



Annual Report 2002

Making the Grade in Steel: Another solid report card for the one of the biggest and most profitable names in steel.

posco

A Tough Year A Job Well Done A Future to Watch

Contents

Making the Grade [2] Financial Highlights [4] Chairman's Message [6] 2002 at a Glance [10] Governance [12]
Process Innovation [20] Steel Innovation [28] Sustainable Growth [36] Stewardship [42] Board of Directors [50]
Executive Officers [52] Major Subsidiaries & Affiliates [54] International Network [56] Milestones [58]
Financial Statements [59]



Steel is changing. At POSCO, we're competing in an industry with 20% more capacity than demand. The world's largest markets—China, the United States, and the European-Union—have all slapped multi-year tariffs on imports. The global economy is still struggling. Yet despite all these challenges, we're still growing. Driven by our Process Innovation initiative, it's a sustainable, qualitative growth that moves us closer every day to our vision of becoming a leading global company.

**Making
the Grade
in Steel
Around
the Globe**



In school, report cards tell us how we're doing. In business, analysts and journalists do the same thing. They're constantly ranking and rating the industry players as they work to help their customers make smart investment decisions. And year after year, POSCO consistently appears at or near the top of their lists. In this year's annual report, we'll be doing a little "reporting" of our own, sharing what the media is saying about us as well as how our 2002 achievements and 2003 goals will keep us at the top of their lists. And hopefully, yours.

Financial Highlights

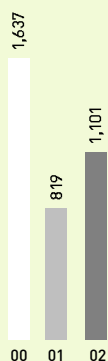
POSPIA—our integrated ERP and SCP information system—marked its first full year in operation in 2002. The results were remarkable. Sales recovered all the ground they lost in 2001, rising 5.8% to reach a new high of KRW 11,729 billion. Net earnings jumped 34% to KRW 1,101 billion as our ongoing Process Innovation initiative continued to increase efficiency and reduce costs across the enterprise, pushing our industry leading operating margin from 12.9% to 15.6%. And we once again broke new ground in delivering shareholder value, raising our dividend payout ratio from 24.9% to 26.0% for the year.

| Income & Balance Sheet Data in billions of won | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|------------|------------|------------|------------|------------|
| Sales | 11,138 | 10,696 | 11,692 | 11,086 | 11,729 |
| Operating Income | 1,720 | 1,820 | 2,099 | 1,429 | 1,834 |
| Net Earnings | 1,123 | 1,558 | 1,637 | 819 | 1,101 |
| Total Assets | 17,972 | 17,228 | 17,767 | 17,616 | 17,245 |
| Total Liabilities | 9,586 | 8,141 | 8,337 | 7,419 | 5,923 |
| Shareholders' Equity | 8,385 | 9,087 | 9,430 | 10,197 | 11,322 |
| Other Financial Data | 1998 | 1999 | 2000 | 2001 | 2002 |
| Operating Margin | 15.4% | 17.0% | 18.0% | 12.9% | 15.6% |
| Return on Equity | 14.4% | 17.8% | 17.7% | 8.4% | 10.2% |
| Net Debt to Equity | 46.2% | 34.2% | 37.6% | 42.4% | 26.8% |
| Number of Shares Outstanding | 96,480,625 | 96,480,625 | 96,480,625 | 93,589,485 | 90,781,795 |
| Earnings per Share (Korean won) | 11,968 | 16,242 | 19,161 | 10,043 | 13,442 |
| Year End Stock Price (Korean won) | 64,500 | 125,000 | 76,500 | 122,000 | 118,000 |

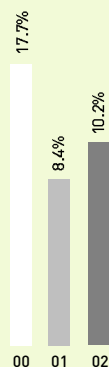
• The financial results in this selection are for POSCO only



Sales
in billions of won



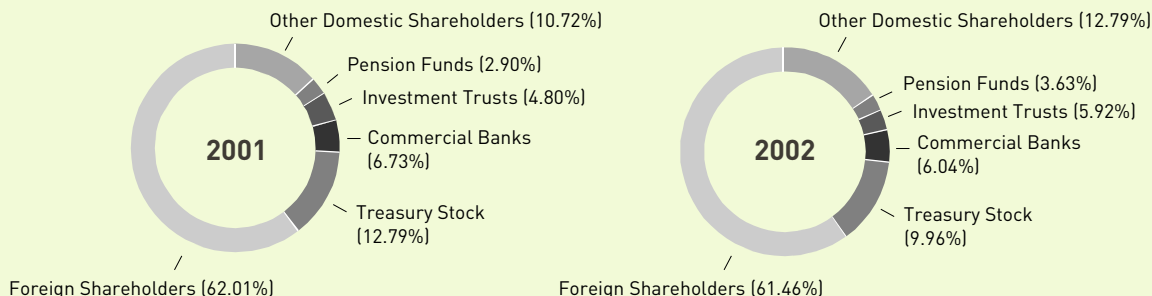
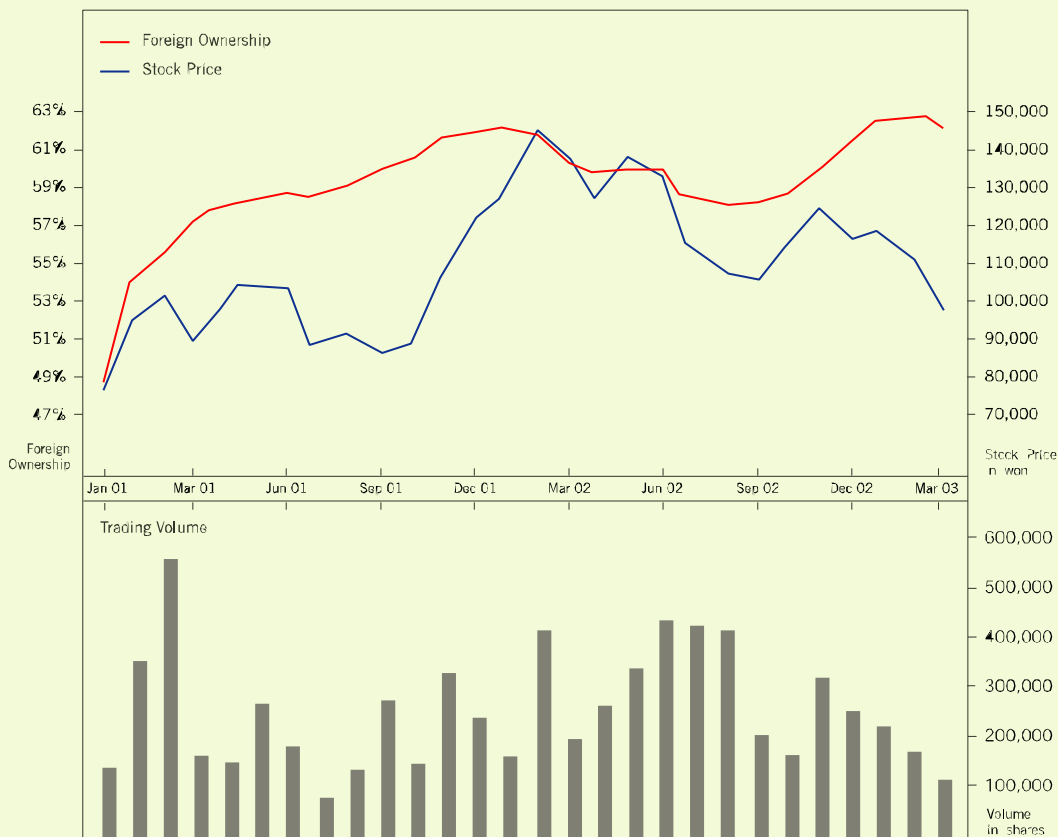
Net Earnings
in billions of won



Return on Equity

POSPIA also helped make our strong balance sheet even stronger in 2002. Our increasingly efficient supply chain enabled us to cut inventories by 7.2%, pushing turnover up by 1.05 turns to 8.88 turns. On the other side of the sheet, we reduced debt by 18.6% by actively retiring corporate bonds and foreign currency borrowings, cutting our net debt to equity ratio from 42.4% to 26.8%. Shareholders' equity was also up 11% to KRW 11,322 billion for the year, aided by strong net earnings and a change in Korean accounting rules that reversed to retained earnings a KRW 1,021 billion reserve for special repairs.

Foreign Ownership & Stock Price



Shareholder Demographics



“Although POSCO is no longer the world’s largest steelmaker, we’re still by far one of its most profitable. And our dedication to innovation, both in the office and the steel mill, will serve us well in the years ahead.”

Chairman's Message

"To Our Shareholders and Customers"

At POSCO, we pride ourselves on turning challenges into opportunities. In 2002, we once again proved why we're one of the industry's most competitive steel-makers by setting new company records for crude steel production, sales, and sales volume.

The year 2002 was yet another difficult period for the industry that gave birth to the Industrial Revolution. Overcapacity continued to run about 20% worldwide. Fears of trade protectionism became reality as both the United States and China invoked multi-year tariffs on major steel products. Consolidation also continued to gain momentum as Usinor of France, Arbed of Luxembourg, and Aceralia of Spain merged to form Arcelor—now the world's largest steelmaker with an annual crude steel capacity of 44 million tons—and Kawasaki Steel and NKK Corporation in Japan became JFE Steel.

While many steelmakers might have been content to retrench and ride out the proverbial storm of these daunting economic and market conditions, we pushed full-speed ahead with our Process Innovation initiative. Our efforts were well rewarded. Our industry-leading operating margin rebounded from 12.9% in 2001 to 15.6% as sales rose 5.8% to KRW 11,729 billion, ultimately pushing net earnings up a strong 34% to KRW 1,101 billion for the year. And while our debt/equity ratio was steadily falling from 72.8% to 52.3%, our stock price defied a bear market to finish virtually even at KRW 118,000 per share.

Our solid financial performance in 2002 was due in large part to the remarkable progress we made in the first year of the second phase of our ongoing PI initiative. Under PI-2 we continued to fine-tune business processes, launched an enterprise-wide Six Sigma program, and began laying the foundation for

the integration of manufacturing operations into our POSPIA integrated information system. At the same time, we expanded R&D and strategic investment to boost cost competitiveness, profitability, and our international presence. Last but not least, we continued to focus on enhancing transparency in governance and building investor value, retiring treasury stock equivalent to 3% of outstanding shares for the second straight year.

Looking ahead to 2003, indicators point to a slow recovery in the global economy, but the political and economic impact of the war in Iraq, nuclear confrontation with North Korea, and SARS remain far from certain. For the steel industry, the issues of growing overcapacity and protective tariffs will continue to dominate, setting the stage for new round of alliances and mergers as the industry forges ahead with consolidation.

We believe 2003 will be the year our PI-2 initiative begins to pay big dividends. We'll launch systems for balanced scorecard management, customer and supplier relationship management, and knowledge management, accelerating the pace of innovation. We'll continue to add and expand capacity, particularly in China, the world's largest importer of steel. We'll also mark new milestones as we launch test operation of our FINEX demo plant and begin receiving coal from our POSMAC iron-ore mining joint venture in Australia. And as we do, we'll be well positioned to push sales to and beyond KRW 12,000 billion.

For the balance of my message, I'd like to share the answers to a number of the most-frequently-asked questions we hear from current and prospective investors.

Q. What is POSCO's mid-range investment strategy?

A. We plan to invest a total of KRW 11.3 trillion through 2007 as we seek to increase intrinsic corporate value from KRW 20 trillion at the end of 2002 to KRW 33 trillion. Focusing on building both corporate and investor value, we will invest 80% of that figure in domestic steel operations, 15% in overseas steel operations, and the remaining 5% in non-steel businesses. Our major strategic initiatives to achieve these mid-range objectives will include 1) continuing innovation of the POSPIA integrated information system under the ongoing Process Innovation initiative, 2) securing a strategic competitive edge through the expansion of market share in key product categories, and 3) cultivating strategic new businesses which leverage our core capabilities.

Q. What results has POSCO seen from its Process Innovation initiative?

A. The fundamental purpose of what we call "PI" is to maximize investor and corporate value by enhancing business efficiency and transparency through the realignment of business processes around the customer and the construction of an ERP-based integrated information system. The master plan for the first phase of the initiative was unveiled in January 1999 and culminated with the "big bang" launch of our POSPIA integrated information system on July 2, 2001. In 2003, we will be implementing a web-based enterprise portal system that will continue to enhance our organizational efficiency.

Looking at the achievements of PI to date, our order lead time has been slashed from 30 days to just 14 days, our domestic on-time delivery performance has jumped from 74% to 97%, and our product inventories have dropped from the 1 million ton level to around 400,000 tons. The second phase of PI or "PI-2" was launched in January 2002 and is now expanding the initiative to include customer and supplier relationship management. When it wraps up at the end of 2003, we believe that POSCO will have a

first-class business system that truly embodies the world's best practices.

Q. What results has POSCO seen from its e-business initiative?

A. We joined the e-business revolution on August 30, 2000 with the launch of our Steel-N.com B2B e-marketplace. Focusing on sales of hot-rolled, cold-rolled, plate, and other products, the venture registered sales of 1.2 million tons in 2002, double the 600,000 tons sold in 2001.

Steel-N.com shortens the logistics chain, saving end users money by eliminating middleman margins. One major beneficiary of this has been low-volume customers who were formerly unable to directly purchase from us. These customers are now able to easily purchase the products they need via the Internet, allowing both them and us to reduce excessive inventories and their associated costs. Another major benefit we have seen since launching online sales has been a reduction in the depth of discounting on non-standardized products, raising actual sales prices and, in turn, total sales.

Q. What are the benefits of POSCO's FINEX ironmaking process?

A. The FINEX smelting reduction process produces hot metal with quality equivalent to the conventional blast-furnace process using a direct charge of iron ore fines and non-coking coal. It is an eco-friendly process designed to meet the increasingly strict environmental regulations of the 21st century.

We began laboratory testing of the FINEX process in 1992 and have been producing 150 tons of hot metal a day since the completion of a pilot plant in June 1999. A 600,000-ton-per-year demo plant is currently under construction and scheduled for completion in May 2003.

The FINEX process eliminates the need for the sinter and coke plants required to process raw materials for the traditional blast-furnace process, dra-

matically reducing emissions—only 6% of the SO_x, 4% of the NO_x, and 21% of the dust are produced—as well as start-up investment costs.

Q. What is POSCO's dividend policy?

A. During our expansion period, the need for investment capital precluded any significant dividend distributions. With the completion of major capacity expansion projects and start of privatization in the late 1990s, we steadily increased the dividend ratio from 25% of par value to 70% during the 1998-2002 period to boost shareholder value.

In 2002, we formally shifted our dividend policy from a par-value-based to an earnings-based standard closely tied to business performance. Under the new standard, the dividend payout ratio has risen from 10% to 26% during the 1998-2002 period. In general, our dividend decisions reflect our solid business performance and are driven by a shareholder-centric policy aimed at generating investor returns and enhancing our blue-chip investment value.

Q. How does POSCO plan to use its retained earnings?

A. Between fiscal 1999 and 2002, we generated KRW 12 trillion in EBITDA. During that period, we invested KRW 5.2 trillion toward expanding our domestic and international market share, one of our key mid-range strategies. This enabled us to enhance our ability to produce stainless steel and other high-margin products as well as maintain our existing facilities at 100% operating capacity. We improved our cost structure by paying KRW 1.4 trillion for early severance payments and KRW 1 trillion for net financing payments. In addition to distributing KRW 729.8 billion in dividends, we also improved our balance sheet and financial stability by repaying KRW 1.5 trillion in loans ahead of schedule, enhancing both shareholder and corporate value.

Looking forward, we intend to use free cash to maintain and enhance our competitiveness in the steel industry as well as repay foreign-currency

loans to reduce the risk posed by fluctuating exchange rates. When appropriate, we will also continue to use them to directly enhance shareholder value through stock repurchases and retirement.

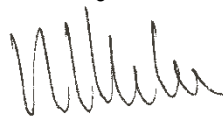
Q. What outlook and strategy do you have for China?

A. China's economy has been growing at around 8% annually. We expect that strong performance to continue in 2003 and for the foreseeable future as growth in infrastructure projects and foreign direct investment boosts demand for steel.

In addition to ongoing capacity expansion projects at our three local joint ventures, our strategy in China includes investment in a fourth joint venture to produce cold-rolled stainless steel in Qingdao as well as the establishment of a local headquarters to more effectively manage our investment and marketing efforts in this key international market. Looking further ahead, we are also actively studying local natural resources development opportunities as we continue to seek stable, long-term raw materials resources for our steelmaking operations.

In closing, I'd like to thank you for your interest in POSCO. While we will continue to quicken the pace of change in the year ahead, our ongoing pursuit of innovation is about far more than simply paving the way for future growth. It's a driving force that will only continue to enhance our reputation as a world-class corporation and the world's most competitive steelmaker. We invite you to join us as we forge the future of steel.

Best regards,



Ku-Taek Lee
Chairman & CEO

2002 at a Glance

At POSCO, we're not just in the news. We're making it almost every day as we invest in the future. Visit our online Press Room at www.POSCO.co.kr often to find out more about the solid future we have planned.

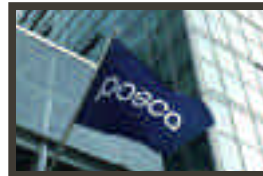
January 30–February 4
POSCO holds "CEO Investor Forum" presentations and one-on-one meetings with investors and analysts from a total of 58 financial institutions in New York, Boston, and Los Angeles to talk about the company's 2001 performance as well as plans and prospects for 2002.



February 1
POSCO breaks ground for the Automotive Steel Application Center at the Gwangyang Works. Opened on January 21, 2003, the KRW 24.3 billion facility will enable the company to better assist automakers their development efforts as well as develop new automotive steel manufacturing techniques.



March 15
POSCO's motion to formally change its corporate name from Pohang Iron & Steel Company, Limited to POSCO is approved at the 34th annual general shareholders meeting. The new name and logo pave the way for the company to pursue growth opportunities beyond steelmaking with a brand that is already internationally recognized.



April 3
POSCO Australia Pty. Ltd. signs an agreement with BHP Billiton to participate in the development of Mining Area C in the Pilbara region of Western Australia. POSMAC joint venture secures the company a 20% stake in the project and an important long-term source of iron ore.





May 31–June 30

POSCO builds and operates “Steel Pavilion” information centers at the 10 World Cup venues across Korea as part of its contribution as an official supplier of the 2002 FIFA World Cup Korea/Japan. The company also welcomes and hosts over 2,000 customers, suppliers, and fellow steelmakers for matches and cultural events during the tournament.



July 1

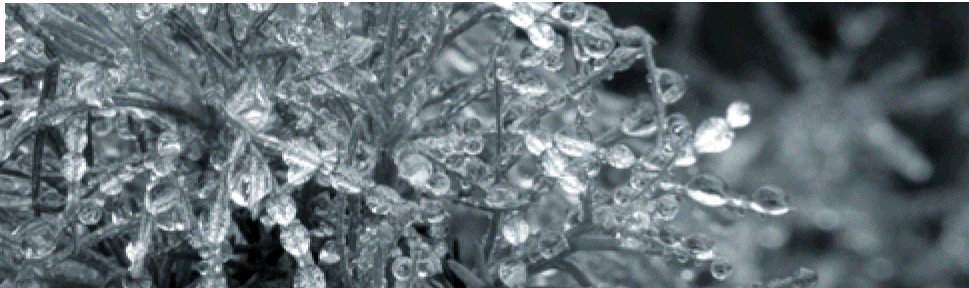
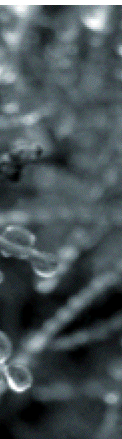
POSCO becomes the first Korean company to implement an employee stock ownership program under revised government regulations that went into effect in January 2002. A total of 19,236 employees purchased 316,950 treasury shares for a remarkable 97.2% participation ratio.

August 16

Pohang Coated Steel Co., Ltd., a subsidiary specializing in galvanized, aluminized, and prepainted steel sheet, is listed on the Korea Stock Exchange. The listing reinforces the company’s commitment to transparency in corporate governance and maximizing investor value.

September 6

POSCO America Corporation funds POSCO BioVentures I, L.P., a US\$50 million biotech venture capital fund based near San Diego, California. The investment follows a comprehensive three-year feasibility study and marks POSCO’s first major step toward establishing a presence in this promising growth industry.



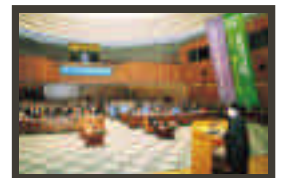
October 4

POSCO marks the second anniversary of its privatization. The company’s success in implementing a solid, transparent governance structure continues to make it a model case study for privatization.



November 1

POSCO breaks ground for Korea’s first privately owned LNG terminal adjacent to the Gwangyang Works. Designed to handle 1.7 million tons of LNG per year, the KRW 320 billion facility is slated to enter operation in July 2005.

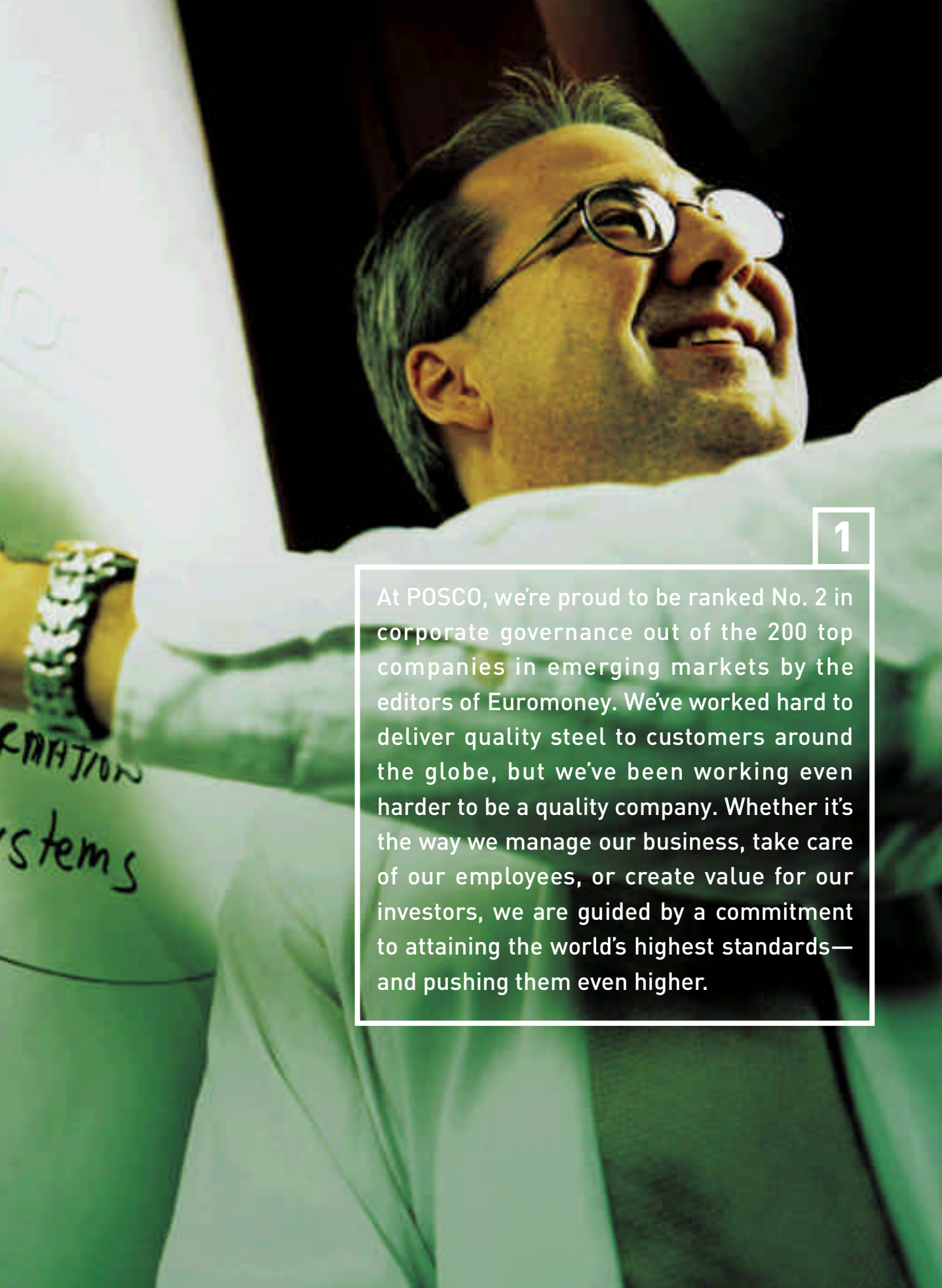


December 3

POSCO holds a “Six Sigma Festival” at its Pohang corporate headquarters to highlight the top-10 achievements of Wave 1 of its Six Sigma program and set the stage for a more productive Wave 2.



