POSCO
Form 20-F
June 28, 2005

Table of Contents

As filed with the Securities and Exchange Commission on June 28, 2005

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, 2004
Commission file number 1-13368

POSCO
(Exact name of Registrant as specified in its charter)

The Republic of Korea
(Jurisdiction of incorporation or organization)
Finance Division
POSCO Center
892 Daechi-4-dong
Gangnam-gu
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 Won 5,000 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.
$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.

80,503,664 shares of common stock, par value Won 5,000 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 No o

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

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.
Australian Dollar or A$	The currency of the Commonwealth of Australia.
common stock	Common stock, par value Won 5,000 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.
Yen or JPY	The currency of Japan.
Korean GAAP	Generally accepted accounting principles in the Republic of Korea.
Gwangyang Works	Gwangyang 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.
Securities Exchange Act	The United States Securities Exchange Act of 1934, as amended.
SEC	The United States Securities and Exchange Commission.
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

PART I

Item 1. ***Identity of Directors, Senior Managers and Advisors***

Item 1A. ***Directors and Senior Management***

Not applicable

Item 1B. ***Advisers***

Not applicable

Item 1C. ***Auditors***

Not applicable

Item 2. ***Offer Statistics and Expected Timetable***

Not applicable

Item 3. ***Key Information***

Item 3A. ***Selected Financial Data***

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The selected financial data as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004 is derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP.

Table of Contents

INCOME STATEMENT DATA

	For the Year Ended December 31,					
	2000	2001	2002	2003	2004	2004(11)
	(in billions of Won and millions of Dollars, except per share data)					
Korean GAAP:						
Sales(1)	W 13,776	W 13,121	W 14,355	W 17,789	W 23,973	US $ 23,160
Cost of goods sold(2)	10,752	10,680	11,338	13,451	17,361	16,772
Selling and administrative expenses	718	854	967	1,075	1,293	1,249
Operating income	2,306	1,587	2,050	3,263	5,319	5,139
Interest expense	464	451	332	250	192	186
Foreign exchange transaction and translation gains (losses), net	(173)	(10)	135	(105)	179	173
Donations(3)	449	83	50	103	170	164
Income taxes	689	337	398	730	1,502	1,451
Net earnings	1,634	846	1,089	1,996	3,814	3,685
Earnings per share of common stock(4)	19,131	10,366	13,295	24,496	47,185	45.58
Dividends per share of common stock	2,500	2,500	3,500	6,000	8,000	7.73
U.S. GAAP(5):						
Operating income	W 2,475	W 1,588	W 2,021	W 3,235	W 5,299	US $ 5,120
Net earnings	1,743	908	1,018	1,997	3,460	3,343
Basic and diluted earnings (loss) per share of common stock	20,410	11,126	12,430	24,508	42,806	41.35

BALANCE SHEET DATA

	As of December 31,					
	2000	2001	2002	2003	2004	2004(11)
	(in billions of Won and millions of Dollars)					
Korean GAAP:						
Working capital(6)	W 960	W 1,342	W 1,695	W 3,450	W 5,493	US $ 5,307
Property, plant and equipment, net(7)	10,455	10,601	10,325	9,846	10,440	10,086
Total assets(7)	20,147	19,405	19,077	20,769	24,129	23,311
Long-term debt(8)(9)(10)	4,159	4,235	3,194	2,952	2,051	1,981
Total stockholders equity(7)	9,558	10,351	11,820	13,250	16,386	15,830
U.S.GAAP(5):						
Property, plant and equipment, net	W 10,113	W 10,522	W 10,322	W 9,880	W 10,541	US $ 10,184

Total assets	19,620	19,285	19,000	20,838	24,279	23,456
Total shareholders equity	9,936	10,940	11,464	13,018	16,208	15,658

(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) Includes donations to educational foundations supporting basic science and technology research. See Item 5. Operating and Financial Review and Prospects Item 5C. Research and Development, Patents and Licenses, Etc. and Note 24 of Notes to Consolidated Financial Statements.

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

(5) A description of the material differences between Korean GAAP and U.S. GAAP as well as the reconciliation to U.S. GAAP are discussed in detail in Note 33 of Notes to Consolidated Financial Statements.

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

(7) Reflects revaluations of assets permitted under Korean law.

(8) Net of current portion and discount on debentures issued.

(9) For information regarding swap transactions entered into by us, see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Exchange Rate Fluctuations and Note 22 of Notes to Consolidated Financial Statements.

(10) 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.

(11) Translated into U.S. Dollars at the rate of Won 1,035.10 to US$1.00, the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2004. This translation should not be construed as a representation that the Korean Won amounts represent, have been, or could be converted to U.S. Dollars at that rate or any other rate.

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)		
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
2003	1,192.0	1,183.0	1,262.0	1,146.0
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005 (through June 24)	1,013.5	1,009.8	1,058.0	997.0
January	1,026.9	1,038.0	1,058.0	1,024.0
February	1,000.9	1,023.1	1,044.0	1,000.9
March	1,015.4	1,007.8	1,023.9	997.5
April	997.0	1,010.1	1,019.0	997.0
May	1,005.0	1,001.8	1,009.0	997.0
June (through June 24)	1,013.5	1,009.6	1,016.0	1,003.0

Source: Federal Reserve Bank of New York.

(1) The average rate for each full year is calculated as the average of the noon buying rates on the last business day of each month during the relevant year. The average rate for a full month is calculated as the average of the noon buying rates on each business day during the relevant month (or portion thereof).

Table of Contents

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.

Item 3B. ***Capitalization and Indebtedness***

Not applicable

Item 3C. ***Reasons for Offer and Use of Proceeds***

Not applicable

Item 3D. ***Risk Factors***

You should carefully consider the risks described below.

Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.

We are incorporated in Korea, and substantially all of our operations and assets are located in Korea. In addition, Korea is our most important market, accounting for 74.2% of our total sales volume of steel products in 2004. 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. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea.

