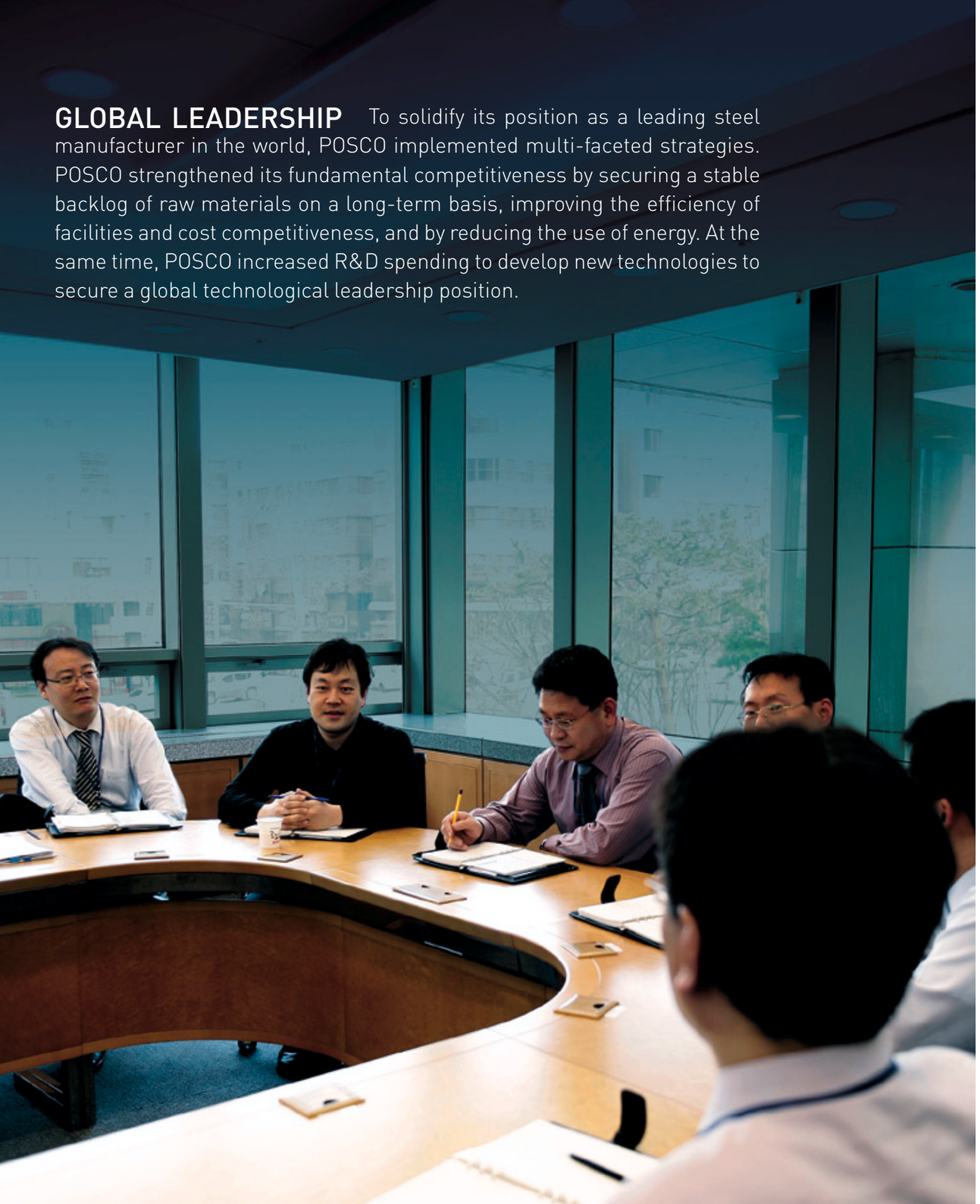


GLOBAL LEADERSHIP To solidify its position as a leading steel manufacturer in the world, POSCO implemented multi-faceted strategies. POSCO strengthened its fundamental competitiveness by securing a stable backlog of raw materials on a long-term basis, improving the efficiency of facilities and cost competitiveness, and by reducing the use of energy. At the same time, POSCO increased R&D spending to develop new technologies to secure a global technological leadership position.

Securing Raw Materials

As mill capacity continues to rise in China and the rest of the world, procurement of raw materials will become an even greater priority in the years to come. POSCO has been particularly attentive to the need of a stable supply, aggressively pursuing joint investments and long-term contracts with major suppliers around the globe. For iron ore, in addition to the joint venture projects POSMAC in Australia and KOBRASCO in Brazil, we finalized ten-year contracts with Brazil's Companhia Vale do Rio Doce (CVRD) and Mineracões Brasileiras Reunidas, and Australia's BHP Billiton. For coal, we extended our contract with Canada's Green Hills Coal Mine in addition to acquiring interest in Canada's Elk View Coal Corporation, and Australia's Foxleigh Mining, Carborough Downs, and Glennies Creek mines that will ensure sufficient raw materials for POSCO well into the future.

Since 1983, we have retained a fleet of dedicated bulk carriers to transport our raw materials and products. 70% of raw material transportation is covered by these dedicated bulk carriers. Out of the remaining 30%, POSCO lowered the proportion of SPOT contracts and increased COA contracts so as to reduce transportation costs and maintain its competitive edge in the transportation sector, compared to overseas premier steel makers.

Maintaining Efficiency

Maximo, POSCO's cutting-edge computerized maintenance system, continues to improve our efficiency in facility maintenance. Since its implementation, the proportion of scheduled maintenance work has grown rapidly, reaching 89.8% at Pohang Works and 87.7% at Gwangyang Works in 2004. Such regularly scheduled maintenance and inspections are more efficient on many levels, reducing overall time spent on repairs and the need for facility shutdowns. As a result, POSCO was able to increase production and concentrate on quality assurance. While maintenance costs rose by 24% at Pohang and by 16% at Gwangyang over last year, they represented just 6.17% of total revenues for Pohang and 6.71% at Gwangyang—figures that are superior to Japanese industry averages from 2002. Detailed inspections, furnace refreshes, and ongoing upgrades of maturing infrastructure all enhanced the reliability of our facilities.

