342	W1,432	US$ 1,207
Property, plant and equipment, net(9)	11,153	10,811	10,455	10,601	10,325	8,703
Total assets(9)	20,601	19,690	20,147	19,405	19,077	16,081
Long-term debt(10)(11)	4,921	3,740	4,159	4,235	3,194	2,692
Total stockholders equity(9)	8,334	9,200	9,558	10,351	11,574	9,757
U.S. GAAP(6):						
Property, plant and equipment, net	W10,848	W10,544	W10,113	W10,294	W10,054	US$ 8,475
Total assets	20,205	19,251	19,620	18,981	18,680	15,746
Total shareholders equity	8,521	9,674	9,936	10,746	11,269	9,500

(1) Includes sales by our consolidated sales subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.

(2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.

(3) In 1998, some foreign exchange translation gains and losses were capitalized, and other foreign exchange translation gains and losses were deferred and amortized on a straight line basis over the term of the related foreign currency assets and liabilities, as applicable, following a change in Korean GAAP. Starting January 1, 1999, any gain or loss on foreign currency translation is no longer deferred but is instead included in our current income statements. See Operating and Financial Review and Prospects Liquidity and Capital Resources Overview Exchange Rate Fluctuations and Notes 2 and 30 of Notes to Consolidated Financial Statements.

(4) Includes donations to educational foundations supporting basic science and technology research. See Operating and Financial Review and Prospects Research and Development and Note 24 of Notes to Consolidated Financial Statements.

(5) See Note 26 of Notes to Consolidated Financial Statements for method of calculation.

(6) Selected financial information under U.S. GAAP has been restated. A description of the material differences between Korean GAAP and U.S. GAAP as well as the reconciliation to U.S. GAAP and restatements under U.S. GAAP for 2000 and 2001 are discussed in detail in Note 30 of Notes to Consolidated Financial Statements.

(7) Includes W1,765 billion of foreign exchange gains in 1998 and the resulting tax effects under U.S. GAAP. Under Korean GAAP effective January 1, 1997 until December 31, 1998, some foreign exchange translation gains and losses were deferred or capitalized and amortized over future periods, instead of being included in current results of operations. See Key Information Risk Factors Adverse Impact of Depreciation of the Won , Operating and Financial Review and Prospects Overview Exchange Rate Fluctuations and Notes 2 and 30 of Notes to Consolidated Financial Statements.

(8) Working capital means current assets minus current liabilities.

(9) Reflects revaluations of assets permitted under Korean law, including, most recently, a W2,614 billion net asset revaluation on January 1, 1989. See Note 17 of Notes to Consolidated Financial Statements.

Table of Contents

(10) For information regarding swap transactions entered into by us, see Operating and Financial Review and Prospects Overview Exchange Rate Fluctuations and Note 22 of Notes to Consolidated Financial Statements.

(11) Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date and resulting translation gains and losses are recognized in current operations. See Notes 2 and 27 of Notes to Consolidated Financial Statements.

EXCHANGE RATE INFORMATION

The following table sets out information concerning the noon buying rate for the periods and dates indicated.

Period	At End of Period	Average Rate(1)	High	Low
		(per US$1.00)		
1998	1,206.0	1,367.3	1,812.0	1,196.0
1999	1,136.0	1,188.2	1,243.0	1,125.0
2000	1,267.0	1,140.0	1,267.0	1,105.5
2001	1,313.5	1,293.4	1,369.0	1,234.0
2002	1,186.3	1,242.0	1,332.0	1,160.6
November	1,198.7	1,210.2	1,230.0	1,197.2
December	1,186.3	1,206.6	1,221.0	1,186.3
2003 (through April 30)	1,215.5	1,206.6	1,262.0	1,164.6
January	1,165.0	1,176.5	1,197.3	1,164.6
February	1,193.7	1,190.4	1,206.0	1,173.0
March	1,252.0	1,237.0	1,260.0	1,184.6
April	1,215.5	1,231.1	1,262.0	1,204.0

(1) The average of the noon buying rates on the last day of each month (or a portion thereof) during the period.

We have translated the Won amounts into Dollars in this prospectus solely for your convenience. We make no representation that the Won or Dollar amounts contained in this prospectus could have been or could be converted into Dollar or Won, as the case may be, at any particular rate or at all.

Table of Contents

RISK FACTORS

You should carefully consider the following factors.

Adverse economic and financial developments in Korea recently had and may in the future have an adverse effect on domestic demand for our products.

In 1997 and 1998, the Republic experienced a significant increase in the number and size of companies filing for corporate reorganization and protection from their creditors. As a result of these corporate failures, high levels of short-term foreign currency borrowings from foreign financial institutions and the consideration of non-market oriented factors in making lending decisions, the Republic s financial institutions experienced a sharp increase in non-performing loans and a deterioration in their capital adequacy ratios. These developments led to a substantial increase in the number of unemployed workers, reducing the purchasing power of consumers in Korea. These developments also led international credit rating agencies to downgrade the credit ratings of the Republic and various companies, including us, and financial institutions in the Republic to below investment grade, although S&P and Moody s raised the credit rating of the Republic and our credit rating back to investment grade levels in early 1999. The current long-term foreign currency rating of the Republic by Standard & Poor s is A- and the current foreign currency rating on bond obligations of the Republic by Moody s is A3. Prompted by heightened security concerns stemming from North Korea s nuclear weapons program, Moody s changed the outlook on the long-term ratings of the Republic from positive to negative in February 2003.

Although the Korean economy began to experience a recovery in 1999, the pace of the recovery has since slowed and has been volatile. The economic indicators in 2001 and 2002 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events such as the terrorist attacks in the United States that took place on September 11, 2001, the war in Iraq and the outbreak of severe acute respiratory syndrome (SARS) in Asia and other parts of the world have increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the world economy, and may thus adversely affect the Korean economy. Any future deterioration of the Korean economy would adversely affect our financial condition and results of operations.

Developments that could hurt Korea s economy in the future include:

- financial problems relating to chaebols, or their suppliers, and their potential adverse impact on Korea s financial sector;
- failure of restructuring of other large troubled companies;
- a slowdown in consumer spending and the overall economy;
- adverse changes or volatility in foreign currency reserve levels, commodity prices, exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;
- adverse developments in the economies of countries such as the United States and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Korean government s expenditures for unemployment compensation and other social programs that, together, lead to an increased government budget deficit;
- political uncertainty or increased strife among and within political parties in Korea;

Table of Contents

- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty and risk of further attacks by terrorist groups around the world;
- hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil resulting from those hostilities; and
- an increase in the level of tensions or an outbreak of hostilities between Korea and North Korea.

Any developments that adversely affect the Republic s economic recovery will likely also decrease demand for our products and adversely affect our results of operations. Korea is our most important market, accounting for 69.5% of our total sales volume in 2002.

Adverse economic and financial developments in Asia in the future may have an adverse effect on demand for our products in Asia.

Our export sales accounted for 30.5% of our total sales volume for steel products in 2002. Our export sales to Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 76.0% of our total export sales volume for steel products in 2002, and we expect that sales to these countries, especially to China, may increase in the future. Adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, including companies in the automobile, machinery and electrical appliance industries. In addition, weak demand in these countries, combined with the continuing condition of over-capacity in the world steel industry, may reduce export prices in Dollar terms for our principal products. We attempt to maintain and expand our export sales to generate foreign currency receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could increase our foreign exchange risks.

Increased tensions with North Korea could have an adverse effect on us or the price of the ADSs.

Relations between Korea and North Korea have been tense over most of Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current events, including renewed contacts at the highest levels of the governments of Korea and North Korea and the increased hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant, evicted inspectors from the United Nations International Atomic Energy Agency and has reportedly resumed activity at the Yongbyon power plant. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty and demanded that the United States sign a non-aggression pact before North Korea dismantles its nuclear power and arms program. North Korea has also test-fired at least two missiles, engaged an unarmed U.S. military aircraft and is reported to have developed nuclear weapons. As a result of these events, the level of tension between the two Koreas, as well as between North Korea and other countries including the United States, has increased. While discussions between North Korea and other countries, including Korea, the United States and China, to resolve these issues peacefully have taken place, any further increase in the tension or occurrence of military hostilities could have a material adverse effect on our operations and the price of the ADSs.

Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on the results of our operations and on the price of the ADSs.

Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

- an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 50.8% of our total long-term debt, including current portion, as of December 31, 2002;

an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated in Dollars; and

foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won, on the other hand, (1) causes our export products to be less competitive by raising our prices in Dollar terms and (2) reduces net sales in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (*i.e.*, the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations.

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the Korea Stock Exchange and, as a result, will likely affect the market price of the ADSs. These fluctuations also will affect the Dollar conversion by the depositary for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

We are dependent on imported raw materials.

We purchase substantially all of the principal raw materials we use from sources outside Korea. Although we have not experienced any unanticipated cost increases in Dollar terms or supply disruptions in the past, any such cost increases or supply disruptions, which could be caused by, among other things, political or other events in the countries from which we import these materials, could adversely affect our operations.

Substantial over-capacity exists in the world steel industry.

The world steel industry continues to have production over-capacity. This over-capacity reflects reduced demand growth in many industrialized Western countries, which has not been accompanied by significant reductions in production capacity in those countries, and development of substantial production capacity in a number of developing countries and in the United States. This over-capacity in the world steel industry will affect our ability to expand export sales and to increase steel production in general.

A number of our products have been and may become subject to anti-dumping and countervailing proceedings or safeguard measures.

In the United States, China and the European Union, a number of our products have been subject to anti-dumping and countervailing proceedings or safeguard measures. Further increases in or new imposition of dumping duties, countervailing duties, quotas or tariffs on our sales in the United States, China or the European Union may have a material adverse effect on our exports to these regions in the future. Exports to these regions accounted for 13.5% of our sales volume of steel products in 2002. See Information on the Company Markets Exports .

We are subject to various regulations under Korean fair trade laws as a result of our discontinued designation as a public corporation.

Korean fair trade laws provide for various regulations and restrictions on large business groups enforced by the Fair Trade Commission. Previously, we were not regulated as a large business group under Korean fair trade laws due to our designation as a public corporation by the Government. The Government removed such designation effective September 28, 2000. As a result, we were designated as a large business group under Korean fair trade laws on April 1, 2001, which subjects us to regulations limiting, among other things, cross guarantees of debt and cross shareholdings by members of a business group.

Table of Contents

If you surrender your ADRs to withdraw shares of our common stock, you may not be allowed to deposit the shares again to obtain ADRs.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary s custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Additional Information Exchange Controls .

You may not be able to exercise preemptive rights for additional shares of common stock and may suffer dilution of your equity interest in us.

The Commercial Code of Korea and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the ADR depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The ADR depositary, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the Securities Act is in effect with respect to those shares; or

- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and may suffer dilution of your equity interest in us.

This annual report contains forward-looking statements that are subject to various risks and uncertainties.

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate , believe , estimate , expect , intend , project , should , and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Table of Contents

Item 4. ***Information on the Company***

BUSINESS OVERVIEW

The Company

We were the second largest steel producer in the world based on annual crude steel production in 2002. We produced over 28.1 million tons of crude steel in 2002. We are the largest and the only fully integrated steel producer in Korea. We manufacture and sell a broad line of steel products, including hot rolled and cold rolled products, plates, wire rods, galvanized steel sheets and stainless steel products.

In Korea, we produce almost all of our steel at Pohang Works and Kwangyang Works. Currently, Pohang Works has 12.20 million tons of annual crude steel and stainless steel production capacity, and Kwangyang Works has an annual crude steel production capacity of 15.80 million tons.

We sell primarily to the Korean market, with Korean sales accounting for 69.5% of our total sales volume in 2002. We believe that we had an overall market share of approximately 48.2% of the total sales volume of steel products sold in Korea in 2002. We maintained a domestic market share larger than 39.5% in each of our major product categories in 2002.

Our exports in each of 2001 and 2002 accounted for 30.5% of our total steel sales volume. Our major export market is Asia, with China accounting for 30.6%, Japan 19.3% and the rest of Asia 26.1% of our total steel export sales volume in 2002.

We were established by the Government in 1968. The Government owned more than 70% of our equity until 1988, when the Government reduced its ownership of our common stock to 35% through a public offering. In 1998, 1999 and 2000, the Government disposed of all of its interest in us. In July 1998, the Government announced its intention to sell all of our common stock owned directly by it or indirectly through The Korea Development Bank. In December 1998, the Government sold all of our common stock it owned directly, which represented approximately 3.1% of our issued common stock, and The Korea Development Bank sold approximately 2.7% of our issued common stock, both in the form of ADSs. In July 1999, The Korea Development Bank sold approximately 8.0% of our issued common stock in the form of ADSs and, in December 1999, an additional 3.0% of our issued common stock, which we purchased as treasury stock. In June 2000, The Korea Development Bank sold an additional 3.0% of our issued common stock, which we purchased as treasury stock. In September 2000, The Korea Development Bank sold the rest of our shares that it owned, which amounted to 4.6% of our common stock, in the form of ADSs in a global offering. As a result of that offering, the Government no longer holds any direct interest in us. The remainder of our outstanding common stock is currently held by individuals and institutions. See Major Shareholders and Related Party Transactions .

We amended our legal name from Pohang Iron & Steel Co., Ltd. to POSCO in March 2002. Our principal executive offices are located at POSCO Center, 892 Daechi-4-dong, Kangnam-ku, Seoul, Korea and our telephone number is (822) 3457-0114.

Business Strategy

Our goal is to maintain and strengthen our position as one of the leading steel producers in the world. In response to recent adverse developments in the Asian economy and general weakness of global steel demand, we are pursuing the following basic elements of our business strategy.

Maintain Leading Domestic Market Shares in Key Products

Korea has been our most important market and we have leading domestic market shares in all of our key products. We intend to maintain our position in the domestic market and continue to give priority to satisfying the demand of our Korean customers, particularly in the construction, shipbuilding, automobile, machinery and electrical appliance industries.

Continue to Maintain a Strong Export Customer Base

Although supplying the Korean domestic market is our priority, we intend to continue to supply a significant amount of our products to customers in overseas markets. Our export and overseas sales represented 30.5% of our total sales volume in 2002, with 76.0% of our export and overseas sales volume to customers in nearby Asian markets in 2002. Our export sales provide a natural foreign currency hedge by generating foreign currency that can be used to service our foreign currency debt and to purchase key raw materials, most of which we source overseas. Maintaining strong relationships with major export customers also provides us with the flexibility to reallocate sales to foreign markets in periods when domestic demand is weak.

Selectively Seek Investment Opportunities in China

We selectively seek investment opportunities in other countries, primarily in China, in part to prepare for the eventual maturation of the Korean steel market. In September 2002, we agreed to make a $131 million investment for an 80% interest in newly formed Qingdao Pohang Stainless Steel Co., Ltd. to manufacture and sell stainless cold rolled steel products in China. Construction of the plant will begin in August 2003. The plant will have an annual production capacity of 150,000 tons of stainless cold rolled steel products and is expected to become operational in May 2005. We believe that China offers numerous growth opportunities and plan to selectively seek additional investment opportunities.

Focus on Enhancing Customer Satisfaction

We believe that because of our operating efficiency we are able to provide our customers with more competitive pricing compared with other integrated steel producers in international markets. We plan to further enhance our customer satisfaction by providing higher quality customer services. We aim to listen to special needs and demands of our customers and enhance technical support services to promptly deliver products that meet the customers expectations by reducing our product development and delivery periods. We also plan to enter into strategic partnerships with key customers.

Continue to Increase Sales of Higher Margin, Higher Value-Added Products

We plan to further increase the proportion of our sales of higher margin, higher value-added products such as cold rolled products, galvanized steel sheets and stainless steel products. Higher value-added products represented 37.9% of our total sales volume in 2002. Because our existing facilities can produce these products with only minor enhancements, we do not believe that additional production will require significant capital expenditures.

Develop Leading Technology and Enhance Quality of Our Products

We plan to continue to invest in developing leading technology necessary to produce higher margin, higher value-added products. In addition, we have sought to enhance the quality of our products through continued modernization and rationalization of our facilities. In August 2000, we strengthened our strategic alliance with Nippon Steel by entering into a cross-shareholding arrangement under which Nippon Steel acquired 3% of our outstanding common stock and we purchased Nippon Steel s outstanding shares for an equivalent purchase amount in Dollar terms (2.2% of Nippon Steel s outstanding shares). Nippon Steel currently holds a 3.2% interest in us. Nippon Steel and we participate in jointly sponsored research and development projects in developing leading technology related to steel production.