From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it is widely believed the country has now recovered to a significant extent. However, the economic indicators in the past three years 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 related to the terrorist attacks in the United States on September 11, 2001, recent developments in the Middle East including the war in Iraq, higher oil prices, the general weakness of the global economy and the outbreak of severe acute respiratory syndrome, or SARS, in Asia and other parts of the world have increased the uncertainty of global economic prospects and may continue to adversely affect the Korean economy. Any future deterioration of the Korean and global economy could adversely affect our financial condition and results of operations.

Developments that could have an adverse impact on Korea s economy include:

- financial problems relating to *chaebols,* or Korean conglomerates, and their suppliers;
- failure or lack of progress in restructuring of *chaebols* and other large troubled companies or the financial sector, including credit card companies;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain *chaebols;*
- a slowdown in consumer spending;
- adverse changes or volatility in foreign currency reserve levels, commodity prices, exchange rates, interest rates or stock markets;
- adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of manufacturing base from Korea to China);

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, would lead to an increased government budget deficit;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

the recurrence of SARS or avian flu in Asia and other parts of the world;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;

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; and

an increase in the level of tension or an outbreak of hostilities between North Korea and Korea or the United States.

We rely on export sales for a significant portion of our total sales. Adverse economic and financial developments in Asia in the future may have an adverse effect on demand for our products in Asia and increase our foreign exchange risks.

Our export sales accounted for 25.8% of our total sales volume for steel products in 2004. Our export sales to Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 76.9% of our total export sales volume for steel products in 2004, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, 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, especially companies in the construction, shipbuilding, automobile, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with addition of new steel production capacity, particularly in China and India, may also reduce export prices in Dollar terms of 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.

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 53.4% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2004;

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 primarily in Dollars; and

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

Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables 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.

6

Table of Contents

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 Stock Market Division of the Korea Exchange (formerly the Korea Stock Exchange) and, as a result, will likely affect the market price of the ADSs. These fluctuations will also 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, including iron ore and coal. In 2004, we imported approximately 42 million tons of iron ore and 21 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations.

We expect expansion of global steel production capacity in the near future, and over-capacity in the global steel industry may return.

In recent years, driven in part by strong growth in steel consumption in China, the global steel industry has experienced favorable market conditions, which have led to renewed interest in expansion of steel production capacity. In a January 2005 conference organized by the OECD and the International Iron and Steel Institute, participants expected global crude steel production capacity to increase from 1,184 million tons in 2004 to more than 1,305 million tons in 2006, primarily as a result of additions of new capacity in China, India and other Asian countries. Over-capacity in the global steel industry may return if increase in demand from developing countries that have experienced significant growth in the past several years does not meet this growth in production capacity. Over-capacity will affect our ability to expand export sales and to increase steel production in general, as well as reduce export prices in Dollar terms of our principal products.

Consolidation in the global steel industry may increase competition.

In recent years, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. For example, Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM Holdings and Ispat International merged in October 2004 to create Mittal Steel. Arcelor produced 47 million tons of steel in 2004 and Mittal Steel recorded shipments of 42 million tons of steel products in 2004. With the proposed acquisition of International Steel Group, Mittal Steel is expected to become the world s largest steelmaker, with annual production capacity of 70 million tons. Competition from global steel manufacturers with expanded production capacity such as Mittal Steel and Arcelor, and new market entrants, especially from China, could result in significant price competition, declining margins and reductions in revenue. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

A number of our products have been and may become subject to anti-dumping and countervailing proceedings or safeguard measures, which may have an adverse effect on our export sales.

In recent years, a number of our products have been subject to anti-dumping and countervailing proceedings or safeguard measures, including in the United States and China. Further increases in or new imposition of dumping duties, countervailing duties, quotas or tariffs on our sales in these markets may have a material adverse effect on our exports to these regions in the future. Exports to these regions accounted for 12.2% of our sales volume of steel products in 2004. See Item 4. Information on the Company Item 4B. Business Overview Markets Exports.

Table of Contents

Escalations in tension with North Korea could have an adverse effect on us and the market value of our common stock and ADSs.

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons program and increased uncertainty regarding North Korea s actions and possible responses from the international community. In addition, the United States proposed plans in June 2004 to withdraw approximately one-third of the 37,500 troops currently stationed in Korea by the end of 2005. Specific details regarding the timing and other aspects of the proposed reduction in U.S. troops have not been finalized and talks between the governments of the United States and Korea are ongoing.

In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held six party multi-lateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. Two more rounds were held in February 2004 and June 2004 without any resolution, and the parties agreed to hold further talks. In February 2005, North Korea pulled out of the six-party disarmament talks and announced that it possesses nuclear weapons. In June 2005, North Korea indicated that it would return to the six-party talks, but it remains uncertain whether the discussion will resume.

Any further increase in tension on the Korean peninsula, including breakdown of high-level contacts between Korea and North Korea or occurrence of military hostilities, could have a material adverse effect on our operations and the market value of our common stock and ADSs.

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 (i) 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 (ii) 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 Item 10. Additional Information Item 10D. 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

Table of Contents

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. 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.

Item 4. *Information on the Company*

Item 4A. *History and Development of the Company*

We were established by the Government on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. 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 and listing our shares on the Stock Market Division of the Korea Exchange. 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, and The Korea Development Bank completed the sale of our shares that it owned in September 2000. The Government no longer holds any direct interest in us, and our outstanding common stock is currently held by individuals and institutions. See Item 7. Major Shareholders and Related Party Transactions Item 7A. Major Stockholders.

Our legal and commercial name is POSCO. Our principal executive offices are located at POSCO Center, 892 Daechi-4-dong, Gangnam-gu, Seoul, Korea, and our telephone number is (822) 3457-0114.

Item 4B. *Business Overview*

The Company

We are the largest and the only fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production in 2004. We produced over 30.2 million tons of crude steel in 2004, substantially all of them at Pohang Works and Gwangyang Works. Currently, Pohang Works has 13.4 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 16.8 million tons. We manufacture and sell a broad line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products.