Reducing Energy Consumption

POSCO requires a staggering amount of energy each year and the reduction of energy consumption has been a key element to improve cost-competitiveness. In 2004, we instituted a cross-functional management system throughout the entire company in a dramatic step to reduce energy use. An expert taskforce team identified new ways to reduce energy consumption and provided technical support for production lines. Its Six Sigma "Mega Y" project identified areas with great energy reduction potential and complexity, proposed systematic solutions, and tracked the results. It also formed an energy diagnostic team that inspected each facility to find new possibilities for reducing energy consumption and evaluated its conservation activities. These efforts were met with tremendous success, far surpassing our initial 2004 goal of reducing 172,000 tons of oil equivalent energy(TOE) to save a total of 230,000 TOE. Furthermore, energy consumption per ton of crude steel was reduced from 5,215 Mcal/t in 2003 to 5,136 Mcal/t in 2004.

Leading Globally

Automotive Steel | In pursuit of high-value added automotive steel production, we achieved production capability of galvanized automotive steel sheets that is comparable to the more common cold-rolled steel. Furthermore, we developed an advanced high-speed galvanized steel manufacturing process, applied 490 MPa-grade dual phase steel to automotive steel products, and created twenty-one varieties of high-strength, high-grade steel—effectively launching ourselves as a world-class automotive steelmaker. Our active early vendor involvement efforts have led to close working relationships with seven domestic and foreign carmakers. In December 2004, our second cutting-edge tailor-welded blank plant was completed, boosting our annual output to 3.6 million blanks. Advanced tailor-welded blanking technology uses lasers to fuse steel sheets of varying thickness, strength, and composition to produce tailor-made auto components parts

API Steel | To deal with increasing environmental harshness at oil wells and long-distance petroleum transports, POSCO has been developing high-grade, high-strength API-specification linepipe steel. In 2004, we began commercial production of hot-rolled X70-grade API steel with sulfides for linepipes that have low-temperature toughness and high corrosion-resistance. We provided a total of 236,000 tons of high-quality API-specification linepipe steel for China's West-East Gas Pipeline and other projects around the world. To acquire mass production capability for high-strength API-specification linepipe steel, POSCO is participating in joint research with international institutions like Russia's Bardin Institute and China's Xian Institute of Technology, in addition to fortifying technological alliances with international pipe makers.

Ferritic Stainless Steel | POSCO successfully achieved normal production levels at Pohang's new No. 3 Stainless Steelmaking Plant, increasing our annual capacity to 2 million tons. In addition, we have developed a mold powder specifically for high-chrome titanium stainless steel, along with essential stainless steelmaking and hot-rolling technology. Our lineup of products utilizing a low-cost process was expanded to six, and we added ferritic stainless steel products for the IT sector and high-chrome ferritic stainless steel for automotive exhaust manifolds in response to recent changes in domestic demand.

11 Strategic Tasks
We, as a global player, sustain healthy growth with our competence in steel business.

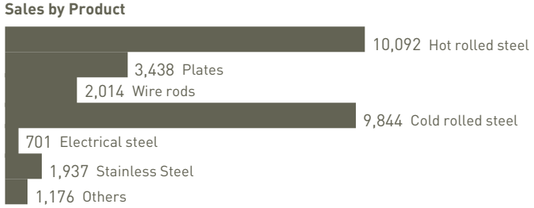
Growth

- Achieve 50 million ton production capacity (by 2010)
- Reinforce global marketing
- Secure stable and economical procurement of raw material
- Elevate the value of affilates and foster new businesses.

Innovation

- Promote strategic products
- Secure global leadership of our technologies
- Enhance cost competitveness
- Absorb 6 Sigma culture
- Strengthen global business capability
- Establish new paradigm of employee relations
- Diffuse Corporate Sustainability Management(CSM)

Sales by Product



As of 2004, in thousand tons

High-Grade Electrical Steel | POSCO is dedicated to supporting the Korean government's energy conservation policies. One of our recent achievements in this field is our world-class, high-grade, grain-oriented electrical steel, for which we have secured mass production capability. Moreover, we developed an ultra-thin gauge, high-grade, grain-oriented electrical steel just 0.23mm thick and the finest quality of laser-treated, grain-oriented electrical steel. Having commissioned facilities for controlling impurities in steelmaking, we have laid the foundations to produce high-grade, 2.1-watt, non-oriented electrical steel that will be in growing demand for electric hybrid vehicles.

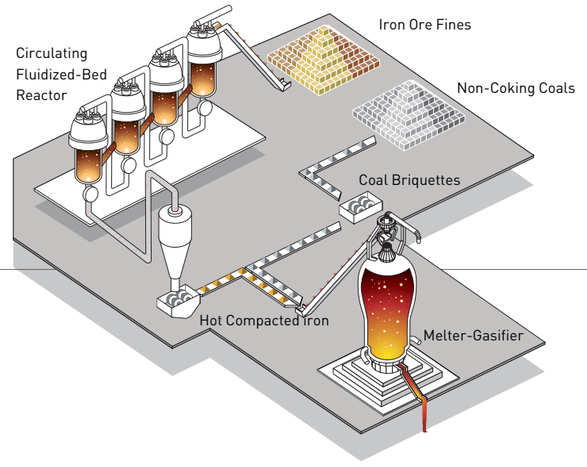
High-Carbon Steel | High-carbon steel is used for automotive parts or industrial machinery requiring high-strength and high-grade materials. In preparation of entering the high-carbon steel arena, POSCO examined European and Japanese steelmakers and conducted a thorough market evaluation of China and Southeast Asia, formulating a solid entry strategy. In anticipation of the continuing trend toward high-grade products, we developed a way to utilize related technologies such as soft reduction continuous casting, hot and cold rolling, and taper rolling.

TMCP Steel for Ships | As ships' size and the demand for higher-strength steel grows, the shipbuilding industry's use of Thermo Mechanical Control Process (TMCP) high-strength steel is escalating. Instead of adding alloying elements for greater strength, this process produces higher-strength steel by controlled rolling and water-cooling for refined grain and creating low-temperature transformation of martensite and bainite. In 2004, we focused on establishing a mass production system of high-strength steel, stabilizing operations at No. 3 accelerated slab cooling facility which was completed in December 2003 and focusing on further technological developments.