Continue to Maintain Prudent Financial Management Policies

We believe that our conservative financial management policies and our access to multiple sources of financing both in local and international markets have contributed to our recent operating performance, even as we have had to contend with the challenging economic environment in Korea and Asia since 1997. We believe that we have a strong balance sheet. We reduced our total debt outstanding from W6,206 billion as of December 31, 1999 to 5,102 billion as of December 31, 2002. In particular, we have significantly reduced the amount of our long-term foreign currency loans from W3,081 billion as of December 31, 1999, representing 49.6% of total debt outstanding on that date, to W2,258 billion as of December 31, 2002, representing 44.3% of total debt outstanding. We also have a strong working capital position with total current assets exceeding total current liabilities by W1,432 billion as of December 31, 2002. We also have ready access to additional short-term liquidity with W23 billion of unused credit lines as of December 31, 2002. To provide us with maximum financial flexibility in the future, we plan to continue to maintain conservative balance sheet ratios and relationships with multiple outside funding sources and markets.

Capitalize on e-commerce Opportunities to Enhance Profitability and Operating Efficiency

We are currently implementing strategies that would enable us to take advantage of advances in technology, particularly related to the Internet, to increase our sales and profitability and the efficiency of our operations. Among the e-commerce opportunities that we are considering are the establishment of online links with our major customers and research institutes and participation in online exchanges that could potentially enhance our brand recognition and allow more cost effective access to a wider customer base. We believe that using Internet technology could lead to a number of benefits, including more efficient inventory management, improved delivery time for our products and generally enhanced customer service.

Enhance Efficiency of Operations and Cost-Effectiveness through Company-Wide Process Innovation

In July 2001, we completed phase one of a process innovation initiative designed to enhance the efficiency of operations and cost-effectiveness and launched POSPIA, our integrated management program. We reoriented our business transaction processes, including purchase of raw materials and sale of goods, to focus on our customers and established a computerized resource management system. The company-wide inventory and product classification and data standardization system have substantially cut operational inefficiencies and enhanced our cost-effectiveness. Production scheduling lead time has fallen from 60 days to 15 days, allowing us to shorten our delivery time for hot rolled steel from 30 days to 14 days. In addition, by sharing inventory and cost information in real time, we have shortened the period required to prepare monthly financial accounting data from six days to one. In 2002, we implemented a six-sigma standard master plan and continue to seek new opportunities to implement our company-wide process innovation and increase our efficiency and cost-effectiveness.

Improve Transparency and Enhance Corporate Governance and Management System

We have sought to improve the transparency of our management and to enhance our corporate governance by expanding the role of outside directors, developing sub-committees with special tasks and implementing an audit committee. All of the directors on our audit committee are required to be comprised of outside directors. In 1997, our articles of incorporation were amended to provide for outside directors. Our board of directors is currently comprised of six directors who are also executive officers and eight outside directors. In addition, we recognize that our future performance depends, in substantial part, on hiring and retaining highly qualified personnel. We provide performance-based compensation which focus on rewarding performance to our executive officers and directors.

Selectively Seek Opportunities in Growth Industries

Our first priority is to maximize revenues and profits from our steel operations. We also selectively seek opportunities in growth industries, in part to prepare for the eventual maturation of the Korean steel market. New businesses in which we intend to focus our efforts for diversification include pharmaceuticals, logistics and information and technology. In September 2002, we agreed to set up a venture capital fund in the United States called POSCO BioVenture 1, L.P. and committed to investing $50 million in the next four years. The fund will invest in numerous pharmaceutical companies and assist in their development in cooperation with Pohang University of Science & Technology. In December 2002, we also entered into an agreement with Mitsui Corporation of Japan to invest W51.8 billion for a 51.0% interest in POSCO

Terminal Co., Ltd. which will provide logistics services related to storage and transportation of raw materials used in steel production and other industries. As for information and technology, we currently hold 6.8% of the outstanding shares of SK Telecom, Korea s largest provider of mobile telephone services.

Major Products

We manufacture and sell a broad line of steel products, including the following:

- hot rolled products;
- plates;
- wire rods;
- cold rolled products;
- galvanized steel sheets; and
- stainless steel products.

The tables below set out our sales revenues and sales volume by major steel product categories for the periods indicated.

	Year Ended December 31,									
	1998		1999		2000		2001		2002	
Steel Product	Billions of W	%	Billions of W	%	Billions of W	%	Billions of W	%	Billions of W	%
Hot rolled products	3,754	29.2	3,251	26.8	3,137	23.6	3,125	24.8	3,416	25.4
Plates	1,425	11.1	1,211	10.0	1,239	9.3	1,242	9.9	1,237	9.2
Wire rods	1,053	8.2	778	6.4	933	7.0	1,149	9.1	1,178	8.7
Cold rolled products	4,293	33.3	4,187	34.6	4,526	34.0	4,055	32.2	4,310	32.0
Galvanized steel sheets	173	1.3	269	2.2	315	2.4	304	2.4	347	2.6
Stainless steel products	1,615	12.5	2,142	17.7	2,555	19.2	2,076	16.5	2,278	16.9
Others	563	4.4	277	2.3	607	4.6	624	5.0	700	5.2
Total	12,876	100.0	12,115	100.0	13,312	100.0	12,576	100.0	13,465	100.0

	Year Ended December 31,									
	1998		1999		2000		2001		2002	
Steel Product	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	11,045	37.1	10,712	38.2	10,098	35.0	11,381	37.9	11,461	37.8
Plates	3,244	10.9	3,026	10.8	3,146	10.9	3,146	10.5	3,060	10.1
Wire rods	2,951	9.9	2,169	7.7	2,651	9.2	2,802	9.3	2,808	9.3
Cold rolled products	8,879	29.8	8,786	31.3	9,437	32.7	9,425	31.3	9,503	31.3
Galvanized steel sheets	289	1.0	463	1.7	542	1.9	591	2.0	589	1.9
Stainless steel products	1,146	3.8	1,639	5.9	1,423	4.9	1,266	4.2	1,394	4.6
Others	2,240	7.5	1,244	4.4	1,578	5.5	1,455	4.8	1,518	5.0

Total	29,794	100.0	28,039	100.0	28,875	100.0	30,065	100.0	30,333	100.0

The sales revenues and sales volumes in the tables above represent the steel product sales of our consolidated entities which are steel-related companies but do not include the non-steel product sales of these entities. They include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products. The sales of steel products purchased from third parties amounted to approximately 3.0 million tons in 1998, 1.3 million tons in 1999, 1.4 million tons in 2000, 1.3 million tons in 2001 and 1.2 million tons in 2002, accounting for W1,286 billion in 1998, W572 billion in 1999, W644 billion in 2000, W657 billion in 2001 and W511 billion in 2002, respectively.

Table of Contents

Hot Rolled Products

Hot rolled coils and sheets have many different industrial applications. They are used to manufacture structural steel used in the construction of buildings and bridges, railway rolling stocks, industrial pipes and tanks, and automobile chassis. Hot rolled coil is also manufactured in a wide range of widths and thickness as the feedstock for higher value-added products such as cold rolled products and galvanized steel sheets.

Our deliveries of hot rolled products amounted to 11.5 million tons in 2002, representing 37.8% of our total steel sales volume. The Korean market accounted for 9.2 million tons or 80.6% of our hot rolled product sales in 2002, representing a domestic market share of approximately 71.3%. The largest customers of our hot rolled products are downstream steelmakers in Korea who use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute one of our two largest product categories in terms of sales volume and revenue. In 2002, our sales volume of hot rolled products increased by 0.7% compared to 2001.

Plates

Plates are used in shipbuilding, structural steelwork, offshore oil and gas production, power generation, mining, and the manufacture of earth-moving and mechanical handling equipment, boiler and pressure vessels and other industrial machinery.

Our deliveries of plates amounted to 3.1 million tons in 2002, representing 10.1% of our total steel sales volume. The Korean market accounted for 2.8 million tons or 90.2% of our plate sales in 2002, representing a domestic market share of approximately 46.6%. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

The relative importance to us of sales of plates has remained fairly steady in recent years, representing between 10.1% to 10.9% of our sales volume from 1998 to 2002.

Wire Rods

Wire rods are used mainly by manufacturers of wire, nails, bolts, nuts and welding rods. Wire rods are also used in the manufacture of coil springs, tension bars and tire cords in the automobile industry.

Our deliveries of wire rods amounted to 2.8 million tons in 2002, representing 9.3% of our total steel sales volume. The Korean market accounted for 2.1 million tons or 75.8% of our wire rod sales in 2002, representing a domestic market share of approximately 65.6%. The largest customers for our wire rods are manufacturers of wire and nails.

In 2002, our sales volume of wire rods increased by 0.2% compared to 2001.

Cold Rolled Products

Cold rolled coils and further refined galvanized cold rolled products are used mainly in the automobile industry to produce car body panels. Other users include the household goods, electrical appliances, engineering and metal goods industries.

Our deliveries of cold rolled products amounted to 9.5 million tons in 2002, representing 31.3% of our total steel sales volume. The Korean market accounted for 4.8 million tons or 50.6% of our cold rolled product sales in 2002, representing a domestic market share of approximately 50.0%.

Cold rolled products constitute one of our two largest product categories in terms of sales volume and revenue. Sales of cold rolled products in recent years had experienced growth due to increasing demand for higher quality products in the automobile, electrical appliances and other industries.

Galvanized Steel Sheets

Galvanized steel sheets are used mainly in the manufacture of power transformers and generators and rotating machines.

Our deliveries of galvanized steel sheets amounted to 589 thousand tons in 2002, representing 1.9% of our total steel sales volume. The Korean market accounted for 428 thousand tons or 72.7% of our galvanized steel sheet sales in 2002, representing a domestic market share of approximately 93.0%.

Our sales volume of galvanized steel sheets increased significantly since 1998 as a result of increased demand from manufacturers of power transformers and generators and rotating machines and an addition of a manufacturing line, which was completed in October 1998. The new line has an annual production capacity of 240,000 tons of galvanized steel sheets.

Stainless Steel Products

Stainless steel products are used by the chemical industry, paper mills, the aviation industry, the automobile industry, the construction industry and the food processing industry.

Our deliveries of stainless steel products amounted to 1,394 thousand tons in 2002, representing 4.6% of our total steel sales volume. The Korean market accounted for 688 thousand tons or 49.4% of our stainless steel product sales in 2002, representing a domestic market share of approximately 39.5%.

Although sales of stainless steel products accounted for only 4.6% of our total sales volume in 2002, they represented 16.9% of our total revenues from sales of steel products in 2002. Our sales volume of stainless steel increased by 10.1% in 2002 compared to 2001 because of increased demand from the construction industry and the automobile industry.

Others

Other products include lower value-added semi-finished products such as pig iron, billets, blooms and slabs.

Markets

Korea is our most important market. Domestic sales represented 64.9% to 69.5% of our total steel sales volume for each of the five years from 1998 to 2002. Exports and overseas sales by our overseas subsidiaries represented 30.5% of our total sales volume in 2002. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent, to expand our international market presence and to earn foreign exchange.

Domestic Market

The total Korean market for steel products amounted to 43.7 million tons in 2002. We sold a total of 21.1 million tons of steel products in Korea in 2002, maintaining an overall domestic market share of 48.2% for such period. In 2002, we had a domestic market share of more than 39.5% for each of our major product categories. See Business Overview Major Products .

Table of Contents

The table below sets out sales of steel products in Korea for the periods indicated.

	Year Ended December 31,									
	1998		1999		2000		2001		2002	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
POSCO S Sales	19,354	77.6	18,997	56.3	20,059	52.2	20,894	54.6	21,090	48.2
Other Korean Steel Companies Sales	3,971	15.9	12,559	37.2	15,116	39.3	14,144	37.0	17,732	40.6
Imports(1)	1,627	6.5	2,479	7.3	3,266	8.5	3,235	8.5	4,898	11.2
Total domestic sales(1)	24,952	100.0	34,035	100.0	38,441	100.0	38,273	100.0	43,720	100.0

(1) Source: 2002 Official Statistics, Korea Iron & Steel Association.

Total sales volume of our steel products in Korea decreased by 1.8% in 1999, primarily as a result of difficult economic conditions in Korea. Total sales volume of our steel products rebounded in 2000 to increase by 5.6%, as the Korean economy rebounded. Total sales volume increased further by 4.2% in 2001 and 0.9% in 2002 as the Korean economy continued its growth during this period. Our share of the Korean market increased to 77.6% in 1998 as a result of difficulties experienced by other Korean steel companies. Our market share in 1999 and 2000 decreased to 56.3% and 52.2%, respectively, as a result of normalized operations at these other Korean steel companies. Our market share increased to 54.6% in 2001 as our sales increased while sales of other Korean steel companies decreased. Our market share decreased to 48.2% in 2002 as substantial increases in sales volume of other Korean steel companies and import volume more than offset a 0.9% increase in our sales volume. Increased demand from the Korean shipbuilding industry and the automobile industry contributed to a 14.2% increase in total domestic sales volume in 2002 compared to 2001. Imports into the Korean market in recent years have been mainly from Japan and Russia.

We sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. In 2002, approximately 61% of our total sales in Korea in terms of volume were made directly to end-users and other steel processors, and the remainder were made to local distribution companies including our consolidated subsidiaries. The role of the distribution companies and sales affiliates is to sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors and in each important product area.

For a discussion of our domestic sales of steel products in 2000, 2001 and 2002 and factors that may affect domestic sales in the future, see Operating and Financial Review and Prospects Operating Results , Key Information Risk Factors Adverse Developments in Korea and Asia and Adverse Impact of Depreciation of the Won .

Table of Contents

Exports

The tables below set out our exports and sales of steel products by our overseas subsidiaries in terms of sales volume by geographical market and by product for the periods indicated.

	Year Ended December 31,									
	1998		1999		2000		2001		2002	
Region	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
China	2,146	20.6	1,954	21.6	2,798	31.7	2,976	32.4	2,828	30.6
Asia (other than China and Japan)	2,206	21.1	2,017	22.3	1,994	22.6	1,965	21.4	2,414	26.1
Japan	2,268	21.7	2,261	25.0	2,136	24.2	2,040	22.2	1,780	19.3
North America	2,246	21.5	1,865	20.6	1,094	12.4	665	7.2	978	10.6
Europe	987	9.5	578	6.4	285	3.2	313	3.4	294	3.2
Middle East	292	2.8	112	1.2	151	1.7	10	0.1	9	0.1
Others	295	2.8	255	2.9	358	4.1	1,203	13.1	940	10.2
Total	10,440	100.0	9,042	100.0	8,816	100.0	9,172	100.0	9,243	100.0

	Year Ended December 31,									
	1998		1999		2000		2001		2002	
Steel Products	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled Products	4,140	39.7	3,455	38.2	2,234	25.3	2,225	24.3	2,224	24.1
Plates	622	6.0	404	4.5	377	4.3	318	3.5	300	3.2
Wire rods	765	7.3	357	4.0	619	7.0	672	7.3	679	7.3
Cold rolled Products	4,233	40.5	4,004	44.3	4,522	51.3	4,923	53.7	4,694	50.8
Galvanized steel sheets	19	0.2	120	1.3	144	1.6	134	1.5	161	1.7
Stainless steel Products	316	3.0	486	5.4	671	7.6	646	7.0	706	7.6
Others	345	3.3	216	2.3	249	2.8	254	2.8	478	5.2
Total	10,440	100.0	9,042	100.0	8,816	100.0	9,172	100.0	9,243	100.0

The table below sets out our total net sales, including non-steel sales, by geographic area for the periods indicated.

	Year Ended December 31,		
Area	2000	2001	2002
		(billions)	
Korea	W9,160	W8,507	W9,531
China	1,872	2,037	2,089
Asia (other than China and Japan)	855	822	1,069
Japan	932	692	650

North America	533	386	473
Europe	172	142	150
Middle East	66	6	5
Other	187	529	389
	W13,776	W13,121	W14,355

The above tables include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products.

Table of Contents

The world steel industry continues to have substantial production over-capacity. The table below sets out the world s crude steel consumption for the periods indicated.

	Year Ended December 31,				
	1997	1998	1999	2000	2001
Crude steel equivalent consumption (million tons)	790	781	805	869	880
Percentage of annual increase (decrease)	6.5%	(1.1)%	3.1%	8.0%	1.3%

Source: International Iron and Steel Institute, March 2003.