Governing by the World's Standards



At POSCO, we're proud to be ranked No. 2 in corporate governance out of the 200 top companies in emerging markets by the editors of Euromoney. We've worked hard to deliver quality steel to customers around the globe, but we've been working even harder to be a quality company. Whether it's the way we manage our business, take care of our employees, or create value for our investors, we are guided by a commitment to attaining the world's highest standards—and pushing them even higher.



In 1999, we adopted a new corporate governance system developed together with McKinsey & Company. The centerpiece of this system is an independent and professional board of directors. The eight outside directors on our 15-member board play a crucial role in maintaining the essential checks and balances on management. In 2002, the board continued to improve accountability, management oversight, and operating efficiency, providing the leadership that will only make us stronger in the years ahead.



The POSCO board of directors is structured to meet the highest standards for corporate governance. In 2002, the board executed a three-point strategy to further enhance its accountability, oversight, and efficiency.

In the late 1990s, we turned to McKinsey & Company for assistance in bringing our governance practices up to global standards. Together, we benchmarked the practices of major multinationals as well as our steel industry peers. Then we adopted a new governance system based on two core principles: 1) an expert management team dedicated to maximizing overall shareholder value runs the company, and 2) management is supervised by a board, led by a majority of independent, qualified outside directors, which sets the corporate direction and provides a check against management misconduct. Today, these principles are solidly in place, earning us global credibility that's as strong as the steel we produce.

Good governance gets better

Following the introduction of performance-based salaries and stock options for senior executives in 2001, the board turned its attention inward in 2002, executing a three-point plan to further enhance its accountability, oversight, and efficiency. First on the list was the shortening of the terms of service for both directors and executive officers to strengthen accountability. The articles of incorporation were amended to shorten director terms from three years to within three years, while executive officer terms were shortened from three years to within two years. As a result, the terms of service will be shortened to two years for both directors and officers newly elected in 2002 and 2003.

The board also deliberated a couple of committee changes that will significantly improve management oversight and efficiency. The Executive Management Committee, which formerly served an advisory role to the board, was converted to a special committee under the board's supervision, giving outside directors full oversight over capital investment decisions. At the same time, the overlapping responsibilities of the Director Candidate Recommendation Committee and the Management Development and Compensation Committee were combined under the new Director Candidate Recommendation and Evaluation Committee. Overall, outside directors now chair three of the four special committees and hold all seats on two of the four, reinforcing our commitment to transparent corporate governance.

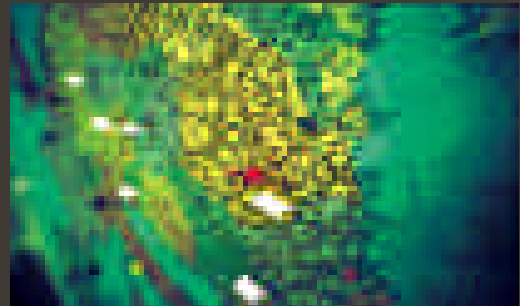


Governance wins top marks

Over 200 companies from emerging markets around the globe responded to the Euromoney 2002 survey on corporate governance. When the rankings came out in July, only one of them was ranked higher than our 88% final score. Our responses earned us 100% scores for ownership transparency, board structure and process, and shareholder relations as well as a 92% for financial transparency.

Growing together

At POSCO, we granted stock options to senior management for the first time in 2001 to more closely align management and shareholder interests. In 2002, we moved to achieve the same with employee and shareholder interests with a new employee stock ownership plan. The five-year plan allows employees to purchase up to KRW 2.4 million worth of shares annually—17 shares each in 2002—at the current market price, which are then matched by an equal number of shares from the company. Purchased shares have a one-year holding period, while matching shares must be held for four years before sale.



Performance matters

We continued our transition from a seniority-based to a merit-based pay system in 2002 with a number of advances. We increased the in-grade salary range up to 13.5% of base, giving managers more leeway in rewarding their personnel based on their competencies and job performance. We also embarked on a complete overhaul of our compensation system, working to craft a system that more accurately reflects job responsibilities and employee performance for launch in 2003.

Career development

At POSCO, we have always been a big believer in the value of employee training and development. In addition to our comprehensive employee training program, we support a self-guided career development program that enables our people to develop the skill set for whatever role or position they choose at their own pace, empowering them for success in tomorrow's POSCO.

In 2002, we created a management succession plan for all major organizational units and established the Personnel Competency Development Team to oversee the training of tomorrow's leaders. We also launched "e-Leaders Academy", a one-year career development program that will graduate 25 leaders annually starting in 2003.



Market risk management

We are exposed to foreign exchange rate and interest rate risk that can negatively impact our sales and profitability. For foreign exchange rate risk, we estimate VaR using a 95% confidence level for both cash-flow-at-risk and translation-at-risk. CfaR is calculated on short-term (1 month) and long-term (2~12 months) bases. TaR is calculated for foreign currency assets and debts extending beyond the current year. For interest rate risk, we estimate IaR for all variable interest-rate debt using parametric analysis with a 95% confidence level. We can also predict future price scenarios with a lognormal distribution created using historic interest rate information and a correlation coefficient. In all cases, we calculate correlation and volatility using RiskMetrics Group's RiskMetrics™ data set.



Employees take a stake

The first plan launched under revised government regulations that came into effect in early 2002, POSCO's new employee stock ownership plan achieved near-universal enrollment with 97.2% of our 19,236 employees participating. Employees purchased a total of 316,950 shares at KRW 134,268 per share through the Employee Stock Ownership Association. The company in turn transferred an equal number of treasury shares to the association, in effect allowing employees to purchase their shares at one-half the then current market price.

Ownership pays dividends

At POSCO, we believe in delivering value to our investors through both long-term share appreciation and regular dividend distributions. Following three decades where earnings were routinely allocated to pay for expansion, we began to steadily increase dividends in the late 1990s as we moved forward with privatization. Over the past four years, our dividend payout ratio has risen from 10% to 26%, culminating in a total dividend of KRW 3,500 per share in 2002, the largest in our history.



Enhancing shareholder value

In recent years, we have repurchased and held a significant number of shares as treasury stock in conjunction with our privatization and ongoing efforts to increase shareholder value. We retired treasury stock equivalent to 3% of issued and outstanding shares for a second straight year in November 2002, leaving 8,221,266 treasury shares in our possession excluding shares held by the Employee Stock Ownership Association. This retirement reduced total outstanding shares to 90,781,795 and increased earnings per share by 3.1%. It is our policy and intention to use the treasury stock we hold in ways that will enhance shareholder value.

While our stock price ended 2002 at virtually the same level it started the year, our dividend payout ratio rose to a record 26%, culminating in a total dividend of KRW 3,500 per share for the year.



Investing in relationships

We continued to upgrade and expand our investor relations activities and services in 2002, further narrowing the perceived gap between management and investor interests. We started the year by taking the POSCO investment proposition on the road with a rapid-fire series of CEO Investor Forum meetings in Seoul, New York, Boston, and Los Angeles in late January and early February. Over the course of the year, we also launched corporate roadshows in Southeast Asia, North America, and Europe, attended eight major investor conferences, and held one-on-one meetings with fund managers as well as buy- and sell-side analysts.

While we were meeting decision-makers on the road, we were also communicating with thousands more through the Investor Relations section of our corporate website. During the year, we gave the site a complete refresh, adding an "e-mail alert service" that allows visitors to instantly sign up to receive the latest IR information and press releases via e-mail. We also continued to break new ground in the offline realm, becoming the first Korean firm to release monthly key performance figures for crude steel production, sales volume, sales, operating profit, total assets, and total liabilities as well as quarterly consolidated financial statements. These efforts to enhance transparency through comprehensive, timely disclosure didn't go unnoticed, winning us the top IR award from the Korea Economic Daily for a fourth straight year as well as a special distinguished service award from the Korea Investor Relations Association.

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Focusing on the Business of Innovation



At POSCO, we're proud to be a benchmark in steelmaking and manufacturing. And while our product and production innovations are the most visible, the ones we're the proudest of our process innovations are something our customers and partners will only experience, not see. Now headed into its fifth year, our Process Innovation initiative continues to forge and refine us with a focus on quality, the supply chain, and core business processes, setting the stage for even greater innovations to come.

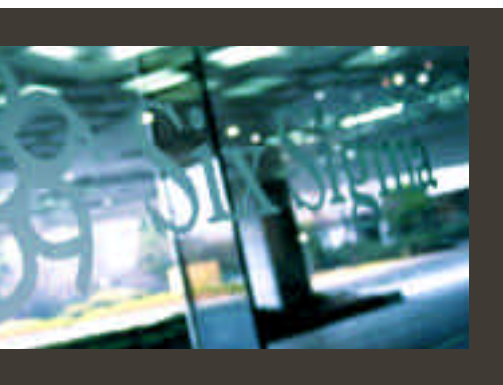


The launch of our POSPIA integrated information system in July 2001 has revolutionized the way we do business. Powered by Oracle E-Business Suite 11i, POSPIA's ERP system has given us an enterprise-wide information infrastructure that maximizes efficiency and productivity as it synchronizes internal and external business processes. The results have been impressive. New product development time is down from 4 years to 1.5. Integrated sales and production planning time is down from 60 days to 15. Delivery lead time is down from 30 days to an industry leading 14 with a 97% on-time record. Average customer inventories have dropped from 30 days to under 24. The month-end closing time has shrunk from six days to just one. And the benefits and savings keep growing.



PI has fundamentally changed the way we do business. Before PI, we simply focused on producing good steel. Today, we're focused on producing satisfied customers, a choice that will keep us growing in the years ahead.

Without a doubt, the primary force behind our continued growth in 2002 in an industry plagued by overcapacity and battered by an ongoing global economic downturn was our commitment to the business of innovation. The origins of this commitment go back to December 31, 1998, the date we announced an ambitious initiative for innovation and revitalization designed to put POSCO on the leading edge of the e-business revolution. Christened "PI", short for Process Innovation, this initiative has put in place over the past few years the fundamental elements of today's customer-driven companies: global best practices and an enterprise-wide information system. Logging its first full year of operation in 2002, our POSPIA integrated information system enabled us to parlay a solid 9.4% growth in consolidated sales into an outstanding 28.8% increase in net income.



Innovative growth

With POSPIA solidly in place going into 2002, we began to set the stage for the next phase of our remarkably successful PI initiative. Focusing on three main objectives, "PI-2" was conceived to consolidate the progress made in PI-1 and accelerate our transformation into a truly customer-driven organization. It embraces a comprehensive Six Sigma program to improve the quality of both products and processes across the enterprise. It commits to completing the supply chain component of POSPIA by standardizing, upgrading, and integrating our manufacturing operations. And finally, it expands POSPIA to cover functions not fully implemented during PI-1 such as customer and supplier relationship management, enabling us to develop the win-win relationships with these partners that will keep us growing together.

Over the past four years, the Process Innovation initiative has steadily transformed and equipped us to meet the challenges of the 21st century. When PI-2 formally wraps up at the end of 2004, we expect the pursuit of excellence and innovation to be an integral part of our organizational culture, creating a fertile environment for synergistic growth that will keep us growing in every way in the years to come.



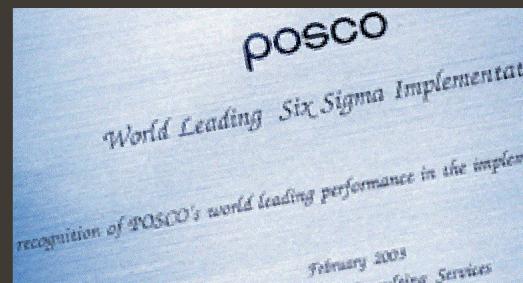
Benchmarking success

Since POSPIA's launch in July 2001, over 2,600 analysts from 114 companies around the globe have visited us to benchmark our integrated information system. As of the end of 2002, that list included 17 international firms such as Nippon Steel Corporation and Morgan Stanley as well as Samsung Electronics, LG Electronics, and other leading names in Korean manufacturing.

A quality strategy

While POSPIA has given us the world-class hardware and software essential to success, Six Sigma is now doing the same for our people, instilling a culture of continuous innovation in our most valuable asset that will keep us growing and prospering through good times and bad.

Every year since 1999, Forbes Global has published its "A-List" of the world's 400 best companies with sales or market capitalization of at least US\$5 billion. And every year since 2000, POSCO has been one of the top firms highlighted in the metals and mining industries. In 2002, we were fifth in return on equity, delivering a 14% average annual return over the past five years. We were fifth in sales at US\$10.9 billion, fifth in market cap at US\$10.7 billion, and second in estimated 2002 EPS growth at 20.5%. We were also sixth in estimated 2002 price-earnings, third in price-to-book, and fifth in price-to-sales with ratios of 16.7, 1.3, and 0.9, respectively.



Unlike most Six Sigma programs that focus exclusively on manufacturing or business processes, our comprehensive program simultaneously covers both. Our first aim was to increase our capacity for growth. We launched Six Sigma with a broad range of practical educational and training opportunities, creating a work environment conducive to self-development and program participation. Our second aim was to set the stage for a fundamental change in our work processes, applying the Six Sigma scientific and statistical methodology to reengineer real-world work and problem-solving processes. Our final aim was to set in motion a process of continuous improvement, maximizing customer satisfaction and generating real-world savings.

After five months of preparation, we launched Wave 1 of our Six Sigma program in May 2002. As we moved into Wave 2 in November, we had completed a total of 82 projects and improved our overall sigma rating from 2.2 to 3.6, producing an estimated annual cost savings of KRW 66.4 billion. By the end of Wave 6 in late 2005, we expect to have at least 15% of our staff—some 2,900 employees—trained as Six Sigma Black Belts or higher on our way to achieving Six Sigma quality for all core processes by the end of Wave 8, generating savings of KRW 880 billion annually by 2006.



Six Sigma

Setting the ERP standard

As an Oracle Customer Advisory Board member, we are proud to be in a position to influence the future of the world's top ERP system. During our first year of running Oracle E-Business Suite 11i, we identified and recommend a total of 129 business process improvements, 94 of which had been implemented in the suite as of September 2002. Of our 94 recommendations, 60 were improvements in administrative processes such as distribution, manufacturing, finance, and procurement, while the remaining 34 were improvements in overall system performance.

Manufacturing competitiveness

During PI-1, we standardized, streamlined, and integrated the business processes, systems, and structures that had developed and evolved over the past 30 years to create the POSPIA integrated information system. In PI-2, we aim to do the same for the manufacturing side of our company, standardizing operating processes for both steelworks, integrating the respective systems, and then linking them to the rest of the supply chain via POSPIA.



The challenge of integrating modern and legacy hardware and operating systems spread out over three distant geographical locations across the Korean peninsula has been a major undertaking. Slated for completion in July 2004, the final link in our supply chain is a highly scalable, web-enabled distributed manufacturing network that will empower us to flexibly extend, optimize, and automate processes across the enterprise. Beyond the obvious productivity and quality benefits of its real-time monitoring and management capabilities, the network will enable us to give our customers an unprecedented level of service with up-to-the-second information tailored to their specific needs. In short, it will revolutionize the way we produce steel as it solidifies our position as the world's most cost competitive steel-maker.

At its core, PI is a steady, systematic expansion of our capacity for growth. It is a state of continuous innovation that is now transforming us into a truly customer-driven organization.



POSPIA matures

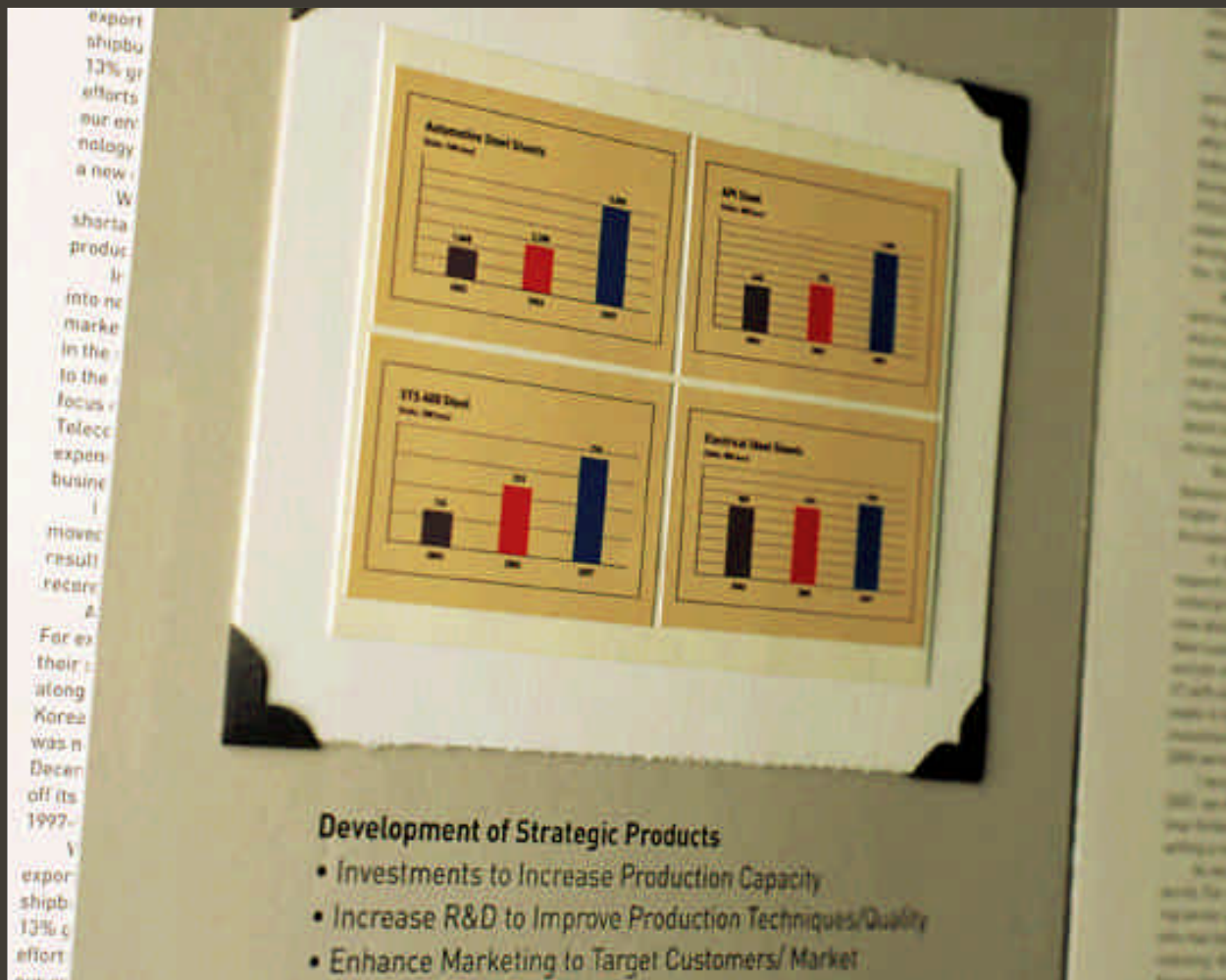
PI is by definition an ongoing process, and our POSPIA integrated information system is a prime example of innovation in action. The innovation continued in 2002 as we began development of activity-based cost models for each production process and prepared to extend our balanced scorecard management system. Currently used for strategic monitoring purposes at the enterprise and division levels, the system will be implementing at the department level in 2003, paving the way for objective performance measurements that will help us transform our vision and strategy into reality.

The year also saw us complete preparations for the launch of our customer and supplier relationship management systems, giving us powerful new tools to deliver superior, tailored service to those valuable partners starting in mid 2003. Our human resources management system came online with recruiting in November, while our data warehouse continued to grow, adding environmental, energy, and technical data. Last but not least, we made significant progress in integrating our various divisional knowledge management systems, completing the classification system and management process engineering in October as we prepared for system start-up in the first half of 2003.



Redefining the Art of Steelmaking

At POSCO, we're proud to be ranked as the top "world-class steelmaker" by the analysts at World Steel Dynamics. It's an honor that comes not from being the strongest in a handful of areas, but from being strong in them all. It's a standard we strive to achieve in every aspect of our operations as we expand our ability to deliver the industry's best products and service. And it's another reason we're a leader in redefining steel-making as an environmentally sustainable industry for the 21st century.



When it comes to price competitiveness, we're hard to beat. And as we continue to take our productivity to the next level, we're equally dedicated to taking our quality there as well.

POSCO is one of the world's most productive steelmakers. While our crude steel output has risen steadily in recent years, we expected our 2002 figures to be significantly lower due to a number of scheduled major facility maintenance and upgrade projects. Instead, we ended up setting a new production record thanks to shorter-than-expected downtime and higher productivity from both our existing and upgraded facilities.

Blasting records


At the Gwangyang Works, we completed relining the No. 1 Blast Furnace in 91 days—13 days ahead of schedule—boosting annual hot metal output by 720,000 tons at the start of the furnace's second campaign. In May, the No. 3 Blast Furnace set a new industry record by producing a daily average of 10,488 tons of hot metal, the equivalent of 2.76 tons for each cubic meter of its 3,800-cubic-meter interior volume. We also continued to boost productivity at our Pohang blast furnaces, adopting variable blow-pattern and other high-performance production technologies as well as new maintenance techniques.

Converting to save

Facing high scrap steel and electricity rates, we took the bold step of converting the No. 1 Mini Mill to use hot metal instead of steel scrap for feedstock. Beginning operation in October, the mini mill will process some 1.2 million tons of surplus hot metal for use in hot-rolled coil production, reducing steel production costs by about KRW 70,000 won per ton for an estimated annual cost savings of KRW 85 billion.

Rolling capacity to new levels

In 2002, we worked with IBM to increase hot-rolled coil production capacity by more than 100,000 tons annually. We also upgraded the Gwangyang No. 2 Hot Rolling Mill during the year with a slab reheating furnace, boosting surface quality as well as slab output by 470,000 tons annually. Ongoing projects at Pohang include the addition of a 600,000-ton-per-year slab reheating furnace at the No. 1 Hot Rolling Mill and an upgrade of the No. 2 Hot Rolling Mill that will boost annual production by 200,000 tons by 2005. Overall, we plan to increase our annual slab rolling capacity by about 800,000 tons over the next few years as we aim to reach the 25 million ton level by the middle of the decade.

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|  | <p>World-class success</p> <p>Each summer, hundreds of steel industry executives meet in New York City for the annual Steel Success Strategies conference—the industry's leading forum—to discuss the future of steel. Following the 2002 SSS XVII's "Steel Mill Poker" theme, conference co-host World Steel Dynamics' managing partners unveiled their list of 13 companies that deserve to be labeled "world-class steelmakers". We had the highest weighted-average ranking on a comprehensive 21-point checklist that graded companies based on operating cost, profitability, harnessing technology, stock market performance, and more.</p> |
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One of our key mid-range goals is to put our technical competitiveness on the same world-leading level as our price competitiveness. Over the past few years, we have steadily increased R&D investment from 1.3% of sales in 1999 to 1.6% in 2002. Our efforts have focused on five key areas: automotive steel, linepipe steel, 400 series stainless steel, high-grade electrical steel, and direct-reduction ironmaking.

Automotive steel

Tailor-welded blanks are in high demand by the auto industry. Formed by welding two or more layers of thin steel together, they help automakers lower production and material costs, weight, and vibration while increasing engineering flexibility and safety. We'll complete a plant capable of producing 1.7 million blanks per year in early 2003.

Linepipe steel

Linepipe steel is used for gas and oil pipelines that cover long distances in harsh environments. In 2002, we developed and produced a total of 440,000 tons of high-strength linepipe steel, including 110,000 tons for China's West-East Gas Pipeline project. In addition to working with Russia's Bardin Institute and Italy's Centro Sviluppo Materiali on mass-production techniques, we're now forming technical alliances with international pipemakers as we establish ourselves in this market.