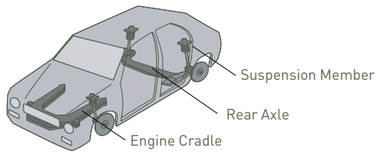
Tire-Cord Wire Rod | Tire cords are steel wire rods inserted into rubber during the tire making process that helps neutralize external pressure and impact, prolonging the tire's life span and increasing safety at high speeds. Our customers require tire cords to be about 0.15 to 0.38 mm in width, requiring the latest production technology that eliminates contaminants for an extremely high grade of purity. We re-established our tire cord manufacturing process in 2004 and have been applying new quality assurance methods and other enhancements.

Cr-Free Coated Steel | Regulations limiting the use of environmentally hazardous heavy metals such as lead, mercury, cadmium, and hexavalent chromium are being becoming increasingly stringent. In particular, the need to find a viable, more eco-friendly replacement for chrome became imperative. Widely used in treating surfaces for steel used in automotive parts and household appliances, POSCO has been concentrating its technological resources to find an alternative to chrome. In 2004, 32% of our electro-galvanized and continuous-galvanized steel was chrome-free, and we are aiming to reach 100% by the end of 2005 as we search for new products and secure fundamental technologies.

FINEX Ironmaking | The innovative FINEX process is recognized as an eco-friendly alternative that uses low-cost raw materials, eliminating the sintering and coking processes, which translates to lower production costs and reduced environmental pollutants.
POSCO has been carefully reviewing the performance of the FINEX demo plant, completed in May 2003, in preparation of full-fledged commercialization. In August 2004, we began construction of our first commercial 1.5-million-ton capacity FINEX Plant. We fully expect FINEX technology to emerge as a leading ironmaking technology that will help keep steel sustainably growing in the 21st century.



FINEX Process
The innovative FINEX process is recognized as an eco-friendly alternative that uses low-cost raw materials such as iron ore fines and non-coking coals, forgoing the sintering and coking processes, which translates to lower production costs and reduced environmental pollutants.



Hydroforming Technology
Hydroforming technology ensures reduced number of parts, weight-lightening, cost reduction, parts rigidity, and enhanced impact characteristics. To this end, high-pressure fluids are injected to a side of steel tubes to form car frames. POSCO started constructing a hydroforming with the annual production capacity of one million parts at Gwangyang Works in June 2004 and is scheduled to produce from March 2005.

Strip Casting | Strip casting is a technological advancement in the steelmaking process, eliminating most of the existing forging and rolling processes to cast strips of 1-6mm in thickness directly from molten steel. Not only does strip casting lower investment and operational costs, but it also dramatically reduces energy consumption and pollutants. POSCO has been developing this technology since 1989 and began to construction of a 600,000-ton capacity "poStrip" demo plant within Pohang Works. When production commences at the plant in June 2006, we will be able to divert the surplus hot-rolling capacity from high-strength stainless steels to carbon steels. Strip casting represents a major head start on POSCO's future competitiveness and enhances our reputation for technological prowess.

Hydroforming Production Line | In response to an increasing demand for automotive steels and a growing need to secure a stable source of supply, POSCO completed the construction of a hydroforming production line at the Gwangyang Works. Using high water pressure, this state-of-the-art hydroforming process produces car parts with uniform strength and width. In addition, the method bypasses the welding process so that costs and product weights can be significantly reduced. As of March 2005, KRW 45 billion has been invested and when completed, POSCO will have a total capacity of up to one million parts per year.

GROWTH ENGINE POSCO continued to lay a foundation for sustained growth in 2004. With the establishment of a holding company in China, POSCO stepped up its localization efforts by tapping new markets, securing production bases, integrating and realigning sales networks, and pursuing raw material development projects. Centering on BRICs with high demand potential and rich steel resources, POSCO expanded its overseas investment.

China: Growing Together

China is an integral component for our strategic growth and we continue to build upon our solid presence in this market. POSCO-China was the first holding company to enter into a mutually beneficial relationship with the local steel industry. Our investment strategy in China continues to evolve, and we are identifying additional investment opportunities that are appropriate for POSCO and advantageous for the Chinese steel industry. In an effort to offset the global shortage of raw materials, we are also participating in joint development projects in Hubei and Heilongjiang.

In April 2004, POSCO China's operations merged with trading subsidiary POSCO Asia, securing seven marketing bases including Beijing, Shanghai, Hong Kong, Chongqing, and Guangzhou. By eliminating redundancies, organizations within the POSCO group are maximizing marketing synergy.

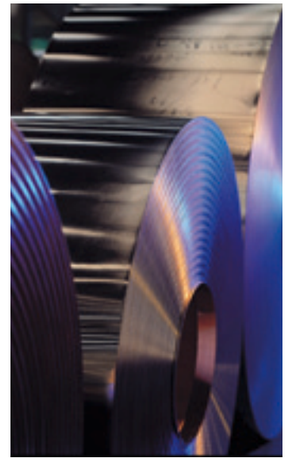
With the holding company in place, POSCO's long-standing commitment to localization has been solidified and a merged sales network has expanded the subsidiaries' previously limited operational reach. In 2004, we provided major support to local subsidiaries, resulting in our first third-party export from Dalian POSCO-CFM Coated Steel and easing Shunde POSCO Coated Steel's entry into the southern region.

Consistent with our overall strategy in China, POSCO implemented a revised human resources policy appropriate for China in each subsidiary, beginning with Zhangjiagang Pohang Stainless Steel. We are also devising training programs tailored to the needs of each business, while ongoing visits to impart POSCO's innovative management approach and exemplary corporate culture continue to reinforce our relationships.

Expanding Momentum

Since the early 1990s, POSCO has been expanding its local market base and manufacturing presence in China, focusing on creating "win-win" relationships with not only the local steel industry but the economy as a whole. As of 2004, there were 24 Chinese subsidiaries in which POSCO had direct or indirect interest, with investments totaling US$2.4 billion.

In 2004, both the Dalian POSCO-CFM Coated Steel Company and the Shunde POSCO Coated Steel Company posted profits, a decisive improvement over 2003's negative balance. Dalian POSCO-CFM Coated Steel's 2004 sales reached US$101 million with US$1.4 million in net income, and Shunde POSCO Coated Steel's sales totaled US$88 million with US$4.9 million in net income.