On a long-term basis, the world steel production over-capacity reflects reduced demand growth in industrialized Western countries, which has not been accompanied by significant reductions in production capacity in those countries, and development of substantial production capacity in a number of developing countries. Demand growth for steel in many industrialized Western countries has fallen due to a number of factors, including sluggish economic growth and reduced use of steel. However, demand for steel had increased until recently in some developing countries that had experienced significant growth in the past several years.

We distribute our export products mostly through Korean trading companies and our overseas sales subsidiaries.

Our largest export market in 2002 was China, which accounted for 30.6% of our export volume of steel products, including sales by our overseas subsidiaries. The principal products exported to China are cold rolled products and stainless steel products. Our exports to China remained relatively stable at 2.8 million tons in 2000, 3.0 million tons in 2001 and 2.8 million tons in 2002. Our exports to Japan were 1.8 million tons in 2002, representing a decrease of 12.8% from 2.0 million tons in 2001, primarily as a result of our increasing focus in Asian countries other than Japan. Profit margins from export sales to China, Indonesia and Malaysia have typically been higher than export sales to Japan in recent years. Sales volume to Asian countries other than China and Japan remained relatively stable at 2.0 million tons in each of 2000 and 2001 and increased to 2.4 million tons in 2002, primarily due to our decision to export to countries with higher profit margins.

To offset the slowdown in the economies of Asian countries beginning in 1998, we focused our efforts on increasing exports to Europe, North America and Middle East in 1998. Sales volume to North America, Europe and Middle East totaled 3.5 million tons in 1998, representing 33.8% of our export volume of steel products. However, our sales to these regions decreased from 1999 to 2002, primarily due to anti-dumping proceedings and our decision to export to Asian countries other than Japan which have higher profit margins. As a result, sales volume to North America, Europe and the Middle East decreased in 2002 to 1.3 million tons, representing 13.9% of our export volume of steel products.

A significant part of our sales in North America are made to USS-POSCO Industries (UPI), a 50-50 joint venture between us and U.S. Steel Corporation. We sell hot rolled products to UPI, which sells such products and also uses such products to manufacture cold rolled products for sale in the United States. Our sales to UPI were 733 thousand tons in 2000, 425 thousand tons in 2001 and 686 thousand tons in 2002, accounting for approximately 67% of our sales to North America in 2000, 64% in 2001 and 70% in 2002. Our sales to UPI decreased significantly in 2001 due to the suspended operation of UPI s manufacturing plant from May 2001 to February 2002 resulting from a major fire. The manufacturing plant resumed its normal operation in February 2002.

In the United States, a number of our products have been subject to anti-dumping and countervailing proceedings since 1992. As a result of these proceedings, our sales of galvanized steel sheets are currently subject to a countervailing duty of 1.15% and a dumping duty of 0.86%, and sales of stainless steel wire rods by Changwon Specialty Steel are currently subject to a dumping duty of 5.60% in the United States.

In China, we are subject to a dumping duty of 11.0% on our sales of stainless cold rolled steel since December 2000. However, we entered into a suspension agreement in December 2000 with China and agreed to certain price undertakings. Since then, we have been exporting certain types of stainless cold rolled steel products to China that are exempt from such dumping duty.

In March 2002, the United States imposed safeguard measures on key steel products to provide relief to the U.S. steel industry. These safeguard measures, which are expected to be imposed for three years, included a tariff of 30.0% on imports of plates, hot rolled sheet, cold rolled sheet, coated sheet, hot rolled bar and cold-finished bar from March 20, 2002 to March 19, 2003. The tariff decreased to 24.0% effective March 20, 2003 and will decrease further to 18.0% from March 20, 2004 to March 19, 2005. The U.S. safeguard measures also include an annual quota applicable to Korea of 750,000 tons of hot rolled products in each year of the three year period. In May 2002, China also imposed temporary safeguard measures including a global quota of 5.3 million tons of steel products and additional tariff on imports exceeding the global quota amount. The quota applicable to Korea during the first year of safeguard measures ending on May 23, 2003 include 529 thousand tons of cold rolled products, 206 thousand tons of hot rolled products and 60 thousand tons of stainless cold rolled steel products, among others. Additional tariff on imports from Korea exceeding these quota amounts are 22.4% for cold rolled products, 10.3% for hot rolled products and 18.1% for stainless cold rolled steel products. China s safeguard measures are expected to be imposed for three years. The European Union also announced safeguard measures in March 2002 including a global quota of 3.1 million tons of hot rolled products and additional tariff of 17.5% on imports of hot rolled products exceeding such global quota amount. The European Union also imposed a quota applicable to Korea of 162 thousand tons of cold rolled products. Additional tariff on imports from Korea exceeding this quota amount on cold rolled products is 26.0%. The European Union s safeguard measures are also expected to be imposed for three years.

Our products that are currently subject to anti-dumping and countervailing proceedings or safeguard measures in the United States, China and the European Union in the aggregate have not accounted for a material portion of our total sales in recent years. Consequently, the anti-dumping and countervailing duties or safeguard measures imposed on our products have not had a material adverse effect on our total sales. However, there can be no assurance that further increases in or new imposition of countervailing duties, dumping duties, quotas or tariffs on our sales in the United States, China or the European Union may not have a material adverse effect on our exports to these regions in the future.

Pricing Policy

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market. We charge domestic end-users and domestic manufacturers a uniform price for our products, although we offer discounts to domestic customers who buy large volumes of our steel products.

Our export prices can fluctuate considerably over time, depending on market conditions and other factors. The export prices of our higher value-added steel products in the largest markets must be competitive with the prices charged by our Japanese competitors. Export prices rose in Dollar terms in 2000 in response to increased global demand for steel products. Global demand remained stable in 2001 but export prices in Dollar terms fell during this period as a result of increased production and continuing over-capacity in the world steel industry. Export prices in Dollar terms increased in 2002 as the United States, China and the European Union announced their safeguard measures on key steel products to provide relief to their domestic steel manufacturers, demand for steel products increased in China and the prices of raw materials used in steel production generally increased in Dollar terms.

Raw Materials

Steel Production

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We import all of the coal and virtually all of the iron ore that we use. In 2002, we imported approximately 40.5 million tons of iron ore and 19.2 million tons of coal. Iron ore is imported mainly from Australia, Brazil and India. Coal is imported mainly from Australia, China, Canada and Russia.

In 2002, we purchased all of our iron ore and coal imports pursuant to long-term contracts. We purchased about 14.4% of our coal imports in 2002 from foreign mines in which we have made an investment. The long-term contracts generally have terms of five to ten years and provide for periodic price adjustments to the then-market prices. The long-term contracts require us to purchase a minimum amount of the relevant raw materials each year, and to date the minimum purchase amounts have been equivalent to about 10% to 20% of our total yearly purchases under these contracts. We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

The average price of iron ore imports per ton (including all associated costs such as customs duties and transportation costs) increased from W28,995 in 2000 to W32,553 in 2001 but decreased to W30,264 in 2002. The average price of coal imports per ton (including all associated costs such as customs duties and transportation costs) increased from W50,740 in 2000 to W60,518 in 2001 and W60,830 in 2002. The average prices of iron ore and coal in Won terms increased in 2001 due to the increase in global demand for iron ore and coal and the continuing depreciation of the Won against the Dollar in 2001. The increase in the average price of coal in Dollar terms in 2002 was partially offset by an appreciation of the Won against the Dollar in 2002. We currently do not depend on any single country or supplier for our iron ore or coal.

In July 1995, we entered into an agreement with Compania Vale do Rio Doce (CVRD), a Brazilian iron ore producer, to establish a 50/50 joint venture company in Brazil to construct and operate an iron ore pelletizing plant. The plant commenced operations in October 1998. The plant has the capacity to produce 4.0 million tons of iron ore pellets each year, of which we are obligated under the agreement to purchase about 2.3 million tons each year, with the remaining 1.7 million tons to be purchased by CVRD. The joint venture produced 4.0 million tons of iron ore pellets in 2002. We use the iron ore pellets supplied by the joint venture as a partial substitute for iron ore.

In April 3, 2002, we entered into an agreement with BHP Billiton, Itochu Corporation and Mitsui Corporation to establish the largest iron ore development project in Australia. We have a 20% interest in the project, while BHP Billiton, Itochu and Mitsui have 65%, 8% and 7% interests, respectively. We are obligated under the agreement to purchase 3 million tons of iron ore each year, representing approximately 8% of our total annual iron ore procurement amount, for twenty-five years starting in 2003. The purchase price will be determined based on the global market price at the time of purchase.

Stainless Steel Production

The principal raw materials for the production of stainless steel are stainless steel scrap, nickel, chrome and steel scrap. We purchase a substantial portion of our requirements for chrome from southern African countries and nickel from Australia, Indonesia and Japan. We purchase nickel, chrome and stainless steel scrap by contracts generally having terms of one to five years. These contracts generally provide for periodic price adjustments to the then-market conditions. We also indirectly acquire nickel and chrome by purchasing stainless steel in scrap form which contain these raw materials because their prices in scrap form are often lower than the prices of purchasing them separately.

Transportation

We transported approximately 77.5% of our imported raw materials in 2002 by using bulk carriers of which we have guaranteed usage. All imported raw materials are unloaded at our port facilities in Pohang and Kwangyang. Costs of transportation of iron ore and coal represented about 21.7% and 10.1% of the total cost of such materials in 2002.

Table of Contents

The Steelmaking Process

Our major production facilities, Pohang Works and Kwangyang Works, produce steel by the basic oxygen steelmaking method. The stainless steel plant at Pohang Works produces stainless steel by the electric arc furnace method.

Steel Basic Oxygen Steelmaking Method

First, pig iron is produced in a blast furnace from iron ore and coal, which are the basic raw materials used in steelmaking. Molten pig iron is then refined into crude steel in converters by blowing pure oxygen at high pressure to remove impurities. At this stage, steel scrap may be added to increase the volume of crude steel produced. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, crude steel is rolled into slabs, blooms or billets at the continuous casting mill. Slabs, blooms and billets are different standardized sizes and shapes of rolled steel.

Continuous casting, which dispenses with ingot casting, improves the yield rate by eliminating loss caused by ingot casting. Continuous casting also improves product quality by imparting a consistent structure to the steel. Pohang Works and Kwangyang Works produce all of their products through continuous casting.

Slabs, blooms and billets are semi-finished lower margin products which we either use to produce our further processed products or sell to other steelmakers that produce further processed steel products.

Slabs are processed to produce hot rolled coils and other hot rolled products at hot strip mills or to produce plates at plate mills. Blooms are processed into billets at billet mills. Billets are processed into wire rods at wire rod mills.

Hot rolled coils are an intermediate stage product that may either be sold to our customers as various finished products or be further processed by us or our steelmaking customers into higher value-added products, such as cold rolled sheets and galvanized steel sheets.

Stainless Steel Electric Arc Furnace Method

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel blooms and slabs are produced at a continuous casting mill. The blooms are further processed into stainless steel wire rods and the slabs are processed at hot rolling mills into stainless steel hot coil, which can be further processed at cold strip mills to produce stainless cold rolled steel products.

Competition

Domestic Market

We are currently the only fully integrated steel producer in Korea. As we have more than 39.5% of the domestic market share in each of our major product categories, we generally face only fragmented competition in the domestic market. In hot rolled products, where we had a market share of approximately 71.3% in 2002, we face competition from a Korean operator of mini-mills, which produces lower quality products, and from various foreign producers, primarily from Japan and Russia. In cold rolled products and stainless steel products, where we had a market share of approximately 50.0% and 39.5% in 2002, respectively, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from Japan and Russia.

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitor in Korea is INI Steel Company, the second largest electric-furnace steel producer in the world with an annual crude steel

20

capacity of 7.7 million tons which had actual production of 7.4 million tons in 2002. INI Steel was spun-off from Hyundai Group in August 2000. In March 2000, INI Steel merged with Kangwon Industries, a specialized domestic manufacturer which had been undergoing a workout program. In addition, in May 2000, INI Steel purchased shares of BNG Steel (formerly Sammi Steel), a specialized domestic manufacturer.

The Government does not impose quotas on or provide price supports to the steel producers in the Korean market. At present, the Government levies tariffs of up to 4% on imported steel products, as permitted by the World Trade Organization (WTO). As a WTO signatory, the Republic is required to remove all steel tariffs by 2004. Removal of tariffs could lead to increased competition from imports in the Korean steel market.

Export Markets

The competitors in our export markets include all the leading steel manufacturers of the world, particularly those in Japan, the United States, France and Britain. Major competitive factors include the range of products offered, quality, price, delivery performance and customer service.

Asian markets currently impose various tariffs on different types of steel products. However, we do not believe that tariffs significantly affect our ability to compete in these markets.

Subsidiaries

For information regarding our subsidiaries and affiliated companies, see Notes 1 and 28 of Notes to Consolidated Financial Statements.

In September 2000, we sold our 40% interest in one of our indirect subsidiaries, POSCO Huls Co., Ltd., at a selling price of W76.0 billion as part of our restructuring plan to divest our interest in less profitable subsidiaries. We liquidated POS-Energy Co., Ltd. in September 2001 and Cogonotec Korea Co., Ltd. in December 2002. In December 2002, we entered into an agreement to invest W51.8 billion for a 51.0% interest in POSCO Terminal Co., Ltd. Our new subsidiary will provide logistics services related to storage and transportation of raw materials used in steel production and other industries.

Diversification

Our first priority is to maximize revenues and profits from our steel operations. We also seek to diversify selectively into other areas, in part to prepare for the eventual maturation of the Korean steel market. Businesses on which we have focused in the past and intend in the future to focus our diversification efforts include pharmaceuticals, logistics, information and technology, construction and advanced materials. In connection with these efforts, we agreed to set up a venture capital fund in the United States in September 2002 called POSCO BioVenture 1, L.P. and committed to investing $50 million in the next four years. The fund will invest in numerous pharmaceutical companies and assist in their development in cooperation with Pohang Institute of Science & Technology. In December 2002, we also entered into an agreement with Mitsui Corporation of Japan to invest W51.8 billion for a 51.0% interest in POSCO Terminal Co., Ltd. which will provide logistics services related to storage and transportation of raw materials used in steel production and other industries. As for information and technology, we established our POSDATA subsidiary in Korea in the information and computer services and software field. We also own a 6.8% interest in SK Telecom, the largest mobile telecommunications service provider in Korea, as well as a 5.0% interest in Powercomm Corporation, Korea s second largest provider of fiber optic cable network services.

Currently, the revenues we derive from these ventures and companies are not, in the aggregate, material.

Table of Contents

Insurance

We maintain casualty and fire insurance for our facilities and loss insurance for our raw materials and supplies. We maintain medical and accident insurance for our employees to the extent we consider appropriate.

The Environment

We believe we are in compliance with all applicable environmental laws and regulations. Our levels of pollution control are higher than those mandated by Government standards. We continue to voluntarily reduce emissions from our operations by using less Peruvian iron ore, using lower sulphur content oil, and modernizing anti-pollution facilities. We spent approximately W176 billion on anti-pollution facilities in 2002.

PROPERTY, PLANTS AND EQUIPMENT

Our principal properties are Pohang Works, which is located at Youngil Bay on the southeastern coast of Korea, and Kwangyang Works, which is located in Kwangyang City in the southwestern region of Korea. Our capacity utilization rates for 1999, 2000, 2001 and 2002 are not comparable to the capacity utilization rate for earlier years because in 1999 we began to measure our production capacity based on our actual production capacity rather than the rated capacity specified by our equipment manufacturers. The revised production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. As a result, we believe that the revised capacity utilization rate more accurately calculates the utilization rate of our production capacity. We expect to increase our production capacity in the future when we increase our production capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities.

Pohang Works

Construction of Pohang Works began in 1970 and ended in 1983. Currently, Pohang Works has an annual crude steel and stainless steel production capacity of 12.20 million tons.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 42 plants and 26 supporting facilities, including iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating ships as large as 250,000 tons for unloading raw materials, storage areas for up to 46 days supply of raw materials and separate docking facilities for ships carrying products for export. Pohang Works is equipped with an up-to-date computerized production-management system allowing constant monitoring and control of the production process.

Pohang Works produces a wide variety of steel products. Products produced at Pohang Works include hot rolled sheets, plates, wire rods and cold rolled sheets, as well as speciality steel products such as galvanized cold rolled steel sheets, stainless steel sheets and galvanized steel sheets. These products can also be customized to meet the specifications of our customers.