400 series stainless steel

In 2002, we significantly improved the quality and reduced the cost of our 400 series stainless steels, commonly used in kitchenware and auto exhaust systems. We completed optimization of key processes for 430 and 409 stainless steel production, including argon-oxygen decarburization, slag control, low-temperature/low-speed rolling, and cold-rolling using carbon-steel production facilities. When our No. 3 Stainless Steelmaking Plant and No. 3 Annealing & Pickling Line are commissioned in 2003, our capacity will reach 360,000 tons annually.



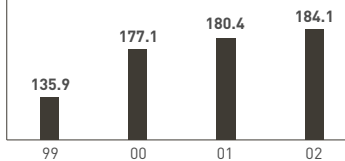
High-grade electrical steel

High-efficiency electric products require low-core-loss electrical steels. In 2002, we acquired technologies for our expanded grain-oriented electrical steel production line and began delivering higher-grade products. We will continue to develop higher-grade products in 2003 as we increase production of thin-gauge grain-oriented products and bringing additional non-oriented electrical steel capacity online in the second quarter of the year to meet strong demand for low- and medium-grade products in the Chinese market.

Direct-reduction ironmaking

FINEX is a next-generation direct-reduction ironmaking process we expect to begin transitioning to in the second decade of the millennium to replace our current blast-furnace ironmaking facilities. FINEX offers considerable environmental and economic advantages, eliminating major sources of pollution such as sinter and coke plants as well as lowering operating and raw materials costs. In 2002, we completed construction of a coal briquetting plant that will feed our 600,000-ton-per-year FINEX demo plant scheduled for completion in the first half of 2003. We expect to gradually increase the plant's annual capacity to one million tons in stages as we aim to wrap up commercialization of the process by 2005.

KRW billions



Investing in the future

Innovation takes money. As part of our commitment to developing higher margin products, we continue to increase our investment in R&D. In the past four years, the amount as a percentage of sales has steadily risen from 1.3% in 1999 to 1.6% in 2002.

While competitive prices and quality products are what win customers, quality service is what keeps them. Over the past four years, our PI initiative has systematically instilled a culture of service throughout our organization. And now, our POSPIA integrated information system is giving us the real-time information and tools we need to deliver world-class service to match our world-class products.

Putting relationships first

In 2002, we began implementing a customer relationship management system to help us take customer satisfaction to the next level and sharpen our ability to attract and retain loyal customers. When launched in mid 2003, the system will give our frontline sales staff everything they need to deliver timely, tailored service to each customer.



Supporting success

We unveiled our first just-in-time delivery system with Ssangyong Motors in October 2002 and expanded it to Renault Samsung Motors in January 2003. We also broke ground for the KRW 24.3 billion Automotive Steel Application Center at the Gwangyang Works on February 1, 2002. When it opens in early 2003, the center will support automaker development efforts through an early vendor involvement program as well as take the lead in developing new manufacturing techniques for the industry.

We believe that companies are only as successful as their customers. That's why we continue to invest a significant portion of our resources in building win-win relationships for success.

Delivering satisfaction

Delivery time is a crucial factor in customer satisfaction. Before POSPIA was launched, we were meeting or beating our target lead time of 30 days 83% of the time. One of our key PI objectives was to slash lead time to 14 days with a 95% on-time record. To achieve our goal, we made a fundamental shift in our production planning focus from pure productivity to timely delivery. Specific changes made included moving to a daily order-entry system, simplifying operating restrictions and launching steelworks quality initiatives, and reengineering the overall process to give sales representatives the ability to provide one-stop service—from order to delivery. After a period of adjustment following the launch of POSPIA in July 2001, our on-time performance was back above 80% and our customers were getting their orders in half the time. By June 2002, we had surpassed all our performance goals, going on to close the year with a remarkable 97% on-time delivery performance in December.

Comprehensive support

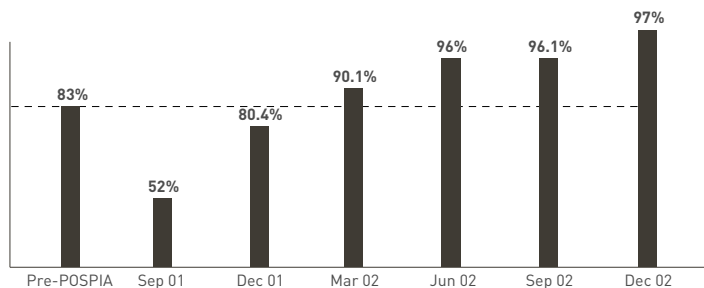
Up to the present, we've provided on-site technical support for both products and processes through our "mill representative" system. In 2002, we made the decision to replace this piecemeal approach with a comprehensive support solution. During the year, our team managers held 99 scheduled customer conferences, while our service representatives handled almost 2,600 technical issues. We began registering and tracking quality issues, putting in place a quality monitoring system that reconciles the differences between customer manufacturing specifications and ours. And as our representatives handled 1,090 claims, we also simplified the process, allowing submissions via the Internet, fax, or cable.

Planning profitably

In an industry facing serious overcapacity, quality and innovation are essential to continued growth and profitability. Our focus today is on products that generate higher profits—either in terms of sales margin or hourly marginal profit, products of strategic value that may become more profitable in the future, and products that can compete with the world's best. Accordingly, we expect high-margin products to rise from 14% of sales volume in 2002 to 20% in 2007.

Timely delivery

On the eve of the launch of our POSPIA integrated management system in the summer of 2001, our delivery lead time was 30 days with an 83% on-time delivery record. At the end of 2002, it stood at 14 days with a remarkable 97% on-time record.





Ensuring the Growth Never Ends

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Dec

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At POSCO, we're proud to be a top investment pick of Morgan Stanley and other equity analysts. And we intend to remain one. As steel demand in Korea begins to level off, we're forging win-win partnerships for growth in key regional markets. At the same time, we're investing in fields beyond steel that leverage our core capabilities. And as we do, we're creating entirely new opportunities for growth that will make us an even more attractive investment in the years to come.



We've worked hand-in-hand with local Chinese companies as a partner for growth since the mid 1990s. Today, we're solidly positioned to reap the fruits of those timely efforts in the world's fastest-growing steel market.

In 2002, China bought 24.5 million tons of steel from international suppliers, surpassing the United States as the world's largest steel importer for the first time in history. Our approach to this major market literally next door has been to forge win-win relationships with local partners to meet local needs for galvanized, prepainted, and stainless steel products. While many of our international competitors are just now beginning to establish their own downstream ventures in the Chinese market, we launched our investment strategy back in October 1995 and began delivering products in September 1997. To date, we have invested US\$771 million in our four local ventures, including US\$279 million to add or expand capacity. When current projects are completed, our total production capacity in China will nearly double from 540,000 tons at the end of 2002 to 1,050,000 tons in 2005.

Dalian POSCO-CFM Coated Steel Co., Ltd.

PCCS produces up to 100,000 tons of galvanized sheet and 50,000 tons of prepainted sheet annually. The venture is now adding 100,000 tons of prepainted sheet capacity. In 2002, PCCS saw sales rise 10.4% to US\$106 million and earnings skyrocket 580% to US\$13.6 million.

Shunde Pohang Coated Steel Co., Ltd.

SHUNPO produces up to 100,000 tons of galvanized sheet annually. The venture is now adding 150,000 tons of electrical and prepainted sheet capacity. In 2002, SHUNPO saw sales rise 11.5% to US\$58 million and earnings soar 358% to US\$5.5 million.

Zhangjiagang POSCO Stainless Steel Co., Ltd.

ZPSS produces up to 140,000 tons of stainless steel and 120,000 tons of galvanized sheet annually. The venture is now doubling stainless steel capacity to 280,000 tons. In 2002, ZPSS saw sales rise 15.1% to US\$405 million and earnings soar 173% to US\$30 million.

Qingdao Pohang Stainless Steel Co., Ltd.

QPSS aims to begin producing up to 150,000 tons of cold-rolled stainless steel annually starting in January 2005. The US\$130.7 million venture is the first mill of its kind in Shandong Province.



Best of both worlds

On July 31, 2003, we were the focal point of a Morgan Stanley equity research report entitled "Best of Both Worlds". Citing among other things our flexible pricing, investment in growth areas such as China and stainless steel, and good dividends, the report concluded, "We believe investors have the best of two worlds with POSCO—the stock is trading on locally discounted multiples but offers good exposure to the global steel upcycle that we expect is just getting under way."

In addition to our major joint ventures in China, we continued to invest in smaller-scale coil centers in 2002 to service regional markets both directly and in partnership with POSTEEL. We expanded our marketing presence in Southeast Asia by purchasing stakes in P.T. Marubeni Steel Processing Indonesia (36.7%) and Summit Steel Center Sdn. Bhd. in Malaysia (30%). At year-end, our global supply chain network included a logistics center in Japan and eight coil centers in six nations. In 2003, we plan to add a processing center in China as we aim to expand our network to two processing centers and 12 coil centers with a combined 1.5-million-ton annual capacity by 2005. This will enable us to actively develop local markets for strategic products such as automotive steel, linepipe steel, and 400 series stainless steel throughout the region.



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| | <p>Mining the future</p> <p>On April 3, 2002, our POSCO Australia Pty. Ltd. subsidiary signed an agreement with BHP Billiton to acquire a 20% interest in the Mining Area C iron-ore development project in the Pilbara region of Western Australia. Our A\$16.3 million investment in the project with estimated Marra Mamba ore deposits of 8.9 billion tons will benefit us in two ways. First, POSMAC gives us a valuable long-term ore source with the right to purchase 3 million tons of the mine's annual target production for the next 25 years. Second, it is expected to earn us an estimated 25% internal rate of return, giving us the equivalent of a 9% discount on our ore purchases from the venture.</p> |
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It's hard to think of steel as a "sunset" industry. At the same time, markets are maturing, growth is slowing, and capacity is still growing. As we continue to enhance the cost and quality competitiveness of our core steel business, we've begun to explore other business fields where we see opportunities for synergy. To date, we've invested in information technology through POSDATA, communications through SK Telecom and Powercomm, and construction through POSCO E&C. In 2002, we formally entered the biotechnology and energy fields.

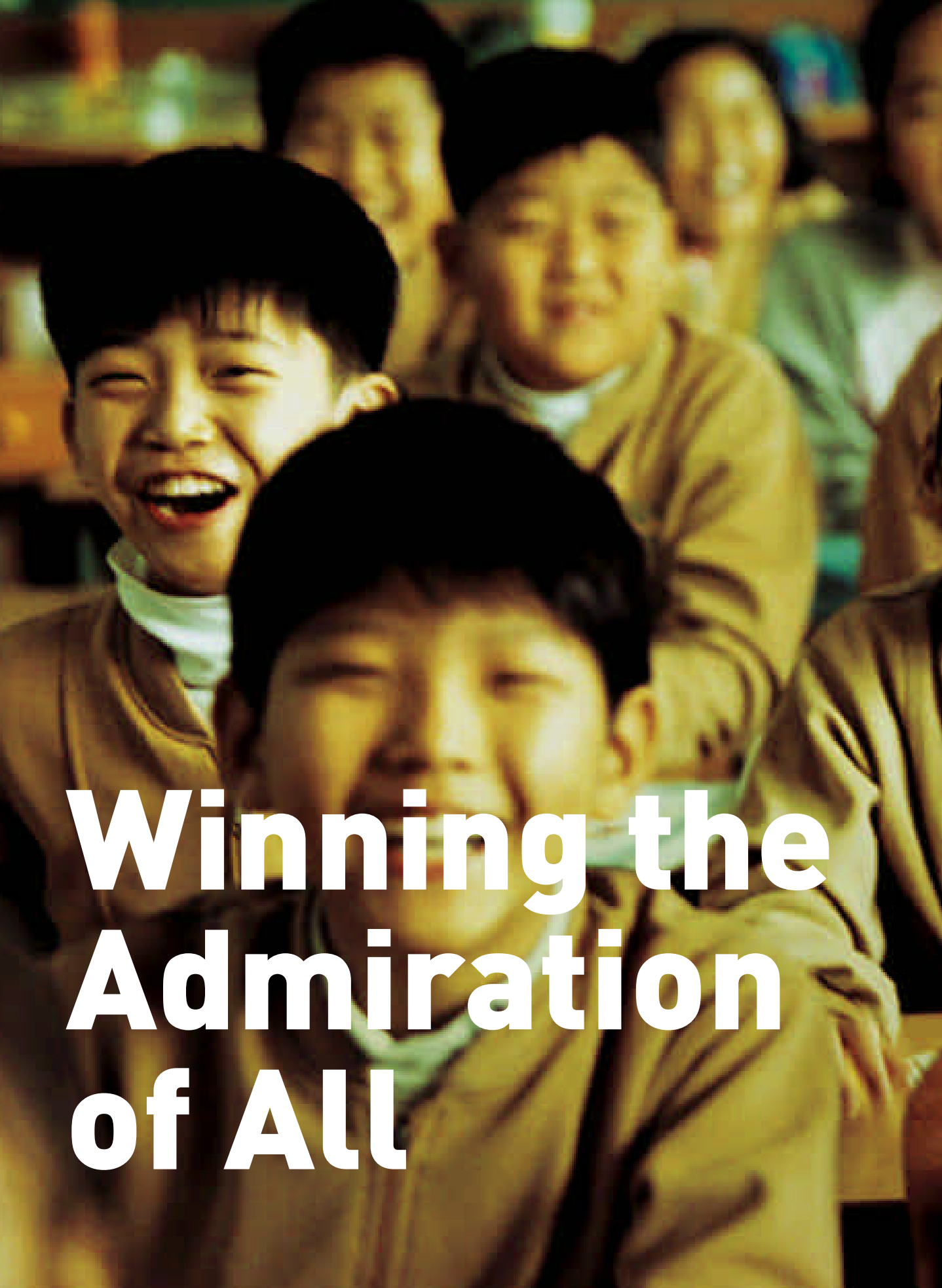
Investing in a healthy tomorrow

We identified biotechnology as a possible growth opportunity in the late 1990s. After more than three years of comprehensive study, we formally entered the field in 2002 by founding and seeding a US\$50 million venture capital fund—POSCO BioVentures I, L.P.—through our wholly owned U.S. subsidiary POSCO America Corporation. Managed by POSCO BioVentures Management LLC, an unrelated company led by industry veterans and based near San Diego, California, the epicenter of biotech research in the United States, the fund had US\$12 million invested in seven biotech ventures as of December 31, 2002.

Supplying clean energy for industry

In November 2002, we broke ground for the Gwangyang LNG Terminal on a newly reclaimed site adjoining the Gwangyang Works. The first privately built and owned LNG terminal in Korea, the KRW 320 billion project is scheduled to be commissioned on July 1, 2005. Capable of handling 1.7 million tons of liquefied natural gas annually, the facility will store and re-gassify the LNG for use at the clean-burning combined-cycle power plants that replaced oil-fired plants at our two steelworks in 2000 and 2001. In addition to ensuring we have a guaranteed supply of LNG at the most competitive prices, the terminal will supply the nearby independently owned Gwangyang Combined-Cycle Power Plant, the first step in what we expect to be a growth business as industry deregulation opens new opportunities for us in the energy field.

The continuous pursuit of innovation, superior competitiveness, and new engines for growth are key to our emergence as a leading global company capable of sustainable growth in the decades ahead.



Winning the Admiration of All

At POSCO, we're proud to be what the editors of Fortune call a "Most Admired" company. It's an honor to be recognized for our leadership in social responsibility as well as financial soundness and long-term investment value. But no award or ranking can begin to compare with the priceless satisfaction of watching local flora and fauna thrive in and around our steelworks, inspiring youth to pursue a career in science, or helping prepare loyal employees for a productive retirement.



In the 21st century, environmental management performance is fast emerging as a core measure of corporate competitiveness. At POSCO, our environmental strategy aims to achieve the highest levels of both environmental compliance and sustainable growth. And by doing our part to protect and preserve the environment today, we're ensuring that we'll be able to continue delivering value to our customers and shareholders for many, many years to come.

Making steel green

We've been working hard to make our steelworks the benchmark for eco-friendliness. Our dual-track approach has focused on ensuring emissions and effluent are properly handled as well as ongoing process optimization to reduce and eliminate pollution at the source. In 1999, we launched an initiative to make our steelworks "clean and green", focusing on upgrading our environmental facilities and expanding the green areas in and around both works. In the years since, we have continued to adopt clean production processes, fuels, and raw materials throughout our operations. Following up an investment of KRW 176.7 billion in 2002 to upgrade our pollution control facilities, including biological de-nitrification facilities at our coke plants and our stainless steel mill, we plan to invest more than KRW 510 billion over the next five years to ensure our steelworks remain the industry's cleanest and greenest.

While our steelworks are among the industry's cleanest and greenest, we continue to actively invest in new environmental technologies that will pave the way for sustainable growth in the decades ahead.



Turning by-products into resources

In 2002, we continued to develop innovative applications for our by-products, pushing our impressive 97% recycling rate to 98%. To date, we have achieved a 100% recycling rate for slag, a material with applications in fertilizer and as a cement and roadbed material that accounts for 75% of our total by-product stream. During the year, we recycled 5.7 million tons of granulated blast-furnace slag as cement replacement, eliminating the equivalent of 4.55 million tons of carbon dioxide emissions. Our recycling of waste heat in a local district heating system prevented the generation of an additional 66,000 tons of CO₂ that would have been emitted by a conventional oil-fired heating plant.



Another admirable performance

We've been on the Fortune "Global Most Admired" list since 1999. In the 2001 edition of the list published in March 2002, we climbed from No. 4 to No. 3 in the metals sector but surrendered our top steelmaker ranking to Arcelor, the new steel behemoth created by the merger of European steelmakers Usinor, Arbed, and Aceralia. Most notably, we ranked second in five of the nine categories in the study, including employee talent, use of corporate assets, quality of management, financial soundness, and long-term investment value.



Once a month, the atrium of POSCO Center in Seoul becomes the stage for concerts by respected Korean and international artists from all genres. But music is only one aspect of this award-winning landmark in the heart of southern Seoul's "Teheran Valley" business and financial district. The center hosts a full schedule of cultural exhibits and programs at the POSCO Art Museum throughout the year as well as permanent exhibits like the Steel Gallery, which explores the history and uses of steel, and the POSCO Center Exhibition Hall, which gives a brief-but-fascinating multimedia tour of POSCO's past, present, and future.



Since we formally completed privatization in October 2002, we have executed a comprehensive advertising and public-relations strategy to reposition the company as a global brand. In addition to our successful ongoing domestic advertising campaign and our award-winning corporate website, we had a number of unique opportunities to promote the POSCO brand in 2002, including our formal adoption of a new corporate name and our sponsorship of the 2002 FIFA World Cup.

A familiar new name

Our motion to change our legal name from “Pohang Iron & Steel Company, Limited” to “POSCO” was approved at our annual shareholders meeting on March 15. While we have used the POSCO name in our international communications since 1968, our Korean name has always included the words “iron and steel”. Our name change eliminates this semantic limitation and unifies our corporate image, paving the way for us to expand the POSCO brand far beyond steel in the years to come.

Supplying the World Cup

Our active sponsorship of Korean football at all levels over the years made our decision to become an official supplier of the 2002 FIFA World Cup Korea/Japan an easy one. In addition to building and operating “Steel Pavilion” information centers at each tournament venue in Korea, we executed 10 promotional programs leading up to and during the May 31–June 30 event. Among these was a project with UNICEF to distribute footballs in conflict zones and remote regions around the world. We also hosted some 600 overseas and 1,400 local customers, industry peers, and suppliers for matches as well as cultural events.



Online image building

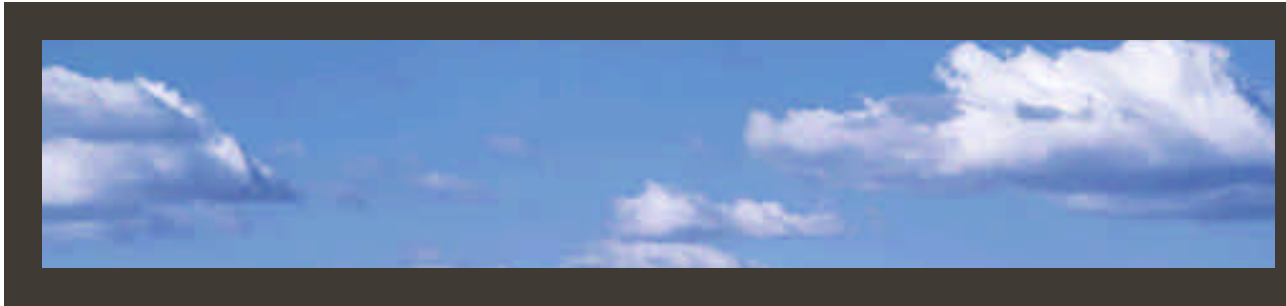
As we have developed our online sales and procurement capabilities through our Steel-N.com e-marketplace over the past few years, we have also continued to develop and expand our corporate website to provide both investors and general visitors with a wealth of timely, relevant, and entertaining content. In 2002, our updated site was once again selected as the global industry’s best by our peers and fellow members of the International Iron & Steel Institute.



The industry’s best website

For the second straight year, we prevailed in a close contest for the Judges’ Choice Award in the annual IISI Website Competition. Announced at the 36th Annual Conference of the International Iron and Steel Institute in Rome on October 11, this year’s awards were judged by industry communications executives on five major criterion: visual design, functionality, content, interactivity, and overall experience. We were also honored with fifth place in the producer category of the People’s Choice Awards, a new award that debuted in 2002.

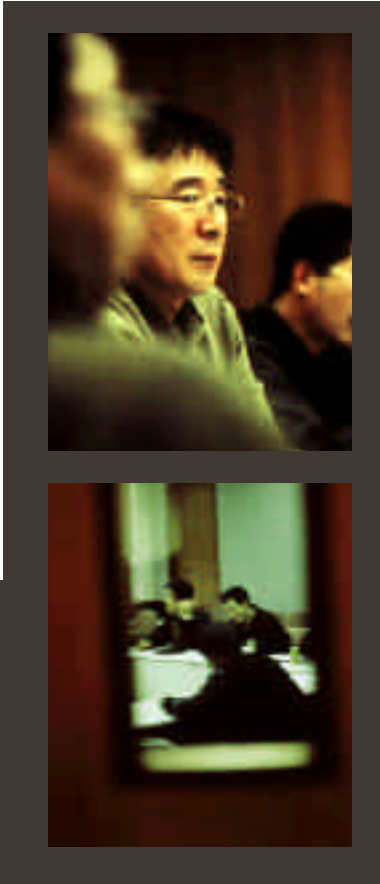
Few if any Korean companies approach the breadth and depth of our commitment to becoming an integral part of the local community. Our community efforts date back to our early years with the launch of school construction in 1970 and the debut of the Pohang Steelers pro football club in 1973. Three decades later, we're a key donor to Korea's premier science university, an avid supporter of football at all levels, a major patron of the arts, home to some of Korea's most active volunteers, and one of the nation's most-sought-after employers.



Teaching tomorrow's leaders

Education is the key to a better future. Over the years, we have consistently invested in the future of our local communities, establishing 14 primary and secondary schools operated by the POSCO Educational Foundation as well as Korea's premier science university, Pohang University of Science and Technology. We're also a major sponsor of research, actively supporting a broad range of programs and projects at leading Korean universities and independent research organizations that are now cultivating the minds that will advance the fields of science and technology in the years to come.

In relationships, time is often more appreciated than money. Over 17,000 members of our family joined their coworkers in volunteering their time to at least one worthy organization or cause in 2002.



Promoting goals

Football has been our passion ever since we founded our first pro club back in 1973. In the early 1990s, that passion led us to build the first purpose-built football stadiums in the country for our Pohang Steelers and Chunnam Dragons clubs. But our interest in football isn't just at the elite level. Over the years, we've promoted football in local communities for athletes of all ages. In addition to programs at local primary and secondary schools in Pohang and Gwangyang, we're also sponsoring training in Brazil for Korea's most promising young talent to help develop the next generation of professional footballers.

Building communities

A firm believer in giving back to local communities, we have built and donated or supported the construction of numerous public facilities that have improved the quality of life in both Pohang and Gwangyang. We have also actively worked to open new avenues for cultural development and appreciation by sponsoring an active calendar of arts, theater, and musical performances, giving local residents access to many cultural events that would normally only tour Korea's biggest cities.