Sales for Zhangjiagang Pohang Stainless Steel were US$865 million, with a net income of US$18.4 million. Operations at the POSCO Suzhou Automotive Processing Center began in October 2004. 100% funded by POSCO, the automotive steelmaking facility is located in Jiangsu province with an annual capacity of 200,000 tons.

In addition, production commenced at Qingdao Pohang Stainless Steel, a joint venture with Qingdao Steel of Shandong province, with a 150,000-ton capacity for producing cold-rolled stainless steel products. Our network in China continues to grow in size and substance: an expansion project that entails the construction of a 600,000-ton capacity hot-rolling and stainless steelmaking plant at Zhangjiagang Pohang Stainless Steel is underway, while a joint venture with Benxi Iron & Steel in Liaoning province will culminate in BX Steel POSCO Cold Rolled Sheet Co.'s 1.8 million-ton capacity for cold-rolled steel coil and galvanized steel sheet facility.

Going forward, POSCO's strategic product exports and ongoing investment explorations will increase in the BRICs nations, building on our existing foundation.

Investing Abroad: Laying BRICs

POSCO continues to vault itself even higher on the global stage, expanding overseas investments. In addition to China, we are focusing on the nations that have rich natural resources and huge growth potential. By increasing investments in these regions, we will be gaining an early foothold in a growth market, simultaneously diversifying our sources for stable and cost-effective raw materials. In India's iron-rich Orissa province, POSCO is engaged in the procurement of iron ore and an integrated mill investment project. In conformity with China's steel policies, POSCO has carefully proceeded with acquiring shares in existing steel companies and establishing an integrated mill. Elsewhere on the globe, POSCO is exploring the potential for a new steelmaking facility with Brazil's CVRD, the world's largest iron ore supplier, in the country's northeastern Saõ Luis area. POSCO is also aggressively pursuing opportunities in joint development projects for iron ore and other raw materials in Australia, Canada, and Indonesia. These projects are just some of the ways in which we are maintaining focus on our strong and diversified overseas investment strategy.

Total Sales of Eight Strategic Products

POSCO continually strive to achive the highst level of technical exellence, that will give us a superior competitive edge.

2002	2003	2004
2,551	3,851	5,480

unit: in thousand tons

Sales in China in 2004

in USD millions

Exchanging Information Globally

To realize our vision of a truly global POSCO, we continue to broaden our global exchange with renowned institutions in all corners of the world. POSCO has been engaged in technological exchanges with Nippon Steel Corporation, Arcelor, and U.S. Steel. In terms of R&D exchanges, POSCO has maintained relations with four European companies including Salzgitter and Dillinger. Regular conferences with major raw materials suppliers provide forums for a fertile exchange of knowledge, and similar events on other subjects occur on an as-needed basis. Our close relationships with the two leading Japanese steelmakers, Nippon Steel and JFE Steel, help us prepare for increasing consolidations in the arena of world steel industry.

Multiplying Strategic Products

POSCO's guiding philosophy has been to identify and nurture products that will increase our profitability, order stability and future competitiveness. Our strategic high-grade steel products require an intense aggregation of technology, posing a formidable challenge to companies with a delayed market entry. Based on our technological capabilities and projected future demand, we have selected products such as ferritic stainless steel, high-grade API steel, high-grade electrical steel, high-grade high-carbon steel, TMCP steel for ships, tire cords, and chrome-free products as our current strategic lineup. We have constructed continuous galvanizing lines for automotive steel and upgraded and augmented other high-grade steel production facilities for greater manufacturing capacity and quality control to reach our objectives. Increasing sales of strategic products improve sales mix, profitablity and future competitiveness. In 2004, sales of our strategic products made up 19.2% of our total sales by 5.2 % higher than the previous year.

Pioneering New Businesses

POSCO strives to be prepared for all contingencies, including market uncertainty and changes in the economic environment. As such, we are exploring diversification opportunities that will fuel our growth in the future and launch us onto a whole new level in the global arena. In our carefully measured search for next-generation businesses, we considered three major criteria: current status and future growth potential, global product and market potential, and our existing capabilities. We are currently exploring three main new business areas: renewable energy sources, new materials, and biotechnology. In the renewable energy field, we are focusing on electrical batteries and wind power as possible core businesses in the future. We plan on marketing a prudent entry into the electrical battery market, forming technical alliances with established corporations and conducting extensive research. For wind-generated power, we intend to minimize our risk as a late starter while pioneering the domestic industry through partnerships with technologically advanced companies. In the new materials field, we will be able to utilize steel rolling and strip casting technologies that we already possess while cultivating additional technology for competitive products of outstanding value and quality. We expect to see tangible results in the near future.

We have a head start in biotechnology, with network foundations already in place: POSCO BioVentures Management in the U.S. and the Pohang University of Science & Technology's (POSTECH) Biotech Center. We are taking advantage of such assets to formulate an efficient and effective entry strategy into the field.

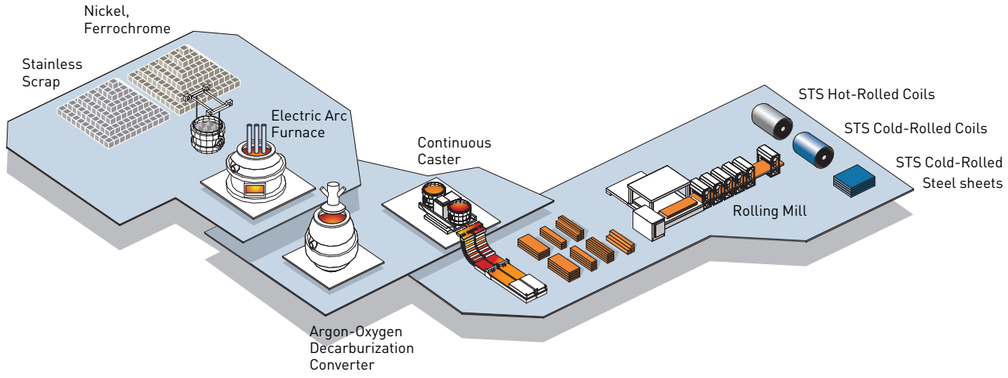
Furthermore, we are creating a cooperative network with renowned universities and research institutes both domestically and abroad to bolster new business R&D. In particular, we are looking forward to taking advantage of the outstanding technological and human resources of Pohang University of Science and Technology and the Research Institute of Industrial Science & Technology (RIST) as strategic base for this new business R&D, resulting in a "win-win" formula for all parties involved, creating synergy between technological research and POSCO's new business development.