Table of Contents

We sell primarily to the Korean market, with domestic sales accounting for 74.2% of our total sales volume of steel products in 2004. We believe that we had an overall market share of approximately 50.0% of the total sales volume of steel products sold in Korea in 2004.

Our exports in each of 2003 and 2004 accounted for 31.1% and 25.8% of our total sales volume of steel products, respectively. Our major export market is Asia, with China accounting for 38.3%, Japan 20.3% and the rest of Asia 18.3% of our total steel export sales volume in 2004.

Business Strategy

Our goal is to maintain and strengthen our position as one of the leading steel producers in the world. In recent years, the global steel industry has undergone significant consolidation, resulting in the emergence of steel companies with expanded production capacity. We seek to achieve continued global excellence in this era of consolidation through a renewed emphasis on growth and innovation. We are currently pursuing the following business strategies.

Continue to Seek Investment Opportunities Abroad and Establish Global Production Base

We carefully seek out promising investment opportunities abroad, primarily in China and India, in part to prepare for the eventual maturation of the Korean steel market. We believe that China and India will continue to offer substantial growth opportunities, and we plan to selectively seek additional investment opportunities and expand our production base in China and India. In November 2003, we launched POSCO China Holding Corporation, a holding company for our investments in China. In June 2005, we also entered into a memorandum of understanding with Orissa State Government of India for the construction of an integrated steel mill and the development of a mine in Bhubaneswar, the capital of Orissa. The project currently contemplates construction of a steel mill from 2007 to 2010 with an annual production capacity of 3 million tons of slabs and, depending on consumption demand and market conditions, construction of additional facilities to increase its annual production capacity to up to 12 million tons. In addition, the project contemplates development of a mine for up to 600 million tons of iron ore. We estimate the aggregate costs of the initial round of construction and mine development to be approximately $3 billion and an additional approximately $9 billion in order to increase the annual production capacity to 12 million tons. In return, Orissa State Government is expected to provide us a thirty-year license to develop the mine for up to 600 million tons of iron ore to be used at the Bhubaneswar steel mill, as well as provide infrastructure to assist us in the construction of the facilities. After additional due diligence, we expect to enter into an investment agreement with Orissa State Government by the end of 2005. In addition to China and India, we continue to seek investment opportunities abroad.

Develop Leading Technology to Increase Sales of Higher Margin, Higher Value-Added Products 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 and enhance the overall quality of our products. We are currently developing FINEX, a low cost, environmentally friendly steel manufacturing process that we believe optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages through elimination of major sources of pollution such as sinter and coke plants, as well as decreasing operating and raw material costs. We began construction of our first FINEX plant with an annual production capacity of 1.5 million tons in August 2004 and expect to complete the construction in December 2006. We are also incorporating a new technology called strip casting, which transfers liquefied raw ore directly to steel plates. We are currently building another plant with an annual production capacity of 600 thousand tons that utilizes strip casting technology with expected completion in June 2006.

We have also sought to enhance the quality of our products through continued modernization and rationalization of our facilities. Through our strategic alliance with Nippon Steel, we also participate in

Table of Contents

jointly sponsored research and development projects in developing leading technology related to steel production. Leveraging our leading technology, we plan to further increase the proportion of our sales of higher margin, higher value-added products such as cold rolled products, silicon steel sheets and stainless steel products.

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. We believe that capitalizing on e-commerce opportunities could lead to a number of benefits, including more efficient inventory management, improved delivery time for our products and enhanced customer service. Among the e-commerce opportunities that we are pursuing is the establishment of an online market at *www.steel-n.com* that enables our customers to purchase many of our products through online auctions conducted three times a week. We believe that the site provides more cost effective access to a wider customer base. The site also provides various steel industry-related information that we believe contributes to the enhancement of our brand recognition. We plan to continue to seek additional online opportunities to increase our sales and profitability and the efficiency of our operations.

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

We recently completed the implementation of Six Sigma programs as part of our company-wide process for innovation and enhancing efficiency of operations 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. We will continue to seek new opportunities to implement our company-wide process innovation and increase our efficiency and cost-effectiveness.

Continue to Expand Our 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 25.8% of our total sales volume in 2004, with 76.9% of our export and overseas sales volume to customers in nearby Asian markets in 2004. We intend to further strengthen our global market position by cultivating relationships with our existing overseas customers and assertively seeking out prospective new customers in the emerging markets for steel products. Our exports to China, in particular, have expanded in recent years and we expect our exports to China to continue to grow. Our export sales provide a 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 from 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.

Secure Procurement of Raw Materials through Strategic Investments and Long-Term Contracts

We purchase substantially all of the principal raw materials we use, including iron ore and coal, from sources outside Korea. Import prices of these raw materials have increased in recent years. To secure adequate procurement of principal raw materials, we have invested and will continue to explore additional investment opportunities in various raw material development projects abroad, as well as enter into long-term contracts with leading suppliers of raw materials, principally in Brazil, Canada and Australia.

Table of Contents

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. When determining our diversification projects, we consider attractiveness of the industry and its future growth potential, as well as our capabilities to become competitive in such an industry. New businesses related to our steel operations include liquefied natural gas production and logistics. New businesses not related to our steel operations in which we intend to focus our efforts for diversification include power generation, advanced materials and alternative energy development. For example, we entered into an agreement in May 2005 to purchase a 50.0% interest in Korea Independent Energy Corporation for Won 292 billion. Korean Independent Energy Corporation is the largest private power generation company in Korea that operates power plants with total power generation capacity of 1,800 megawatts. We expect to acquire the shares on June 30, 2005.