A tradition of service

Volunteerism is a proud POSCO tradition. In 2002, over 17,000 members of our family were active in community service through one or more of our 168 volunteer service groups or department-led sister relationships with the 192 villages in the Pohang and Gwangyang regions. Since 1990, each of our employees has volunteered an average of three times annually to make a difference in their local communities, helping provide assistance to needy individuals and the disabled, sponsoring middle- and high-school scholarships, organizing special medical clinics, assisting local farmers during the planting and harvest seasons, and keeping local mountains, rivers, and coastlines clean.

Greening the golden years

In 2001, we introduced "Green Life", the first corporate program in Korea designed to help employees approaching mandatory retirement age prepare for life after POSCO. Green Life Centers at each steelworks are staffed by professional consultants and support staffs that offer one-on-one counseling, mentoring, and guidance to help future retirees rediscover their strengths and capabilities and expand their horizons.



Hyun-Shik Yoo
 • Director Candidate
 Recommendation and Evaluation
 Committee
 • Audit Committee

Han-Kyoung Kim
 • Director Candidate
 Recommendation and Evaluation
 Committee
 • Finance and
 Operation
 Committee

Samuel F. Chevalier
 • Director Candidate
 Recommendation
 and Evaluation
 Committee

Soo-Yang Han
 • Senior Executive
 Vice President
 • General
 Superintendent,
 Gwangyang Works
 • Executive
 Management
 Committee

Ku-Taek Lee
 • Chairman of the
 Board and CEO
 • Chairman,
 Executive
 Management
 Committee

Won-Pyo Lee
 • Senior Executive
 Vice President
 • General
 Superintendent,
 Pohang Works
 • Executive
 Management
 Committee

Jae-Young Chung
 • Chairman,
 Audit Committee

Board of Directors

Director Candidate Recommendation and Evaluation Committee

Ungsuh K. Park, Chairman

Jong-Won Lim
 Samuel F. Chevalier
 Hyun-Shik Yoo
 Han-Kyoung Kim

Finance and Operation Committee

Guil-Soo Shin, Chairman

Jong-Won Lim
 Han-Kyoung Kim
 Kwang-Woong Choi
 Kyeong-Ryul Ryoo

Executive Management Committee

Ku-Taek Lee, Chairman

Chang-Oh Kang
 Soo-Yang Han
 Won-Pyo Lee
 Kwang-Woong Choi
 Kyeong-Ryul Ryoo

Audit Committee

Jae-Young Chung, Chairman

Ungsuh K. Park
 E. Han Kim
 Hyun-Shik Yoo

The POSCO Board of Directors consists of a total of 15 members, eight of whom are independent outside directors. As the company's highest decision-making body, the Board deliberates mid- and long-term business strategy as well as making all major business decisions.

The Board continued to enhance management transparency and accountability as well as board efficiency in 2002 as part

of its ongoing efforts to improve corporate governance. The Board moved to improve accountability by shortening the terms of service for both directors and executive officers. Under the amended articles of incorporation, director and executive officer terms were reduced from "three years" to "within three years" and from "three years" to "within two years", respectively. All directors and executive officers appointed after March 15, 2002 will serve two-year terms.



E. Han Kim
• Audit Committee

Ungsuh K. Park
• Chairman,
Director Candidate
Recommendation
and Evaluation
Committee
• Audit Committee

Chang-Oh Kang
• President
• Executive
Management
Committee

Kwang-Woong Choi
• Senior Executive
Vice President
• Executive
Management
Committee
• Finance and
Operation
Committee

Guil-Soo Shin
• Chairman,
Finance and
Operation
Committee

Kyeong-Ryul Ryoo
• Executive
Vice President
• Executive
Management
Committee
• Finance and
Operation
Committee

Jong-Won Lim
• Director Candidate
Recommendation
and Evaluation
Committee
• Finance and
Operation
Committee

As of April 1, 2003

The Board also moved to enhance its own effectiveness by making two committee changes aimed at improving management oversight and efficiency. Formerly serving in an advisory role to the Board, the Executive Management Committee was formally converted to a special committee under board supervision and charged with making all capital investment decisions. This strengthens the oversight role of outside directors by giving them timely notification of committee resolutions and an opportunity to express their opinions. The other committee change was the merger of the overlapping responsibilities of the former Director Candidate Recommendation Committee and Management Development and Compensation Committee under the new Director Candidate Recommendation and Evaluation Committee.

In 2002, the Board convened nine times with an average of 14 of the 15 members present at each meeting. A total of 32 agenda items were deliberated and resolved, including the spin-off of the company's Gwangyang central terminal system operations into a joint venture with Mitsui & Co., Ltd. of Japan and business plans for 2003. The Board also decided at the

November 20 meeting to retire treasury shares equivalent to 3% of total outstanding common shares to enhance shareholder value.

During the year, the Director Candidate Recommendation and Evaluation Committee held six meetings, taking up nine agenda items related to director nominations, director candidate qualification screening, and corporate management performance evaluation.

The Finance and Operation Committee also held six meetings, taking up 20 agenda items, including the establishment of Qingdao Pohang Stainless Steel Co., Ltd., a joint venture with Qingdao Steel of China. Nine of the items were resolved by the committee under authorization granted by the Board, while recommendations for the remaining 11 were forwarded to the Board for approval.

In its first year, the Executive Management Committee met 11 times, deliberating a total of 25 agenda items.

Executive Officers

| | | | | |
|--|--|---|--|---|
| <p>Jung-Won Kim Executive Vice President. General Administration Dept. Public Service Dept. Materials Purchasing Dept. Plant & Equipment Purchasing Dept.</p> | <p>Kwang-Hee Han Executive Vice President. Tokyo Branch</p> | <p>Dong-Jin Kim Executive Vice President. China Division. Benxi Steel Cold Rolling Project Team.</p> | <p>Seok-Man Yoon Executive Vice President. Secretarial Dept. Corporate Communications Dept. Seoul Office</p> | <p>Tae-Hyun Hwang Executive Vice President. Finance Dept. Finance Management Dept.</p> |
| <p>Youn Lee Executive Vice President. Deputy General Superintendent, Pohang Works (Hot & Cold Rolling)</p> | <p>Sung-Sik Cho Executive Vice President. Corporate Strategic Planning Dept. Domestic Investment Dept. Overseas Investment Dept. Energy Project Dept.</p> | <p>Jong-Tae Choi Executive Vice President. Human Resources Dept. Labor Relations Dept. Labor & Welfare Support Dept.</p> | <p>Byung-Hoon Kim Senior Vice President. Deputy General Superintendent, Pohang Works (General Administration)</p> | <p>Hwang-Gyu Hwang Senior Vice President. Production Order & Process Dept. Quality Service Dept.</p> |
| <p>Woo-In Lee Senior Vice President. Deputy General Superintendent, Gwangyang Works (General Administration)</p> | <p>Jong-Doo Choi Senior Vice President. Cold Rolled Steel Sales Dept. Coated Steel Sales Dept. Automotive Steel Sales Dept. Stainless Steel Sales Dept.</p> | <p>Joon-Yang Chung Senior Vice President. Deputy General Superintendent, Gwangyang Works (Iron & Steel Making)</p> | <p>Chang-Ho Kim Senior Vice President. Education and Training Center</p> | <p>Nam-Suk Hur Senior Vice President. Technology Development Dept. Environment & Energy Dept.</p> |
| <p>Chang-Kwan Oh Senior Vice President. Marketing Strategy Dept. Market Development Dept. Sales & Production Planning Dept.</p> | <p>Jeon-Young Lee Senior Vice President. Strategic Business Development Dept.</p> | <p>Young-Tae Kwon Senior Vice President Iron Making Raw Materials Dept. Steel Making Raw Materials Dept. STS Raw Materials Dept.</p> | <p>Hyun-Shik Chang Vice President. LNG Terminal Project Dept.</p> | <p>Oh-Joon Kwon Vice President. European Union Office</p> |
| <p>Dong-Hwa Chung Vice President. Deputy General Superintendent, Gwangyang Works (Maintenance)</p> | <p>Jin-Il Kim Vice President. Process Innovation Dept. PI Enablement Dept.</p> | <p>Chun-Hwan Lee Vice President. Facilities Investment Planning Dept. STS Reinforcement Project Team</p> | <p>Dong-Hee Lee Vice President. Auditing Dept.</p> | <p>Byung-Jo Choi Vice President. Deputy General Superintendent, Gwangyang Works (Hot & Cold Rolling) TWB Project Dept.</p> |
| | <p>Sang-Young Lee Vice President. Deputy General Superintendent, Pohang Works (Iron & Steel Making)</p> | <p>Hyun-Uck Sung Vice President. Deputy General Superintendent, Pohang Works (Maintenance)</p> | <p>Han-Yong Park Vice President. Hot Rolled Steel Sales Dept. Plate & Wire Products Sales Dept.</p> | |



| As of April 1, 2003 |

Major Subsidiaries & Affiliates

Pohang Coated Steel Co., Ltd.



Established in 1988, POCOS specializes in the manufacture of galvanized and aluminized steel sheet. The 1999 acquisition of a coil center for cold-rolled steel products from fellow subsidiary POSTEEL and merger with coated-steel manufacturer Pohang Steel Industries marked the company's rebirth as a specialized steel reroller.

Today, POCOS is capable of producing 300,000 tons of galvanized and aluminized sheet, 370,000 tons of pre-painted sheet, and 600,000 tons of cold-rolled sheet and skelp annually. A second 300,000-ton-per-year continuous galvanizing line is now under construction.

The company successfully completed its listing on the Korea Stock Exchange in August 2002 on its way to registering earnings of KRW 28.4 billion won on sales of KRW 401 billion for the year.

POSCO Engineering & Construction Co., Ltd.



Formally established in December 1994 by the merger of all the engineering and construction divisions of POSCO Group companies, POSCO

E&C traces its roots back to POSCO's founding in April 1968.

In the decades since, the company has leveraged the advanced engineering and construction technology acquired during a quarter-century of construction projects at POSCO's Pohang Works and Gwangyang Works to establish itself as a major player in the steel mill, environmental facility, commercial and residential construction, and infrastructure fields.

In 2002, the company commercialized 13 core technologies as it received 10 patents and filed for 16 more. It also continued to successfully diversify its client base beyond the POSCO Group, generating earnings of KRW 61.4 billion on sales of KRW 1,488 billion during the year.

POSCON Co., Ltd.

Established in November 1979, POSCON specializes in the field of factory automation with systems and solutions for manufacturing, logistics, environmental management, power generation, and building automation.

The company successfully designed and built the world's largest baggage handling system for Korea's new Incheon International Airport, a facility that's vying to become the logistics hub of Northeast Asia

Completing its own ERP system in April 2002, the company now has its sights set on becoming one of the world's top-10 automation firms, serving markets in China and across Southeast Asia. During 2002, the company generated net earnings of KRW 6.5 billion on sales of KRW 219.9 billion.

POSDATA Co., Ltd.



Established in 1989, POSDATA is an information technology solution-provider specializing in integrating hardware, software, and communications technologies to create tailored, cost-effective information systems for both corporate and government customers.

In recent years, the company has developed Korea's highest performance Linux-based supercomputer cluster and won the Software Engineering Institute's prestigious Software Capability Maturity Model Level 4 rating, becoming the nation's first software developer to do so.

The POSDATA software lineup includes the ISign authentication and authorization system and STEELPIA, the world's only production management system designed specifically for steelmakers. In 2002, the company generated net earnings of KRW 2.6 billion on sales of KRW 354 billion.

USS-POSCO Industries



Established in Pittsburg, California in 1986, this 50:50 joint venture with United States Steel Corporation is one of the largest cold-rolled steel suppliers on the West Coast, shipping over 1.5 million tons of cold-rolled sheet, tin plate, and galvanized sheet to markets in the western U.S., Canada, Mexico, and the Pacific Rim.

UPI has been a win-win relationship for both partners, mitigating steel-related trade friction by supporting nearly 1,000 local jobs and creating a consistent source of demand for POSCO hot-rolled coil.

In January 2002, the company resumed full operations following a seven-month, US\$115 million recovery project that rebuilt its pickle line tandem cold mill, a facility that was heavily damaged by a major fire in May 2001.

POSCO Australia Pty. Ltd.

Established in Sydney in 1981 to oversee POSCO's involvement in the Mt. Thorley coal mine development project, POSA has become a key player in POSCO's global raw materials sourcing efforts.

In April 2002, the company entered the iron ore development business when it acquired a 20% stake in the Mining Area C project headed by BHP Billiton in Western Australia.

Originally named POSMAC has been renamed POSCO-Ore Pty. Ltd.

and is expected to begin shipping ore to POSCO in October 2003.

Zhangjiagang POSCO Stainless Steel Co., Ltd.

Established in the port city of Zhangjiagang in China's Jiangsu Province in August 1997, this 80:20 joint venture with Jiangsu Shagang Group began producing stainless steel and galvanized sheet in January 1999 with annual capacities of 140,000 tons and 120,000 tons, respectively.

In March 2002, ZPSS began expanding its stainless steel mill to double capacity to 280,000 tons by September 2003 as part of its ongoing efforts to become China's quality and price leader in cold-rolled stainless steel. Profitable from its first year, the company enjoyed its best financial performance to date in 2002, generating earnings of US\$30 million on sales of US\$405 million.

Dalian POSCO-CFM Coated Steel Co., Ltd.

Established in the Dalian Economic & Technical Development Zone in China's Liaoning Province in October 1995, this 40:30:30 joint venture with China National Ferrous Metal Material Corporation and a number of Korean steel trading companies was POSCO's first advance into the Chinese market.

PCCS began producing galvanized sheet in September 1997 and pre-painted sheet in October 1997 with annual capacities of 100,000 and 50,000 tons, respectively.

In 2002, the venture launched a 100,000-ton capacity expansion project for its pre-painted sheet mill, a facility that came online in March 2003. Profitable since 1999, the com-

pany generated earnings of US\$13.6 million on sales of US\$106 million in 2002.

Shunde Pohang Coated Steel Co., Ltd.

Founded in the city of Shunde in China's Guangdong Province in October 1995, this 90:10 joint venture with Beijiao Investment Co., Ltd. launched operation of a galvanized sheet mill with an annual capacity of 100,000 tons in October 1997.

In 2002, SHUNPO launched an expansion project to add production lines for electrical and pre-painted sheet with a combined annual capacity of 150,000 tons, and both facilities entered operation in February 2003. Profitable since 2000, the company generated earnings of US\$5.5 million on sales of US\$58 million in 2002.

Qingdao Pohang Stainless Steel Co., Ltd.

Established in the city of Qingdao in China's Shandong Province in December 2002, this 80:20 joint venture with Qingdao Steel will produce 150,000 tons of cold-rolled stainless steel annually. The US\$130.7 million venture broke ground for its rerolling mill in April 2003 and will be the first facility of its kind in the region when it comes online in early 2005.

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Haiphong, Vietnam
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POSTEEL

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POS-Thai Steel Service Center Co., Ltd.

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POSCO E&C

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Milestones

- 60 Apr 1968 Pohang Iron and Steel Company, Limited (POSCO) established
-
- 70 Apr 1970 Pohang Works Phase 1 begun
- July 1973 Pohang Works Phase 1 completed (Annual crude steel capacity: 1.03 million tons)
- Mar 1976 Pohang Works Phase 2 completed (Annual crude steel capacity: 2.6 million tons)
- Dec 1978 Pohang Works Phase 3 completed (Annual crude steel capacity: 5.5 million tons)
-
- 80 Feb 1981 Pohang Works Phase 4-1 completed (Annual crude steel capacity: 8.5 million tons)
- May 1983 Pohang Works Phase 4-2 completed (Annual crude steel capacity: 9.1 million tons)
- Mar 1985 Gwangyang Works Phase 1 begun
- Apr 1986 USS-POSCO Industries (UPI) established
- Dec 1986 Pohang University of Science and Technology (POSTECH) founded
- Mar 1987 The Research Institute of Industrial Science & Technology (RIST) established
- May 1987 Gwangyang Works Phase 1 completed (Annual crude steel capacity: 11.8 million tons)
- June 1988 POSCO stock listed on the Korea Stock Exchange
- July 1988 Gwangyang Works Phase 2 completed (Annual crude steel capacity: 14.5 million tons)
-
- 90 Dec 1990 Gwangyang Works Phase 3 completed (Annual crude steel capacity: 17.5 million tons)
- Oct 1992 Gwangyang Works Phase 4 completed (Annual crude steel capacity: 20.8 million tons)
- Dec 1993 ISO 9002 certification acquired
- Oct 1994 POSCO ADRs listed on the New York Stock Exchange
- Dec 1994 Pohang Light Source completed
- July 1995 POSCO Center in Seoul completed
- Oct 1995 POSCO ADRs listed on the London Stock Exchange
- Nov 1995 Pohang Works COREX plant completed
- Oct 1996 Gwangyang Works No. 5 Blast Furnace project begun
- Gwangyang Works No. 1 Mini Mill completed
- Mar 1997 Non-standing directorships introduced
- Aug 1997 Gwangyang Works No. 4 Cold Rolling Mill completed
- Sep 1997 Pohang Works No. 3 Plate Mill completed
- July 1998 Government announces POSCO privatization plan
- Dec 1998 Process Innovation initiative launched
- Mar 1999 Gwangyang Works No. 5 Blast Furnace completed
-
- 00 Aug 2000 Strategic alliance with Nippon Steel announced
- Oct 2000 Privatization completed
- July 2001 POSPIA integrated information system launched
- Mar 2002 Legal corporate name changed to POSCO

FINANCIAL STATEMENTS

- 60 Management's Discussion & Analysis
- 64 Report of Independent Accountants
- 65 Financial Statements
- 76 Notes to Financial Statements

Management's Discussion & Analysis

Operating Results

We set new sales revenues and sales volume records in 2002. Our sales revenues increased by 9.4% to KRW 14,355 billion, reflecting an increase of 6.1% in the average unit sales price per ton of our steel products and a 0.9% increase in the sales volume of our steel products.

In terms of volume growth in 2002, stainless steel products increased by 10.1% and specialty products increased by 4.4%. Sales volume for hot-rolled and cold-rolled products increased by 0.7% and 0.8%, respectively, while wire rod products increased by 0.2%. On the other hand, both plate and galvanized steel sheets dropped below their 2001 figures and decreased by 2.7% and 0.3%, respectively.

In terms of markets, we sold 69.5% of total sales volume of our steel products in Korea. Higher local steel prices enabled us to record a 13.5% increase in domestic sales revenues in 2002 despite a 0.9% increase in sales volume. Export sales revenues increased by 1.7% in 2002 as sales volume increased by 0.8% for the year.

Our gross profit in 2002 increased by 23.6% to KRW 3,017 billion. Gross margin in 2002 increased from 18.6% in 2001 to 21.0% in 2002 as the 9.4% growth in net sales outpaced a 6.2% increase in cost of goods sold. The increase in cost of goods sold was driven primarily by an increase of 8.9% in raw materials costs, a 12.7% rise in depreciation, and an increase of 23.2% in labor costs associated with rising wages, bonuses, and allowances for future severance benefits.

Our operating income in 2002 increased by 29.1% to KRW 2,050 billion, and our operating margin improved from 12.1% in 2001 to 14.3% in 2002. Our selling, general, and administrative expenses increased by 13.2% in 2002 principally from increases in labor-related expenses, as well as increases in advertising and fees and charges related

to our sponsorship of the 2002 FIFA World Cup Korea/Japan and process innovation initiatives.

Our net income in 2002 increased by 28.8% to KRW 1,089 billion as a 29.1% increase in operating income, a 24.9% increase in foreign exchange gains, as well as a 26.4% decrease in interest expenses more than offset significant increases in other bad debt allowance and loss on valuation of equity method investments resulting principally from the liquidation of POSVEN joint venture in Venezuela, as well as an increase in loss on impairment of property, plant and equipment arising from our decision to permanently cease construction of our no. 2 minimill at Kwangyang. Our effective tax rate decreased from 28.7% in 2001 to 26.4% in 2002, partially due to a decrease in statutory tax rate from 30.8% in 2001 to 29.7% in 2002.

Business Strategy

Our goal is to maintain and strengthen our position as one of the world's leading steel producers. In response to global overcapacity and a general weakness of global steel demand, we strive to:

- maintain leading domestic market share in key product categories;
- maintain a strong overseas customer base which provides a natural foreign currency hedge as well as flexibility to reallocate sales to foreign markets in periods when domestic demand is weak;
- selectively pursue investment opportunities in other countries, primarily in China;
- focus on enhancing customer satisfaction by innovating our business processes to deliver greater value and provide higher quality customer services;
- Increase sales of higher margin, higher value-added products;
- develop leading technology and enhance quality of our products through ongoing research and development and upgrading of our facilities;
- maintain prudent financial management policies

through conservative balance sheet ratios;

- capitalize on e-commerce opportunities to enhance profitability, operating efficiency, and overall customer satisfaction;
- enhance operational efficiency and cost-effectiveness through our ongoing process innovation initiatives;
- improve transparency and corporate governance by expanding the role of outside directors, developing sub-committees with special tasks and implementing an audit committee; and
- selectively seek opportunities in growth industries such as biotechnology, logistics and information and technology.

Major Products

We manufacture and sell a broad line of products, including hot-rolled products, cold-rolled products, plates, wire rods, stainless steel products, galvanized steel sheets and other products.

Consolidated Steel Sales Breakdown

| | 2002 | | 2001 | |
|--------------------------|-------|--------|-------|--------|
| | Value | Volume | Value | Volume |
| Hot-rolled products | 25.4% | 37.8% | 24.8% | 37.9% |
| Cold-rolled products | 32.0% | 31.3% | 32.2% | 31.3% |
| Plates | 9.2% | 10.1% | 9.9% | 10.5% |
| Wire rods | 8.7% | 9.3% | 9.1% | 9.3% |
| Stainless steel products | 16.9% | 4.6% | 16.5% | 4.2% |
| Galvanized steel sheets | 2.6% | 1.9% | 2.4% | 2.0% |
| Other products | 5.2% | 5.0% | 5.0% | 4.8% |

Hot-rolled products

Sales volume of hot-rolled products increased by 0.7% to 11.5 million tons in 2002, representing 37.8% of total sales volume. The Korean market accounted for 9.2 million tons or 80.6% of our hot-rolled product sales in 2002, representing a domestic market share of 71.3%. The largest customers of our hot-rolled products are downstream steelmakers in Korea who use the products to manufacture pipes and cold-rolled products.

Cold-rolled products

Sales volume of cold-rolled products increased by 0.8% to 9.5 million tons in 2002, representing 31.3% of our total sales volume. The Korean market accounted for 4.8 million tons or 50.6% of our cold-rolled product sales in 2002, representing a domestic market share of 50.0%. Our main customers of cold-rolled products are automobile and electrical appliance manufacturers.

Plates

Sales volume of plates decreased by 2.7% to 3.1 million tons in 2002, representing 10.1% of total sales volume. The Korean market accounted for 2.8 million tons or 90.2% of our plate sales in 2002, representing a domestic market share of 46.6%. The Korean shipbuilding industry and the construction industry are our largest customers of plates.

Wire rods

Sales volume of wire rods increased by 0.2% to 2.8 million tons in 2002, representing 9.3% of our total sales volume. The Korean market accounted for 2.1 million tons or 75.8% of our wire rod sales in 2002, representing a domestic market share of 65.6%. Our largest customers for wire rods are wire and nail manufacturers.

Stainless steel products

Sales volume of stainless steel products increased by 10.1% to 1.4 million tons in 2002, representing 4.6% of our total sales volume. The Korean market accounted for 688 thousand tons or 49.4% of our stainless steel product sales in 2002, representing a domestic market share of 39.5%. Our largest customers of stainless steel are construction industry and automobile industry.

Galvanized steel sheets

Sales volume of galvanized steel sheets decreased by 0.3% to 589 thousand tons in 2002, representing 1.9% of our total steel sales volume. The Korean market accounted for 428 thousand tons or 72.7% of

Management's Discussion & Analysis

our galvanized steel sheet sales in 2002, representing a domestic market share of 93.0%. Our main consumers of galvanized steel sheet are manufacturers of power transformers and generators and rotating machines.

Other products

Sales volume of other products increased by 4.3% to 1.5 million tons, representing 5.0% of our total sales volume. This category includes semi-finished products such as pig iron, billet, bloom, and slab.

Major Markets

Korea is our most important market. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking overseas sales to utilize maximum capacity, expand our international market presence and earn foreign exchange.