Table of Contents

The following table sets out Pohang Work s capacity utilization rates for the periods indicated.

	Year Ended December 31,				
	1998	1999	2000	2001	2002
Crude steel and stainless steel production capacity (million tons per year)	10.24	12.20(1)	12.20(1)	12.20(1)	12.20(1)
Actual crude steel and stainless steel output (million tons)	12.07	12.20	12.35	12.04	12.16
Capacity utilization rate (%)(2)	117.9	100.0	101.3	98.7	99.7

(1) The increase in the rated production capacity in 1999, 2000, 2001 and 2002 compared to 1998 resulted from a change in the method of capacity calculation. In 1998, we used the rated crude steel production capacity as specified by the equipment manufacturer to calculate our capacity utilization rate. We determined our actual production capacity for Pohang Works to be 12.20 million tons for 1999, 2000, 2001 and 2002.

(2) In 1998, calculated by dividing actual crude steel and stainless steel output by the rated crude steel and stainless steel production capacity for the relevant period as specified by equipment manufacturers. Starting in 1999, calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

Kwangyang Works

Construction of Kwangyang Works began in 1985 on a site of 14.0 million square meters reclaimed from the sea in Kwangyang City in the southwestern region of Korea. Production capacity is currently 15.80 million tons per year. The completion of construction of two thin-slab hot rolling plants in October 1996 increased annual production capacity by 1.80 million tons.

Kwangyang Works is comprised of 34 plants and 27 supporting facilities, including iron-making plants, steelmaking plants, continuous casting plants, hot strip mills and thin-slab hot rolling plants. The site also features docking and unloading facilities for raw materials capable of accommodating ships of as large as 250,000 tons for unloading raw materials, storage areas for 44 days supply of raw materials and separate docking facilities.

We believe Kwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Kwangyang Works has a completely automated, linear production system that enables the whole production process, from iron-making to finished products, to take place without interruption. This advanced system reduces the production time for hot rolled products to only four hours. Like Pohang Works, Kwangyang Works is equipped with an up-to-date computerized production-management system allowing constant monitoring and control of the production process.

Kwangyang Works specializes in high volume production of a limited number of steel products. Products manufactured at Kwangyang Works include both hot and cold rolled types.

Table of Contents

Capacity utilization has kept pace with increases in capacity. The following table sets out Kwangyang Works capacity utilization rates for the periods indicated.

	Year Ended December 31,				
	1998	1999	2000	2001	2002
Crude steel production capacity (million tons per year)	13.62	15.80(1)	15.80(1)	15.80(1)	15.80(1)
Actual crude steel output (million tons)	13.50	14.34	15.38	15.78	15.90
Capacity utilization rate (%)(2)	99.2	90.8	97.3	99.9	100.6

(1) The increase in the rated production capacity in 1999, 2000, 2001 and 2002 compared to previous years resulted from a change in the method of capacity calculation. In 1998, we used the rated crude steel production capacity as specified by the equipment manufacturer to calculate our capacity utilization rate. We determined our actual production capacity for Kwangyang Works to be 15.80 million tons for 1999, 2000, 2001 and 2002.

(2) In 1998, calculated by dividing actual crude steel output by the rated crude steel production capacity for the relevant period as specified by equipment manufacturers. Starting in 1999, calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

Joint Ventures and Others

In September 1996, we entered into an agreement with Jiangsu Shagang Group Co. of the People s Republic of China to establish a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. Pursuant to this agreement, we have an 80% interest in the joint venture. The plant commenced production of stainless cold rolled steel products and galvanizing iron in December 1998 and produced 140,000 tons of stainless cold rolled products in 2000, 162,700 tons in 2001 and 320,000 tons in 2002. The plant also produced 124,000 tons of galvanizing iron in 2000, 136,500 tons in 2001 and 328,805 tons in 2002.

In February 1997, we established Changwon Speciality Steel as a wholly-owned subsidiary in Korea. In March 1997, Changwon Speciality Steel acquired the round bar and pipe business and certain inventory and property, plant and equipment of Sammi Steel Co., Ltd. The plants acquired by Changwon Speciality Steel have annual production capacities of 738,000 tons of wire rods, round bars, steel pipes and semi-finished products. Changwon Speciality Steel produced 734,000 tons of such products in 2002.

In June 1997, we entered into an agreement with PT. Metro Dwiwidjaja of Indonesia to establish a joint venture company in Indonesia for the manufacture and sale of stainless cold rolled steel products. In 1998, however, we decided to delay indefinitely our investment in the project mostly because of the economic and political difficulties encountered by Indonesia.

In February 1997, we entered into an agreement with United Engineers International, Inc. (a subsidiary of Raytheon Constructors & Engineering Co., Ltd.), CVG Ferrominera Orinoco C.A., HYLSA, S.A. de C.V., Dongbu USA Inc. and Hyundai Corporation to establish POSCO Venezuela Compania Anonima (POSVEN) for the manufacture and sale of hot briquetted iron (HBI), a raw material for electric furnace and mini-mill steel production. The plant commenced operations in September 2000 but POSVEN became insolvent on March 17, 2001. Pursuant to a resolution during the general meeting of shareholders on December 23, 2002, the liquidation of POSVEN was approved. Accordingly, the payment of W237 billion made on behalf of POSVEN was fully reserved as part of allowance for doubtful accounts as of December 31, 2002. See Operating and Financial Review and Prospects Operating Results 2002 Compared to 2001.

Table of Contents

In September 2002, we agreed to make a $131 million investment for an 80% interest in newly formed Qingdao Pohang Stainless Steel Co., Ltd. to manufacture and sell stainless cold rolled steel products in China. Construction of the plant will begin in August 2003. The plant will have an annual production capacity of 150,000 tons of stainless cold rolled steel products and is expected to become operational in May 2005.

Item 5. ***Operating and Financial Review and Prospects***

OVERVIEW

Our results of operations are affected by sales volume, unit prices and product mix, costs and production efficiency and exchange rate fluctuations.

Sales Volume, Prices and Product Mix

In recent years, our net sales have been affected by the following factors:

- the demand for our products in the Korean market and our capacity to meet that demand;
- our ability to compete for sales in the export market;
- price levels; and
- our ability to improve our product mix.

Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automobile, electrical appliances and downstream steel processors, and the Korean economy in general.

Our sales volume increased by 4.1% in 2001 and 0.9% in 2002. Our crude steel output increased to 27.8 million tons in 2001 and sales volume increased to 30.1 million tons in 2001 due to strong domestic demand, particularly from the automobile, shipbuilding and machinery industries. Our crude steel output increased further to 28.1 million tons in 2002 and sales volume increased to 30.3 million tons in 2002 due to continuing increase in domestic demand. For a discussion of our sales volume and revenues by major products and markets from 2000 to 2002, see Information on the Company Business Overview Major Products and Markets .

Unit sales prices for our principal product lines generally declined in 2001 and the weighted average unit prices for our products decreased by 9.3% in 2001 compared to 2000. Unit sales prices of hot rolled products and cold rolled products, which accounted for 69.2% of our sales volume in 2001, decreased by 11.6% and 10.3% in 2001, respectively. These decreases were partially offset by a 16.5% increase in unit sales prices of our wire rods and an 11.6% increase in unit sales prices of our specialty products. Unit sales price for all of our principal product lines other than stainless steel increased in 2002 and the weighted average unit prices for our products increased by 6.1% in 2002 compared to 2001. Unit sales prices of hot rolled products and cold rolled products, which accounted for 69.1% of our sales volume in 2002, increased by 8.6% and 5.4% in 2002, respectively. Unit sales prices of wire rods, specialty products and plates, which accounted for 24.4% of our sales volume in 2002, increased by 2.3%, 7.3% and 2.4% in 2002, respectively. These increases were partially offset by a 0.3% decrease in unit sales price of stainless steel products. Export prices for our principal products decreased in Dollar terms in 2001 as a result of the continuing over-capacity in the world steel industry and the general slowdown of the global economy in 2001. Export prices in Dollar terms increased in 2002 as the United States, China and the European Union announced their safeguard measures on key steel products to provide relief to their domestic steel manufacturers, demand for steel products increased in China and the prices of raw materials used in steel production generally increased in Dollar terms. See Information on the Company Markets Exports .

Table of Contents

The table below sets out the average unit sales prices for our semi-finished and finished steel products for the periods indicated.

Product	Year Ended December 31, 2000	2001	2002
	(thousands of W per ton)		
Hot rolled products	W310.7	W274.6	W298.1
Plates	393.9	394.8	404.1
Wire rods	352.0	410.1	419.5
Cold rolled products	479.6	430.3	453.6
Galvanized steel sheets	580.8	515.2	588.0
Stainless steel products	1,794.7	1,639.9	1,634.4
Others	384.7	429.3	460.9
Average(1)	461.0	418.3	443.9

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed products. See Information on the Company Business Overview Major Products .

Costs and Production Efficiency

Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases.

The table below sets out a breakdown of our total costs and operating expenses as a percentage of our net sales for the periods indicated.

	Year Ended December 31, 2000	2001	2002
	(percentage of net sales)		
Costs:			
Raw materials	38.7%	37.4%	37.2%
Other purchases	11.5	15.2	14.8
Labor costs(1)	8.3	8.0	9.0
Depreciation	8.4	9.0	9.3
Other cost of goods sold	11.1	11.8	8.7
Total costs	78.0	81.4	79.0
Selling, general and administrative Expenses(2)	5.2	6.5	6.7
Total costs and operating expenses	83.3%	87.9%	85.7%
Gross margin	22.0%	18.6%	21.0%
Operating margin	16.7%	12.1%	14.3%

(1) Includes labor and welfare components of cost of goods sold. Does not include services included under subcontracting. See Directors, Senior Management and Employees .

(2) See Note 23 of Notes to Consolidated Financial Statements.

Our production efficiency in recent years has continued to benefit from operation near or in excess of stated capacity levels. Our capacity utilization rates for 1999, 2000, 2001 and 2002 are not comparable to the capacity utilization rate for earlier periods because in 1999 we began to measure our production capacity based on our actual production capacity rather than the rated capacity specified by our equipment manufacturers. The revised production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. As a result, we believe that the revised capacity utilization rate more accurately calculates the utilization rate of our production capacity. We

Table of Contents

expect to increase our production capacity in the future when we increase our production capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. See Information on the Company Property, Plants and Equipment .

The table below sets out certain information regarding our efficiency in the production of steel products for the periods indicated.

	1998	1999	2000	2001	2002
Crude steel and stainless steel production capacity (million tons per year)(1)	24.53	28.00(2)	28.00	28.00(2)	28.00(2)
Actual crude steel and stainless steel output (million tons)	26.03(3)	26.54(2)	27.74	27.83(2)	28.07(2)
Capacity utilization rate (%)(3)	106.1(3)	94.8	99.1	99.4	100.3
Steel product sales (million tons)(4)	29.79	28.04	28.88	30.07	30.33
Man-hours per ton of Crude steel Produced(5)	1.36	1.29	1.29	1.28	1.26

(1) In 1998, we used the rated crude steel production capacity as specified by the equipment manufacturer to calculate our capacity utilization rate. We determined our actual production capacity for Pohang Works to be 12.20 million tons for 1999, 2000, 2001 and 2002 and our actual production capacity for Kwangyang Works to be 15.80 million tons for 1999, 2000, 2001 and 2002.

(2) Includes production capacity and output of Changwon Specialty Steel.

(3) In 1998, calculated by dividing actual crude steel and stainless steel output by the rated crude steel and stainless steel production capacity for the relevant period as specified by the equipment manufacturer. Starting in 1999, calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

(4) Includes sales by our consolidated sales subsidiaries of steel products purchased by them from third parties, including trading companies to which we sell steel products. These sales amounted to approximately 3.0 million tons in 1998, 1.3 million tons in 1999, 1.4 million tons in 2000, 1.3 million tons in 2001 and 1.2 million tons in 2002.

(5) Does not include in the calculation employees of our subsidiaries or subcontractors.

Exchange Rate Fluctuations

Exchange rate fluctuations also have affected our results of operations and liquidity in recent years. Foreign exchange translation gains and losses arise as a result of fluctuations in the rates of exchange of Won to the foreign currencies in which some of our assets and liabilities are denominated (primarily Dollars and Yen). Depreciation of the Won against the Dollar and other foreign currencies will increase the amount of Won required for us to make interest and principal payments on foreign currency-denominated debt. The Won depreciated against the Dollar by approximately 3.7% between December 31, 2000 and December 31, 2001 in terms of the noon buying rate. The Won appreciated against the Dollar by approximately 9.7% between December 31, 2001 and December 31, 2002. See Key Information Exchange Rate Information . The Won depreciated against the Yen in 2001 but remained relatively stable against the Yen in 2002. See Key Information Risk Factors Adverse Developments in Korea and Asia and Adverse Impact of Depreciation of the Won .

As of December 31, 2000, we had net foreign currency denominated liabilities of approximately W4,582 billion, including net liabilities of approximately US$2,739 million and Yen 97 billion. Primarily as a result of the depreciation in the Won relative to the Dollar, we recorded net foreign exchange transaction and translation losses of W173 billion in 2000, all of which was included in our results of operations. As of December 31, 2001, we had net foreign currency denominated liabilities of approximately W3,764 billion, including net liabilities of approximately US$2,032 million and Yen 105 billion. Primarily as a result of depreciation in the Won relative to the Dollar, we recorded net foreign exchange transaction and

Table of Contents

translation losses of W10 billion in 2001, all of which was included in our results of operations for 2001. As of December 31, 2002, we had net foreign currency denominated liabilities of W3,207 billion, including net liabilities of approximately US$1,840 million and Yen 92 billion. Primarily as a result of the appreciation in the Won relative to the Dollar and the Yen, we recorded net foreign exchange translation gains of W135 billion in 2002, all of which was included in our results of operations for 2002. Our ultimate foreign currency translation gains and losses will depend on future currency exchange rates and other factors.

In addition to the impact of foreign exchange rates on us arising from our foreign currency-denominated borrowings, we are affected by exchange rate fluctuations because we obtain most of our raw materials and some of our equipment from sources outside Korea and the prices of these raw materials and equipment are stated in currencies other than the Won, generally in Dollars. A substantial portion of our freight costs are also affected by the Won-Dollar exchange rate. We attempt to minimize our exposure to currency fluctuations by attempting to maintain export sales, which result in foreign currency receipts, at a level that covers foreign currency obligations to the extent feasible. As a result, a decrease in our export sales could increase our foreign exchange risks.

From time to time we enter into cross currency swap agreements in the management of our interest rate and currency risks and currency forward contracts with financial institutions to hedge the fluctuation risk of future cash flows. As of December 31, 2002, we had entered into one cross-currency interest rate swap contract and four currency forward contracts. As of December 31, 2002, we estimate that the net valuation loss of our existing derivative transactions was approximately W11.2 billion and net transaction gain was W9.8 billion. We may incur losses under our existing swap transactions or any swap or other derivative product transactions entered into in the future. See Note 22 of Notes to Consolidated Financial Statements.

Significant Changes in Our Method for Calculating Retirement and Severance Benefits

On March 24, 2000, we amended our method for calculating retirement and severance benefits to conform to practices of Government-owned companies which have reduced the amount of such retirement and severance benefits. The new method came into effect on May 17, 2000 for us and October 16, 2000 for our ten subsidiaries, and as part of the adoption of the new method, our employees may elect to receive the entire amount of their severance payment accrued up to May 16, 2000 (or October 15, 2000 for employees of our ten subsidiaries) if their severance payment is equal to or less than W50 million. For our employees making such election whose severance payment is greater than W50 million, they received W50 million on June 15, 2000 (or November 2000 for employees of our ten subsidiaries) and received the remaining amount on June 15, 2001. Employees who have been employed by us for more than a year are entitled to a lump-sum payment based on the length of their service and their wage rates at the time of termination. Under the new calculation method, employees receive as retirement and severance pay one-month s salary for each year of service. Under the old calculation method, employees had received 1.6 month s salary for each year of employment. The total amount of retirement and severance benefits payable to eligible employees of POSCO as of May 16, 2000 and employees of our ten subsidiaries as of October 15, 2000 was estimated to be W1,530 billion, of which W1,084 billion was paid in 2000 and the remaining balance of W447 billion was recorded as other accounts payable and was paid on June 15, 2001.