Major Products

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

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

Table of Contents

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

	Year Ended December 31,									
	2000		2001		2002		2003		2004	
Steel Products	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%
Hot rolled products	3,137	23.6	3,125	24.8	3,416	25.4	4,185	26.1	5,449	25.1
Plates	1,239	9.3	1,242	9.9	1,237	9.2	1,320	8.2	1,987	9.1
Wire rods	933	7.0	1,149	9.1	1,178	8.7	1,064	6.6	1,351	6.2
Cold rolled products	4,526	34.0	4,055	32.2	4,310	32.0	5,208	32.4	6,564	30.2
Silicon steel sheets	315	2.4	304	2.4	347	2.6	431	2.7	531	2.4
Stainless steel products	2,555	19.2	2,076	16.5	2,278	16.9	3,172	19.7	4,920	22.6
Others	607	4.6	624	5.0	700	5.2	687	4.3	952	4.4
Total	13,312	100.0	12,576	100.0	13,465	100.0	16,067	100.0	21,753	100.0

	Year Ended December 31,									
	2000		2001		2002		2003		2004	
Steel Products	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	10,098	35.0	11,381	37.9	11,461	37.8	11,514	37.6	10,966	34.5
Plates	3,146	10.9	3,146	10.5	3,060	10.1	3,047	9.9	3,385	10.6
Wire rods	2,651	9.2	2,802	9.3	2,808	9.3	2,777	9.1	2,503	7.9
Cold rolled products	9,437	32.7	9,425	31.3	9,503	31.3	9,770	31.9	10,242	32.2
Silicon steel sheets	542	1.9	591	2.0	589	1.9	671	2.2	705	2.2
Stainless steel products	1,423	4.9	1,266	4.2	1,394	4.6	1,778	5.8	2,069	6.5

Others	1,578	5.5	1,455	4.8	1,518	5.0	1,100	3.5	1,926	6.1
Total	28,875	100.0	30,065	100.0	30,333	100.0	30,657	100.0	31,796	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 1.4 million tons in 2000, 1.3 million tons in 2001, 1.2 million tons in 2002, 1.4 million tons in 2003 and 1.0 million tons in 2004, accounting for Won 644 billion in 2000, Won 657 billion in 2001, Won 511 billion in 2002, Won 679 billion in 2003 and Won 699 billion in 2004, respectively.

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 silicon steel sheets.

Our deliveries of hot rolled products amounted to 11.0 million tons in 2004, representing 34.5% of our total steel sales volume. The Korean market accounted for 8.9 million tons or 81.3% of our hot rolled product sales in 2004, representing a domestic market share of approximately 67.6%. The largest customers of our hot rolled products are downstream steelmakers in Korea who use the products to manufacture pipes and cold rolled products.

Table of Contents

Hot rolled products constitute our largest product category in terms of sales volume and revenue. In 2004, our sales volume of hot rolled products decreased by 4.8% compared to 2003 primarily due to a decrease in demand from the construction industry.

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 3.4 million tons in 2004, representing 10.6% of our total steel sales volume. The Korean market accounted for 3.1 million tons or 91.3% of our plate sales in 2004, representing a domestic market share of approximately 39.9%. 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.

In 2004, our sales volume of plates increased by 11.1% compared to 2003 primarily due to an increase in demand from the shipbuilding industry, which more than offset a decrease in demand from the industrial machinery industry.

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 2.5 million tons in 2004, representing 7.9% of our total steel sales volume. The Korean market accounted for 2.3 million tons or 89.9% of our wire rod sales in 2004, representing a domestic market share of approximately 65.5%. The largest customers for our wire rods are manufacturers of wire and nails.

In 2004, our sales volume of wire rods decreased by 9.9% compared to 2003 primarily due to a decrease in demand from the construction industry, which more than offset an increase in demand from the automobile industry.

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 10.2 million tons in 2004, representing 32.2% of our total steel sales volume. The Korean market accounted for 6.1 million tons or 59.6% of our cold rolled product sales in 2004, representing a domestic market share of approximately 56.2%.

Cold rolled products constitute our second product category 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. In 2004, our sales volume of cold rolled products increased by 4.8% compared to 2003 primarily due to an increase in demand from the automobile industry.

Silicon Steel Sheets

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

Our deliveries of silicon steel sheets amounted to 705 thousand tons in 2004, representing 2.2% of our total steel sales volume. The Korean market accounted for 460 thousand tons or 65.2% of our silicon steel sheet sales in 2004, representing a domestic market share of approximately 95.8%.

Table of Contents

Our sales volume of silicon steel sheets showed strong growth in recent years following increased demand from manufacturers of power transformers and generators and rotating machines. In 2004, our sales volume of silicon steel sheets increased by 5.1% compared to 2003.

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 2.1 million tons in 2004, representing 6.5% of our total steel sales volume. The Korean market accounted for 1.0 million tons or 50.7% of our stainless steel product sales in 2004, representing a domestic market share of approximately 53.9%.

Although sales of stainless steel products accounted for only 6.5% of our total sales volume in 2004, they represented 22.6% of our total revenues from sales of steel products in 2004. Our sales volume of stainless steel products showed strong growth in recent years as a result of rationalization of our facilities and increased focus on production of higher margin, higher value-added products. Our sales volume of stainless steel increased by 16.4% in 2004 compared to 2003.

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 74.2% of our total steel sales volume in 2004. Exports and overseas sales by our overseas subsidiaries represented 25.8% of our total sales volume in 2004. 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 47.2 million tons in 2004. We sold a total of 23.6 million tons of steel products in Korea in 2004, maintaining an overall domestic market share of 50.0% for such period.

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

	Year Ended December 31,									
	2000		**2001**		**2002**		**2003**		**2004**	
Region	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**
POSCO S sales	20,059	52.2	20,894	54.6	21,090	48.2	21,121	46.6	23,599	50.0
Other Korean steel companies sales	15,116	39.3	14,144	37.0	17,732	40.6	17,838	39.3	15,969	33.9
Imports(1)	3,266	8.5	3,235	8.5	4,898	11.2	6,411	14.1	7,595	16.1
Total domestic sales(1)	38,441	100.0	38,273	100.0	43,720	100.0	45,370	100.0	47,163	100.0

(1) Source: 2004 Official Statistics, Korea Iron & Steel Association.