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

| Consolidated Sales by Market | (in KRW billions) | | |
|-----------------------------------|-------------------|---------------|---------------|
| | 2002 | 2001 | 2000 |
| Korea | 9,531 | 8,507 | 9,160 |
| China | 2,089 | 2,037 | 1,872 |
| Asia (other than China and Japan) | 1,069 | 822 | 855 |
| Japan | 650 | 692 | 932 |
| North America | 473 | 386 | 533 |
| Europe | 150 | 142 | 172 |
| Middle East | 5 | 6 | 66 |
| Others | 389 | 529 | 187 |
| Total | 14,355 | 13,121 | 13,776 |

Domestic market

In 2002, domestic sales accounted for approximately 69.5% of our total sales volume. Total sales of steel products in Korea increased by 14.2% in 2002 to reach 43.7 million tons, driven by stronger demand from the Korean shipbuilding industry and the automobile industry. Our domestic sales of 21.1

million tons gave us a market share of 48.2% in 2002. We sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. In 2002, approximately 61% of our total sales in Korea in terms of volume were made directly to end-users and other steel processors, and the remainder were made to local distribution companies. We provide service technicians to major customers and distributors in each major product category.

Overseas markets

Exports and overseas sales represented 30.5% of our total sales volume in 2002, 76.0% of which was generated in Asia. Our largest export market in 2002 was China, which accounted for 30.6% of our export volume of steel products with 2.8 million tons. The principal products exported to China were cold-rolled steel products and stainless steel products. Our exports to Japan decreased by 12.8% to 1.8 million tons in 2002, primarily due to our increased marketing focus in China, Indonesia and Malaysia that typically offer higher profit margins. As a result, sales volume to Asian countries other than Japan increased by 22.0% in 2002 to 2.4 million tons.

Our exports to North America, Europe, and Middle East increased by 29.7% in 2002 to 1.3 million tons, representing 13.9% of our export volume of steel products. Our exports to North America increased by 47.1% as the manufacturing plant of USS-POSCO Industries, a 50-50 joint venture between us and U.S. Steel Corporation, resumed its normal operation in February 2002 after a major fire in May 2001. Our sales to North America, Europe and Middle East generally declined from 1999 to 2001, primarily due to anti-dumping proceedings and our decision to target Asian countries other than Japan which have higher profit margins.

Competition

We were the world's second-largest steel producer

in the world based on annual crude steel production in 2002. We produced over 28.1 million tons of crude steel in 2002, or 3.2% of the total global crude steel consumption. In Korea, our closest competitor is INI Steel with an annual crude steel capacity of 7.7 million tons. Abroad, we trail Arcelor, the world's largest steelmaker with an annual crude steel capacity of 44 million tons.

Domestic market

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

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

Overseas markets

Competitors in our export markets include all the leading steel manufacturers of the world, particularly those in Luxembourg, Japan, the United States, and the United Kingdom.

In recent years, our products that are subject to anti-dumping proceedings or safeguard measures in

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

Diversification

As part of our strategy to achieve sustainable growth and to prepare for the eventual maturation of the Korean steel market, we also seek to diversify selectively into other areas such as biotechnology, logistics, information and technology, construction, and advanced materials.

In September 2002, our wholly-owned U.S. subsidiary POSCO America Corporation partnered with POSCO BioVentures Management LLC to set up a venture capital fund called POSCO BioVentures I, L.P. based in California and committed to invest US\$50 million in the next four years. The fund will invest in promising biotechnology ventures, and POSCO BioVentures Management will work with Pohang University of Science and Technology (POSTECH) to help bring university-sponsored biotech projects closer to the market.

In December 2002, we also spun-off our central terminal system at Kwangyang Works and entered into a joint venture agreement with Mitsui Corporation of Japan to invest KRW 51.8 billion for a 51.0% interest in POSCO Terminal Co., Ltd. which provides logistics services in Korea, Japan and China related to storage and transportation of raw materials used in steel production and other industries.



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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of POSCO:

We have audited the accompanying consolidated balance sheets of POSCO and its subsidiaries (the "Company") as of December 31, 2001 and 2002, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2002, and the results of its operations and its cash flows for the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the Republic of Korea.

As discussed in Note 2 the Company changed its method of accounting for special repairs.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter, after the restatement referred to in Note 30, would have affected the determination of consolidated net income for each of the three years in the period ended December 31, 2002 and determination of consolidated shareholders' equity at December 31, 2001 and 2002 to the extent summarized in Note 30 to the consolidated financial statements.

SAMIL ACCOUNTING CORPORATION

Seoul, Korea
March 6, 2003

POSCO AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

[December 31, 2001 and 2002]

| ASSETS | Millions of Korean Won | | Thousands of US |
|--|------------------------|--------------|------------------|
| | 2001 | 2002 | Dollars (Note 2) |
| Current assets: | | | |
| Cash and cash equivalents (Notes 3, 12 and 27) | ₩ 407,109 | ₩ 267,380 | \$ 225,390 |
| Short-term financial instruments (Notes 3, 12 and 27) | 424,224 | 258,132 | 217,594 |
| Marketable securities (Note 4) | 530,403 | 1,202,676 | 1,013,804 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 12, and 27) | 1,479,911 | 1,739,605 | 1,466,413 |
| Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5 and 27) | 105,793 | 72,739 | 61,316 |
| Inventories (Notes 6 and 29) | 1,737,251 | 1,671,446 | 1,408,957 |
| Other current assets, net of allowance for doubtful accounts (Note 10) | 276,245 | 185,499 | 156,368 |
| Total current assets | 4,960,936 | 5,397,477 | 4,549,842 |
| Property, plant and equipment, net (Notes 8, 12, 13 and 29) | 10,600,766 | 10,324,573 | 8,703,172 |
| Investment securities (Notes 7 and 29) | 2,960,449 | 2,545,812 | 2,146,009 |
| Intangible assets, net (Notes 9 and 29) | 490,708 | 474,812 | 400,248 |
| Long-term loans, net of allowance for doubtful accounts and present value discount (Notes 5 and 27) | 86,107 | 117,260 | 98,845 |
| Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Note 5) | 51,310 | 44,863 | 37,817 |
| Deferred income tax assets (Note 25) | 98,101 | 51,659 | 43,546 |
| Guarantee deposits (Note 27) | 35,132 | 25,577 | 21,560 |
| Long-term financial instruments (Notes 3, 12 and 27) | 34,711 | 20,574 | 17,343 |
| Other long-term assets, net of allowance for doubtful accounts and present value discount (Note 10) | 87,114 | 74,242 | 62,583 |
| TOTAL ASSETS | ₩ 19,405,334 | ₩ 19,076,849 | \$ 16,080,965 |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(December 31, 2001 and 2002)

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Korean Won | | Thousands of US |
|---|------------------------|--------------------|---------------------|
| | 2001 | 2002 | Dollars (Note 2) |
| | | | 2002 |
| Current liabilities: | | | |
| Trade accounts and notes payable (Note 27) | ₩ 509,563 | ₩ 689,745 | \$ 581,425 |
| Short-term borrowings (Notes 11 and 27) | 718,054 | 587,955 | 495,621 |
| Current portion of long-term debt, net of discount on debentures issued (Notes 11, 13 and 27) | 1,405,369 | 1,319,531 | 1,112,308 |
| Accrued expenses (Note 27) | 280,772 | 225,932 | 190,451 |
| Other accounts and notes payable (Note 27) | 162,041 | 146,567 | 123,550 |
| Withholdings (Note 27) | 46,359 | 66,048 | 55,675 |
| Income tax payable | 143,651 | 415,429 | 350,189 |
| Dividends payable | 166,151 | 253,906 | 214,032 |
| Other current liabilities (Note 15) | 186,958 | 260,376 | 219,486 |
| Total current liabilities | 3,618,918 | 3,965,489 | 3,342,737 |
| Long-term debt, net of current portion and discount on debentures issued (Notes 12 and 27) | 4,235,456 | 3,194,015 | 2,692,417 |
| Accrued severance benefits, net (Note 14) | 68,845 | 103,472 | 87,222 |
| Reserve for special repairs (Note 2) | 1,020,640 | - | - |
| Deferred income tax liabilities (Note 25) | 16,899 | 135,564 | 114,275 |
| Other long-term liabilities (Note 15) | 93,788 | 103,879 | 87,566 |
| Total liabilities | ₩ 9,054,546 | ₩ 7,502,419 | \$ 6,324,217 |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

[December 31, 2001 and 2002]

| LIABILITIES AND SHAREHOLDERS' EQUITY, Continued | Millions of Korean Won | | Thousands of US |
|--|------------------------|--------------|------------------|
| | 2001 | 2002 | Dollars (Note 2) |
| Commitments and contingencies (Note 16) | | | |
| Shareholders' equity: | | | |
| Common stock, ₩5,000 par value, authorized 200 million shares; issued and outstanding 93,589,485 shares in 2001 and 90,781,795 shares in 2002 | ₩ 482,403 | ₩ 482,403 | \$ 406,645 |
| Capital surplus (Note 17) | 3,859,029 | 3,797,737 | 3,201,329 |
| Retained earnings (Note 18) (Net income: ₩ 1,633,667 million in 2000, ₩845,679 million in 2001 and ₩1,089,288 million in 2002 Losses in excess of minority interest: ₩2,321 million in 2000, ₩2,037 million in 2001 and ₩2,495million in 2002) | 6,966,189 | 8,219,499 | 6,928,685 |
| Capital adjustments, net (Note 20) | (1,125,004) | (1,204,374) | (1,015,235) |
| Minority interest | 168,171 | 279,165 | 235,324 |
| Total shareholders' equity | 10,350,788 | 11,574,430 | 9,756,748 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | ₩ 19,405,334 | ₩ 19,076,849 | \$ 16,080,965 |

The accompanying notes are an integral part of these consolidated financial statements.

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2000, 2001 and 2002

| | Millions of Korean Won | | | Thousands of US |
|--|------------------------|--------------|-------------|------------------|
| | 2000 | 2001 | 2002 | Dollars (Note 2) |
| Sales (Note 29) | ₩ 13,776,214 | ₩ 13,121,097 | ₩14,354,918 | \$ 12,100,580 |
| Cost of goods sold | 10,751,64 | 10,679,735 | 11,338,260 | 9,557,667 |
| Gross profit | 3,024,566 | 2,441,362 | 3,016,658 | 2,542,913 |
| Selling and administrative expenses (Note 23) | 718,103 | 854,069 | 966,791 | 814,963 |
| Operating income (Note 29) | 2,306,463 | 1,587,293 | 2,049,867 | 1,727,950 |
| Non-operating income: | | | | |
| Interest and dividend income | 134,029 | 134,934 | 72,792 | 61,361 |
| Foreign exchange gains | 167,860 | 209,138 | 261,120 | 220,113 |
| Gain on valuation of marketable securities | 10,847 | 11,505 | 6,366 | 5,366 |
| Gain on disposal of marketable securities | 69,409 | 41,886 | 49,938 | 42,096 |
| Gain on disposal of property, plant and equipment | 5,401 | 10,435 | 22,361 | 18,849 |
| Gain on derivatives transaction (Note 22) | 180 | 13,826 | 13,160 | 11,094 |
| Gain on valuation of derivatives (Note 22) | 14,966 | 168 | 569 | 480 |
| Gain on valuation of equity method investments (Note 7) | 13,719 | 5,086 | - | - |
| Gain on disposal of investments | 45,384 | 2,851 | 6,454 | 5,440 |
| Gain on disposal of scrap | 23,449 | 26,213 | 52,221 | 44,020 |
| Others | 75,768 | 94,560 | 67,324 | 56,751 |
| Total non-operating income | 561,012 | 550,602 | 552,305 | 465,570 |
| Non-operating expenses: | | | | |
| Interest expense | 463,614 | 450,546 | 331,776 | 279,673 |
| Other bad debt allowance (Note 16) | 3,222 | 1,662 | 187,337 | 57,917 |
| Loss on impairment of property, plant and equipment (Note 8) | 49,814 | 53,951 | 139,833 | 117,873 |
| Foreign exchange losses | 340,904 | 219,414 | 125,744 | 105,997 |
| Loss on valuation of equity method investments (Note 7) | 4,452 | 29,047 | 128,769 | 108,547 |
| Donations (Note 24) | 448,847 | 83,195 | 50,147 | 42,272 |
| Loss on disposal of property, plant and equipment | 24,990 | 25,008 | 38,215 | 32,214 |
| Loss on valuation of derivatives (Note 22) | 49,183 | 535 | 11,775 | 9,926 |
| Loss on impairment of investment securities (Note 7) | 4,666 | 12,575 | 27,041 | 22,794 |
| Loss on derivatives transaction (Note 22) | 44 | 21,045 | 3,376 | 2,846 |
| Loss on valuation of inventories | 3,570 | 21,231 | 1,178 | 993 |
| Others | 89,509 | 45,013 | 49,544 | 41,763 |
| Total non-operating expense | 1,482,815 | 963,222 | 1,094,735 | 922,815 |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2000, 2001 and 2002

| | Millions of Korean Won | | | Thousands of US |
|---|------------------------|--------------------|--------------------|---------------------|
| | 2000 | 2001 | 2002 | Dollars (Note 2) |
| Ordinary income | <u>₩ 1,384,660</u> | <u>₩ 1,174,673</u> | <u>₩ 1,507,437</u> | <u>\$ 1,270,705</u> |
| Extraordinary gain (Note 7) | 959,110 | - | - | - |
| Extraordinary loss | 12,689 | - | - | - |
| Net income before income tax expense and minority interest | <u>2,331,081</u> | <u>1,174,673</u> | <u>1,507,437</u> | <u>1,270,705</u> |
| Income tax expense (Note 25) | <u>688,731</u> | <u>337,463</u> | <u>398,305</u> | <u>335,754</u> |
| Net income before minority interest | <u>1,642,350</u> | <u>837,210</u> | <u>1,109,132</u> | <u>934,951</u> |
| Minority interest in income (losses) of consolidated subsidiaries | <u>8,683</u> | <u>(8,469)</u> | <u>19,844</u> | <u>16,728</u> |
| Net income | <u>₩ 1,633,667</u> | <u>₩ 845,679</u> | <u>₩ 1,089,288</u> | <u>\$ 918,223</u> |
| Basic and diluted earnings per share (Note 26) (in Korean Won and US Dollar) | <u>₩ 19,131</u> | <u>₩ 10,366</u> | <u>₩ 13,295</u> | <u>\$ 11.21</u> |

The accompanying notes are an integral part of these consolidated financial statements.

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2000, 2001 and 2002

| | Millions of Korean Won | | | | | | |
|--|------------------------|----------|-----------------|-------------------|---------------------|-------------------|------------|
| | Common stock | | Capital surplus | Retained earnings | Capital adjustments | Minority interest | Total |
| | Shares | Amount | | | | | |
| Balance at January 1, 2000 | 96,480,625 | ₩482,403 | ₩3,799,991 | ₩5,193,185 | ₩ (396,829) | ₩121,333 | ₩9,200,083 |
| Net income for 2000 | - | - | - | 1,633,667 | - | - | 1,633,667 |
| Effect of change in percentage of ownership of investees | - | - | 5,197 | (38,692) | 1,005 | 29,070 | (3,420) |
| Asset revaluation of consolidated subsidiaries | - | - | 60,954 | - | - | - | 60,954 |
| Dividends (Note 19) | - | - | - | (204,704) | - | (1,949) | (206,653) |
| Losses in excess of minority interest | - | - | - | (2,047) | - | 2,047 | - |
| Change in treasury stock | - | - | - | - | (996,952) | - | (996,952) |
| Overseas operations translation adjustment | - | - | - | - | 36,713 | - | 36,713 |
| Valuation gain (loss) on investment securities | - | - | - | - | (183,930) | - | (183,930) |
| Minority interest in income of consolidated subsidiaries | - | - | - | - | - | 8,683 | 8,683 |
| Others | - | - | (5,386) | 14,061 | 40 | 439 | 9,154 |
| Balance as of December 31, 2000 | 96,480,625 | 482,403 | 3,860,756 | 6,595,470 | (1,539,953) | 159,623 | 9,558,299 |
| Net income for 2001 | - | - | - | 845,679 | - | - | 845,679 |
| Effect of change in percentage of ownership of investees | - | - | (4,890) | 3,288 | - | 10,850 | 9,248 |
| Dividends (Note 19) | - | - | - | (204,048) | - | (8,093) | (212,141) |
| Losses in excess of minority interest | - | - | - | 284 | - | (284) | - |
| Retirement of treasury stock (Note 20) | (2,891,140) | - | - | (290,071) | 290,071 | - | - |
| Change in treasury stock | - | - | - | - | (4,572) | - | (4,572) |
| Overseas operations translation adjustment | - | - | - | - | (6,594) | 15,234 | 8,640 |
| Valuation gain (loss) on investment securities | - | - | - | - | 135,374 | (75) | 135,299 |
| Minority interest in losses of consolidated subsidiaries | - | - | - | - | - | (8,469) | (8,469) |
| Others | - | - | 3,163 | 15,587 | 670 | (615) | 18,805 |
| Balance as of December 31, 2001 | 93,589,485 | 482,403 | 3,859,029 | 6,966,189 | (1,125,004) | 168,171 | 10,350,788 |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2000, 2001 and 2002

| | Millions of Korean Won | | | | | | |
|--|------------------------|-----------------|-------------------|-------------------|---------------------|-------------------|--------------------|
| | Common stock | | Capital surplus | Retained earnings | Capital adjustments | Minority interest | Total |
| | Shares | Amount | | | | | |
| Balance as of January 1, 2002 | 93,589,485 | ₩482,403 | ₩3,859,029 | ₩6,966,189 | ₩(1,125,004) | ₩ 168,171 | ₩10,350,788 |
| Net income for 2002 | - | - | - | 1,089,288 | - | - | 1,089,288 |
| Cumulative effect of accounting policy change | - | - | - | 717,510 | - | - | 717,510 |
| Effect of change in percentage of ownership of investees | - | - | (70,419) | 13,573 | - | 106,833 | 49,987 |
| Dividends (Note 19) | - | - | - | (286,058) | - | (13,751) | (299,809) |
| Losses in excess of minority interest | - | - | - | (458) | - | 458 | - |
| Retirement of treasury stock (Note 20) | (2,807,690) | - | - | (281,698) | 281,698 | - | - |
| Change in treasury stock | - | - | - | - | (12,289) | - | (12,289) |
| Overseas operations translation adjustment | - | - | - | - | (40,952) | (999) | (41,951) |
| Valuation loss on investment securities | - | - | - | - | (307,175) | (612) | (307,787) |
| Minority interest in income of consolidated subsidiaries | - | - | - | - | - | 19,844 | 19,844 |
| Others | - | - | 9,127 | 1,153 | (652) | (779) | 8,849 |
| Balance as of December 31, 2002 | <u>90,781,795</u> | <u>₩482,403</u> | <u>₩3,797,737</u> | <u>₩8,219,499</u> | <u>₩(1,204,374)</u> | <u>₩ 279,165</u> | <u>₩11,574,430</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2000, 2001 and 2002

Thousands of US Dollars (Note 2)

| | Common stock | | Capital surplus | Retained earnings | Capital adjustments | Minority interest | Total |
|--|-------------------|-------------------|---------------------|---------------------|----------------------|-------------------|---------------------|
| | Shares | Amount | | | | | |
| Balance as of January 1, 2002 | 93,589,485 | \$ 406,645 | \$ 3,252,996 | \$ 5,872,198 | \$ (948,331) | \$ 141,761 | \$ 8,725,269 |
| Net income for 2002 | - | - | - | 918,223 | - | - | 918,223 |
| Cumulative effect of | | | | | | | |
| accounting policy change | - | - | - | 604,831 | - | - | 604,831 |
| Effect of change in percentage of | | | | | | | |
| ownership of investees | - | - | (59,360) | 11,441 | - | 90,056 | 42,137 |
| Dividends (Note 19) | - | - | - | (241,134) | - | (11,591) | (252,725) |
| Losses in excess of | | | | | | | |
| minority interest | - | - | - | (386) | - | 386 | - |
| Retirement of treasury stock | (2,807,690) | - | - | (237,460) | 237,460 | - | - |
| Change in treasury stock | - | - | - | - | (10,359) | - | (10,359) |
| Overseas operations | | | | | | | |
| translation adjustment | - | - | - | - | (34,521) | (842) | (35,363) |
| Valuation loss on | | | | | | | |
| investment securities | - | - | - | - | (258,935) | (516) | (259,451) |
| Minority interest in income of | | | | | | | |
| consolidated subsidiaries | - | - | - | - | - | 16,728 | 16,728 |
| Others | - | - | 7,693 | 972 | (550) | (657) | 7,458 |
| Balance as of December 31, 2002 | <u>90,781,795</u> | <u>\$ 406,645</u> | <u>\$ 3,201,329</u> | <u>\$ 6,928,685</u> | <u>\$(1,015,236)</u> | <u>\$ 235,325</u> | <u>\$ 9,756,748</u> |

The accompanying notes are an integral part of these consolidated financial statements.

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2000, 2001 and 2002

| | Millions of Korean Won | | | Thousands of US |
|---|------------------------|------------------|------------------|------------------|
| | 2000 | 2001 | 2002 | Dollars (Note 2) |
| Cash flows from operating activities: | 2000 | 2001 | 2002 | 2002 |
| Net income | ₩ 1,633,667 | ₩ 845,679 | ₩1,089,288 | \$ 918,223 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 1,240,070 | 1,316,516 | 1,453,253 | 1,225,029 |
| Accrual of severance benefits | 246,547 | 86,878 | 119,091 | 100,389 |
| Provision for doubtful accounts | 20,162 | (56) | 184,887 | 155,851 |
| Loss (gain) on foreign currency translation, net | 198,347 | 8,468 | (105,716) | (89,115) |
| Gain on valuation of marketable securities | (10,847) | (11,505) | (6,366) | (5,366) |
| Loss on valuation of derivatives, net | 34,217 | 367 | 11,206 | 9,446 |
| Loss (gain) on derivatives transaction, net | (136) | 7,219 | (9,784) | (8,248) |
| Gain on disposal of marketable securities and investments, net | (98,153) | (42,334) | (52,713) | (44,434) |
| Loss on disposal of property, plant and equipment, net | 19,589 | 14,573 | 15,854 | 13,365 |
| Loss on valuation of inventories | 3,570 | 21,231 | 1,178 | 993 |
| Loss on impairment of investment securities and property, plant and equipment | 54,480 | 66,526 | 166,874 | 140,667 |
| Loss (gain) on valuation of equity method investments, net | (9,267) | 23,961 | 128,769 | 108,547 |
| Minority interest in income (loss) of consolidated subsidiaries | 8,683 | (8,469) | 19,844 | 16,728 |
| Stock compensation expense | - | 1,790 | 6,497 | 5,477 |
| Reserve for special repairs | 137,362 | 46,278 | - | - |
| Extraordinary income | (956,583) | - | - | - |
| Others | 27,077 | 12,309 | 672 | 567 |
| | <u>915,118</u> | <u>1,543,752</u> | <u>1,933,546</u> | <u>1,629,896</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2000, 2001 and 2002