Impairment Loss on the Second Mini-mill at Kwangyang Works

We started the construction of a second mini-mill at Kwangyang Works in 1997. The Board of Directors decided in May 1998 to suspend the construction of the mini-mill due to the unstable economic condition in Korea and the Asia Pacific Region. Pursuant to Korean GAAP, we recognized an impairment loss of W54.0 billion in 2001 and an additional W139.8 billion in 2002. As of December 31, 2002, accumulated impairment loss recognized totaled W240 billion. As a result of the impairment write-downs, the carrying value of the investment in the mini-mill became W302 billion and was included as construction in progress under fixed assets as of December 31, 2002.

On April 9, 2002, our management s operations committee approved the Tailor Welded Blank (TWB) project designed to manufacture custom-made automobile body panels, and we decided to use structures and buildings of the mini-mill for the project. The TWB plant became operational in April 2003. The Korean GAAP impairment losses in 2001 and 2002 were based on the useful value of the mini-mill s structures and buildings for the TWB plant. We do not expect to recognize additional impairment loss under Korean GAAP. See Critical Accounting Policies. Impairment of Long-lived Assets and Note 30(i) of Notes to Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with Korean GAAP and reconciled to U.S. GAAP. The preparation of these financial statements under Korean GAAP as well as the U.S. GAAP reconciliation requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have identified the following areas where we believe assumptions and estimates are particularly critical to the financial statements:

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for exposures in our receivable balances that represent our estimate of probable losses in our short-term and long-term receivable balances. Determining the allowance for doubtful accounts requires significant management judgment and estimates including, among others, the credit worthiness of our customers, experience of historical collection patterns and the ongoing risk assessment of our customers ability to pay. Unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to make additional allowances to our receivable balances.

Impairment of Investment Securities

When the fair value of a listed equity security or the net equity value of an unlisted equity security held for investment (excluding those of affiliates and subsidiaries) declines compared to acquisition cost and is not expected to recover (impaired investment security), the value of the equity security is adjusted to its fair value or net equity value, with the valuation loss charged to current operations. When the fair value of a held-to-maturity or an available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to its fair value with the resulting valuation loss charged to current operations.

As part of this review, the investee s operating results, net asset value and future performance forecasts as well as general market conditions are taken into consideration. If we believe, based on this review, that the market value of an equity security or a debt security may realistically be expected to recover, the loss will continue to be classified as temporary. If economic or specific industry trends worsen beyond our estimates, valuation losses previously determined to be recoverable may need to be charged as a valuation loss in current operations.

Significant management judgment is involved in the evaluation of declines in value of individual investments. The estimates and assumptions used by management to evaluate declines in value can be impacted by many factors, such as the financial condition, earnings capacity and near-term prospects of the company in which we have invested and, for publicly-traded securities, the length of time and the extent to which fair value has been less than cost. The evaluation of these investments is also subject to the overall condition of the economy and its impact on the capital markets.

Table of Contents

Impairment of Long-lived Assets

The depreciable lives of long-lived assets are estimated and the assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. When the book value of long-lived asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a sharp decline in market value and the amount is material, the impairment of assets is recognized and the asset s carrying value is reduced to its recoverable value and the resulting impairment loss is charged to current operations. Such recoverable value is based on our estimates of the future use of assets which is subject to changes in market conditions.

Our estimates of the useful lives and recoverable values of long-lived assets are based on historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future cash flows are expected to be generated by the assets that we review for impairment. As a result of the impairment review, when the sum of the discounted future cash flows expected to be generated by the assets is less than the book value of the assets, we recognize impairment losses based on the recoverable value of those assets. Further impairment charges may be required if triggering events occur, such as adverse market conditions, suggesting deterioration in an asset s recoverability or fair value. Assessment of the timing of when such declines become other than temporary and/or the amount of such impairment is a matter of significant judgment.

OPERATING RESULTS

2002 Compared to 2001

Our sales in 2002 increased by 9.4% to W14,355 billion from W13,121 billion in 2001, reflecting an increase of 6.1% in the average unit sales price per ton of our steel products and a 0.9% increase in the sales volume of our steel products.

Sales volume for stainless steel products, which accounted for 4.6% of total sales volume, increased by 10.1% in 2002. Sales volume for specialty products, which accounted for 5.0% of total sales volume, increased by 4.4%. In addition, sales volume for cold rolled products, which accounted for 31.3% of total sales volume, and hot rolled products, which accounted for 37.8%, increased by 0.8% and 0.7%, respectively. Sales volume for wire rods, which accounted for 9.3% of total sales volume, increased by 0.2%. On the other hand, sales volume for plates, which accounted for 10.1% of total sales volume, and galvanized steel sheets, which accounted for 1.9%, decreased by 2.7% and 0.3%, respectively. See Information on the Company Business Overview Major Products .

Domestic sales in 2002 increased by 13.5% in terms of sales revenues and 0.9% in terms of sales volume compared to 2001. In 2002, our domestic sales accounted for approximately 69.5% of our total sales volume for steel products, consistent with 2001. The increase in domestic sales revenues in 2002 compared to 2001 was attributable primarily to an increase in the price of steel products sold in Korea.

Export sales in 2002 increased by 1.7% in terms of sales revenues and 0.8% in terms of sales volume compared to 2001. Exports as a percentage of total sales volume remained consistent at approximately 30.5% in 2002 compared to 2001. The increase in export sales in 2002 compared to 2001 was primarily attributable to a strong demand for our products from Asia other than China and Japan. Our export sales to this region in 2002 increased by 30.0% to W1,069 billion from W822 billion in 2001.

Gross profit in 2002 increased by 23.6% to W3,017 billion from W2,441 billion in 2001. Gross margin in 2002 increased to 21.0% from 18.6% in 2001, as the 9.4% increase in net sales more than offset a 6.2% increase in cost of goods sold in 2002 compared to 2001. The increase in cost of goods sold was attributable primarily to increases in purchase of raw materials and depreciation, as well as an increase in labor expenses described below, which more than offset decreases in our repair-related expenses. Raw materials costs in 2002 increased by 8.9% to W5,340 billion from W4,905 billion in 2001 primarily as a result of a general increase in the unit cost of raw materials other than iron ore and an increase in our production of crude steel to 28.1 million tons in 2002 compared to 27.8 million tons in 2001. In 2002, depreciation increased by 12.7% to W1,338 billion while repairs expense decreased by 10.3% to W274 billion. In addition, we did not record any provision for special repairs in 2002 compared to W46 billion in 2001. Our repairs expense decreased as a result of partial completion of repair projects.

Labor expenses, which consist of salaries and wages, provisions for severance benefits and welfare expenses included in cost of goods sold and in selling, general and administrative expenses, increased by 23.2% in 2002 to W1,497 billion from W1,215 billion in 2001 due primarily to increases in average wages and bonuses and provisions for severance benefits. We increased our provision for severance benefits included in cost of goods sold to W119 billion in 2002 compared to W71 billion in 2001 to reflect increases in average wages and the number of employees expected to retire in the near future. See Overview Significant Changes in Our Method of Calculating Retirement and Severance Benefits and Note 2 of Notes to Consolidated Financial Statements.

Operating income in 2002 increased by 29.1% to W2,050 billion compared to W1,587 billion in 2001. Operating margin increased to 14.3% in 2002 from 12.1% in 2001, as selling, general and administrative expenses increased by 13.2% in 2002 to W967 billion compared to W854 billion in 2001. The increase in selling, general and administrative expenses resulted principally from increases in labor-related expenses discussed above, as well as increases in advertising and fees and charges. Our advertising expenses increased by 54.6% to W37 billion compared to W24 billion in 2001 as we increased our global advertising during the 2002 FIFA Worldcup soccer tournament. An increase of 31.7% in fees and charges to W53 billion in 2002 from W41 billion in 2001 resulted primarily from fees and charges related to process innovation initiatives and FIFA Worldcup-related sponsorships.

Our net income in 2002 increased by 28.8% to W1,089 billion compared to W846 billion in 2001 as increases in operating income and foreign exchange gains, as well as reductions in interest expense and foreign exchange losses, more than offset increases in other bad debt allowance and loss on valuation of equity method investments and loss on impairment of property, plant and equipment. Foreign exchange gains in 2002 increased by 24.9% to W261 billion from W209 billion in 2001 as a result of the appreciation of the Won against major currencies, primarily against the Dollar. Interest expense in 2002 decreased by 26.4% to W332 billion compared to W451 billion in 2001 due to our reduction in debt and a general decrease in interest rates. Other bad debt allowance in 2002 increased significantly to W187 billion from W2 billion and loss on valuation of equity method investments increased more than three-fold to W129 billion in 2002 compared to W29 billion in 2001 primarily as a result of the liquidation of POSVEN in 2002. Other bad debt allowance and valuation loss related to POSVEN in 2002 amounted to W133 billion and W135 billion, respectively. Loss on impairment of property, plant and equipment of W54 billion in 2001 and W140 billion in 2002 arose from our decision to permanently cease construction of our no. 2 minimill at Kwangyang.

Our effective tax rate for 2002 was 26.4% compared to 28.7% in 2001, partially due to a decrease in statutory tax rate to 29.7% in 2002 from 30.8% in 2001 and an increase in tax credit to W81 billion in 2002 from W61 billion in 2001. See Note 25 of Notes to Consolidated Financial Statements.

2001 Compared to 2000

Our sales in 2001 decreased by 4.8% to W13,121 billion from W13,776 billion in 2000, reflecting a decrease of 9.3% in the average unit sales price per ton of our steel products which more than offset a 4.1% increase in the sales volume of our steel products.

Sales volume for hot rolled products, which accounted for 37.9% of total sales volume of steel products in 2001, increased by 12.7% in comparison to 2000. In addition, sales volume for galvanized steel sheets, which accounted for 2.0% of total sales volume, and wire rods, which accounted for 9.3%, increased by 9.0% and 5.7%, respectively. Sales volume for plates, which accounted for 10.5% of total sales volume, remained constant at 3,146 thousand tons. On the other hand, sales volume for stainless steel products, which accounted for 4.2% of total sales volume, and cold rolled products, which accounted for 31.3%, decreased by 11.0% and 0.1%, respectively. See Information on the Company Business Overview Major Products .

Domestic sales in 2001 decreased by 7.1% in terms of sales revenues and increased by 4.2% in terms of sales volume compared to 2000. In 2001, our domestic sales accounted for approximately 69.5% of our total sales volume for steel products, consistent with 2000. The decrease in domestic sales revenues in 2001 compared to 2000 was attributable to a general decline in the unit sales prices for our principal product lines which more than offset an increase in sales volume.

Export sales in 2001 increased by 0.1% in terms of sales revenues and increased by 4.0% in terms of sales volume compared to 2000. Exports as a percentage of total sales volume remained consistent at 30.5% in 2001 compared to 2000. The increase in export sales volume in 2001 compared to 2000 was primarily attributable to stronger demand for our products in China. Our export sales volume to China in 2001 increased by 6.4% to 3.0 million tons from 2.8 million tons in 2000.

Gross profit in 2001 decreased by 19.3% to W2,441 billion from W3,025 billion in 2000. Gross margin in 2001 decreased to 18.6% from 22.0% in 2000, as the 4.8% decrease in net sales more than offset a 0.7% decrease in cost of goods sold in 2001 compared to 2000. The decrease in cost of goods sold was attributable primarily to decreased raw materials, subcontracts and provision for special repairs, which more than offset an increase in other purchases. Raw material costs decreased by 8.0% in 2001 to W4,905 billion from W5,329 billion in 2000 principally as a result of a substantial decrease in the prices in Won terms of raw materials used in our production of stainless steel products, including nickel and chrome, which more than offset an increase in the prices in Won terms of iron ore and coal. See Information on the Company Business Overview Raw Materials . Our subcontract expenses decreased by 30.5% in 2001 to W333 billion from W479 billion in 2000 principally as a result of a reduction in subcontracting for maintenance services. Our provision for special repairs decreased by 66.3% in 2001 to W46 billion from W137 billion in 2000 principally as a result of the partial completion of special repair projects.

Labor expense, which consist of wages, provisions for severance benefits, salaries and welfare expense included in cost of goods sold and in selling, general and administrative expenses, decreased by 5.1% in 2001 to W1,215 billion from W1,281 billion in 2000 due primarily to decrease in provision for severance benefits by 67.1% in 2001 to W71 billion from W216 billion in 2000 which more than offset a 7.9% increase in salaries and wages. See Overview Significant Changes in Our Method of Calculating Retirement and Severance Benefits and Note 2 of Notes to Consolidated Financial Statements.

Operating income in 2001 decreased by 31.2% to W1,587 billion in 2001 compared to W2,306 billion in 2000. Operating margin decreased to 12.1% in 2001 from 16.7% in 2000, as selling, general and administrative expenses increased by 18.9% in 2001 to W854 billion compared to W718 billion in 2000. The increase in selling, general and administrative expenses resulted principally from an increase in freight and depreciation expenses. Our freight expenses increased by 21.0% in 2001 to W406 billion compared to W336 billion in 2000 primarily as a result of an increase in freight rates. Our depreciation increased by 92.8% in 2001 to W47 billion compared to W24 billion in 2000 primarily as a result of addition of new equipment for our process innovation initiatives.

Our net income in 2001 decreased by 48.2% in 2001 to W846 billion compared to W1,634 billion in 2000 as a result of the decrease in operating income and the fact that we did not record any net extraordinary income in 2001 compared to net extraordinary income of W946 billion in 2000 as discussed below. This combined effect more than offset a decrease in our donations by 81.5% in 2001 to W83 billion compared to W449 billion in 2000 and a decrease in our foreign exchange transaction and translation losses by 94.1% in 2001 to W10 billion compared to W173 billion in 2000. Our net foreign exchange transaction and translation losses in 2001 were a result of depreciation of the Won against major currencies, primarily against the Dollar, in 2001.

Our effective tax rate for 2001 was 28.7% compared to 29.6% in 2000. See Note 25 of Notes to Consolidated Financial Statements.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Capital Requirements

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through long-term and short-term debt. We do not depend on the use of off-balance sheet financing arrangements. Net cash provided by operations was W2,055 billion in 2000, W1,909 billion in 2001 and W3,213 billion in 2002. Total long-term debt, including current portion but excluding discounts on debentures issued, was W5,589 billion as of December 31, 2000, W5,670 billion as of December 31, 2001 and W4,537 billion as of December 31, 2002. As of December 31, 2002, W2,279 billion out of the total amount of long-term debt, including current portion but excluding discounts on debentures issued, was denominated in Won, and the equivalent of W2,258 billion was denominated in foreign currencies, principally in Dollars and Yen.

Uses of cash consisted principally of purchases of property, plant and equipment and other assets and payments of long-term debt. In addition, in 2000, we used W1,088 billion for payment of severance benefits, mostly in connection with the amendment of the method for calculating retirement and severance benefits described in Significant Changes in Our Method for Calculating Retirement and Severance Benefits above. Our payment of severance benefits significantly decreased to W9 billion in 2001 and W14 billion in 2002. Net cash used for investing activities was W800 billion in 2000, W1,559 billion in 2001 and W2,146 billion in 2002. These amounts included purchases of property, plant and equipment of W874 billion in 2000, W1,496 billion in 2001 and W1,689 billion in 2002. In 2000 and 2001, we recorded net sale of marketable securities of W334 billion and W477 billion, respectively. In 2002, we recorded net acquisition of marketable securities of W603 billion. In our financing activities, we used cash of W1,544 billion in 2000, W1,384 billion in 2001 and W1,578 billion in 2002 for principal repayments of outstanding long-term debt. We also repurchased 9,876 thousand shares in 2000 for the stabilization of our stock price, retirement of stock and completion of our privatization. We used W1,004 billion in 2000 for the purchase of these shares of treasury stock. We cancelled 2,891,140 and 2,807,690 shares of treasury stock on August 25, 2001 and November 20, 2002, respectively. See Information on the Company Business Overview and Note 20 of Notes to Consolidated Financial Statements.

On February 9, 2001, as a member of a consortium of companies, we acquired 12% of the outstanding stock of SK IMT Co., Ltd. for W192 billion. SK IMT Co., which was incorporated on March 5, 2001, acquired the right to purchase one of three IMT-2000 licenses. IMT-2000 is a third-generation, high-capacity wireless communications system that will offer a full range of wireless data and mobile telecommunications service.