Total domestic sales volume of our steel products increased by 4.2% in 2001 to 20.9 million tons compared to 20.1 million tons in 2000, as the Korean economy continued its rebound from the difficult economic conditions of the late 1990s. Our market share increased to 54.6% in 2001 from 52.2% in 2000 as the domestic sales of other Korean steel companies decreased by 6.4% in 2001 to 14.1 million tons

15

compared to 15.1 million tons in 2000. Imports from foreign competitors remained relatively stable at 3.2 million tons in 2001 compared to 3.3 million tons in 2000.

Increased demand from the shipbuilding industry and the automobile industry contributed to a robust 14.2% increase in total domestic sales volume in 2002 compared to 2001. Domestic sales volume of other Korean steel companies increased by 25.4% in 2002 to 17.7 million tons, and imports from foreign competitors, primarily from Japan, China and Russia, also showed strong growth of 51.4% in 2002 to 4.9 million tons. On the other hand, growth in our domestic sales volume slowed to 0.9% in 2002, and our market share dropped to 48.2% in 2002 from 54.6% in 2001.

Total domestic sales increased by 3.8% in 2003, primarily resulting from an increase in demand from the construction industry which more than offset decreases in demand from the automobile industry and the consumer appliance industry. Imports from foreign competitors, primarily from Japan, China and Russia, showed strong growth as import sales volume increased by 30.9% in 2003 to 6.4 million tons. Growth in domestic sales volume of other Korean steel companies in 2003 slowed to 0.6% in 2003 while our domestic sales volume remained stable with a 0.1% increase in 2003 to 21.1 million tons. Accordingly, our market share dropped to 46.6% in 2003 from 48.2% in 2002.

In 2004, total domestic sales increased by 4.0%, primarily due to an increase in demand from the automobile, consumer appliance, and shipbuilding industries which more than offset a decrease in demand from the construction industry. Imports from foreign competitors, primarily from Japan, China, and Russia, showed strong growth as import sales volume increased by 18.5% in 2004 to 7.6 million tons. Growth in domestic sales volume of other Korean steel companies decreased by 10.5% in 2004 while our domestic sales volume increased by 11.7% in 2004 to 23.6 million tons. Accordingly, our market share increased to 50.0% in 2004 from 46.6% in 2003.

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. Local distribution companies and sales affiliates sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors in each important product area.

For a discussion of our domestic sales of steel products in 2002, 2003 and 2004 and factors that may affect domestic sales in the future, see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results.

Exports

Exports and sales of steel products by our overseas subsidiaries represented 25.8% of our total sales volume of steel products in 2004, 76.9% of which was generated in Asia. Our exports in terms of sales volume decreased by 14.0% to 8.2 million tons in 2004, primarily as a result of an increase in domestic demand. 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,									
	2000		2001		2002		2003		2004	
Region	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**
China	2,798	31.7	2,976	32.4	2,828	30.6	3,510	36.8	3,138	38.3
Asia (other than China and Japan)	1,994	22.6	1,965	21.4	2,414	26.1	2,259	23.7	1,502	18.3
Japan	2,136	24.2	2,040	22.2	1,780	19.3	1,719	18.0	1,661	20.3
North America	1,094	12.4	665	7.2	978	10.6	715	7.5	737	9.0
Europe	285	3.2	313	3.4	294	3.2	236	2.5	116	1.4

Others	509	5.8	1,213	13.2	949	10.3	1,096	11.5	1,043	12.7
Total	8,816	100.0	9,172	100.0	9,243	100.0	9,535	100.0	8,198	100.0

Table of Contents

Steel Products	2000 Thousands of Tons	2000 %	2001 Thousands of Tons	2001 %	2002 Thousands of Tons	2002 %	2003 Thousands of Tons	2003 %	2004 Thousands of Tons	2004 %
	Year Ended December 31,									
Hot rolled products	2,234	25.3	2,225	24.3	2,224	24.1	2,464	25.8	2,049	25.0
Plates	377	4.3	318	3.5	300	3.2	363	3.8	295	3.6
Wire rods	619	7.0	672	7.3	679	7.3	598	6.3	252	3.1
Cold rolled products	4,522	51.3	4,923	53.7	4,694	50.8	4,649	48.8	4,139	50.5
Silicon steel sheets	144	1.6	134	1.5	161	1.7	223	2.3	245	3.0
Stainless steel products	671	7.6	646	7.0	706	7.6	795	8.3	1,019	12.4
Others	249	2.8	254	2.8	478	5.2	443	4.7	199	2.4
Total	8,816	100.0	9,172	100.0	9,243	100.0	9,535	100.0	8,198	100.0

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

Region	2002	2003	2004
	Year Ended December 31,		
		(in billions)	
Korea	W 9,531	W 12,100	W 16,738
China	2,089	2,706	3,316
Asia (other than China and Japan)	1,069	1,079	1,257
Japan	650	771	1,164
North America	473	312	529
Other	543	822	969
Total	14,355	17,789	23,973

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.

The table below sets out the world s crude steel consumption for the periods indicated.

	1999	2000	2001	2002	2003
	Year Ended December 31,				

Crude steel equivalent consumption (million tons)	805	869	834	887	951
Percentage of annual increase (decrease)	3.1%	8.0%	(4.0)%	6.4%	7.2%

Source: International Iron and Steel Institute.

In recent years, driven in part by strong growth in steel consumption in China, the global steel industry has experienced favorable market conditions, which have led to renewed interest in expansion of steel production capacity. In a January 2005 conference organized by the OECD and the International Iron and Steel Institute, participants expected global crude steel production capacity to increase from 1,184 million tons in 2004 to more than 1,305 million tons in 2006, primarily as a result of additions of new capacity in China, India and other Asian countries. Over-capacity in the global steel industry may return if increase in demand from developing countries that have experienced significant growth in the past several years does not meet this growth in production capacity.