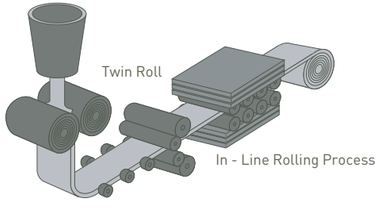
Phenomenal Growth of the Stainless Business

The vision of becoming the world's No. 3 stainless steel manufacturer by 2008, POSCO has been proceeding with active investment and growth strategies at home and abroad. Followed by the cold-rolling mill project of Zhangjiagang Pohang Stainless Steel in China, POSCO commissioned a stainless cold-rolling mill with an annual production capacity of 150,000 tons in Qingdao, China. Operation began in December 2004, and since then we have established a stainless cold-rolling production system with a capacity of 500,000 tons. To ensure our business base there and to self-supply hot-rolled steels in the local market, we started building stainless steel-making and hot-rolling mills with the capacity of 600,000 tons at Zhangjiagang Pohang Stainless Steel in December 2004 and are scheduled to go into operation in the second half of 2006.

Stainless Steel One-Stop Production System

POSCO has equipped Pohang Works with state-of-the-art productions systems to produce competitive stainless steel products through quality improvement and cost saving efforts.





Strip Casting Technology

Strip casting is on the edge of becoming a commercial technology now. This process is the most recent innovative steel casting technology that integrates casting and rolling. The major advantage of strip casting is that the capital expenditure for producing hot rolled coils will be considerably lower than for a conventional casting and rolling mill due to much less expenditure in rolling mill area. In order to commercialize the strip casting technology, POSCO started building a 'poStrip' demo plant with the annual production capacity of 600,000 tons at Pohang Works in June 2004.

As for the Korean market, we are preparing to introduce stainless continuous cold-rolling plant with the capacity of 400,000 tons at Pohang Works in response to the increasing demand for cold-rolled stainless steels and to the growing need to boost our global competitiveness. By 2008, POSCO will be equipped with an annual crude steel production capacity of 2.8 million tons and cold-rolled steel production capacity of 1.2 million tons, emerging as the world's third largest STS manufacturer after ThyssenKrupp and Arcelor. Along with external growth, POSCO reorganized its management system into Stainless Steel Devision in March 2004 in order to secure an advantageous position in growing markets such as China and to rapidly respond to global competition.

POSCO is also considering investing in development of raw materials to secure stable supplies of nickel, chrome, and other stainless steel raw materials.

INNOVATION Every innovation at POSCO starts with the widely known business methodology "Six Sigma". By reinforcing its existing Six Sigma projects, POSCO has reformed the way it does business and its corporate culture. Along with human resource programs, 1,800 tasks in total were carried out and the estimated financial gain of these successful initiatives totaled KRW 490 billion in 2004. And various reform measures were put in place throughout a number of fields including the activation of a consolidated operation system and Knowledge Management System(KMS). In an effort to secure talented workers, we have improved our human resources operation efficiency, strengthened our performance-based promotion system, and focused on nurturing professional and talented workers. Plus, we have introduced a lifelong learning system to help our employees balance work, life, and education. Even at this moment, POSCO is evolving for a better future.

Six Sigma: Innovating DNA

For POSCO, Six Sigma is not merely a series of tasks to be completed, but a potent way of thinking designed to help reach business objectives, change corporate culture, and present the most ideal solutions for every business issue. In 2004, POSCO's Six Sigma Process Initiative concluded its introductory period after two-and-a-half years. It marked the start of an exciting new period of substantial expansions, our focus on the innovation of our corporate culture and the way we work.

Process Initiative's Wave 4, begun in January 2004, was followed by Wave 5 in July. In sum, we completed over 1,800 projects last year, including 693 Black Belt and 1,120 Green Belt projects. The majority of the Black Belt initiatives were related to POSCO'S strategic objectives, including producing 5 million tons of automotive steel and overhauling small lot production. The estimated financial gain of these successful initiatives totaled KRW 490 billion.

Our Six Sigma talent pool swelled significantly in 2004, certifying an additional 23 Master Black Belts, 50 Black Belts, and 802 Green Belts, boosting our overall totals to 47 Master Black Belts, 200 Black Belts, and 1,606 Green Belts. POSCO's Champions, Master Black Belt candidates, and all executive officers completed the global leadership training program at Arizona State University's Mikel Harry Six Sigma Management Institute in the U.S., immersing in Six-Sigma methodologies at the source and nurturing an innovative Six Sigma mentality.

In November, we established a Six Sigma Leadership center within POSCO's Human Resources Development Center. This provides consistency in all Six Sigma-related training and a more systematic approach to developing advanced Six Sigma programs and supervising certification tests.

Our new benefit-sharing system was launched in July to foster cooperation within the supply chain, allowing POSCO and its partners to share the profits from joint Six Sigma projects. Together with 12 suppliers, we undertook 36 reform projects. In the process, we provided the employees of those suppliers the same Six Sigma training that POSCO employees receive.

In 2005, we will operate a progressive, reorganized Innovation Strategy Planning Department to inject Six Sigma methodologies into the very DNA of POSCO. The department will be the strategic core for POSCO's business and sustainable development activities, integrating all projects from different departments under one "central command."

Successful Operation of Consolidated Process System

When facilities are enlarged and plants are built, processes and systems are also developed. The Manufacturing Execution System (MES) integrates and standardizes all of those disparate processes and systems of each plant and then integrates them into web-enabled systems. After establishing a master MES plan in January 2002, POSCO started designing the system in May 2002, commenced building the system in earnest in May 2003, and then initiated operation of the system at the Gwangyang Works in November 2004 and at the Pohang Works in January 2005.