| | Millions of Korean Won | | | Thousands of US Dollars (Note 2) |
|--|------------------------|--------------------|--------------------|-------------------------------------|
| | 2000 | 2001 | 2002 | 2002 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in trade accounts and notes receivable | ₩ 163,511 | ₩ 367,157 | ₩ (151,351) | \$ (127,583) |
| Decrease (increase) in inventories | (230,762) | 173,755 | 69,950 | 58,965 |
| Increase (decrease) in trade accounts and notes payable | (110,347) | (170,118) | 151,699 | 127,876 |
| Decrease (increase) in other accounts and notes receivable | (18,761) | 67,312 | 28,938 | 24,394 |
| Increase (decrease) in other accounts and notes payable | 40,726 | (453,022) | 11,588 | 9,768 |
| Decrease (increase) in accrued expenses | 62,226 | (121,445) | (61,507) | (51,848) |
| Increase (decrease) in income tax payable | (26,859) | (280,363) | 271,347 | 228,734 |
| Deferred income tax, net | 12,558 | 12,828 | (137,771) | (116,135) |
| Payment of severance benefits | (1,088,159) | (9,168) | (14,469) | (12,197) |
| Decrease (increase) in group retirement deposits | 736,727 | (189) | - | - |
| Others | (35,137) | (66,697) | 22,081 | 18,614 |
| | <u>(494,277)</u> | <u>(479,950)</u> | <u>190,505</u> | <u>160,588</u> |
| Net cash provided by operating activities | <u>2,054,508</u> | <u>1,909,481</u> | <u>3,213,339</u> | <u>2,708,707</u> |
| Cash flows from investing activities: | | | | |
| Disposal of marketable securities | 11,375,253 | 9,058,501 | 11,547,221 | 9,733,812 |
| Acquisition of marketable securities | (11,041,246) | (8,582,000) | (12,150,384) | (10,242,252) |
| Disposal of short-term financial instruments | 3,687,669 | 3,640,112 | 1,317,099 | 1,110,258 |
| Acquisition of short-term financial instruments | (3,671,484) | (3,621,042) | (1,140,400) | (961,308) |
| Acquisition of property, plant and equipment | (874,271) | (1,495,961) | (1,688,840) | (1,423,620) |
| Disposal of property, plant and equipment | 43,075 | 35,175 | 91,238 | 76,909 |
| Acquisition of investment securities | (2,172,650) | (661,248) | (117,790) | (99,292) |
| Disposition of investment securities | 1,806,450 | 139,159 | 109,523 | 92,323 |
| Proceeds from short-term loan | 20,410 | 34,949 | 147,650 | 124,462 |
| Short-term loans provided | (4,215) | (29,239) | (56,910) | (47,973) |
| Proceeds from long-term loan | 132,499 | 61,444 | 3,019 | 2,545 |
| Long-term loans provided | (1,576) | (68,654) | (46,162) | (38,912) |
| Acquisition of intangible assets | (119,851) | (97,547) | (96,676) | (81,494) |
| Others | 20,227 | 27,615 | (64,152) | (54,077) |
| Net cash used in investing activities | <u>(799,710)</u> | <u>(1,558,736)</u> | <u>(2,145,564)</u> | <u>(1,808,619)</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2000, 2001 and 2002

| | Millions of Korean Won | | | Thousands of US |
|---|------------------------|------------------|--------------------|-------------------|
| | 2000 | 2001 | 2002 | Dollars (Note 2) |
| | 2000 | 2001 | 2002 | 2002 |
| Cash flows from financing activities: | | | | |
| Payment of cash dividends | ₩ (239,732) | ₩ (228,736) | ₩ (214,277) | \$ (180,627) |
| Proceeds (payment) of short-term borrowings, net | 177,666 | (656,673) | (85,565) | (72,128) |
| Proceeds from long-term debt | 1,683,754 | 1,450,904 | 646,848 | 545,266 |
| Repayment of current portion of long-term debt | (1,383,717) | (1,234,520) | (1,299,970) | (1,095,819) |
| Repayment of long-term debt | (160,318) | (149,417) | (278,086) | (234,415) |
| Proceeds from minority interest | 26,501 | 14,513 | 54,107 | 45,610 |
| Purchase of treasury stock | (1,003,873) | - | (91,143) | (76,830) |
| Others | 12,696 | (19,700) | 89,835 | 75,728 |
| Net cash used in financing activities | <u>(887,023)</u> | <u>(823,629)</u> | <u>(1,178,251)</u> | <u>(993,215)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 15,104 | 6,365 | (13,156) | (11,090) |
| Net decrease in cash and cash equivalents from changes of consolidated subsidiaries | <u>(20,745)</u> | <u>(6,543)</u> | <u>(16,097)</u> | <u>(13,569)</u> |
| Net decrease (increase) in cash and cash equivalents | 362,134 | (473,062) | (139,729) | (117,786) |
| Cash and cash equivalents, beginning of year | <u>518,037</u> | <u>880,171</u> | <u>407,109</u> | <u>343,176</u> |
| Cash and cash equivalents, end of year | <u>₩ 880,171</u> | <u>₩ 407,109</u> | <u>₩ 267,380</u> | <u>\$ 225,390</u> |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the year for interest | <u>₩ 433,920</u> | <u>₩ 423,809</u> | <u>₩ 327,575</u> | <u>\$ 276,131</u> |
| Cash paid during the year for income taxes | <u>₩ 703,032</u> | <u>₩ 604,998</u> | <u>₩ 264,729</u> | <u>\$ 223,155</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Continued ;

POSCO AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2000, 2001 and 2002

1. Consolidated Companies:

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (collectively referred to as the "Company"), including POSCO E & C and twelve other domestic subsidiaries and nineteen overseas subsidiaries, whose accounts are included in the consolidated financial statements, and thirteen equity method investees, which are excluded from the consolidation, are as follows:

The Controlling Company -

POSCO, the controlling company, was incorporated 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. Annual production capacity is 28,000 thousand tons; 12,200 thousand tons at the Pohang mill and 15,800 thousand tons at the Kwangyang mill. The shares of POSCO have been listed on the Korea Stock Exchange since 1988. POSCO operates two plants and one office in Korea, and one branch and six liaison offices overseas. The principal market for POSCO's products is the domestic market in Korea, while export and overseas sales are concentrated in Japan, China and other countries in the Asia Pacific region.

In accordance with the approval of shareholders on March 15, 2002, POSCO changed its name from POHANG IRON & STEEL Co., Ltd. to POSCO.

As of December 31, 2002, POSCO's shareholders are as follows:

| | Number of shares | Percentage of shares (%) |
|---|-------------------|--------------------------|
| Pohang University of Science and Technology | 3,028,200 | 3.34 |
| Nippon Steel Corporation | 2,894,435 | 3.19 |
| National Pension Corporation | 2,126,767 | 2.34 |
| The Industrial Bank of Korea | 2,125,461 | 2.34 |
| Treasury stock | 9,043,276 | 9.96 |
| Other foreign investors | 52,902,442 | 58.27 |
| Other domestic investors | 18,661,214 | 20.56 |
| | <u>90,781,795</u> | <u>100.00</u> |

As of December 31, 2002, the shares of POSCO are listed on the Korea Stock Exchange and its depository receipts are listed on the New York and London Stock Exchanges.

Consolidated Subsidiaries -

The following table sets forth certain information with regard to consolidated subsidiaries as of December 31, 2002.

| Subsidiaries | Primary business | Capital (Millions of Korean Won) | Number of outstanding shares | Number of shares | | Percentage of ownership (%) (a) | Location | Percentage of ownership of subsidiaries |
|---|--|--|------------------------------------|------------------|--------------|---------------------------------------|-----------|---|
| | | | | POSCO | Subsidiaries | | | |
| <u>Domestic:</u> | | | | | | | | |
| POSCO E & C (POSEC) | Engineering and construction | ₩ 693,640 | 30,000,000 | 27,281,080 | - | 27,281,080 | Pohang | - |
| Posteel Co., Ltd. | Steel sales and service | 281,311 | 18,000,000 | 17,155,000 | - | 17,155,000 | Pohang | - |
| POSCON Co., Ltd. | Electronic control devices manufacturing | 75,720 | 3,435,000 | 3,098,610 | - | 3,098,610 | Pohang | - |
| Pohang Coated Steel Co., Ltd. | Coated steel manufacturing | 238,663 | 6,000,000 | 4,000,000 | - | 4,000,000 | Pohang | - |
| POSCO Machinery & Engineering Co., Ltd. | Steel work maintenance | 29,502 | 1,700,000 | 1,700,000 | - | 1,700,000 | Pohang | - |
| POSDATA Co., Ltd. | Computer hardware and software distribution | 96,408 | 6,155,160 | 4,000,000 | - | 4,000,000 | Sungnam | - |
| POSCO Research Institute | Economic research and consulting | 23,435 | 4,000,000 | 3,800,000 | 200,000 | 4,000,000 | Seoul | POSCO E & C (1.25), POSTEEL (2.50), POSDATA (1.25) |
| Seung Kwang Co., Ltd. | Athletic facilities operation | ₩ 40,329 | 4,145,000 | 2,737,000 | 1,208,000 | 3,945,000 | Suncheon | POSCO E & C (29.14) |
| POS-AC Co., Ltd. | Architecture and consulting | 7,018 | 130,000 | 130,000 | - | 130,000 | Seoul | - |
| Changwon Specialty Steel Co., Ltd. | Specialty steel manufacturing | 354,935 | 30,000,000 | 26,000,000 | 4,000,000 | 30,000,000 | Changwon | POSTEEL (6.67), POSCON (6.67) |
| POSCO Machinery Co., Ltd. | Machinery installation | 20,207 | 1,000,000 | 1,000,000 | - | 1,000,000 | Kwangyang | - |
| POSTECH Venture Capital Co., Ltd. | Investment in venture companies | 33,962 | 6,000,000 | 5,700,000 | - | 5,700,000 | Pohang | - |
| POSCO Refractories & Environment (POSREC) | Manufacturing | 74,757 | 5,907,000 | 3,544,200 | - | 3,544,200 | Pohang | - |
| <u>Foreign:</u> | | | | | | | | |
| POSCO America Corp. (POSAM) | Steel trading | 148,780 | 283,284 | 281,529 | 1,755 | 283,284 | U.S.A. | POSCAN (0.62) |
| POSCO Australia Pty. Ltd. (POSA) | Steel trading | 49,566 | 761,775 | 761,775 | - | 761,775 | Australia | - |

Continued ;

Consolidated Subsidiaries, Continued -

| Subsidiaries | Primary business | Capital (Millions of Korean Won) | Number of outstanding shares | Number of shares | | | Percentage of ownership (%) (a) | Location | Percentage of ownership of subsidiaries |
|---|---------------------------------------|--|------------------------------------|------------------|--------------|-----------|---------------------------------------|----------|---|
| | | | | POSCO | Subsidiaries | Total | | | |
| POSCO Canada Ltd. (POSCAN) | Coal mining | ₩ 41,229 | 1,099,885 | - | 1,099,885 | 1,099,885 | 95.31 | Canada | POSTEEL (100.00) |
| POSCO Asia Co., Ltd. (POA) | Steel trading | 9,305 | 9,360,000 | 9,360,000 | - | 9,360,000 | 100.00 | Hongkong | - |
| POSCO International Osaka, Inc. (PIO) | Steel trading | 4,606 | 800 | - | 800 | 800 | 95.31 | Japan | POSTEEL (100.00) |
| VSC POSCO Steel Corporation (VPS) | Steel manufacturing | 17,663 | N/A | N/A | N/A | N/A | 39.77 | Vietnam | POSTEEL (5.00) (b) |
| DALIAN POSCO-CFM Coated Steel Co., Ltd. | Coated steel manufacturing | 47,943 | N/A | N/A | N/A | N/A | 54.30 | China | POSTEEL (15.00) (b) |
| POS-Tianjin Coil Center Co., Ltd. | Steel service center | 12,471 | N/A | N/A | N/A | N/A | 67.19 | China | POSTEEL (60.00) (b) |
| POSMETAL Co., Ltd. | Steel service center | 4,573 | 6,000 | - | 3,000 | 3,000 | 47.66 | Japan | PIO (50.00) |
| Shanghai Real Estate Development Co., Ltd. | Real estate rental | ₩ 61,743 | N/A | N/A | N/A | N/A | 90.94 | China | POSCO E & C (100.00) (b) |
| IBC Corporation | Real estate rental | 11,522 | N/A | N/A | N/A | N/A | 54.56 | Vietnam | POSCO E & C (60.00) (b) |
| POSLILAMA Steel Structure Co., Ltd. | Steel structure fabrication and sales | (6,951) | N/A | N/A | N/A | N/A | 64.10 | Vietnam | POSCO E & C (60.00), POSTEEL (10.00) (b) |
| Zhangjiagang Pohang Stainless steel Center Co., | Stainless steel manufacturing | 178,033 | N/A | N/A | N/A | N/A | 82.48 | China | - (b) |
| SHUNDE Pohang Coated Steel Co., Ltd. | Coated steel manufacturing | 33,203 | N/A | N/A | N/A | N/A | 93.50 | China | - (b) |
| POS-THAI Service Steel Center Co., | Steel service center | 6,329 | 4,091,570 | 477,288 | 2,136,208 | 2,613,496 | 61.43 | Thailand | POSTEEL (52.21) |

Continued ;

Consolidated Subsidiaries, Continued -

| Subsidiaries | Primary business | Capital (Millions of Korean Won) | Number of outstanding shares | Number of shares | | | Percentage of ownership (%) (a) | Location | Percentage of ownership of subsidiaries |
|--|----------------------------------|--|------------------------------------|------------------|--------------|-----------|---------------------------------------|----------|--|
| | | | | POSCO | Subsidiaries | Total | | | |
| Qingdao Pohang Stainless Steel Co., Ltd. | Stainless steel manufacturing | ₩ 10,999 | N/A | N/A | N/A | N/A | 80.00 | China | - (b) |
| Myanmar-POSCO Co., Ltd. | Steel manufacturing | 6,558 | 19,200 | 13,440 | - | 13,440 | 70.00 | Myanmar | - POSCO E & C (25.00), Zhangjiagang (b) |
| Zhangjiagang POSHA Steel Port Co., Ltd. | Depot service | 8,818 | N/A | N/A | N/A | N/A | 76.35 | China | Pohang Stainless Steel (65.00) |
| POSCO Investment Co., Ltd. | Finance | 33,816 | 2,000,000 | 2,000,000 | - | 2,000,000 | 100.00 | Hongkong | - |

(a) Percentage of ownership is the sum of direct and indirect ownership.

(b) No shares have been issued in accordance with the local laws or regulations.

Equity Method Investees -

The following table sets forth certain information with regard to equity method investees as of December 31, 2002.

| Investees | Primary business | Capital (Millions of Korean Won) | Number of shares | | | Percentage of ownership (%) (a) | Location | Percentage of ownership of subsidiaries |
|---|------------------------|--|------------------|--------------|---------------|---------------------------------------|--------------------------------|--|
| | | | POSCO | Subsidiaries | Total | | | |
| Domestic: | | | | | | | | |
| Korea Daily News | Newspaper | ₩ 58,139 | 1,863,949 | - | 1,863,949 | 22.40 | Seoul | - |
| eNtoB Corporation | E-business | 10,918 | 560,000 | 160,000 | 720,000 | 21.57 | Seoul | POSDATA (5.00) and others |
| Foreign: | | | | | | | | |
| POSVEN | Steel manufacturing | (145,714) | 4,480 | 2,240 | 6,720 | 58.63 | Venezuela | POSCO E & C (10.00), POSTEEL (10.00) (c) |
| KOBRASCO | PELLET | (36,432) | 2,010,719,185 | - | 2,010,719,185 | 50.00 | Brazil | - (d) |
| Fujiura Butsuruyu Center Co., Ltd. | Warehousing | 1,856 | - | 600 | 600 | 28.59 | Japan | PIO (30.00) |
| USS -POSCO Industries (UPI) | Material processing | 239,956 | N/A | N/A | N/A | 49.99 | U.S.A. | POSAM (50.00) (b) (d) |
| Suzhou Dongshin Color Metal Sheet Co., Ltd. | Coloring | 12,194 | N/A | N/A | N/A | 28.59 | China | POSTEEL (30.00) (b) |
| POSCHROME | Fe-Cr | 18,595 | 21,675 | - | 21,675 | 25.00 | Republic of South Africa | - |

Continued ;

| Investees | Primary business | Capital (Millions of Korean Won) | Number of shares | | | Percentage of ownership (%) (a) | Location | Percentage of ownership of subsidiaries | |
|--|---------------------------------|-------------------------------------|------------------|--------------|-----------|---------------------------------|-----------|---|---------|
| | | | POSCO | Subsidiaries | Total | | | | |
| Shunde Xingpu Steel Center Co., Ltd. | Industrial processing | ₩ 15,047 | N/A | N/A | N/A | 20.51 | China | POSTEEL (10.50) | (b) |
| POS-HYUNDAI STEEL | Industrial processing | 4,824 | 2,345,558 | 4,573,838 | 6,919,396 | 28.58 | India | POSTEEL (19.50) | |
| POSCO Bioventures LP. | Investment in bio-tech ventures | 10,020 | N/A | N/A | N/A | 79.98 | U.S.A. | POSAM (80.00) | (b) (d) |
| Marubeni Steel Processing Indonesia (MSPI) | Steel service center | 1,644 | 743 | 2,229 | 2,972 | 35.40 | Indonesia | POSTEEL (27.52) | (d) |
| Posmmit Steel Centre SDN BHD (POS-MMIT) | Steel service center | 7,418 | 4,200,000 | - | 4,200,000 | 30.00 | Malaysia | - | |

(a) Percentage of ownership is the sum of direct and indirect ownership.

(b) No shares have been issued in accordance with the local laws or regulations.

(c) POSVEN was excluded from the consolidated financial statements since the company is undergoing liquidation procedures as of December 31, 2002.

(d) The Company owns over 30% of equity interest in KOBRASCO, UPI, and MSPI, however, the Company is not the major shareholder of these companies.

The Company owns over 79.98% of equity interest in POSCO Bioventures LP., however, due to an agreement with POSCO Bioventures LP., which prohibits the Company to engage in management activities, POSCO Bioventures LP. was excluded from consolidation.

Change of Scope in Consolidation -

The consolidated financial statements include the accounts of POSCO and its controlled subsidiaries.

The consolidated financial statements include the accounts of POSREC, which was excluded from consolidation as of December 31, 2001, due to the acquisition of additional shares of POSREC representing over 50% ownership in 2002. Also, the consolidated financial statements include the accounts of Qingdao Pohang Stainless Steel Co., Ltd., which was excluded from consolidation as of December 31, 2001, since the company was newly incorporated in 2002. The consolidated financial statements exclude POSVEN, which was included in consolidation as of December 31, 2001, since the company is undergoing liquidation procedures as of December 31, 2002.

Subsidiaries Excluded from the Consolidated Financial Statements -

The following companies have been excluded from the consolidation and are accounted for under the cost method:

| Investees | Primary business | Capital (Millions of Korean Won) | Number of shares | | | Percentage of ownership (%) (a) | Location | Percentage of ownership of subsidiaries | |
|--|-------------------------|--|------------------|--------------|------------|---------------------------------------|-----------|---|---------|
| | | | POSCO | Subsidiaries | Total | | | | |
| Domestic: | | | | | | | | | |
| MIDUS Information Technologies Co., Ltd. | Engineering | ₩ 6,651 | - | 86,619 | 86,619 | 23.57 | Seoul | POSCO E & C (25.92) | (b) |
| Foreign: | | | | | | | | | |
| PT. POSNESIA Stainless Steel Industry | STS/CR | 16,432 | 29,610,000 | - | 29,610,000 | 70.00 | Indonesia | - | (c) |
| POSVINA Co., Ltd. | Steel manufacturing | 6,324 | N/A | N/A | N/A | 50.00 | Vietnam | - | (b) (d) |
| POSEC-HAWAII Inc. | Construction | 9,651 | - | 18,100 | 18,100 | 90.94 | Hawaii | POSCO E & C (100.00) | (c) |
| POSCO Qingdao Coil Center | Steel service center | 1,680 | N/A | N/A | N/A | 95.31 | China | POSTEEL (100.00) | (d) (e) |

(a) Percentage of ownership is the sum of direct and indirect ownership

(b) Total assets was less than ₩7,000 million as of December 31, 2001.

(c) As of December 31, 2002, the company's operations has been suspended for more than one year.

(d) No shares have been issued in accordance with the local laws or regulations.

(e) Capital investment is less than ₩7,000 million (newly incorporated).

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Company in the preparation of its consolidated financial statements in accordance with the Financial Accounting Standards of the Republic of Korea and the Statements of Korean Financial Accounting Standards No. 5 are summarized below:

Basis of Consolidated Financial Statements Presentation -

POSCO and its domestic subsidiaries maintain their official accounting records in Korean Won and prepare statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles ("GAAP") in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. Certain supplementary information included in the statutory of Korean language financial statements, but are not required for a fair presentation of POSCO and its domestic subsidiaries' financial position, results of operations and cash flows, are not presented in the accompanying consolidated financial statements.

Use of Estimates -

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results may differ from those estimates.

Principles of Consolidation -

The accompanying consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company records differences between the investment account and corresponding capital account of subsidiaries as a goodwill or a negative goodwill, and such differences are amortized over the estimated useful lives using the straight-line method. However, differences which occur from additional investments acquired in consolidated subsidiaries are reported in a separate component of shareholders' equity, and are not included in the determination of the results of operations. In accordance with accounting principles generally accepted in the Republic of Korea, minority interest in consolidated subsidiaries is presented as a component of shareholders' equity in the consolidated balance sheet.

Cash and Cash Equivalents -

Cash and cash equivalents include cash on hand and on deposit and highly liquid, temporary cash investments with original maturities of three months or less. Investments which are readily convertible into cash within four to twelve months of purchase are classified in the balance sheet as short-term financial instruments. The cost of these investments approximates fair value.

Revenue Recognition -

Revenue is generally recognized when products are delivered. Revenue from construction and machinery installation is recognized using the percentage-of-completion method based on the ratio of actual costs incurred to the total estimated cost to complete. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in-progress are charged to current operations, in the period such losses are determined. The aggregate of costs incurred and income recognized on uncompleted contracts in excess of related billings is shown as a current asset, and the aggregate of billings on uncompleted contracts in excess of related costs incurred and income recognized is shown as a current liability. Revenue from consulting and other services are generally recognized when the service is provided to the customer. Revenue for long-term service contract is deferred and recognized over the life of the contract.

Allowance for Doubtful Accounts -

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of individual accounts and prior year collection experience.

Marketable Securities -

Marketable securities held for short-term cash management purposes are stated at fair market value, and valuation gains or losses are reported in current operations.

Inventories -

Inventories are stated at the lower of cost or market, with cost being determined using the moving average method, except for materials in-transit which are stated at actual cost determined using the specific identification method. For certain other subsidiaries, inventories are stated at the lower of cost or market, with cost being determined using the gross average method or FIFO method (see "Significant accounting policies of POSCO and its controlled subsidiaries").

If the net realizable value of inventories is lower than its cost, the carrying amount is reduced to net realizable value and the difference between cost and revalued amount is charged to current operation.

Investment Securities -

Equity securities held for investment (excluding those accounted for using the equity method discussed in the next paragraph) that are not actively traded (non-marketable security) are stated at acquisition cost, determined by the moving average method. Actively traded securities (marketable security), including those traded over-the-counter, are stated at fair value based on quoted market price, with the resulting valuation gain or loss reported as a capital adjustment within shareholders' equity. If the fair value of a listed equity security or the net equity value of an unlisted security held for investment declines compared to acquisition cost and is not expected to recover (impaired investment security), the carrying value of the equity security is adjusted to fair value or net equity value, with the resulting valuation loss charged to current operations. If the net equity value or fair value subsequently recovers, in the case of an unlisted security, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, and in the case of a listed security, the recovered amount is charged to capital adjustments within shareholders' equity.

Investments in debt securities are initially carried at cost, including incidental expenses, with cost determined using the weighted average method. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Investments in debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost). Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustments account, a component of shareholders' equity. Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Continued ;

Investments in equity securities of companies over which the Company has the ability to exercise significant influence are recorded using the equity method of accounting. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over the estimated useful life using the straight-line method. Under the equity method, the original investment is recorded at cost and adjusted by the Company's share of the net book value of the investee with a corresponding charge to current operations, a separate component of shareholders' equity, or retained earnings, depending on the nature of the underlying change in the net book value. All significant unrealized profits resulting from intercompany transactions of inventories and property, plant and equipment have been eliminated.

Foreign currency financial statements of equity method investees are translated into Korean Won using the basic exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

Property, Plant and Equipment -

Property, plant and equipment are stated at cost, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Depreciation is computed using the straight-line method or declining-balance method, over the estimated useful lives of the assets, as follows (see "Significant accounting policies of POSCO and its controlled subsidiaries"):

| | <u>Estimated useful lives (years)</u> |
|--------------------------|---------------------------------------|
| Buildings and structures | 5 ~ 60 |
| Machinery and equipment | 3 ~ 25 |
| Tools | 3 ~ 10 |
| Vehicles | 3 ~ 8 |
| Furniture and fixtures | 3 ~ 20 |

Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful lives of the related assets are capitalized.

When the book value of an asset exceeds its recoverable value due to obsolescence, physical damage or a sharp decline in market value, an impairment loss is recognized to reduce the carrying value of the asset to its net realized value, with the resulting impairment loss charged to current operations.

The Company capitalizes interest costs, discount expenses and other finance charges, including certain foreign exchange translation gains and losses on the borrowings associated with the manufacture, purchase, or construction of property, plant and equipment, incurred prior to completing the acquisition, as part of the cost of such assets.