We distribute our export products mostly through Korean trading companies and our overseas sales subsidiaries. Our largest export market in 2004 was China, which accounted for 38.3% 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 amounted to 2.8 million tons in 2002, 3.5 million tons in 2003, and 3.1 million tons in 2004. Exports to China increased by 24.1%

in 2003 due to our increased marketing focus in this region but decreased by 10.6% in 2004 primarily due to our decision to focus on meeting increased domestic demand. Sales volume to Asian countries other than China and Japan decreased from 2.4 million tons in 2002 to 2.3 million tons in 2003 primarily due to our decision to increase sales in China. In 2004, sales volume to Asian countries other than China and Japan further decreased to 1.5 million primarily due to our decision to focus on meeting increased domestic demand. Our exports to Japan decreased during each of the past five years, from 2.1 million tons in 2000 to 1.7 million tons in 2004. Profit margins from export sales to China, Indonesia and Malaysia have typically been higher than export sales to Japan in recent years.

To offset the slowdown in the economies of Asian countries in the late 1990s, we focused our efforts on increasing exports to the United States and Europe during that period. However, from 1999 to 2004, sales volume to these regions decreased and remained at low levels, primarily due to anti-dumping proceedings and our decision to export to Asian countries other than Japan that have higher profit margins. As a result, sales volume to the United States and Europe decreased to 853 thousand tons in 2004, representing only 10.4% 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 U.S. Steel Corporation and us. We sell hot rolled products to UPI, which uses such products to manufacture cold rolled and galvanized steel products for sale in the United States. Our sales to UPI were 686 thousand tons in 2002, 539 thousand tons in 2003 and 641 thousand tons in 2004, accounting for approximately 70% of our sales to North America in 2002, 75% in 2003 and 75% in 2004.

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 corrosion resistant steel are subject to a countervailing duty of 1.15% and a dumping duty of 2.34%, our sales of stainless steel plates are subject to a dumping duty of 1.19% and our sales of stainless steel sheets are subject to a dumping duty of 0.92%.

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.

Our products that have been subject to anti-dumping and countervailing proceedings or safeguard measures 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 dumping duties, countervailing duties, quotas or tariffs on our sales in the United States, China or elsewhere may not have a material adverse effect on our exports to these or other 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 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. Export prices in Dollar terms, after stabilizing in the first half of 2003, increased in the second half of

2003 and in 2004, primarily as a result of general recovery of the global economy and continued increase in steel consumption in China, as well as increases in transportation cost and price of raw materials.

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 2004, we imported approximately 42 million tons of iron ore and 21 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia.

In 2004, we purchased most of our iron ore and coal imports pursuant to long-term contracts. We purchased approximately 12% of our iron ore and coal imports in 2004 from foreign mines in which we have made an investment. The long-term contracts generally have terms of three 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 prices of coal and iron ore increased substantially in 2004. The average price of coal per ton (including transportation costs) increased from $48.55 in 2002 to $49.12 in 2003 and $72.02 in 2004. The average price of iron ore per ton (including transportation costs) increased from $24.15 in 2002 to $26.10 in 2003 and $31.96 in 2004. We currently do not depend on any single country or supplier for our coal or iron ore.

In April 2002, we entered into an agreement with BHP Billiton, Itochu Corporation and Mitsui Corporation and invested A$16.3 million 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 3.0 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. We purchased 2.4 million tons of iron ore from this development project in 2004.

In 2004 and 2005, we invested $38 million to acquire a 20% interest in a coal mine project in Foxleigh, Australia, securing 0.5 million tons of coal per year. In addition, we expect to invest approximately $25 million to acquire a 2.5% stake in a coal mine project in Elkview, Canada, securing additional 0.7 million tons of coal per year. We continue to seek opportunities to enter into additional strategic relationships, particularly in Brazil, that would enhance our ability to meet our requirements for high quality raw materials.

Stainless Steel Production

The principal raw materials for the production of stainless steel are wrought nickel, ferrochrome, stainless steel scrap and carbon steel scrap. We purchase a substantial portion of our requirements for wrought nickel from leading producers in Australia, Indonesia, New Caledonia, Russia and Japan, as well as Korea. A substantial portion of requirements for ferrochrome are purchased from producers in South Africa, Zimbabwe and Kazakhstan. Most of the requirements for stainless steel scrap are sourced from domestic and overseas dealers, as well as from processors in Korea, Japan, United States and Southeast Asian countries. As for the requirements for carbon steel scrap, scrap from the Pohang Steelworks is also utilized. The average price of nickel per ton (including transportation costs) increased from $6,768 in 2002 to $9,634 in 2003 and $13,852 in 2004.

Transportation

Since 1983, we have retained a fleet of dedicated bulk carriers to transport our raw materials through long-term contracts with shipping companies in Korea. These dedicated bulk carriers transported approximately 70% of our coal and iron ore in 2004, with the remaining 30% transported by other vessels through chartering contracts. All imported raw materials are unloaded at our port facilities in Pohang and Gwangyang. Costs of transportation of iron ore and coal represented approximately 42% and 13% of the total cost of such materials in 2004.

The Steelmaking Process

Our major production facilities, Pohang Works and Gwangyang 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. Continuous casting improves product quality by imparting a homogenous structure to the steel. Pohang Works and Gwangyang Works produce all of their products through continuous casting.

Steel Basic Oxygen Steelmaking Method

First, molten pig iron is produced in a blast furnace from iron ore, which is the basic raw materials used in steelmaking. Molten pig iron is then refined into molten 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 molten steel produced. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, molten steel is made into semi-finished products such as slabs, blooms or billets at the continuous casting machine. Slabs, blooms and billets are produced at different standardized sizes and shapes. Slabs, blooms and billets are semi-finished lower margin products that 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 products at hot strip mills or to produce plates at plate 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 customers into higher value-added products, such as cold rolled sheets and silicon steel sheets. Blooms and billets are processed into wire rods at wire rod mills.

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 slabs are produced at a continuous casting mill. 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 had an overall market share of 50.0% of the total sales volume of steel products sold in Korea in 2004, we generally face fragmented competition in the domestic market. In hot rolled products, where we had a market share of approximately 67.6% in 2004, we face competition from a Korean operator of mini-mills, which produces lower quality products, and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 56.2% and 53.9% in 2004, respectively, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan.