Thanks to the MES project, processes and systems at 81 factories were integrated and standardized so that the plants are now able to exchange information on a real-time basis as if they were one single factory. In addition, through benchmarking between plants and steelworks, MES laid a foundation for advancing operating processes on their own. Among the processes of steelworks, we identified the 57 best practice patterns and applied them to 277 processes to upgrade the overall process levels of the all the steelworks. For the first time as a steel maker, POSCO now provides clients with specific product information regarding the quality such as width, breadth, and faults, thereby allowing clients to significantly improve productivity and efficiency for clients.

By standardizing processes and completely eliminating manual jobs and unnecessary processes, MES transfers the affected workers to high value-added positions and provides a system for those workers to make contributions to process development. With the operation of MES, POSCO is perfecting 'POSPIA' , POSCO's own innovative infrastructure. We provided a genuine Real Time Enterprise (RTE) system, which, from any perspective, maximizes competitiveness by minimizing delays in business operations and boosts the efficiency of the decision making process through Process improvement and real-time information exchange.

Six Sigma Operation System

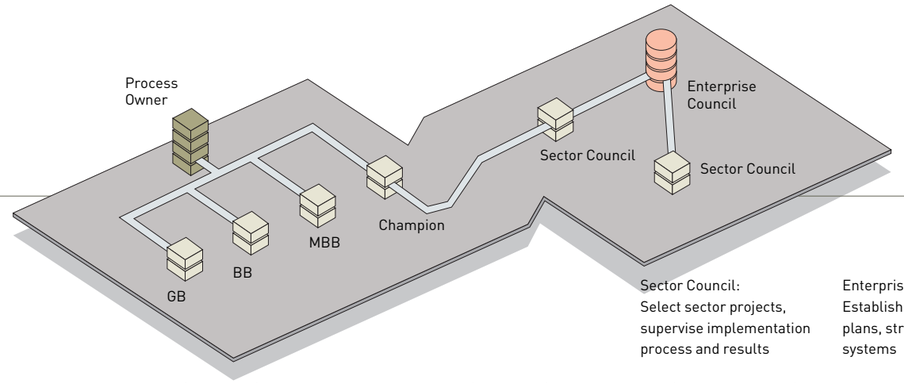
At POSCO, Six Sigma projects are currently underway and are deeper and more systematic than ever before. Six Sigma refers to all activity going within the company to bring about innovative changes and integrate them into POSCO's corporate culture.

Six Sigma Slogan: Pleasant and Happy Changes

For POSCO, Six Sigma is not merely a series of projects to be completed, but a potent tool for management reform designed to help reach business objectives, change corporate culture, and present the most ideal solutions for every business issue.

Refueling Human Resources

Linking Six Sigma and Human Resources | To accelerate the dissemination of Six Sigma culture, we have solidified the relationship between Six Sigma activities and human resources and broadened the scope of support. First of all, to transform premier workers BBs, we have consolidated all Black Belt candidate recommendations from the departmental level to the central human resources office, unifying standards and the certification process. We have also selected the most outstanding top 10% of team leaders from each Wave (about 50 employees) and designated them as Black Belt candidates. Employees with excellent Six Sigma performance have been given more promotion opportunities and consideration for Black Belt certifications was increased in management-level promotions. In addition, Black Belts were given priority in the selection of e-Leader Academy participants.



Sector Council:
Select sector projects, supervise implementation process and results

Enterprise Council:
Establish Six Sigma action plans, strategies and systems

Process Owner:
Advise and support BB(Black Belt)/ GB(Green Belt)

BB(Black Belt):
Advise Executives/Champions, train BB/GB on projects and develop Six Sigma methodologies

GB(Green Belt):
Participate in BB projects, small-scale projects

MBB(Master Black Belt):
Carry out project implementation, GB training and education

Champion:
Manage and support department projects

Streamlining and Resuffling of Human Resources | To increase efficiency in the human resources department, we reduced the proportion of support staff from 6.8% to 6.5%, and integrated maintenance operations and other worksites.

As for sectors whose unit operation could be specialized and developed into professional companies, we created spin-offs after securing the agreement of employees and employment protection. The surplus workforce that was resulted from such efforts was transferred to new departments such as FINEX, the No. 5 continuous galvanizing line, and the continuing education training center, strategically boosting the competitiveness of our workforce in all parts of the company.

Dynamic POSCO | POSCO has taken significant steps to promote advancement and morale within the organization, expanding early promotion opportunities for outstanding employees. In addition, the job re-training program was effectively revised, laying the foundation for successfully supporting high-level, low-performance employee transfers.

Overall human resources policies, including salary scales, reflect a heightened emphasis on merit and performance rather than on rank.

Global Core | In our ongoing progress towards a truly global POSCO, we have augmented our workforce competitiveness by aggressively recruiting experts in global management and strategic technical fields. Our educational programs for employees also underwent a substantial overhaul for more effective advanced training. In 2004, we welcomed 26 foreign management experts, 23 researchers with Master's or Ph.D. degrees, and 148 management and technical employees into the POSCO family. We also hired 223 field workers to revitalize manufacturing organization and performance. New systematic hiring standards were applied to improve clarity and reliability in the hiring process, and online applications were redesigned for enhanced user-friendliness, with English language support and other upgrades. A select group of sixty-nine POSCO employees received advance training in key fields domestically and abroad to strengthen our expertise in strategic management and steel technology areas. Six regional experts in international investment and strategic export bases were produced, and we posted thirty-two Chinese investment and thirty-eight automotive steel experts. Our e-Leader Academy is another component of this larger objective and serves to nurture global business leadership and management skills. Under its auspices, twenty-five of four employees completed Pohang University of Science & Technology's "Techno-M.B.A." program and twenty more candidates were selected, in addition to a recently enlarged and reorganized Executive M.B.A program.

Life-Long Learning with the Combination of Work, Life, and Education

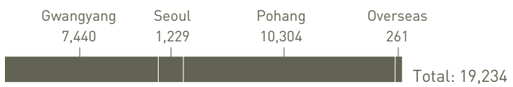
In September 2003 when POSCO introduced the 40 hour-workweek system, it also adopted the "life-long learning system". The life-long learning system consist of: cultural education that includes 7Habits, business etiquette, and cultural activities, and value-sharing education such as business management briefings and Six Sigma mindset cultivation and job training courses such as new technology education and intensive technical training.

Actual Project Implementation by Wave

Through a step-by-step reform, POSCO is striving to meet the various needs of customers and to upgrade its corporate value.