We anticipate that capital expenditures and repayments of outstanding debt will represent the most significant uses of funds for the next several years. Our total capital expenditures were W1,689 billion in 2002 and, under current plans, are estimated to increase to approximately W1,383 billion in 2003 to maintain our competitive strengths and develop higher margin, higher value-added products. We retain the ability to reduce or suspend our planned capital expenditures. However, our failure to undertake planned expenditures on steel-producing facilities could adversely affect the modernization of our production facilities and our ability to produce more higher value-added products.

In addition to our funding requirements relating to our capital investment program, payments of the principal of and interest on indebtedness will require considerable resources. Principal repayment obligations with respect to long-term debt outstanding as of December 31, 2002 are W1,323 billion in the year ending December 31, 2003, W1,028 billion in the year ending December 31, 2004, W1,087 billion in the year ending December 31, 2005, W1,039 billion in the year ending December 31, 2006 and W26 billion in the year ending December 31, 2007. Long-term debt maturing after December 31, 2007 is W34 billion. In addition, as of December 31, 2002, we had short-term borrowings of W588 billion. We expect to repay these obligations primarily through cash provided by operations and additional borrowings.

We paid dividends on common stock in the amount of W240 billion in 2000, W229 billion in 2001 and W214 billion in 2002.

The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2002.

	Payments due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	(in billions of Won)				
Long-term debt	4,537	1,323	2,115	1,065	34
Capital lease obligations	1	1			
Operating leases	46	25	20	1	

We did not have any unconditional purchase obligations as of December 31, 2002. Other long-term contractual obligations include long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of 5 to 20 years and provide for periodic price adjustments to then-market prices. As of December 31, 2002, 165 million tons of iron ore and 33 million tons of coal remained to be purchased under long-term contracts.

The following table sets forth the amount of lines of credit and guarantee commitments provided between the related companies as of December 31, 2002.

		Amount of commitment expiration per period			
Commercial commitments	**Total amounts committed**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	(in billions of Won)				
Lines of credit	24	24			
Guarantees	403	206	163	27	7

Capital Resources

We intend to continue to rely primarily on cash provided by operations and issuances of long-term debt to meet our future working capital and other capital requirements.

From time to time, we incur substantial amounts of long-term and short-term debt through foreign currency borrowings. We incurred long-term debt in foreign currencies of approximately W559 billion in 2000, W319 billion in 2001 and W76 billion in 2002.

Our major sources of cash have been net earnings before depreciation and proceeds of long-term debt and other long-term liabilities, and we expect that these sources will continue to be our principal sources of cash in the future. Depreciation and amortization were W1,240 billion in 2000, W1,317 billion in 2001 and W1,453 billion in 2002, and cash proceeds from long-term debt were W1,684 billion in 2000, W1,451 billion in 2001 and W647 billion in 2002. Short-term borrowings was W718 billion as of December 31, 2001 but decreased to W588 billion as of December 31, 2002.

We believe that we have sufficient working capital available to us for our current requirements and that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt and equity securities and bank borrowings denominated in Won and various foreign currencies. However, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Korean and other financial markets, prevailing interest rates, our credit rating and the Government s policies regarding Won currency and foreign currency borrowings.

Our total shareholders equity increased from W9,558 billion at December 31, 2000 to W11,574 billion at December 31, 2002. This growth is attributable to growth in retained earnings.

Table of Contents

Liquidity

Our liquidity is affected by exchange rate fluctuations. See Overview Exchange Rate Fluctuations . Approximately 33.5% of our sales in 2000, 35.2% of our sales in 2001 and 33.6% of our sales in 2002 were denominated in foreign currencies. Over the last five years, foreign currency revenues, of which approximately two-thirds were denominated in Dollars and one-third in Yen and which were derived almost entirely from export sales, have accounted for approximately 34% to 35% of our net sales. As of December 31, 2002, approximately 49.8% of our long-term debt, including the current portion thereof, was denominated in foreign currencies, principally in Dollars and Yen. We have incurred foreign currency debt in the past principally due to the limited availability and cost of Won-denominated financing in the Republic, which had historically been higher than for Dollar or Yen-denominated financings.

Our liquidity is also affected by our construction expenditures and raw materials purchases. Cash used for purchases of property, plant and equipment was W874 billion in 2000, W1,496 billion in 2001 and W1,689 billion in 2002. Raw material expenses represented 38.7% in 2000, 37.4% in 2001 and 37.2% in 2002. We have entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of five to ten years and provide for periodic price adjustments to then-market prices. At December 31, 2002, 165 million tons of iron ore and 33 million tons of coal remained to be purchased under long-term contracts. In 2002, the average price per ton, including all associated costs such as customs duties and transportation costs, to us for iron ore imports was W30,264 and for coal imports it was W60,830, compared to W32,553 for iron ore and W60,518 for coal in 2001. We may face unanticipated increases in capital expenditures and raw materials purchases. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources which are sufficient for our unanticipated needs.

We had a working capital (current assets minus current liabilities) surplus of W960 billion as of December 31, 2000, W1,342 billion as of December 31, 2001 and W1,432 billion as of December 31, 2002. As of December 31, 2002, we had cash and cash equivalents of W267 billion, short-term financial instruments of W258 billion and marketable securities of W1,203 billion, compared to W407 billion of cash and cash equivalents, W424 billion of short-term financial instruments and W530 billion of marketable securities as of December 31, 2001.

Under Korean GAAP, bank deposits and all highly liquid marketable securities within maturities of three months are considered as cash equivalents. Short-term financial instruments primarily consist of time and trust deposits with maturities between three to twelve months.

As of December 31, 2002, we had unused credit lines of approximately W23 billion out of total available credit lines of W24 billion. These credit lines permit drawings at an interest rate of approximately 7.4%. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements. We had issued guarantees in favor of affiliated and related companies of W403 billion.

In August 1998, we reduced our period for payment of accounts receivable for all customers from 90 days to a range of 70 days to 90 days and reduced it further to a range of 70 days to 80 days in December 1998. In January 2000, we further reduced our accounts receivable period to a range of 30 days to 60 days. We do not believe that these changes in the credit terms for our customers has had or will have a material effect on our cash flows.

INFLATION

Inflation in the Republic, which was 2.2% in 2000, 4.1% in 2001 and is estimated to have been 2.7% in 2002, has not had a material impact on our results of operations in recent years.

Table of Contents

SIGNIFICANT CHANGES IN KOREAN GAAP

The Korean Accounting Standards Board (KASB) has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards, established by the Korean Financial Supervisory Board. SKFAS No. 2 through No. 9 became effective for us on January 1, 2003.

Under SKFAS No. 2, interim financial reports replace quarterly and semi-annual financial standards and should include a balance sheet, income statement, statement of cash flows, and explanatory notes. In principle, interim financial statements should be presented in the same format of the annual financial statements. Interim financial statements should be presented in comparative format. We do not expect the adoption of this statement to have an impact on our financial position or results of operations.

SKFAS No. 3 defines the recognition criteria for internally generated intangible assets. SKFAS No. 3 requires that costs incurred during the research phase be expensed, and also requires the residual value of an intangible asset to be assumed to be zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market for that type of asset and it is probable that such a market will exist at the end of the asset s useful life.

Costs incurred during the development phase are to be capitalized, if certain criteria are met. SKFAS No. 3 also requires start-up costs, training and advertising costs to be expensed as incurred. The useful life of an intangible asset should be based on its estimated useful life, not to exceed twenty years from the date when the asset is available for use. Capitalized software is expected to have a shorter useful life due to its technological obsolescence. Intangible assets should be assessed for impairment annually. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

SKFAS No. 4 clarifies existing standards regarding revenue recognition. Bartering transactions, where goods or services are exchanged for goods or services that are of a similar nature and value, should not result in revenue recognition. Revenue from the sale of goods or services should only be recognized when all the following conditions have been met:

(a) significant risks and rewards of ownership of the goods have been transferred to the buyer;

(b) the enterprise no longer retains legal title or effective control over the goods sold;

(c) the seller s price to the buyer is fixed or determinable;

(d) collectibility is reasonably assured; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Our current policy for revenue recognition is not significantly different from the requirements of SKFAS No. 4. Accordingly, we do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

SKFAS No. 5 requires certain asset retirement obligations to be estimated and recorded as part of its acquisition cost. For exchange of dissimilar assets, fair market value of asset given up should be recorded as acquisition cost for asset acquired. In case of exchange of similar assets, book value of asset given up should be recorded as acquisition cost for asset acquired. However, if a significant amount of cash is involved in an exchange of assets, due to the differences in their fair values, such transaction cannot be treated as an exchange of similar assets. Tangible assets should be written down to their net realization value when the fair market value of the asset declines significantly due to its obsolescence.

SKFAS No. 6 requires that proposed dividends that are subject to ratification from a company s board of directors subsequent to the issuance of the financial statements not be recognized as a liability at the balance sheet date. In addition, appropriation of retained earnings subsequent to the balance sheet date

Table of Contents

should not be reflected in the current year balance sheet. SKFAS No. 6 also requires companies that are undergoing liquidation to present their financial statements under the liquidation basis. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

SKFAS No. 7, Capitalization of Financial Cost , generally requires financial costs to be expensed as incurred, except when certain criteria are met for capitalization. The provision of this standard is to be applied consistently. Capitalized interest costs in connection with past due borrowings should be expensed. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

SKFAS No. 8 requires that marketable equity securities and all debt securities be classified into trading securities, available-for-sale securities or held-to-maturity securities in accordance with the enterprise s intentions. Trading and available-for-sale securities are reported at fair value. Securities that are not publicly traded and which the fair value cannot be reasonably measured are recorded at acquisition cost. Unrealized gains and losses from trading securities are reported as part of the results of operations, whereas unrealized gains and losses from available-for-sale securities are reported as a capital adjustment in the statement of shareholders equity. Transfers of securities from the trading category are prohibited, whereas transfers of securities between available-for-sale and held-to-maturity are permitted. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

SKFAS No. 9 Convertible Security is related to convertible bonds, bonds with warrants and convertible preferred stock, which requires the separate recognition of the convertible features and warrant rights. As of December 31, 2002, we do not hold any convertible securities and believe that SKFAS No. 9 will have no impact on our financial position or results of operations.

U.S. GAAP RECONCILIATION

Our Consolidated Financial Statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. For a discussion of the significant differences between Korean GAAP and U.S. GAAP, see Note 30 of Notes to Consolidated Financial Statements.

We recorded net income under U.S. GAAP of W1,018 billion in 2002 compared to net earnings of W908 billion in 2001 and W1,743 billion in 2000 primarily due to the factors discussed in Operating Results . Our net income under U.S. GAAP of W1,018 billion in 2002 is 6.8% lower than our net income under Korean GAAP of W1,089 billion primarily due to a recognition of W178 billion of impairment on investment securities under U.S. GAAP, which did not qualify for recognition under Korean GAAP. The 2001 and 2000 U.S. GAAP amounts have been restated to reflect certain corrections to previously reported amounts in accordance with U.S. GAAP. See Note 30(i) of Notes to Consolidated Financial Statements.

SIGNIFICANT CHANGES IN U.S. GAAP

During fiscal 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for Impairment and Disposal of Long-lived Assets*. SFAS 144 supercedes SFAS No. 121, *Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of*. The new standard maintains the previous accounting for the impairment or disposal of long-lived assets, but also establishes more restrictive criteria that have to be met to classify such an asset as held for sale . SFAS No. 144 also increases the range of dispositions that qualify for reporting as discontinued operations, and changes the manner in which expected future operating losses from such operations are to be reported. The adoption of this standard did not result in the recognition of additional impairment charges, except those that have already been reflected in the accompanying financial statements.

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement is effective for exit or

Table of Contents

disposal activities initiated after December 31, 2002. We do not expect the adoption of this statement to have an impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. This statement amends SFAS No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for an entity that voluntarily changes to a fair value based method of accounting for stock-based employee compensation, and amends disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with respect to such compensation. We expect to continue to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and will provide the prominent disclosures required in the U.S. GAAP reconciliation footnote.

In November 2002, the FASB issued FASB Interpretation (FIN) 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements are effective for financial statements that end after December 15, 2002. The initial recognition and measurement provisions of FIN 45 apply to guarantees issued or modified after December 31, 2002. Accordingly, we are currently in the process of evaluating the potential impact of adopting FIN 45 on our financial statements.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*. The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns, or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements of FIN 46 apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We do not expect the provisions of this standard to have a material impact on our financial position or results of operations.

RESEARCH AND DEVELOPMENT

We maintain a research and development program to carry out basic research and applied technology development activities. Our technology development department works closely with the Pohang University of Science & Technology, Korea s first research-oriented college founded by us in 1986, and the Research Institute of Industrial Science and Technology, Korea s first private comprehensive research institute founded by us in 1987. At December 31, 2002, we employed a total of 203 researchers, including 144 with doctoral degrees.

In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. At December 31, 2002, the Technical Research Laboratory employed a total of 450 researchers, including 141 with doctoral degrees.

We recorded research and development expenses of W171 billion as cost of goods sold in 2000, W169 billion in 2001 and W161 billion in 2002, as well as research and development expenses of W23 billion as selling and administrative expenses in 2000, W31 billion in 2001 and W41 billion in 2002.

Table of Contents

In addition, we made donations to educational foundations supporting basic science and technology research, amounting to W40 billion, W37 billion and W38 billion in 2000, 2001 and 2002, respectively. We also donated W300 billion to Pohang University of Science & Technology, a university founded by us, in 2000 and an additional W3 billion in 2002. See Note 24 of Notes to Consolidated Financial Statements.

Our research and development program has developed over 2,000 patents and 3,000 proprietary steel-related processes and technologies through December 31, 2002 and has successfully applied many of these to the manufacturing process.

CAPITAL EXPENDITURES AND CAPACITY EXPANSION

Our capital expenditures for 2000, 2001 and 2002 amounted to W874 billion, W1,496 billion and W1,689 billion.

Our current capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. Our total capital expenditures are estimated to be approximately W1,383 billion in 2003. The following table sets out the major items of our capital expenditures currently in progress:

Project	Expected Year of Completion	Total Cost of Project	Estimated Remaining Cost of Completion as of December 31, 2002
			(Billion)
Pohang Works:			
Expansion of stainless steel hot rolling capacity	2003	W507	W101
Installation of smelting reduction process (FINEX) demonstration plant	2003	138	22
Rationalization of second cold rolling facility	2003	48	23
Installation of sinter lines	2004	83	79
Rationalization of lime calcinations facility	2004	32	12
Kwangyang Works:			
Construction of LNG terminal	2005	302	294
Remodeling of first continuous casting cutting system facility	2003	97	65

Item 6. ***Directors, Senior Management and Employees***

Directors and Executive Officers

Our board of directors has the ultimate responsibility for the management of our business affairs. Under our articles of incorporation, our board is to consist of seven directors who are to also act as our executive officers (Standing Directors) and eight directors who are to be outside directors (Non-Standing Directors). Although our shareholders elect both the Standing Directors and Non-Standing Directors at a general meeting of shareholders, our board of directors recommends candidates for Standing Directors after reviewing their qualification in a committee consisting of five Non-Standing Directors (Director Candidate Recommendation and Evaluation Committee). The Director Candidate Recommendation and Evaluation Committee also recommends the candidates for Non-Standing Directors. Any shareholder holding an aggregate of 0.5% or more of our outstanding shares for at least six months may suggest candidates for Non-Standing Directors to the Director Candidate Recommendation and Evaluation Committee.

Our articles of incorporation require that the Standing Directors include one Chairman and one President, each of whom is to serve as a Representative Director. Under the Commercial Code and our articles of incorporation, each of the Representative Directors is authorized to represent us in activities relating to our business.

Our current Standing Directors are:

Name	Position	Division	Years as director	Years with POSCO	Age
Lee, Ku-Taek	Chairman and Representative Director		14	34	57
Kang, Chang-Oh	President and Representative Director		9	32	60
Han, Soo-Yang	Senior Executive Vice President	General Superintendent, Kwangyang Works	6	32	58
Lee, Won-Pyo	Senior Executive Vice President	General Superintendent, Pohang Works	3	31	59
Choi, Kwang-Woong	Senior Executive Vice President	Corporate Strategy, Finance, Investments and Law Affairs	1	32	58
Ryoo, Kyeong-Ryul	Executive Vice President	Process Innovation and Marketing	2	30	55

All Standing Directors are engaged in our business on a full time basis.