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, an electric-furnace steel producer with annual crude steel production of 7.7 million tons in 2004. INI Steel was spun-off from Hyundai Group in August 2000. In October 2004, INI Steel acquired Hanbo Steel, which has an annual production capacity of 1.8 million tons of hot rolled products and 1.2 million tons of steel bars.

The Korean Government does not impose quotas on or provide subsidies to local steel producers. As a World Trade Organization signatory, Korea has also removed all steel tariffs.

Export Markets

The competitors in our export markets include all the leading steel manufacturers of the world. In recent years, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. For example, Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM Holdings and Ispat International merged in October 2004 to create Mittal Steel. Arcelor produced 47 million tons of steel in 2004 and Mittal Steel recorded shipments of 42 million tons of steel products in 2004. With the proposed acquisition of International Steel Group, Mittal Steel is expected to become the world s largest steelmaker, with annual production capacity of 70 million tons. Competition from global steel manufacturers with expanded production capacity such as Mittal Steel and Arcelor, and new market entrants, especially from China, could result in a significant increase in competition. Major competitive factors include the range of products offered, quality, price, delivery performance and customer service. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

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

Joint Venture and Other Investments

In September 1996, we entered into an agreement with Sagang Group Co. to establish Zhangjiagang Pohang Stainless Steel Co., Ltd., a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. We have an 87.1% interest in the joint venture (including 13.8% interest of POSCO China Holding Corporation). The plant commenced production of stainless cold rolled steel products and galvanizing iron in December 1998 and produced 315,711 tons of stainless cold rolled products in 2004, as well as 151,765 tons of galvanizing iron in 2004. The joint venture is currently constructing new mills with expected completion in December 2006 in order to add the annual production capacity of 600 thousand tons of stainless hot rolled products.

We established Changwon Specialty Steel as a wholly-owned subsidiary in Korea in February 1997. The plants operated by Changwon Specialty Steel have annual production capacities of 800,000 tons of wire rods, round bars, steel pipes and semi-finished products. Changwon Specialty Steel produced 782,300 tons of such products in 2004.

We currently hold an 80.0% interest in Qingdao Pohang Stainless Steel Co., Ltd. (including 10.0% interest of POSCO China Holding Corporation), a joint venture set up to manufacture and sell stainless cold rolled steel products in China. Construction of the plant operated by Qingdao Pohang Steel began in August 2003 and became operational in December 2004, with an annual production capacity of 180,000 tons of stainless cold rolled steel products.

In August 2003, we entered into a joint venture agreement with Benxi Iron and Steel Group in China to establish Benxi Steel POSCO Cold Rolled Sheet Co., Ltd. and build a cold rolling mill with annual production capacity of 1.8 million tons that we expect to be operational by March 2006. We currently hold a 10.0% interest in this joint venture.

Table of Contents

In November 2003, we launched POSCO China Holding Corporation, a wholly-owned holding company for our investments in China. POSCO China Holding Corporation also provides support to our Chinese investment projects and affiliated companies with their marketing efforts in China and solidify their business relationships with clients and suppliers.

Diversification

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. When determining our diversification projects, we consider attractiveness of the industry and its future growth potential, as well as our capabilities to become competitive in such an industry. New businesses related to our steel operations include liquefied natural gas production and logistics. We are currently constructing a Won 288 billion liquefied natural gas terminal scheduled for completion in June 2005. In January 2003, we also entered into a joint venture with Mitsui Corporation of Japan for a 51.0% interest in POSCO Terminal Co., Ltd. which provides logistics services related to storage and transportation of raw materials used in steel production and other industries. Facilities operated by POSCO Terminal Co., Ltd. currently have an annual handling capacity of 5.5 million tons and enable us to transport raw materials on behalf of third parties, including electric power companies, cement companies and overseas steel manufacturers.

New businesses not related to our steel operations in which we intend to focus our efforts for diversification include power generation, development of alternative energy and advanced materials and biotechnology. In May 2005, we entered into an agreement to purchase a 50.0% interest in Korea Independent Energy Corporation for Won 292 billion. Korean Independent Energy Corporation is the largest private power generation company in Korea that operates power plants with total power generation capacity of 1,800 megawatts. We expect to acquire the shares on June 30, 2005. For our entry into the alternative energy market, we plan to establish partnerships with established corporations with a focus on fuel cell and wind power generation. In production of advanced materials, we plan to utilize our proprietary steel rolling and strip casting technologies and to develop additional technologies and manufacturing capabilities. In the biotechnology field, we launched in September 2002 POSCO BioVentures, L.P., a $50.0 million venture capital fund established in the United States. The BioVentures fund is committed to investing in promising biotech companies, including various pharmaceutical companies, and assists in their development in cooperation with the Biotech Center at Pohang University of Science & Technology. We expect to continue to work closely with Pohang University of Science & Technology and Research Institute of Industrial Science & Technology to develop additional technologies and enhance our business development and diversification efforts.

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

Insurance

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

Item 4C. ***Organizational Structure***

We are not part of a group. Our significant subsidiaries include POSCO Engineering & Construction Co., Ltd., an engineering and construction company, and Posteel Co., Ltd., our steel sales subsidiary. The following table sets out their jurisdiction of incorporation and our ownership interests:

Name	Jurisdiction of Incorporation	Percentage of Ownership
POSCO Engineering & Construction Co., Ltd.	Korea	90.9%
Posteel Co., Ltd.	Korea	95.3%

Table of Contents

Item 4D. ***Property, Plants and Equipment***

Our principal properties are Pohang Works, which is located at Youngil Bay on the southeastern coast of Korea, and Gwangyang Works, which is located in Gwangyang City in the southwestern region of Korea. We expect to increase our production capacity in the future when we increase our capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. For a discussion of major items of our capital expenditures currently in progress, see Item 5. Operating and Financial Review and Prospects Item 5B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion.