Wave 1 | May. 2002 ~ Oct. 2002	Wave 2 | Nov. 2002 ~ Apr. 2003	Wave 3 | Jun. 2003 ~ NOV. 2003	Wave 4 | Jan. 2004 ~ Jun. 2004	Wave 5 | Jul. 2004 ~ Dec. 2004	Wave 6 | Jan. 2005 ~ Jun. 2006
92	353	543	840	973	1,336
BB: 82 | GB: 10	BB: 175 | GB: 178	BB: 236 | GB: 307	BB: 353 | GB: 487	BB: 340 | GB: 633	BB: 439 | GB: 897

Number of Employees by Region



As of Mar. 2005

Recruitment

As of 2004, number of employees

Knowledge Management to Nurture Knowledgeable Workers

To maximize operational performance and efficiently carry out core management strategies, including Six Sigma, through systemic management and utilization of its knowledge assets, POSCO has been using KMS (Knowledge Management System) since 2003. The goal of KMS is to help us solidify our presence as a global company by enhancing the capacity and performance of our employees through the sharing, utilizing, and creation of our company's knowledge assets, thereby nurturing knowledgeable workers. KMS was activated in 2003 and integrated into the everyday lives of employees in 2004. Out of a total of 20,000 employees, 8,000 to 9,000 connect to the system on a daily basis to take advantage of all of the useful knowledge posted on the system; around 300 documents are uploaded everyday. There were 50 knowledge-finding competitions during the year and a total of 336,901 people participated.

Recognized for its successful operation of KMS, POSCO won the 'Knowledge Management Award', sponsored by Maeil Business Newspaper.

TRUST & SHARING

POSCO has made various efforts to become a well-respected and recognized company. We have made our Board of Directors more independent to establish advanced corporate governance, and we have also reinforced ethical management by integrating corporate ethics into our corporate culture. To protect the environment and meet our social responsibilities, POSCO launched Corporate Sustainability Management and invested KRW 145.5 billion into protecting the air and water as well as recycling by-products. In addition, we have achieved significant advances in developing environment-friendly technologies including FINEX and Strip Casting. POSCO has demonstrated its sharing philosophy through volunteer activities, social contributions, education and scholarship programs.

Advancing Corporate Governance

POSCO has undertaken major reforms to ensure the independence of the Board of Directors and to protect the rights of shareholders, resulting in a much more transparent corporate governance. The presence of independent outside directors on our Board has been increased to nine, in addition to six executive directors. Outside Director-only meetings may be held to hear opinions on BOD agendas, which is stated on Operational Regulations for Board of Directors.

Turning our attention to shareholders, we instituted cumulative and write-in voting systems and eliminated a clause in the articles of incorporation regarding convertible preferred share issuance. Moreover, we established an Insider Trading Committee to oversee transparency in dealing with affiliated companies and affiliated persons and issued a formal corporate governance policy that outlined our vision and principles on the this fundamental issue.

Our extensive reforms and improved transparency were recognized with the Korea Corporate Governance Service's Best Corporate Governance Award in 2004.

The Ethos of Success

Sound corporate ethics is emerging as the cornerstone of competitiveness in the global marketplace. At POSCO, we aspire to earn the respect and trust of our stakeholders by embracing the highest ethical standards in every aspect of our business. On June 2, 2003, we culminated an extensive review and analysis of ethical norms from home and abroad with the unveiling of the updated POSCO Code of Conduct. Today, the challenge is to live up to its principles in all our relationships, both internal and external. The POSCO Code of Conduct unveiled on June 2, 2003, was a solid manifestation of our commitment as a global corporate citizen. We endeavor daily to embody these principles as an organic part of our corporate culture and positively impact each and every employee's ethical behavior and mentality. The updated POSCO Code of Conduct has five sections outlining our fundamental responsibilities as well as our ethical commitments to each of our stakeholder groups. It is augmented by rules of conduct providing general guidance on ethical behavior in seven specific areas as well as compliance guidelines offering concrete advice concerning gifts, entertainment, and other common issues. We have compiled all these materials into a handy pocket-sized handbook and printed a five-point integrity self-test on the back of each employee ID card to assist our employees in making ethical decisions in their daily work.

The upgraded code required an upgrade to the organizational unit tasked with supporting it. Formerly a team-level group, the new Corporate Ethics Department provides employees with walk-in access to counselors to discuss ethical issues and personal concerns. Employees can also seek guidance from department heads or ethics leaders, or directly phone or e-mail their questions or violation reports to the department.

Creating Eco-Friendly Steel Works

We continue to develop and implement cleaner production processes by installing more pollution control equipment and upgrading our facilities. POSCO's facility investments at Pohang and Gwangyang Works totaled KRW 145.5 billion in 2004, a substantial increase from KRW 93.2 billion spent in 2003. Broken down, KRW 107.2 billion was invested in air quality, 23.2 billion into water quality, and 15 billion into the by product recycling area.

Among our 2004 projects were flue gas cleaning system facilities at sintering plant Nos. 3 and 4, a roof dust collector at the steel-making plant No. 2 at Pohang Works and the installation of a system to transfer the condensation resulting from by-produced gas at Gwangyang works. The new flue gas cleaning system at Pohang Works drastically decreases the level of SOx, NOx, and dioxin emissions and it will be also installed at Gwangyang Works.

Developing, Environment Friendly Technology and Products

FINEX, POSCO's environmentally friendly ironmaking technology, was built in May 2003 and is currently in operation with a 600,000-ton capacity. Construction work on a 1.5 million-ton capacity full-scale FINEX plant began in August 2004 and will be completed at the end of 2006. POSCO completed the construction of a Strip Casting demo plant

with an annual production capacity of 600,000-tons in June 2004. Strip Casting is another innovation that dramatically reduces energy consumption and harmful emissions. In accordance with the move by North America and the European Union to limit the use of chrome in products and in the workplace, POSCO has identified six major priorities including the development of chrome-free steel product manufacturing technology. Chrome-free coated steel has long been on our list of top priorities, and we plan to develop twelve additional chrome-free products in the future.