Our current Non-Standing Directors are:

Name	Position	Principal Occupation	Years as director	Age
Park, Ungsuh K.	Director	Professor, Sejong University	5	64
Chung, Jay-Young	Director	Professor, Sungkyunkwan University	5	57
Shin, Guil-Soo	Director	Professor, Myongji University	5	59
Lim, Jong-Won	Director	Professor, Seoul National University	5	56
Chevalier, Samuel F.	Director	Advisor, The Bank of New York	6	69
Yoo, Hyun-Shik	Director	Former Chairman and Representative Director, Samsung General Chemicals	1	62
Kim, Han-Kyoung	Director	Former Vice Chairman, SK Corporation	1	62
Kim, E. Han	Director	Professor, University of Michigan	1	56

The terms of office for directors expire at the close of the ordinary general meeting of shareholders convened with respect to the last fiscal year which ends on or before the date three years from the date of acceptance of the office. Our board of directors maintains four sub-committees: Director Candidate Recommendation and Evaluation Committee (as described above); Finance and Operation Committee; Executive Management Committee; and Audit Committee. The Executive Management Committee is composed of six Standing Directors and the Finance and Operation Committee is composed of two Standing Directors and three Non-Standing Directors. Our Audit Committee is described in detail below:

Senior Management:

In addition to the Standing Directors who are also our executive officers, we have the following executive officers:

Name	Position	Division	Years with POSCO	Age
Kim, Jung-Won	Executive Vice President	General Administration Dept.	32	59
Han, Kwang-Hee	Executive Vice President	Tokyo Office	32	57

Name	Position	Division	Years with POSCO	Age
Kim, Dong-Jin	Executive Vice President	China Division	29	56
Yoon, Seok-Man	Executive Vice President	Corporate Communications Dept.	26	54
Hwang, Tae-Hyun	Executive Vice President	Finance Dept.	17	54
Lee, Youn	Executive Vice President	Deputy General Superintendent, Pohang Works	29	55
Cho, Sung-Sik	Executive Vice President	Corporate Strategic Planning Dept.	29	52
Choi, Jong-Tae	Executive Vice President	Human Resources Dept.	29	53
Kim, Byung-Hoon	Senior Vice President	Deputy General Superintendent, Pohang Works	30	55
Hwang, Hwang-Gyu	Senior Vice President	Production Order and Process Dept.	29	52
Lee, Woo In	Senior Vice President	Deputy General Superintendent, Kwangyang Works	29	54
Choi, Jong-Doo	Senior Vice President	Cold Rolled Steel Sale Dept.	26	56
Chung, Joon-Yang	Senior Vice President	Deputy General Superintendent, Kwangyang Works	28	55
Kim, Chang-Ho	Senior Vice President	Education and Training Center	28	56
Hur, Nam-Suk	Senior Vice President	Deputy General Superintendent, Pohang Works	30	53
Oh, Chang-Kwan	Senior Vice President	Marketing Strategy Dept.	27	50
Lee, Jeon-Young	Senior Vice President	Strategic Business Development Dept.	2	49
Kwon, Young-Tae	Senior Vice President	Iron Making Raw Materials Dept.	28	52
Chang, Hyun-Shik	Vice President	LNG Terminal Dept.	3	52
Kwon, Oh-Joon	Vice President	European Union Office	17	52
Chung, Dong-Hwa	Vice President	Deputy General Superintendent, Kwangyang Works	27	51
Kim, Jin-Il	Vice President	Process Innovation Dept.	28	50
Lee, Chun-Hwan	Vice President	Stainless Steel Sales Dept. Facility Investment Dept.	28	56
Lee, Dong-Hee	Vice President	Audit Dept.	26	53
Choi, Byung-Jo	Vice President	Tailor Welded Blank Project Dept. Deputy General Superintendent, Kwangyang Works	27	54
Lee, Sang-Young	Vice President	Deputy General Superintendent, Pohang Works	25	53
Sung, Hyun-Uck	Vice President	Deputy General Superintendent, Pohang Works	27	53
Park, Han-Yong	Vice President	Hot Rolled Products Sales Dept.	25	52

Audit Committee

Under Korean law and our articles of incorporation, we must have an Audit Committee. The Audit Committee may be composed of three or more directors; all members of the Audit Committee must be Non-Standing Directors. Members of the Audit Committee are elected by the shareholders at the ordinary general meeting of shareholders. We currently have an Audit Committee composed of four Non-Standing Directors. Members of our Audit Committee are Jae-Young Chung, E. Han Kim, Ungsuh K. Park and Hyun-Shik Yoo.

Table of Contents

The duties of the Audit Committee include:

- examining the agenda for, and the financial statements and other reports to be submitted by the directors to, the general meeting of shareholders;
- presenting an audit report on the financial statements to the general meeting of shareholders; and
- monitoring our business affairs and accounts.

In addition, we are required to appoint independent certified accountants approved by the Audit Committee and to report such appointment to the general meeting of shareholders.

Compensation of Directors and Officers

We pay our Standing Directors salaries and bonuses as determined by shareholder resolutions. We may pay expenses incurred by our Non-Standing Directors in performance of their services. We may also pay our Non-Standing Directors salaries if our shareholders resolve to do so. The aggregate compensation (salaries, bonuses and allowances) paid and accrued to all directors and executive officers was approximately W7.2 billion in 2002 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was W1.4 billion in 2002.

On April 27, 2002, we granted stock options to purchase 60,000 shares of common stock to our newly appointed executive officers at an exercise price of Won 135,800 per share. Upon vesting, options may be exercised between April 28, 2004 and April 27, 2009.

On September 18, 2002, we granted additional stock options to purchase 22,000 shares of common stock to our Standing Directors, Non-Standing Directors and executive officers at an exercise price of Won 115,600 per share. Upon vesting, options may be exercised between September 19, 2004 and September 18, 2009.

With respect to all of the options granted, we may elect either to issue shares of common stock or pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the date on which the options are granted and within seven years from the second anniversary of the issuance of such options.

Employees

At December 31, 2002, we had 27,100 employees, including 7,931 persons employed by our subsidiaries, almost all of whom were employed within Korea. Of the total number of employees, approximately 80% are technicians and skilled laborers and 20% are administrative staff. We use subcontractors for maintenance, cleaning and transport activities. We had 25,887 employees, including 6,694 persons employed by our subsidiaries, as of December 31, 2001 and 26,261 employees, including 6,982 persons employed by our subsidiaries, as of December 31, 2000.

A labor union was formed by our employees in June 1988. Union membership peaked at 19,026 employees at the beginning of 1991, but has steadily declined since then. At December 31, 2002, only 19 of our employees were members of the POSCO labor union.

We consider our relations with our work force to be excellent. We have never experienced a work stoppage or strike. Wages of our employees are among the highest in Korea. In addition to a base monthly wage, employees receive periodic bonuses and allowances. Base wages are determined annually following consultation between the management and employee representatives, who are currently elected outside the framework of the POSCO labor union.

We maintain a retirement plan, as required by Korean labor law, pursuant to which employees terminating their employment after one year or more of service are entitled to receive a lump-sum payment based on the length of their service and their total compensation at the time of termination. See Operating and Financial Review and Prospects Operating Results 2000 Compared to 1999 for a discussion of our new method of calculating retirement and severance benefits which came into effect on May 17, 2000. See Financial Information Legal Proceedings and Note 31 of Notes to Consolidated Financial Statements for a discussion of litigation relating to retirement and severance benefits. We are required to transfer a portion of retirement and severance benefit amounts accrued by our employees to the National Pension Fund. The amounts so transferred reduce the retirement and severance benefit amounts payable to retiring employees by us at the time of their retirement.

We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company-provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, and cultural and athletic facilities.

At December 31, 2002, our employees owned approximately 0.73% of our common stock through an employee stock ownership association.

To improve operational efficiency and increase labor productivity, we plan to reduce the number of our employees in future years through natural attrition. However, we expect the number of persons employed by our subsidiaries in growth industries to increase in the future.

Item 7. *Major Shareholders and Related Party Transactions*

MAJOR SHAREHOLDERS

The following table sets forth certain information relating to the shareholders of our common stock as of December 31, 2002.

Shareholders	Number of Shares Owned	Percentage
Investment trust companies	5,554,149	6.12%
SK Group	3,029,164	3.34
Pohang University of Science and Technology	3,028,200	3.34
Nippon Steel Corp.(1)	2,894,435	3.19
Industrial Bank of Korea(2)	2,125,461	2.34
Employee stock ownership association	666,601	0.73
Directors and executive officers as a group	10,380	0.01
Public(3)	64,430,129	70.97
POSCO (held in the form of treasury stock)(4)	9,043,276	9.96
Total	90,781,795	100.00%

(1) Held in the form of ADRs.

(2) Industrial Bank of Korea is 77.2%-owned by the Government.

(3) Includes 21,447,188 shares of common stock, representing 23.6% of the total issued shares of common stock, in the form of ADRs.

(4) Includes 822,010 shares of common stock owned by our treasury stock fund.

RELATED PARTY TRANSACTIONS

We have issued guarantees of W654 billion as of December 31, 2000, W531 billion as of December 31, 2001 and W403 billion as of December 31, 2002, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. Please see Note 28 of Notes to Consolidated Financial Statements.

Table of Contents

Item 8. ***Financial Information***

CONSOLIDATED FINANCIAL STATEMENTS

See Item 18 Financial Statements and pages F-1 through F-69.

LEGAL PROCEEDINGS

Claim against the Fair Trade Commission

In December 2000, Hyundai HYSCO requested us to sell hot rolled coils which are necessary in manufacturing cold rolled coils used in the automobile industry to produce car body panels. In response to our refusal to sell hot rolled coils to Hyundai HYSCO, Hyundai Motors announced in January 2001 that it will reduce its purchase of cold rolled products from us. In addition, the Fair Trade Commission began an investigation in a potential non-competitive action by us.

On April 12, 2001, the Fair Trade Commission determined that we participated in anti-competitive action by refusing to sell our hot rolled coils to Hyundai HYSCO. In addition to ordering us to sell hot rolled coils to Hyundai HYSCO, the Fair Trade Commission imposed a fine of W1.6 billion. We brought a claim against the Fair Trade Commission but the Seoul Appellate Court rendered its decision against us in August 2002. We appealed to the Supreme Court in August 2002 and an injunction from performing the decision of the Fair Trade Commission was granted in October 2002 in our favor. We cannot predict the ultimate outcome of our appeal.

Anti-dumping and Countervailing Proceedings and Safeguard Measures

We have been subject to a number of anti-dumping and countervailing proceedings or safeguard measures in the United States, China and the European Union. The U.S., China and European Union anti-dumping and countervailing proceedings or safeguard measures have not had a material adverse effect on our business and operations. However, there can be no assurance that further increases in or new imposition of countervailing duties, dumping duties, quotas or tariffs on our sales in the United States, China or the European Union may not have a material adverse effect on our exports to these regions in the future. See Information on the Company Business Overview Markets Exports .

Except as described above, we are not involved in any pending or threatened legal or arbitration proceedings that may have, or have had during the last 12 months, a material adverse effect on our results of operations or financial position.

DIVIDENDS

The amount of dividends paid on our common stock is subject to approval at the annual general meeting of shareholders, which is typically held in February or March of the following year. In addition to our annual dividends, our board of directors is authorized to declare and distribute interim dividends once a year under our articles of incorporation. If we decide to pay interim dividends, our articles of incorporation authorize us to pay them in cash and to the shareholders of record as of June 30 of the relevant fiscal year. We may pay cash dividends out of retained earnings that have not been appropriated to statutory reserves.

Table of Contents

The table below sets out the dividends declared on our common stock to the holders of record at December 31 of the years indicated. A total of 90,781,795 shares of common stock were issued at the end of 2002. Of these shares, 82,560,529 shares were outstanding and 8,221,266 shares were held by us in treasury. The dividends set out for each of the years below were paid in the immediately following year. The Dollar figures set out below are based on the exchange rates at each payment date.

Period	Cash Dividends per Share of Common Stock	
1998	W1,250	$ 1.04
1999	1,750	1.54
2000	2,500	1.97
2001	2,500	1.90
2002	3,500	2.95

Owners of the ADSs are entitled to receive any dividends payable in respect of the underlying shares of common stock.

Historically, we have paid to holders of record of our common stock an annual dividend. However, we can give no assurance that we will continue to declare and pay any dividends in the future.

Item 9. ***The Offer and Listing***

NOTES

Our 6% notes due 2003, 7% notes due 2005, 7% notes due 2006 and 7% notes 2004 (collectively, the notes) are traded in the over-the-counter market. Sales prices for the notes are not regularly reported on any exchange or other quotation service.

COMMON STOCK AND ADSs

The principal trading market for our common stock is the Korea Stock Exchange. Our common stock is also listed on the New York Stock Exchange and the London Stock Exchange in the form of ADSs. The ADSs have been issued by The Bank of New York as ADR depositary and are listed on the New York Stock Exchange under the symbol PKX . One ADS represents one-fourth of one share of common stock. As of December 31, 2002, 97,366,492 ADSs were outstanding.

THE KOREA STOCK EXCHANGE

The Korea Stock Exchange began its operations in 1956. Currently it is the only stock exchange in Korea. It has a single trading floor located in Seoul. The Korea Stock Exchange is a non-profit making organization privately managed by its members, consisting of most of Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 2002, the aggregate market value of equity securities listed on the Korea Stock Exchange was approximately W259 trillion. The average daily trading volume of equity securities for 2002 was approximately 857 million shares with an average transaction value of W3,042 billion.

The Korea Stock Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Stock Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the

declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Stock Exchange publishes the Korea Composite Stock Price Index (KOSPI) every thirty seconds, which is an index of all equity securities listed on the Korea Stock Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

	Opening	High	Low	Closing	Period Average Dividend Yield(1)	Price Earnings Ratio(2)
					(percent)	
1979	131.28	131.28	104.38	118.97	17.8	3.8
1980	100.00	119.36	100.00	106.87	20.9	2.6
1981	97.9	165.9	93.1	131.3	13.2	3.1
1982	123.6	134.48	106.00	128.99	10.5	3.4
1983	122.52	134.46	115.59	121.21	6.9	3.8
1984	115.25	142.46	115.25	142.46	5.1	4.5
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,013.57	1,016.77	847.09	882.94	1.2	16.4
1996	888.85	986.84	651.22	651.22	1.3	17.8
1997	653.79	792.29	350.68	376.31	1.5	17.0
1998	385.49	579.86	280.00	562.46	1.9	10.8
1999	587.57	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,059.04	1,059.04	500.60	504.62	1.6(3)	18.6(3)
2001	520.95	704.50	468.76	693.70	2.0(3)	14.2(3)
2002	724.95	937.61	614.27	627.55	1.4(3)	18.6(3)
2003 (through April 30)	635.17	666.71	515.24	599.35	1.1(3)	5.5(3)

Source: The Korea Stock Exchange.

(1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.

(2) The price earnings ratio is based on figures for companies that record a profit in the preceding year.

(3) Starting in April 2000, dividend yield and price earnings ratio of KOSPI 200, an index of 200 equity securities listed on the Korea Stock Exchange. Excludes classified companies, companies which did

not submit annual reports to the Korea Stock Exchange, and companies which received disqualified opinions from external auditors.

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period; since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights , permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Stock Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price (Won)	Rounded Down To (Won)
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Stock Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Stock Exchange. See Taxation Korean Taxation .

The number of companies listed on the Korea Stock Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

		Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value		
Year	Number of Listed Companies	(Millions of Won)	(Thousands of Dollars)(1)	Thousands of Shares	(Millions of Won)	(Thousands of Dollars)(1)
1979	355	2,609,414	5,391,351	5,382	4,579	4,641
1980	352	2,526,553	3,828,691	5,654	3,897	5,905
1981	343	2,959,057	4,224,207	10,565	8,708	12,433
1982	334	3,000,494	4,407,711	9,704	6,667	8,904
1983	328	3,489,654	4,386,743	9,325	5,941	7,468
1984	336	5,148,460	6,222,456	14,847	10,642	12,862
1985	342	6,570,404	7,380,818	18,925	12,315	13,834
1986	355	11,994,233	13,924,115	31,755	32,870	38,159
1987	389	26,172,174	33,033,162	20,353	70,185	88,584
1988	502	64,543,685	94,348,318	10,367	198,364	289,963
1989	626	95,476,774	140,489,660	11,757	280,967	414,431
1990	669	79,019,676	110,301,055	10,866	183,692	256,500
1991	686	73,117,833	96,182,364	14,022	214,263	281,850
1992	688	84,711,982	107,502,515	24,028	308,246	391,175
1993	693	112,665,260	139,419,948	35,130	574,048	676,954
1994	699	151,217,231	191,729,721	36,862	776,257	984,223
1995	721	141,151,399	182,201,367	26,130	487,762	629,614
1996	760	117,369,988	139,031,021	26,571	486,834	575,733
1997	776	70,988,897	50,161,742	41,525	555,759	392,707
1998	748	137,798,451	114,090,455	97,716	660,429	471,432
1999	725	349,503,966	305,137,040	278,551	3,481,620	3,039,654
2000	704	188,041,490	150,162,898	306,163	2,602,211	2,078,028
2001	689	255,850,070	194,784,979	432,432	1,813,704	1,390,557
2002	683	258,680,756	216,071,436	857,245	3,041,595	2,540,590
2003 (through April 30)	680	236,904,249	194,934,783	646,740	1,891,726	1,556,757

Source: The Korea Stock Exchange.