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 13.3 million tons. 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 specialty steel products such as stainless steel sheets and silicon steel sheets. These products can also be customized to meet the specifications of our customers.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 43 plants and 46 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 45 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.

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

	Year Ended December 31,				
	2000	**2001**	**2002**	**2003**	**2004**
Crude steel and stainless steel production capacity (million tons per year)	12.20	12.20	12.20	12.67	13.30
Actual crude steel and stainless steel output (million tons)	12.36	12.04	12.16	12.67	13.45
Capacity utilization rate(%)(1)	101.3	98.7	99.7	100.0	101.1

(1) 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.

Gwangyang Works

Construction of Gwangyang Works began in 1985 on a site of 14.0 million square meters reclaimed from the sea in Gwangyang City in the southwestern region of Korea. Production capacity is currently 16.7 million tons per year. Gwangyang Works specializes in high volume production of a limited number of steel products. Products manufactured at Gwangyang Works include both hot and cold rolled types.

Gwangyang Works is comprised of 36 plants and 43 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 300,000 tons for unloading raw materials, storage areas for 44 days supply of raw materials and separate docking facilities.

We believe Gwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Gwangyang 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

Table of Contents

Works, Gwangyang Works is equipped with an up-to-date computerized production-management system allowing constant monitoring and control of the production process.

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

	Year Ended December 31,				
	2000	**2001**	**2002**	**2003**	**2004**
Crude steel and stainless steel production capacity (million tons per year)	15.80	15.80	15.80	16.23	16.70
Actual crude steel and stainless steel output (million tons)	15.38	15.78	15.90	16.23	16.76
Capacity utilization rate(%)(1)	97.3	99.9	100.6	100.0	100.4

(1) 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.

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 Won 98 billion on anti-pollution facilities in 2004.

Item 5. *Operating and Financial Review and Prospects*

Item 5A. *Operating Results*

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

Overview

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 1.1% in 2003 and 3.7% in 2004. In 2003, our crude steel output increased to 28.9 million tons and sales volume increased to 30.7 million tons due to strong export demand, as well as an increase in domestic demand from the construction industry. In 2004, our crude steel output increased to 30.2 million tons and sales volume increased to 31.8 million tons due to a further increase in domestic demand primarily from the automobile, consumer appliance, and shipbuilding industries, which outweighed a decrease in demand from the construction industry. For a discussion of our sales volume and revenues by major products and markets from 2000 to 2004, see Item 4. Information on the Company Item 4B. Business Overview Major Products and Markets.

Table of Contents

Unit sales price for all of our principal product lines other than wire rods increased in 2003 and the weighted average unit prices for our products increased by 18.1% in 2003 compared to 2002. Unit sales price of hot rolled products, which accounted for 37.6% of total sales volume, increased by 21.9% in 2003. Unit sales price of cold rolled products, which is our second largest product category in terms of sales volume with 31.9%, increased by 17.5% in 2003. These increases were partially offset by an 8.7% decrease in unit sales price of wire rods, which accounted for 9.1% of total sales volume in 2003. In 2004, unit sales price for all of our principal product lines increased. The weighted average unit prices for our products increased by 30.5% in 2004 compared to 2003. Unit sales price of wire rods, which accounted for 7.9% of total sales volume, increased by 40.9% in 2004. Unit sales price of hot rolled products, which accounted for 34.5% of total sales volume, increased by 36.7% in 2004. Unit sales price of plates, which accounted for 10.6% of total sales volume, increased by 35.5% in 2004.

Export prices in Dollar terms, after stabilizing in the first half of 2003, increased in the second half of 2003 and continued to increase in 2004, primarily as a result of general recovery of the global economy as well as continuous increases in transportation costs and price of raw materials. Export prices in Dollar terms stabilized in the first half of 2005. See Item 4. Information on the Company Item 4B. Business Overview Markets Exports.

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

	Year Ended December 31,		
Product	**2002**	**2003**	**2004**
	(In thousands of Won per ton)		
Hot rolled products	W 298.1	W 363.5	W 496.9
Plates	404.1	433.1	586.8
Wire rods	419.5	383.2	539.6
Cold rolled products	453.6	533.1	640.8
Silicon steel sheets	588.0	642.0	753.0
Stainless steel products	1,634.4	1,783.7	2,378.4
Others	460.9	624.6	494.4
Average(1)	W 443.9	W 524.1	W 684.1

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed products. See Item 4. Information on the Company Item 4B. 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,		
	2002	**2003**	**2004**
	(percentage of net sales)		
Cost of goods sold	79.0%	75.6%	72.4%
Selling and administrative expenses(1)	6.7	6.0	5.4

Total operating expenses	85.7	81.6	77.8
Gross margin	21.0	24.4	27.6
Operating margin	14.3	18.4	22.2

Table of Contents

(1) 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. Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. 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. See Item 4. Information on the Company Item 4D. Property, Plants and Equipment.

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

	2000	**2001**	**2002**	**2003**	**2004**
Crude steel and stainless steel production capacity (million tons per year)	28.00	28.00	28.00	28.90	30.00
Actual crude steel and stainless steel output million tons)	27.74	27.83	28.07	28.90	30.21
Capacity utilization rate(%)	99.1	99.4	100.3	100.0	100.7
Steel product sales (million tons)(1)	28.88	30.07	30.33	30.66	31.80
Man-hours per ton of crude steel produced(2)	1.29	1.28	1.26	1.16	1.20

(1) 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 1.4 million tons in 2000, 1.3 million tons in 2001, 1.2 million tons in 2002, 1.4 million tons in 2003 and 1.0 million tons in 2004.

(2) 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 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 53.4% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2004;

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, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables 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. In terms of the average noon buying rate, the Won appreciated against the Dollar from a high in 2002 of Won 1,332.0 to US$1 to Won 1,035.1 to US$1 as of December 31, 2004. See Item 3. Key Information Exchange Rate Information.

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

Table of Contents

feasible. As a result, a decrease in our export sales could increase our foreign exchange risks.