Intangible Assets -

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives as described below. In addition, the Company changed the useful life of certain port facilities usage rights from 133 years to 20 years due to the change of the enterprise environment. As a result of this change, net income for the year ended December 31, 2002 decreased by ₩1,573 million.

| | <u>Estimated useful lives (years)</u> |
|------------------------------|---------------------------------------|
| Goodwill | 5 ~ 20 |
| Intellectual property rights | 5 ~ 10 |
| Port facilities usage rights | 2 ~ 37 |
| Land usage rights | 40 |
| Organization cost | 5 |
| Internally used software (*) | 4 ~ 20 |
| Development costs | 4 ~ 20 |
| Others | 4 ~ 20 |

(*) Internally used software systems that are part of production line are amortized over the estimated useful lives of twenty years.

Discounts on Debentures -

Discounts on debentures are amortized over the term of the debenture using the effective interest rate method. The discount is reported on the balance sheet as a direct deduction from the face amount of the debenture. Amortization of the discount is treated as interest expense.

Valuation of Assets and Liabilities at Present Value -

Long-term loans receivable and long-term trade accounts and notes receivable are valued at their present value as discounted at an appropriate discount rate. Discounts are amortized using the effective interest rate method and recognized as interest income over the life of the related assets.

Income Taxes -

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the temporary differences between the amount reported for financial accounting and income tax purpose.

Accrued Severance Benefits -

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment with POSCO or most of its subsidiaries based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees were to terminate their employment as of the balance sheet date.

The domestic companies have partially funded the accrued severance benefits through group severance insurance deposits with Samsung Life Insurance Company and others. The amounts funded under these insurance deposits are classified as a deduction to the accrued severance benefits liability. Subsequent accruals are to be funded at the discretion of the companies.

In accordance with the National Pension Act of the Republic of Korea, a certain portion of accrued severance benefits is deposited with the National Pension Fund and deducted from the accrued severance benefits liability.

Reserve for Special Repairs -

An allowance for repairs of various furnaces is established and adjusted annually, based on the replacement cost of the furnaces and future expected rate of inflation over the fifteen-year replacement cycle such facilities. Expenditures in relation to special repairs are charged to expense as incurred. In accordance with the Statements of Korean Financial Accounting Standards No. 5 effective January 1, 2002, the Company reversed previously recorded reserve for repairs, amounting to ₩1,020,640 million, to beginning retained earnings and recorded the deferred income tax liability amounting to ₩303,130 million. The net effect of these accounting changes increased the beginning balance of retained earnings by ₩717,510 million. In addition, reserve for special repairs provided by the Company for the year ended December 31, 2001 amounted to ₩53,911 million.

Foreign Currency Transactions and Translation -

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.

Translation of Foreign Operations -

Foreign currency assets and liabilities of the Company's overseas business branches and offices are translated at the exchange rate as of the balance sheet date and income and expenses are translated at the weighted average exchange rate of the reporting period. Gains or losses on translation are offsetted and the net amount is recognized as an overseas operations translation debit or credit in the capital adjustments account. Overseas operations translation credit or debit is treated as an extraordinary gain or loss upon closing the foreign branch or office.

Derivative Instruments -

The Company enters into derivative transactions to hedge against financial risks. Derivatives are classified into: cash flow hedge, fair market value hedge and derivatives for trading. In case of cash flow hedge, unrealized holding gains and losses are recorded as capital adjustments in the balance sheet. In case of hedging for fluctuations in fair market value, unrealized holding gains and losses are recorded in the statement of earnings. If the contract expires, the gains and losses from derivative transactions are presented in the statement of earnings in case of hedges for fluctuations in fair market value and are offset against the purchasing price of inventories in case of cash flow hedging. Derivative financial instruments for trading are valued at estimated market price and resulting unrealized gains or losses are recognized in current operations

Continued ;

Earnings Per Share -

Earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding (excluding the number of shares held by the Company as treasury stock).

Impairment of Assets -

The Company recognizes an impairment loss when the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognized in the income statement and is deducted from the book value of the impaired asset.

United States Dollar Amounts -

The Company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,186.3: US\$ 1, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2002. The U.S. dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles in either Korea or the United States of America, and should not be construed as a representation that the Korean Won amounts shown could be converted, realized or settled in US dollar at this or any other rate.

Reclassification of Prior Year Financial Statement Presentation -

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

Application of the Statements of Korean Financial Accounting Standards -

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 becomes effective for the Company on January 1, 2003. The Company has already adopted SKFAS No. 5 starting from the year 2002, and plans to adopt other statements in its financial statements for the year ending December 31, 2003.

Significant Accounting Policies of POSCO and its Controlled Subsidiaries -

| Company | Investment and marketable securities | Inventories (*) | Depreciation of property, plant and equipment |
|--|--|---|--|
| POSCO | Gross average method, Moving average method | Moving average method | Straight-line method |
| POSCO E & C | Gross average method | Moving average method | Straight-line method |
| Posteel Co., Ltd. | Moving average method | Moving average method | Straight-line method |
| POSCON Co., Ltd. | Gross average method | Moving average method | Straight-line method, declining balance method |
| Pohang Coated Steel Co., Ltd. | Gross average method, moving average method | Gross average method | Straight-line method |
| POSCO Machinery & Engineering Co., Ltd. | Gross average method, moving average method | Moving average method | Straight-line method |
| POSDATA Co., Ltd. | Gross average method, moving average method | Moving average method | Straight-line method |
| POSCO Research Institute | N/A | N/A | Straight-line method |
| Seung Kwang Co., Ltd. | Gross average method | Gross average method | Straight-line method, declining-balance method |
| POS-AC Co., Ltd. | Gross average method | N/A | Straight-line method, declining-balance method |
| Changwon Specialty Steel Co., Ltd. | Gross average method, moving average method | Moving average method | Straight-line method |
| POSCO Machinery Co., Ltd | Gross average method | Moving average method | Straight-line method |
| POSTECH Venture Capital Co., Ltd. | Moving average method | N/A | Declining-balance method |
| POSCO Refractories & Environment (POSREC) | Moving average method | First-in, First-out, moving average method | Straight-line method, declining-balance method |
| POSCO America Corp. (POSAM) | N/A | Moving average method | Straight-line method |
| POSCO Australia Pty. Ltd. (POSA) | Gross average method | Gross average method | Straight-line method |
| POSCO Canada Ltd. (POSCAN) | N/A | Gross average method | Straight-line method |
| POSCO Asia Co., Ltd. (POA) | N/A | N/A | Declining-balance method |

Significant Accounting Policies of POSCO and its Controlled Subsidiaries, Continued -

| Company | Investment and marketable securities | Inventories (*) | Depreciation of property, plant and equipment |
|---|--------------------------------------|---|---|
| POSCO International Osaka, Inc. (PIO) | Moving average method | Gross average method | Straight-line method |
| VSC POSCO Steel Corporation (VPS) | N/A | Moving average method | Straight-line method |
| DALIAN POSCO - CFM Coated Steel Co., Ltd. | N/A | Moving average method | Straight-line method |
| POS-Tianjin Coil Center Co.,Ltd. | N/A | Specific identification method, moving average method | Straight-line method |
| POSMETAL Co., Ltd. | N/A | Moving average method | Straight-line method |
| Shanghai Real Estate Development Co., Ltd. | N/A | N/A | Straight-line method |
| IBC Corporation | N/A | Specific identification method | Straight-line method |
| POSLILAMA Steel Structure Co., Ltd. | N/A | Moving average method | Straight-line method |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | N/A | Moving average method | Straight-line method |
| SHUNDE Pohang Coated Steel Co., Ltd. | N/A | Moving average method | Straight-line method |
| POS-THAI Service Steel Center Co., Ltd. | N/A | Moving average method | Straight-line method |
| Qingdao Pohang Stainless Steel Co., Ltd. | N/A | Moving average method | Straight-line method |
| Myanmar-POSCO Co.,Ltd. | N/A | Moving average method | Straight-line method |
| Zhangjiagang POSHA Steel Port Co., Ltd. | N/A | Moving average method | Straight-line method |
| POSCO Investment Co., Ltd. | N/A | N/A | Straight-line method |

(*) Specific identification method is used for goods in-transit.

3. Cash and Cash Equivalents and Financial Instruments:

Cash and cash equivalents, short-term and long-term financial instruments as of December 31, 2001 and 2002 consist of the following:

| | Annual interest | Millions of Korean Won | |
|--|-----------------|------------------------|------------------|
| | rates (%) | 2001 | 2002 |
| | 2002 | | |
| Cash and cash equivalents | | | |
| Cash on hand | - | ₩ 601 | ₩ 8 |
| Bank deposits | 0.50 - 4.00 | 5,711 | 9,079 |
| Corporate bank deposits | 0.50 - 4.00 | 15,860 | 6,060 |
| Checking account | - | 2,401 | 3,397 |
| Time deposits in foreign currency and others | 0.00 - 5.00 | 263,964 | 118,658 |
| Maintained by overseas affiliates | 0.00 - 2.75 | 118,572 | 130,178 |
| | | <u>₩ 407,109</u> | <u>₩ 267,380</u> |
| Short-term financial instruments | | | |
| Time deposits | 4.40 - 6.30 | ₩ 128,919 | ₩ 171,643 |
| Installment accounts | 5.00 - 8.50 | 4,964 | 6,887 |
| Time deposits in foreign currency | 1.30 - 1.80 | 148,921 | 199 |
| Money in trust | 5.20 - 5.80 | 104,670 | 46,979 |
| Others | 0.50 - 6.30 | 36,750 | 32,005 |
| Maintained by overseas affiliates | 1.18 - 1.30 | - | 419 |
| | | <u>₩ 424,224</u> | <u>₩ 258,132</u> |
| Long-term financial instruments | | | |
| Installment accounts | 5.10 - 8.50 | ₩ 3,194 | ₩ 6,898 |
| Guarantee deposits for opening account | - | 117 | 120 |
| Time deposits in foreign currency and others | 1.10 - 6.20 | 31,400 | 13,556 |
| | | <u>₩ 34,711</u> | <u>₩ 20,574</u> |

As of December 31 2002, the Company's financial assets amounting to ₩14,953 million are pledged as collateral and, accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collateral include cash and cash equivalents amounting to ₩3,000 million in relation to performance guarantee deposits, short-term financial instruments amounting to ₩11,833 million in relation to borrowings and others, and long-term financial instruments amounting to ₩120 million in relation to collateral deposits for opening checking accounts (see Note 12).

4. Marketable Securities:

Marketable securities as of December 31, 2001 and 2002 are as follows:

| | Millions of Korean Won | |
|------------------------------|------------------------|--------------------|
| | 2001 | 2002 |
| Beneficiary certificates (*) | ₩ 526,084 | ₩ 1,192,204 |
| Government and public bonds | 4,319 | 5,468 |
| Corporate bonds | - | 5,004 |
| | <u>₩ 530,403</u> | <u>₩ 1,202,676</u> |

(*) Beneficiary certificates mainly consist of money market fund.

5. Accounts and Notes Receivable and Others:

Accounts and notes receivable and their allowance for doubtful accounts and others as of December 31, 2001 and 2002 are as follows:

| | Millions of Korean Won | |
|---|------------------------|--------------------|
| | 2001 | 2002 |
| Trade accounts and notes receivable | ₩ 1,504,956 | ₩ 1,762,701 |
| Less: Allowance for doubtful accounts | (24,637) | (22,834) |
| Present value discount | (408) | (262) |
| | <u>₩ 1,479,911</u> | <u>₩ 1,739,605</u> |
| Other accounts and notes receivable | ₩ 108,261 | ₩ 125,480 |
| Less: Allowance for doubtful accounts (*) | (2,406) | (52,741) |
| Present value discount | (62) | - |
| | <u>₩ 105,793</u> | <u>₩ 72,739</u> |
| Long-term loans | ₩ 89,378 | ₩ 117,429 |
| Less: Allowance for doubtful accounts | (3,121) | (49) |
| Present value discount | (150) | (120) |
| | <u>₩ 86,107</u> | <u>₩ 117,260</u> |
| Long-term trade accounts and notes receivable | ₩ 86,200 | ₩ 69,203 |
| Less: Allowance for doubtful accounts | (13,367) | (5,737) |
| Present value discount | (21,523) | (18,603) |
| | <u>₩ 51,310</u> | <u>₩ 44,863</u> |

(*) The litigation in relation to a severance payment was decided in favor of the Company in August 2001. As a result, the Company recorded other receivables amounting to ₩42,267 million and allowances for bad debts amounting to ₩40,011 million for receivable with uncertain collectibility.

Continued ;

As of December 31, 2002, trade accounts and notes receivable and others amounting to ₩124,191 million are pledged as collateral for various borrowings from financial institutions (see Note 12).

Accounts stated at present value under rescheduled payment and long-term deferred payment are as follows:

| Accounts | Company | Millions of Korean Won | | | Maturity (year) | Discount rate (%) |
|---|----------------------------------|------------------------|------------------------|-----------------|-----------------|-------------------|
| | | Face value | Present value discount | Book value | | |
| Long-term deferred payment: | | | | | | |
| Long-term loans | Employees | ₩ 216 | ₩ 51 | ₩ 165 | 2017 | 7.54 |
| | Others | 260 | 69 | 191 | 2006 | 8.42 |
| | | <u>476</u> | <u>120</u> | <u>356</u> | | |
| Rescheduled payment: | | | | | | |
| Long-term trade accounts and notes receivable | Hanbo Iron and Steel Co., Ltd. | 3,061 | 1,057 | 2,004 | 2018 | 8.00 ~ 10.45 |
| | BNG Steel Co., Ltd. | 54,500 | 17,017 | 37,483 | 2009 | 8.62 |
| | Jindo Corp. and others | 3,930 | 791 | 3,139 | 2004~2014 | 7.54 ~ 9.95 |
| | | <u>61,491</u> | <u>18,865</u> | <u>42,626</u> | | |
| Other long-term assets (Note 10) | Dong Sung Construction Co., Ltd. | 369 | 59 | 310 | 2018 | 7.54 |
| Less: Current portion | | (3,624) | (262) | (3,362) | | |
| | | <u>₩ 58,712</u> | <u>₩ 18,782</u> | <u>₩ 39,930</u> | | |

The Company recorded discounts on accounts receivable using the Company's weighted average borrowing rate incurred as of the nearest date of the Company's period end.

6. Inventories:

Inventories as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|----------------------|------------------------|--------------------|
| | 2001 | 2002 |
| Finished goods | ₩ 376,453 | ₩ 312,915 |
| By-products | 4,669 | 2,309 |
| Semi-finished goods | 330,189 | 390,827 |
| Raw materials | 657,072 | 637,456 |
| Materials in-transit | 307,526 | 269,744 |
| Others | 61,342 | 58,195 |
| | <u>₩ 1,737,251</u> | <u>₩ 1,671,446</u> |

7. Investment Securities:

Investment securities as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|--------------------------------------|------------------------|--------------------|
| | 2001 | 2002 |
| Marketable equity securities (*) | ₩ 1,902,747 | ₩ 1,619,928 |
| Non-marketable equity securities (*) | 607,041 | 605,145 |
| Equity method investments | 193,198 | 163,012 |
| Debt security investments | 225,272 | 128,203 |
| Others | 32,191 | 29,524 |
| | <u>₩ 2,960,449</u> | <u>₩ 2,545,812</u> |

(*) Excludes equity method securities.

Marketable Equity Securities -

Investments in marketable equity securities as of December 31, 2001 and 2002 are as follows:

| | 2002 | | Millions of Korean Won | | | |
|--------------------------------------|------------------|-----------------------------|------------------------|-------------------|-------------------|-------------------|
| | Number of shares | Percentage of ownership (%) | 2001 | 2002 | | |
| | | | Book value | Acquisition cost | Fair market value | Book value |
| Hanil Iron Steel Co., Ltd. | 307,631 | 9.95 | ₩ 2,769 | ₩ 4,020 | ₩ 3,692 | ₩ 3,692 |
| MoonBae Steel Co., Ltd. | 369,876 | 9.02 | 1,387 | 3,588 | 1,219 | 1,219 |
| Chohung Bank | 135,394 | 0.03 | 560 | 3,757 | 555 | 555 |
| Hana Bank | 4,617,600 | 2.34 | 75,036 | 29,998 | 75,267 | 75,267 |
| SK Telecom | 5,794,924 | 6.50 | 1,553,040 | 1,657,348 | 1,327,037 | 1,327,037 |
| Samjung Packing & Aluminum Co., Ltd. | 270,000 | 9.00 | 2,295 | 2,714 | 2,295 | 2,295 |
| DongYang Steel Pipe Co., Ltd. | 1,564,250 | 2.48 | 1,705 | 3,911 | 579 | 579 |
| Nippon Steel Corporation | 147,876,000 | 2.17 | 261,871 | 285,103 | 208,193 | 208,193 |
| Others | | | 4,084 | 1,423 | 1,091 | 1,091 |
| | | | <u>₩ 1,902,747</u> | <u>₩1,991,862</u> | <u>₩1,619,928</u> | <u>₩1,619,928</u> |

Marketable equity securities are stated at fair market value and the difference between the acquisition cost and the fair market value is accounted for in the capital adjustments account.

Non-marketable Equity Securities -

Investments in non-marketable equity securities as of December 31, 2001 and 2002 are as follows:

| | 2002 | | Millions of Korean Won | | | |
|--|------------------|-----------------------------|------------------------|------------------|--------------------|--------------------|
| | Number of shares | Percentage of ownership (%) | 2001 Book value | Acquisition cost | Net asset value(a) | 2002 Book value |
| Dae Kyeong Special Steel Co., Ltd. | 1,786,000 | 19.00 | ₩ 8,930 | ₩ 8,930 | ₩ 3,768 | ₩ 8,930 |
| Kihyup Corporation | 600,000 | 10.34 | 3,000 | 3,000 | 3,370 | 3,000 |
| SK IMT | 7,200,000 | 12.00 | 192,002 | 192,002 | 198,511 | 192,002 |
| The Siam United Steel | 9,000,000 | 10.00 | 26,640 | 26,640 | 4,115 | 26,640 |
| Powercomm | 7,500,000 | 5.00 | 246,000 | 246,000 | 40,705 | 246,000 |
| ARAB Co. for Special Steel (b) | N/A | 8.93 | 8,561 | 8,561 | 6,394 | 8,561 |
| New Airport Highway Co., Ltd. | 6,018,012 | 6.93 | 30,090 | 30,090 | 26,925 | 30,090 |
| Inchon Int'l. Airport Railroad | 6,104,904 | 11.26 | 12,100 | 30,525 | 29,787 | 30,525 |
| Cenix (d) | 1,460,344 | 5.76 | 12,829 | 12,829 | 1,105 | 1,509 |
| PT-POSNESIA Stainless Steel Industry (c) | 29,610,000 | 70.00 | 9,474 | 9,474 | 10,427 | 9,474 |
| POSVINA Co., Ltd. (b, c) | N/A | 50.00 | 1,527 | 1,527 | 3,162 | 1,527 |
| POSEC-HAWAII Inc. (c, d) | 18,100 | 90.94 | 18,878 | 18,879 | 8,777 | 8,617 |
| POSCO Qingdao Coil Center (b, c) | N/A | 95.31 | - | 1,744 | 1,601 | 1,680 |
| Others (b, c, d) | | | 37,010 | 43,199 | 41,520 | 36,590 |
| | | | <u>₩ 607,041</u> | <u>₩ 633,400</u> | <u>₩ 380,167</u> | <u>₩ 605,145</u> |

(a) The net asset value of the non-marketable equity securities is applied based on the non-marketable companies' most recent available financial information, which have not been audited as of December 31, 2002.

(b) No shares have been issued in accordance with the local laws or regulations.

(c) The investments in PT-POSNESIA Stainless Steel Industry and POSEC-HAWAII Inc., whose operations have been suspended for more than one year, was excluded from the equity method of accounting. Investments in POSVINA Co., Ltd., MIDUS Information Technologies Co., Ltd., and POSCO-Qingdao Coil Center, whose total assets as of December 31, 2002 are less than ₩7,000 million, are stated at cost, in accordance with financial accounting standards generally accepted in the Republic of Korea, where the amount of difference had the investments been recorded using the equity method is not significant.

(d) Declines in net asset value of Cenix and other non-marketable equity securities anticipated to be permanent, amounting to ₩27,041 million, were recorded for the year ended December 31, 2002.

Equity Method Investments -

Details of equity method investees are as follows:

| | 2002 | | Millions of Korean Won | | | |
|---|------------------|--|------------------------|------------------|-------------------|------------------|
| | Number of shares | Percentage of ownership (%) ^(a) | 2001 | 2002 | | |
| | | | Book value | Acquisition cost | Fair market value | Book value |
| POSVEN (d) | | | ₩ - | ₩ 66,876 | ₩ - | ₩ - |
| Korea Daily News (b) | | | 23,718 | 19,999 | 13,023 | 13,750 |
| eNtoB Corporation | 720,000 | 21.57 | 2,704 | 3,700 | 2,355 | 2,579 |
| KOBRASCO (f) | 2,010,719,185 | 50.00 | 13,292 | 32,950 | - | - |
| Fujiura Butsuryu Center Co., Ltd. (b) | 600 | 28.59 | 636 | 632 | 531 | 553 |
| USS-POSCO Industries (c) | N/A | 49.99 | 124,832 | 234,293 | 119,954 | 119,979 |
| Suzhou Dongshin Color Metal Sheet Co., Ltd. (c) | N/A | 28.59 | 2,783 | 2,547 | 3,486 | 3,606 |
| POSCHROME | 21,675 | 25.00 | 3,127 | 4,859 | 4,649 | 4,379 |
| Shunde Xingpu Steel Center Co., Ltd. (c) | N/A | 20.51 | 2,664 | 1,852 | 3,086 | 2,992 |
| POS-HYUNDAI STEEL | 6,919,396 | 28.58 | 1,243 | 3,136 | 1,379 | 1,379 |
| POSCO Bioventures. LP. (c) | N/A | 79.98 | - | 10,292 | 8,014 | 10,020 |
| MSPI | 2,972 | 35.40 | - | 1,466 | 582 | 1,467 |
| POS-MMIT | 4,200,000 | 30.00 | - | 2,308 | 2,225 | 2,308 |
| POSREC (e) | - | - | 18,199 | - | - | - |
| | | | <u>₩ 193,198</u> | <u>₩ 384,910</u> | <u>₩ 159,284</u> | <u>₩ 163,012</u> |

(a) Percentage of ownership is the sum of direct and indirect ownership.

(b) Due to the delay in closing and settlement of closing differences, the equity method of accounting is applied based on the most recent available financial information, which have not been audited as of December 31, 2002.

(c) No shares have been issued in accordance with the local laws or regulations.

(d) In accordance with a resolution during the general meeting of shareholders on December 22, 2002, the liquidation of POSVEN was determined, and accordingly, POSVEN was excluded from the consolidated financial statements. In addition, the equity method of accounting has been suspended due to its negative equity resulting from the accumulated deficit for the current year. However, unrecognized loss arising from the discontinuation of the equity method is recorded as allowance for doubtful accounts (see Note 16).

(e) Due to the acquisition of significant influence by purchasing additional shares during the current year, POSREC was included in the consolidation.

(f) Equity method is not applied to KOBRASCO due to its negative net asset value as of December 31, 2002. Unrecognized loss arising from the discontinuation of the equity method amount to ₩8,951 million.

Continued ;

The details of equity method valuation are as follows:

| | Millions of Korean Won | | | | | | |
|---|------------------------------|---|--------------------------------------|---------------------------|--|--------------------------------------|---------------------------|
| | 2001 Beginning balance | Valuation gain or loss using equity method | Other increase or decrease (*) | 2001 Ending balance | Valuation gain or loss using equity method | Other increase or decrease (*) | 2002 Ending balance |
| POSVEN | ₩ - | ₩ - | ₩ - | ₩ - | ₩ (134,501) | ₩ 134,501 | ₩ - |
| Korea Daily News | 37,726 | (16,549) | 2,541 | 23,718 | (3,415) | (6,553) | 13,750 |
| eNtoB Corporation | 3,508 | (804) | - | 2,704 | (225) | 100 | 2,579 |
| KOBRASCO | - | (1,162) | 14,454 | 13,292 | (15,827) | 2,535 | - |
| Fujiura Butsuruyu Center Co., Ltd. | 737 | (44) | (57) | 636 | (84) | 1 | 553 |
| USS-POSCO Industries | 126,467 | (8,079) | 6,444 | 124,832 | 22,678 | (27,531) | 119,979 |
| Suzhou Dongshin Color Metal Sheet Co., Ltd. | 2,078 | 584 | 121 | 2,783 | 1,127 | (304) | 3,606 |
| POSCHROME | 3,688 | 639 | (1,200) | 3,127 | 922 | 330 | 4,379 |
| Shunde Xingpu Steel Center Co., Ltd. | 2,477 | 50 | 137 | 2,664 | 608 | (280) | 2,992 |
| POS-HYUNDAI STEEL | 1,126 | 108 | 9 | 1,243 | 232 | (96) | 1,379 |
| POSCO Bioventures. LP. | - | - | - | - | (284) | 10,304 | 10,020 |
| MSPI | - | - | - | - | - | 1,467 | 1,467 |
| POS-MMIT | - | - | - | - | - | 2,308 | 2,308 |
| POSREC | - | 1,296 | 16,903 | 18,199 | - | (18,199) | - |
| Total | <u>₩ 177,807</u> | <u>₩ (23,961)</u> | <u>₩ 39,352</u> | <u>₩ 193,198</u> | <u>₩ (128,769)</u> | <u>₩ 98,583</u> | <u>₩ 163,012</u> |

(*) Other increase or decrease represent fluctuation of investment securities due to acquisition (disposition) in the current period, dividend received, valuation gain or loss on investment securities, changes in retained earnings and others.