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate as announced by the Seoul Money Brokerage Services Limited, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the FSC and the Securities and Exchange Act. The Securities and Exchange Act was amended fundamentally numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the Securities and Exchange Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Table of Contents

Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Korea Stock Exchange. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Korea Stock Exchange or registered on the KOSDAQ, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of all Korean companies which are not listed on the Korea Stock Exchange nor registered on the KOSDAQ and in bonds which are not listed.

Protection of Customer s Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent s creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Korea Stock Exchange and this securities company places a sell order with another securities company which is a member of the Korea Stock Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company. Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company s creditors are concerned.

Under the Securities and Exchange Act, the Korea Stock Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Stock Exchange breaches its obligation in connection with a buy order, the Korea Stock Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to W50 million per depositor per financial institution in case of the securities company s

Table of Contents

bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the Depositor Protection Act with the Korea Securities Finance Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

MARKET PRICE INFORMATION

Common Stock

The shares of our common stock are listed on the first section of the Korea Stock Exchange.

The table below shows the high and low trading prices and the average daily volume of trading activity on the Korea Stock Exchange for our common stock since January 1, 1998.

Period	Price High	Price Low	Average Daily Trading Volume
	(in W)		(Number of Shares)
1998			
First Quarter	80,000	45,900	582,378
Second Quarter	66,900	37,600	285,225
Third Quarter	51,200	42,300	213,969
Fourth Quarter	66,000	53,100	334,232
1999			
First Quarter	69,300	52,100	216,188
Second Quarter	141,000	69,600	508,838
Third Quarter	183,500	133,000	425,493
Fourth Quarter	168,500	114,500	482,011
2000			
First Quarter	149,500	99,800	517,296
Second Quarter	116,000	80,000	442,389
Third Quarter	93,500	75,100	307,953
Fourth Quarter	81,500	58,000	403,766
2001			
First Quarter	104,000	76,500	343,509
Second Quarter	118,000	85,000	240,070
Third Quarter	104,000	74,000	179,392
Fourth Quarter	81,500	127,000	259,027
	101,000	120,000	333,111
2002			
First Quarter	117,500	160,000	303,579
Second Quarter	139,000	133,500	323,772
Third Quarter	130,000	106,500	309,501
Fourth Quarter	130,500	103,500	257,180
November	124,500	112,500	304,470
December	130,500	118,000	241,269

Table of Contents

Period	Price High	Price Low	Average Daily Trading Volume
	(in W)		(Number of Shares)
2003			
First Quarter	133,000	92,400	339,182
January	112,000	92,400	396,721
February	125,000	109,000	331,455
March	133,000	118,000	286,107
Second Quarter (through April 30)	112,500	97,500	315,488
April	112,500	97,500	315,488

ADSs

The outstanding ADSs, each of which represents one-fourth of one share of our common stock, are listed on the New York Stock Exchange and the London Stock Exchange.

The table below shows the high and low trading prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs since January 1, 1998.

Period	Price High	Price Low	Average Daily Trading Volume
	(in US$)		(Number of ADSs)
1998			
First Quarter	23.81	15.00	261,393
Second Quarter	19.00	10.56	462,884
Third Quarter	14.00	10.25	525,270
Fourth Quarter	18.19	13.50	392,523
1999			
First Quarter	20.81	13.00	398,374
Second Quarter	33.75	18.00	585,998
Third Quarter	42.19	30.94	623,911
Fourth Quarter	39.19	30.25	383,006
2000			
First Quarter	43.00	23.75	475,862
Second Quarter	26.25	19.19	509,135
Third Quarter	23.88	17.88	495,173
Fourth Quarter	18.19	14.06	578,037
2001			
First Quarter	22.39	17.75	384,677
Second Quarter	22.80	17.10	378,273
Third Quarter	18.83	13.60	260,559
Fourth Quarter	24.21	15.91	261,502

Table of Contents

Period	Price High	Price Low	Average Daily Trading Volume
	(in US$)		(Number of ADSs)
2002			
First Quarter	29.25	22.41	375,578
Second Quarter	30.64	23.50	354,997
Third Quarter	29.52	21.30	354,083
Fourth Quarter	27.40	21.20	268,748
November	25.83	23.26	300,825
December	27.40	24.67	245,152
2003			
First Quarter	28.66	18.46	324,841
January	28.66	25.00	255,310
February	26.26	22.90	255,616
March	23.08	18.46	438,329
Second Quarter (through April 30)	23.23	19.26	364,595
April	23.23	19.26	364,595

Item 10. ***Additional Information***

ARTICLES OF INCORPORATION

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the Korean Securities and Exchange Act of 1962 (the Securities and Exchange Act), the Commercial Code and related laws of Korea, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the Securities and Exchange Act and the Commercial Code. We have filed copies of our articles of incorporation and these laws as exhibits to registration statements under the Securities Act or the Securities Exchange Act previously filed by us.

General

Currently, our authorized share capital is 200,000,000 shares, which consists of shares of common stock, par value Won 5,000 per share (Common Shares), shares of non-voting stock, par value Won 5,000 per share (Non-Voting Shares) and shares of convertible non-voting preferred stock, par value Won 5,000 per share (Convertible Shares). Common Shares, Non-Voting Shares and Convertible Shares together are referred to as Shares . A Convertible Share is convertible into a Common Share. Our board of directors may determine the conversion period for the Convertible Shares (so long as it is within three years) and the other terms and conditions of the Convertible Shares at the time of their issuance. Under our articles of incorporation, we are authorized to issue Non-Voting Shares and Convertible Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-half of our total issued and outstanding capital stock. As of December 31, 2002, 90,781,785 Common Shares were issued, of which 8,221,266 shares were held by us in treasury and an additional 822,010 shares were held by our treasury stock fund. In 2002, we cancelled 2,807,690 shares in treasury. We have never issued any Non-Voting Shares or Convertible Shares. All of the issued and outstanding Common Shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 3, 4, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Dividends

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The Common Shares represented by the ADSs have the same dividend rights as other outstanding Common Shares.

Holders of Non-Voting Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 9% of the par value of the Non-Voting Shares as determined by the board of directors at the time of their issuance. Holders of Convertible Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 8% of the par value of the Convertible Shares, as determined by the board of directors at the time of their issuance. If the amount available for dividends is less than the aggregate amount of such minimum dividend, we do not have to declare dividends on the Non-Voting Shares or Convertible Shares.

We declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in Shares. However, a dividend of Shares must be distributed at par value. If the market price of the Shares is less than their par value, dividends in Shares may not exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, interim dividends pursuant to a board resolution once a fiscal year. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital and (2) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period. We may not pay an annual dividend unless we have set aside as legal reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. In addition, we are required under the Securities and Exchange Act and the relevant regulations to set aside as reserve a certain amount every fiscal year until our capital ratio is at least 30%. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to capital stock or use legal reserve to reduce an accumulated deficit. See Note 12 of Notes to Consolidated Financial Statements.

Distribution of Free Shares

In addition to paying dividends in Shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Commercial Code, on the terms our board of directors may determine. All our shareholders are generally entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. We must offer new Shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders register as of the relevant record date. Under the Commercial Code, we may vary, without shareholders approval, the terms of these preemptive rights for different classes of shares. We must give public notice of the preemptive rights regarding new Shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute Shares for which preemptive rights have not been exercised or where fractions of Shares occur.

Under our articles of incorporation, we may issue new Shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new Shares are:

- publicly offered pursuant to the Securities and Exchange Act;
- issued to members of our employee stock ownership association;
- represented by depositary receipts;
- issued through offering to public investors, the amount of which is no more than 10% of the outstanding Shares;
- issued to our creditors pursuant to a debt-equity swap;
- issued to domestic or foreign corporations pursuant to a joint venture agreement or technology inducement agreement;
- issued to domestic or foreign financial institutions when necessary for raising funds in emergency cases; or
- issued upon exercise of stock options.

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 1,000 billion, to persons other than existing shareholders.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the Shares publicly offered pursuant to the Securities and Exchange Act. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2002, approximately 0.73% of the outstanding Shares were held by members of our employee stock ownership association.

General Meeting of Shareholders

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

- as necessary;
- at the request of holders of an aggregate of 3% or more of our outstanding Voting Shares;
- at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Voting Shares for at least six months; or
- at the request of our audit committee.

Holders of Non-Voting Shares or Convertible Shares may request a general meeting of shareholders only after the Non-Voting Shares or Convertible Shares become entitled to vote or enfranchised, as described under Voting Rights below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of 1% or less of the total number of issued and outstanding voting Shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. Currently, we use The Korea Daily News published in Seoul, The Maeil Shinmun published in Taegu and The Kwangju Ilbo published in Kwangju for this purpose. Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of Non-Voting Shares or Convertible Shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders, but may attend such meetings.

Our general meetings of shareholders are held either in Pohang or Seoul.

Voting Rights

Holders of our Common Shares are entitled to one vote for each Common Share, except that voting rights of Common Shares held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. A recent amendment to the Commercial Code permitted cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director. However, our shareholders have decided not to adopt, and as a result our articles of incorporation prohibit, cumulative voting.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting Shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting Shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting Shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting Shares then issued and outstanding:

- amending our articles of incorporation;
- removing a director;
- effecting any dissolution, merger or consolidation of us;
- transferring the whole or any significant part of our business;
- effecting our acquisition of all of the business of any other company; or
- issuing any new Shares at a price lower than their par value.

In general, holders of Non-Voting Shares or Convertible Shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases which affect the rights or interests of the Non-Voting Shares or Convertible Shares, approval of the holders of Non-Voting Shares or Convertible Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Shares or Convertible Shares present or represented at a class meeting of the holders of Non-Voting Shares or Convertible Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Shares and Convertible Shares. In addition, if we are unable to pay dividends on Non-Voting Shares and Convertible Shares as provided in our articles of incorporation, the holders of Non-Voting Shares and Convertible Shares will become enfranchised and will be entitled to exercise voting rights until the dividends are paid. The holders of enfranchised Non-Voting Shares and Convertible Shares have the same rights as holders of Common Shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that the Government may give proxies to a designated public official and a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying Common Shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote the Common Shares underlying their ADSs.

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their Shares. To exercise this right, shareholders, including holders of Non-Voting

Table of Contents

Shares and Convertible Shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their Shares. We are obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily Share prices on the Korea Stock Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily Share price on the Korea Stock Exchange for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily Share price on the Korea Stock Exchange for the one week period before such date of the adoption of the relevant resolution. However, the FSC may adjust this price if we or holders of 30% or more of the Shares we are obligated to purchase do not accept the purchase price. Holders of ADSs will not be able to exercise dissenter s rights unless they have withdrawn the underlying common stock and become our direct shareholders.

Register of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders on presentation of the Share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 31 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the Shares, we may, on at least two weeks public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of Shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Securities and Exchange Act, we must file with the FSC and the Korea Stock Exchange (1) an annual securities report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Stock Exchange.

Transfer of Shares

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates. However, to assert shareholders rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, Korean securities companies and banks, including licensed branches of non-Korean securities companies and banks, investment management companies, futures trading companies and internationally recognized foreign custodians and the Korea Securities Depository may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls

Table of Contents

and securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See Exchange Controls and Securities Regulations .

Our transfer agent is Kookmin Bank, located at 24-3, Yoido-dong, Youngdungpo-ku, Seoul, Korea.

Acquisition of Shares by Us

We may not acquire our own Shares except in limited circumstances, such as a reduction in capital. In addition, we may acquire Shares through purchases on the Korea Stock Exchange or through a tender-offer. In addition, we may acquire interests in our own Shares through agreements with trust companies, securities investment trust companies and securities investment companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends, subject to certain procedural requirements.

Under the Commercial Code, except in the case of a reduction in capital, we must resell or transfer any Shares acquired by us from a third party within a reasonable time. In general, corporate entities in which we own more than 50% equity interest may not acquire our Shares. Under the Securities and Exchange Act, we are subject to certain selling restrictions for the Shares acquired by us. In the case of a reduction in capital, we must immediately cancel the Shares acquired by us.

Liquidation Rights

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of Non-Voting Shares and Convertible Shares have no preference in liquidation.

EXCHANGE CONTROLS AND SECURITIES REGULATIONS

Notes

Korean law does not limit the right of non-Koreans to hold notes outside Korea. In order for us to issue the notes outside Korea, we are required to submit a report to the MOFE or our designated foreign exchange bank (depending on the aggregate issuance amount) with respect to the issuance of the notes. Furthermore, in order for us to make payments of principal of or interest on the notes and other amounts as provided in the indenture and the notes, each actual payment should be reviewed by a foreign exchange bank at the time of such actual payment. The purpose of this review is to ensure that the actual remittance amount is consistent with the amounts payable under the notes.

Under Korean law, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates, or exchange rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as suspending or restricting transactions involving foreign exchange or cross border payments (including payments of principal of an interest on the notes), requiring prior approval from the Minister of Finance and Economy for any such transactions or obligating a certain portion of the foreign investor s holdings to be deposited in Korea.

Shares and ADSs

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively the Foreign Exchange Transaction Laws) regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities only to the extent specifically allowed by these laws. The FSC has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Table of Contents

Under the Foreign Exchange Transaction Laws, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as requiring foreign investors to obtain prior approval from the MOFE or obligating a certain portion of the foreign investors holdings to be deposited in Korea.

Government Review of Issuance of ADRs

In order for us to issue shares represented by ADSs, we are required to file a prior report of the issuance with our designated foreign exchange bank or the MOFE, depending on the issuance amount. No further Korean governmental approval is necessary for the initial offering and issuance of the ADSs.

Under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We can give no assurance that we would grant our consent, if our consent is required.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of shares, whether in the form of shares or ADSs, certificates representing the rights to subscribe for Shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, the Equity Securities) together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status of the holdings to the FSC and the Korea Stock Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Stock Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the FSC may issue an order to dispose of non-reported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company s shares accounts for 10% or more of the total issued and outstanding shares must report the status of his or her shareholding to the Korea Securities Futures Commission and the Korea Stock Exchange within ten days after he or she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities and Futures Commission and the Korea Stock Exchange within the 10th day of the month following the month in which the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service (the FSS) as described below. The acquisition of the shares by a foreigner must be immediately reported by the foreigner or his standing proxy in Korea to the Governor of the FSS (the Governor).

Table of Contents

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws and FSC regulations (together, the Investment Rules), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Korea Stock Exchange or registered on the KOSDAQ, unless prohibited by specific laws. Foreign investors may trade shares listed on the Korea Stock Exchange or registered on the KOSDAQ only through the Korea Stock Exchange or the KOSDAQ, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (Converted Shares) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders rights, including preemptive rights or rights to participate in free distributions and receive dividends; and
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded with certain exceptions.

For over-the-counter transactions of shares between foreigners outside the Korea Stock Exchange or the KOSDAQ with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Korea Stock Exchange or the KOSDAQ must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Stock Exchange or the KOSDAQ (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the MOFE. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the Korea Stock Exchange or the KOSDAQ, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the Korea Stock Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; *provided, however,* that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Stock Exchange or the KOSDAQ in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the securities company engaged to facilitate such

Table of Contents

transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies, investment trust companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise shareholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies, the Korea Securities Depository, investment trust companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. We set this ceiling at 3% until the discontinuation of our designation as a public corporation on September 28, 2000. As a result, we currently do not have any ceiling on the acquisition of shares by a single person. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Korean banks authorized by the Foreign Investment Promotion Law. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds ma