Sharing the Love: POSCO Volunteers

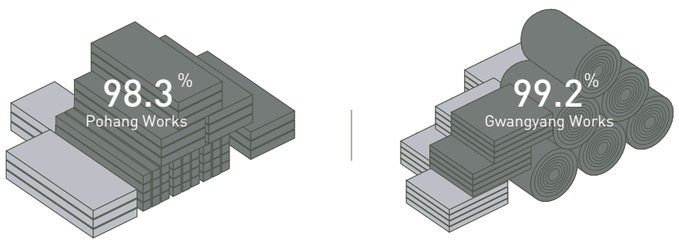
The level of enthusiasm and dedication in POSCO's community service has always been remarkable and heartwarming. At the end of 2004, there were 249 active community service groups at POSCO with 22,914 registered participants, reflecting an astonishing 117.7% participation rate (including multiple memberships). A total of 73,783 people participated in a diverse array of community services. The third Saturday of every month brought out an average of 2,700 volunteers from the POSCO family to reach out to local communities on "Saturdays for Sharing." In support of our active volunteerism, POSCO provides uniforms, backpacks, and accident insurance. We also track and post results in a real-time community service information support system. Our community service "mileage system" encourages flexible volunteering, while our matching grants policy contributes the corporate funds equal to every employee donation, effectively doubling each gift.

Expenditures on the Environment
POSCO is improving environmental friendliness
as well as economic profits by investing
KRW 145.5 billion to build a pollution-free steel factory.

2002	2003	2004
177	93	146

unit: KRW in billions

By-Product Recycling Ratio



Enhancing Credibility

In 2004, we put a lot of effort into upgrading the supporting infrastructure and quality of our investor services. On the infrastructure side, we created a database with key information on major fund managers, analysts, and potential investors. On the quality side, we began actively utilizing our corporate knowledge management system and data warehouse as a communications resource as we applied Six Sigma methods to improve service quality, resulting in more timely and accurate business information for both analysts and investors.

Starting with Seoul in January, we held our annual CEO Investor Forum meetings in New York and Boston to review our 2003 corporate performance and preview our 2004 plans and prospects.

Our busy year on the road also saw us participate in eight major investor conferences as well as hold over 300 one-on-one meetings with fund managers and buy- and sell-side analysts.

Many Korean and international organizations as well as Asia's top analysts regonized us as one of the best IR practicing companies in 2004. Going forward, we will be working even harder to expand our shareholder base as we make building trust with the international investment community through timely and fair disclosure a top priority.

In 2005, we will be working even harder to expand our shareholder base as we make building trust with the international investment community through timely and fair disclosure a top priority.

Growing with the Community

One of our more prominent community service programs, Village Alliances, connects POSCO with 223 towns, schools and other organizations in the Pohang and Gwangyang areas. Since the program's inception in 1991, our exceptional, dedicated volunteers have been involved in many different activities, such as repairing farming equipment, helping crop sales, traveling health clinics, and raising funds for children with terminal diseases.

POSCO was the first corporation in Korea to operate meal kitchens, one each in Pohang and Gwangyang, with a great positive impact on the local community. Our employees, their families, and local residents all pitch in to provide free meals to the needy and foster a strong community rapport in the process.

POSCO donates to 220 households in the Pohang and Gwangyang areas and about KRW 200,000 to 300,000 per month to each family, totaling KRW 700 million, to support them in their quest for self-sufficiency. Our mentoring program is another rewarding program activity for the mentors and mentored alike, bringing together our employees in Pohang with disadvantaged teens to offer financial and emotional support. We also held two large drives collecting household goods in 2004, delivering about 136,000 items for sale at the POSCO center and 26 stores throughout the country, promoting recycling and donating the proceeds to charity. In addition, our two blood drives in 2004 drew 3,912 participants, or 19% of our workforce.

Enriching the Community

Education is of the utmost importance to POSCO. We support about 14 institutions in the Pohang and Gwangyang areas through the POSCO Educational Foundation, the POSCO Scholarship Fund, and the Pohang University of Science and Technology. We also sponsor a Children's Steel Camp and support a variety of academic projects and events. In addition, we recently allocated KRW 1.5 billion for a five-year grant to Seoul National University's Professor Woo-Suk Hwang, a world authority in biotechnology, to help finance his important research in the interest of public welfare.

POSCO believes in a healthy body as well as a strong mind. Not only do we sponsor professional soccer teams—the Pohang Steelers and the Jeonnam Dragons—but we also promote youth sports with soccer classes and regional sporting events. POSCO is also a strong proponent of arts and culture and recognizes the special role that they play in building human relations and feeding basic human needs. We provide funding for a number of cultural institutions in Pohang, Gwangyang, and Seoul, in addition to financing quality concerts and exhibitions to liven up the community and enrich our lives. Among our many financial contributions, POSCO has donated a total of KRW 7 billion to Community Chest of Korea's annual year-end charity drive with our affiliates and we also responded to North Korea's Yongcheon railway explosion tragedy with a gift of KRW 500 million.

POSCO Volunteers

Since 1991, POSCO has provided volunteer services through strong community ties with regions in Pohang and Gwangyang.
For more systematic and efficient operation, we founded "POSCO Volunteers" in May 2003.

Number of Groups Participating in Volunteering Services

186 → 249

2003 2004

Number of Volunteers

18,366 → 22,914

Social Contributions
unit: KRW in billions

73 → 140

1,779,320 Shares

In 2004, POSCO continued to increase shareholder value by repurchasing and retiring treasury shares for the fourth straight year. We repurchased and retired 2% of the total issued and outstanding shares 1,779,320 shares valued at KRW 304.7 billion amounting to 8% of the net income of 2004. The outstanding shares reduced this time totaled KRW 93 billion, accounting for 10% of the total outstanding shares. In 2005, we will repurchase and retire 9.7% of the total outstanding shares to upgrade our shareholder value.

Corporate Sustainability Management

POSCO implements Corporate Sustainability Management (CSM) as a momentum for integrating its economic profitability, environmental soundness, and social responsibility into our business. These efforts are clearly reflected in our mission, policy and activities. Concerning with the environment and the world in which we live, POSCO will join global efforts for sustainable development and cooperate with shareholders including customers, shareholders and investors, employees, suppliers, outsourcing partners, and communities. As a part of CSM, POSCO published its first sustainability report replacing existing environmental report. It was prepared under guidelines including the Global Reporting Initiative (GRI) and received independent assurance from a third party.