Continued ;

Details on the elimination of unrealized gain or loss are as follows:

| | Millions of Korean Won | | | | | |
|---|------------------------|--------------------------------|----------------|----------------|--------------------------------|--------------|
| | 2001 | | | 2002 | | |
| | Current assets | Tangible and intangible assets | Total | Current assets | Tangible and intangible assets | Total |
| eNtoB Corporation | ₩ 3 | ₩ - | ₩ 3 | ₩ 11 | ₩ - | ₩ 11 |
| KOBRASCO | 1,236 | - | 1,236 | - | - | - |
| Fujiura Butsuryu Center Co., Ltd. | 12 | - | 12 | 6 | - | 6 |
| Suzhou Dongshin Color Metal Sheet Co., Ltd. | 50 | - | 50 | - | - | - |
| POSCHROME | 228 | - | 228 | 93 | - | 93 |
| | <u>₩ 1,529</u> | <u>₩ -</u> | <u>₩ 1,529</u> | <u>₩ 110</u> | <u>₩ -</u> | <u>₩ 110</u> |

Debt Security Investments -

Investments in debt securities as of December 31, 2001 and 2002 are as follows:

| | Millions of Korean Won | |
|---------------------------------|------------------------|------------------|
| | 2001 | 2002 |
| Government and municipal bonds | ₩ 11,406 | ₩ 11,486 |
| Bonds of financial institutions | 213,866 | 116,717 |
| | <u>₩ 225,272</u> | <u>₩ 128,203</u> |

The Company provided certain financial bonds, amounting to ₩31,400 million, to the Pusan municipal government as deposits for a performance guarantee in relation to the development of a waste disposal area (see Note 12).

Other investments as of December 31, 2001 and 2002 are as follows:

| | Millions of Korean Won | | |
|-------------------------------------|------------------------|------------------|-----------------|
| | 2001 | 2002 | |
| | Book value | Acquisition cost | Book value |
| Investments in capital | | | |
| Stock Market Stabilization Fund (*) | ₩ 7,775 | ₩ 6,153 | ₩ 4,343 |
| Contractor Financial Fund | 12,167 | 12,472 | 12,472 |
| POSTEC Venture Fund 2 and others | 12,249 | 12,709 | 12,709 |
| | <u>₩ 32,191</u> | <u>₩ 31,334</u> | <u>₩ 29,524</u> |

(*) Due to the recovery of an impairment on its investments, the Company recorded a gain on investments amounting to ₩758 million for the year ended December 31, 2002.

Continued ;

POSCO transferred its existing 25.26 percent of Shinsegi Telecomm's stock, which was acquired before December 20, 1999, to SK Telecom on January 3, 2000 and transferred an additional 2.4 percent of Shinsegi Telecomm's stock which was acquired from Korea Electric Power Corporation and Korea Highway Corporation on January 31, 2000, to SK Telecom on February 1, 2000. POSCO received 5,795 thousand shares, or 6.5 percent, of SK Telecom's stock in return on April 27, 2000. POSCO's accounting policy is to use average cost basis to compute the gain and loss on sales of securities. POSCO acquired its initial shares in Shinsegi Telecomm in 1994. The application of the average cost basis on this transaction resulted in a gain on disposal of investments (extraordinary income) of ₩952,644 million, computed based on the market price of SK Telecom's stock as of the transaction closing date. Prior to the above transaction, under an investment agreement, POSCO acquired 23.527 percent of Shinsegi Telecomm's stock from Kolon Group on December 20, 1999 and sold it to SK Telecom on December 21, 1999, which resulted in a gain on disposal of investments of approximately ₩500.9 billion, based on the average cost of all shares held as of that date.

8. Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|--------------------------------|------------------------|---------------------|
| | 2001 | 2002 |
| Buildings and structures | ₩ 4,662,782 | ₩ 4,751,118 |
| Machinery and equipment | 17,310,023 | 17,863,238 |
| Tools | <u>243,398</u> | <u>299,925</u> |
| Vehicles | 150,636 | 150,986 |
| Furniture and fixtures | <u>185,046</u> | <u>165,045</u> |
| | 22,551,885 | 23,230,312 |
| Less: Accumulated depreciation | (14,745,442) | (15,698,572) |
| Less: Accumulated impairment | <u>(2,786)</u> | <u>(2,786)</u> |
| | 7,803,657 | 7,528,954 |
| Land | 1,263,404 | 1,250,850 |
| Less: Accumulated impairment | <u>(565)</u> | <u>(565)</u> |
| | 1,262,839 | 1,250,285 |
| Construction in progress | 1,634,451 | 1,785,348 |
| Less: Accumulated impairment | <u>(100,181)</u> | <u>(240,014)</u> |
| | 1,534,270 | 1,545,334 |
| | <u>₩ 10,600,766</u> | <u>₩ 10,324,573</u> |

The value of land based on the posted price issued by the Korean tax authority amounted to ₩2,687,951 million and ₩2,657,498 million as of December 31, 2001 and 2002, respectively.

As of December 31, 2001 and 2002, property, plant and equipment are insured against fire and other casualty losses up to ₩4,562,308 million and ₩4,538,778 million, respectively. In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

Continued ;

In accordance with the Asset Revaluation Law, POSCO and certain subsidiaries revalued a substantial portion of its property, plant and equipment by ₩4,008 billion as of December 31, 1989 and December 31, 2000, respectively. The revaluation surplus, net of related tax and transfers to retained earnings amounting to ₩788 billion, were credited to capital surplus, a component of shareholders' equity (see Note 17).

Construction in-progress included in property, plant and equipment includes capital investments in Kwangyang No. 2 Minimill. By a resolution of the Board of Directors at a meeting held in May 1998, the construction on the Minimill has been ceased due to the economic situation in the Republic of Korea and the Asia Pacific region. The Company recognized impairment loss on capital investment in Kwangyang No. 2 Minimill amounting to ₩53,951 million and ₩139,833 million for the years ended December 31, 2001 and 2002, respectively.

9. Intangible Assets:

Intangible assets, net of accumulated amortization, as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|------------------------------|------------------------|------------------|
| | 2001 | 2002 |
| Goodwill | ₩ 11,658 | ₩ 1,316 |
| Intellectual property rights | 328 | 266 |
| Port facilities usage rights | 148,911 | 134,209 |
| Organization costs | 9,396 | 2,609 |
| Development costs | 27,004 | 44,991 |
| Internally used software | 197,624 | 189,829 |
| Land usage rights | 45,852 | 42,017 |
| Others | 49,935 | 59,575 |
| | <u>₩ 490,708</u> | <u>₩ 474,812</u> |

Port facilities usage rights is related to the quay and inventory yard contributed by the Company, since April 1987, to the local bureaus of the Maritime Affairs and Fisheries in Kwangyang, Pohang, Pyoungtaek and Masan.

Details of intangible assets for the years ended December 31, 2001 and 2002 are as follows:

| | Millions of Korean Won | |
|-----------------------|------------------------|------------------|
| | 2001 | 2002 |
| Beginning balance (*) | ₩ 454,108 | ₩ 491,045 |
| Increase | 97,547 | 96,676 |
| Decrease | 60,947 | 112,909 |
| Ending balance | <u>₩ 490,708</u> | <u>₩ 474,812</u> |

(*) In addition, due to inclusion of POSREC in the consolidated financial statements during the current year, other intangible assets amounting to ₩337 million are included in the beginning balance of intangible assets for the year ended December 31, 2002.

Continued ;

As of December 31, 2001 and 2002, accumulated amortization of intangible assets amounts to ₩446,054 million and ₩535,479 million, respectively.

The Company expensed research and development costs amounting to ₩199,790 million and ₩202,102 million for the years ended December 31, 2001 and 2002, respectively. For the years ended December 31, 2001 and 2002, the company recorded research and development costs as cost of goods sold amounting to ₩169,132 million and ₩161,475 million, respectively, and selling and administrative expenses, amounting to ₩30,658 million and ₩40,627 million, respectively.

10. Other Assets:

Other assets as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|---|------------------------|------------------|
| | 2001 | 2002 |
| Other current assets | | |
| Short-term loans | ₩ 111,118 | ₩ 37,456 |
| Accrued income | 91,359 | 41,548 |
| Advance payments | 44,115 | 59,472 |
| Prepaid expenses | 13,227 | 7,746 |
| Others | 16,626 | 42,003 |
| Less: Allowance for doubtful accounts | (200) | (2,726) |
| | <u>₩ 276,245</u> | <u>₩ 185,499</u> |
| Other long-term assets | | |
| Group severance insurance deposits | ₩ 479 | - |
| Others (Note 16) | 98,902 | 311,748 |
| Less: Allowance for doubtful accounts (*) | (315) | (237,447) |
| Present value discount | (11,952) | (59) |
| | <u>₩ 87,114</u> | <u>₩ 74,242</u> |

(*) The significant increase in allowance for doubtful accounts in 2002 is due to the payments made by the Company on behalf of POSVEN (see Note 16).

11. Short-term Borrowings and Current Portion of Long-term Debt:

Short-term borrowings as of December 31, 2001 and 2002 consist of the following:

| Financial institutions | 2002 | | Millions of Korean Won | |
|-------------------------------------|------------------------------------|-----------|------------------------|--|
| | Annual interest rate (%) | 2001 | 2002 | |
| <u>Won currency borrowings:</u> | | | | |
| Korea Development Bank and others | 4.13 ~ 6.14 | ₩ 41,440 | ₩ 84,442 | |
| <u>Foreign currency borrowings:</u> | | | | |
| Thai Farmers Bank | 7.25 | 734 | 211 | |
| Bank of America and others | 0.60 ~ 8.00 LIBOR + 0.50 ~ 1.10 | 675,880 | 503,302 | |
| | | 676,614 | 503,513 | |
| | | ₩ 718,054 | ₩ 587,955 | |

Current portion of long-term debt as of December 31, 2001 and 2002 consist of the following:

| Financial institutions | 2002 | | Millions of Korean Won | |
|-------------------------------------|------------------------------------|-------------|------------------------|--|
| | Annual interest rate (%) | 2001 | 2002 | |
| <u>Debentures:</u> | | | | |
| Domestic and foreign debentures | 0.54 ~ 9.00 | ₩ 1,201,811 | ₩ 1,255,671 | |
| Less: Discount on debentures issued | | (2,834) | (4,321) | |
| | | 1,198,977 | 1,251,350 | |
| <u>Won currency borrowings:</u> | | | | |
| Korea Development Bank and others | 1.00 ~ 9.90 | 1,816 | 2,052 | |
| <u>Foreign currency borrowings:</u> | | | | |
| Citibank and others | 0.96 ~ 8.28 LIBOR + 0.60 ~ 0.80 | 202,826 | 65,157 | |
| <u>Lease payment:</u> | | | | |
| IBM Korea and others | 5.90 | 1,750 | 972 | |
| | | ₩ 1,405,369 | ₩ 1,319,531 | |

Certain current assets, investments and property, plant and equipment are pledged as collateral for the above borrowings (see Notes 3, 5 and 12).

12. Long-term Debt:

Long-term borrowings as of December 31, 2001 and 2002 are as follows:

| Financial institutions | 2002 | | Millions of Korean Won | |
|---|-----------------------------------|-------------|------------------------|--------------------|
| | Annual interest rate (%) | Maturity | 2001 | 2002 |
| <u>Won currency borrowings:</u> | | | | |
| Shinhan Bank | 4.25 ~ 5.50 | 2007-2010 | ₩ 1,153 | ₩ 4,382 |
| Korea Development Bank | 1.00 ~ 9.90 | 2003-2008 | 4,117 | 5,139 |
| Korea Exchange Bank | 5.53 | 2010 | 2,008 | 2,497 |
| Others | 3.00 ~ 9.90 | 2003-2019 | 1,032 | 712 |
| Less: Current portion | | | (1,816) | (2,052) |
| | | | <u>6,494</u> | <u>10,678</u> |
| <u>Foreign currency borrowings:</u> | | | | |
| Citibank (US\$) | LIBOR+0.6 | 2004 | 464,135 | 180,060 |
| Sumitomo Bank (US\$ and EUR) | LIBOR+0.8 | 2010 | 81,129 | 69,677 |
| Commerzbank and others (US\$, JPY and EUR) | 2.00 ~ 6.97 | 2004 - 2007 | 80,291 | 49,699 |
| Bank of China (CNY) | LIBOR+0.85 | 2003 - 2006 | 49,712 | 28,509 |
| I.B.J. (JPY) | 3.03 ~ 4.90 | 2004 - 005 | 48,270 | 33,162 |
| Hanmi Bank (JPY) | 1.61 | 2005 | - | 19,944 |
| Development Bank of Japan (JPY) | 4.60 | 2009 | 15,504 | 13,613 |
| Others (US\$, JPY and EUR) | 0.75 ~ 8.28, LIBOR+0.6 ~ 0.625 | 2003-2006 | 163,741 | 80,264 |
| | | | <u>902,782</u> | <u>474,928</u> |
| Less: Current portion | | | (202,826) | (65,157) |
| | | | <u>699,956</u> | <u>409,771</u> |
| <u>Debentures:</u> | | | | |
| Domestic debentures | 5.00 ~ 9.00 | 2003-2007 | 2,576,000 | 2,266,010 |
| Yankee bonds | 6.63 ~ 7.38 | 2003-2006 | 1,377,233 | 972,224 |
| Samurai bonds | 1.44 ~ 1.84 | 2003-2006 | 807,520 | 810,296 |
| Others | 0.54 | 2004 | 1,009 | 1,013 |
| | | | <u>4,761,762</u> | <u>4,049,543</u> |
| Less: Current portion | | | (1,201,811) | (1,255,671) |
| Discount on debentures issued | | | (30,945) | (20,306) |
| | | | <u>3,529,006</u> | <u>2,773,566</u> |
| | | | <u>₩ 4,235,456</u> | <u>₩ 3,194,015</u> |

Certain current assets, investments, and property, plant and equipment are pledged as collateral for the above borrowings (see Notes 3, 5, 8 and 16).

Continued ;

Contractual maturities of long-term debt outstanding as of December 31, 2002 are as follows:

| Year | Millions of Korean Won | | | |
|------------|------------------------|---------------------------|-----------------------------|--------------------|
| | Debentures | Local currency borrowings | Foreign currency borrowings | Total |
| 2003 | ₩ 1,255,671 | ₩ 2,052 | ₩ 65,157 | ₩ 1,322,880 |
| 2004 | 789,750 | 1,558 | 236,788 | 1,028,096 |
| 2005 | 987,958 | 3,014 | 96,200 | 1,087,172 |
| 2006 | 1,016,164 | 1,745 | 21,336 | 1,039,245 |
| 2007 | - | 4,239 | 21,747 | 25,986 |
| Thereafter | - | 122 | 33,700 | 33,822 |
| | <u>₩ 4,049,543</u> | <u>₩ 12,730</u> | <u>₩ 474,928</u> | <u>₩ 4,537,201</u> |

Details of assets pledged as collateral for short-term and long-term borrowings as December 31, 2001 and 2002 are as follows:

| | Financial institutions | Millions of Korean Won | |
|-------------------------------------|--|------------------------|------------------|
| | | 2001 | 2002 |
| Land | Shinhan Bank and others | ₩ 32,842 | ₩ 43,261 |
| Buildings and structures | Kookmin Bank and others | 16,440 | 25,710 |
| Machinery and equipment | Industrial and Commercial Bank of China and others | 48,376 | 67,061 |
| Cash and cash equivalents (*) | Woori Bank and others | 38,951 | 6,355 |
| Trade accounts and notes receivable | Comerica Bank and others | 123,970 | 124,191 |
| Others (**) | Korea Development Bank and others | - | 41,142 |
| | | <u>₩ 260,579</u> | <u>₩ 307,720</u> |

(*) Includes short-term and long-term financial instruments provided as collateral.

(**) The Company provided financial bonds of Industrial Bank of Korea, amounting to ₩31,400 million, to the Pusan municipal government as deposits for a performance guarantee in relation to the development of a waste disposal area (see Note 7).

Continued ;

Details of loans from foreign financial institutions covered by guarantees provided by financial institutions as December 31, 2001 and 2002 are as follows:

| Financial institutions | 2001 | | Amount guaranteed 2002 | |
|------------------------|------------------|---------------------------------|---------------------------|---------------------------------|
| | Foreign currency | Won equivalent (In Millions) | Foreign currency | Won equivalent (In Millions) |
| Korea Development Bank | US\$ 2,021,582 | ₩ 2,681 | US\$ 695,761 | ₩ 835 |
| | JPY 470,220,000 | 4,746 | JPY 161,834,050 | 1,639 |
| | EUR 9,055,039 | 10,618 | EUR 8,502,876 | 10,691 |
| | | 18,045 | | 13,165 |
| Korea Exchange Bank | JPY 246,090,961 | 2,484 | - | - |
| | US\$ 1,058,001 | 1,403 | - | - |
| | | 3,887 | | - |
| | | ₩ 21,932 | | ₩ 13,165 |

13. Capital Lease and Operating Lease Agreement:

Capital Lease -

As of December 31, 2002, the Company acquired certain tools and equipment under capital lease agreements, with acquisition cost amounting to ₩6,143 million. The assets and liabilities under the capital leases are recognized at the present value of the minimum lease payments over the lease terms.

The Company's depreciation expenses, with respect to above lease agreement, for the year ended December 31, 2002 amounted to ₩1,536 million.

Future minimum lease payments under capital lease agreements amounting to ₩972 million, net of interest amounting to ₩20 million, will be fully paid in 2003 at its maturity.

Operating Lease -

As of December 31, 2002, the Company acquired certain tools and equipment under operating lease agreements from Macquarie IT KOREA Lease Company and others. Future lease payments under the above lease agreements are as follows:

| | Millions of Korean Won |
|------------|------------------------|
| 2003 | ₩ 24,649 |
| 2004 | 14,556 |
| 2005 | 5,831 |
| 2006 | 235 |
| 2007 | 235 |
| Thereafter | 257 |
| | ₩ 45,763 |

14. Accrued Severance Benefits:

Details of accrued severance benefits for the year ended December 31, 2002 are as follows:

| | Millions of Korean Won | | | |
|-----------------------|-------------------------------|--------------------------|-----------------------------|------------------|
| | Accrued severance benefits | National Pension Fund | Group severance deposits | Total |
| Beginning balance (*) | ₩ 150,257 | ₩ (2,268) | ₩ (78,539) | ₩ 69,450 |
| Increase | 119,337 | (1) | (76,961) | 42,375 |
| Decease | 14,469 | (152) | (5,964) | 8,353 |
| Ending balance | <u>₩ 255,125</u> | <u>₩ (2,117)</u> | <u>₩ (149,536)</u> | <u>₩ 103,472</u> |

(*) In addition, due to the inclusion of POSREC in the consolidated financial statements during the current year, the beginning balance of accrued severance benefits, net of National Pension Fund and group severance insurance deposits, amounting to ₩605 million are included in the beginning balance of the consolidated financial statements for the year ended December 31, 2002.

15. Other Liabilities:

Other liabilities as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|-----------------------------|------------------------|------------------|
| | 2001 | 2002 |
| Other current liabilities | | |
| Advances received | ₩ 156,248 | ₩ 230,273 |
| Unearned revenue | 1,452 | 2,226 |
| Others | 29,258 | 27,877 |
| | <u>₩ 186,958</u> | <u>₩ 260,376</u> |
| Other long-term liabilities | | |
| Reserve for allowance | 10,093 | 12,068 |
| Others | 83,695 | 91,811 |
| | <u>₩ 93,788</u> | <u>₩ 103,879</u> |

16. Commitments and Contingencies:

As of December 31, 2001 and 2002, contingent liabilities for outstanding guarantees provided between the related companies for the repayment of loans of affiliated companies are as follows:

| Grantors | Entity being guaranteed | Financial institutions | 2001 | 2002 | |
|--|--|--|--|---|---------------------------------|
| | | | Won equivalent (In Millions) | Amount guaranteed (In U.S. Dollars and in Millions of Korean Won) | Won equivalent (In Millions) |
| POSCO | KOBRASCO | Citibank and others | ₩ 53,044 | US\$ 13,333,333 | ₩ 16,005 |
| | VPS | Credit Lyonnais | 4,355 | 2,463,709 | 2,957 |
| | POSAM | Bank of America | 99,458 | 35,000,000 | 42,014 |
| | POS-HYUNDAI STEEL | India Development Bank and others | 649 | 242,043 | 291 |
| | | Sumitomo | | | |
| | POS-Investment | Bank and others | 94,731 | 55,177,826 | 66,235 |
| | | Zhangjiagang Pohang Stainless Steel Co., Ltd. | Bank of China | 29,729 | 22,418,649 |
| | Changwon Specialty Steel Co., Ltd. | - | 773 | - | - |
| | POSVEN | - | 35,274 | - | - |
| | POSCO E & C | IBC Corporation | Shinhan Bank and others | 91,448 | 72,309,000 |
| Shanghai Real Estate Development Co., Ltd. | | Korea Development Bank | 70,450 | 46,000,000 | 55,218 |
| POSLILAMA Steel Structure Co., Ltd. | | Korea Development Bank | 1,652 | 2,000,000 | 2,401 |
| POSTEEL | Suzhou Dongshin Color Metal Sheet Co., Ltd. | Woori Bank | - | ₩ 6,902 | 6,902 |
| | PIO | Korea Exchange Bank and others | 27,142 | 50,644 | 50,644 |
| | POS-Tianjin Coil Center Co., Ltd. | Shinhan Bank | 7,050 | 6,362 | 6,362 |
| | CCL | - | 921 | - | - |
| | POS-HYUNDAI STEEL | Industrial Development Bank of India | 870 | 1,125 | 1,125 |
| | | POS-THAI Service Steel Center Co., Ltd. | Hana Bank | 4,284 | 7,751 |
| | POSCO Investment Co., Ltd. | SHUNDE Pohang Coated Steel Co., Ltd. | Industrial & Commercial Bank of China | - | US\$ 15,000,000 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | | BOA | - | 5,000,000 | 6,002 |
| PIO | Fujiura Butsuryu Center Co., Ltd. | Korea Exchange Bank and others | 7,191 | ₩ 7,048 | 7,048 |
| | POSMETAL Co., Ltd. | - | 303 | - | - |
| POA | Suzhou Dongshin Color Metal Sheet Co., Ltd. | - | 1,326 | - | - |
| | | | ₩ 530,650 | US\$ 268,944,560 | ₩ 402,672 |
| | | | | ₩ 79,832 | |

Continued ;

As of December 31, 2002, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

| Grantors | Entity being guaranteed | Financial institutions | Amount guaranteed (In U.S. Dollars and in Millions of Korean Won) | Won equivalent (In Millions) |
|-------------|--|---------------------------------------|---|---------------------------------|
| POSCO | Dae Kyeong Special Steel Co., Ltd. | Korea Development Bank | US\$ 3,249,470 | ₩ 8,304 |
| | | | ₩ 4,403 | |
| | DC Chemical Co., Ltd. | LG-Caltex Gas | ₩ 2,242 | 2,242 |
| POSCO E & C | S U S Keumseki Distribution Co., Ltd. | J-EXIM | US\$ 12,045,750 | 14,460 |
| | | Hansol Mutual Savings Bank and others | ₩ 45,000 | 45,000 |
| | Desan Enterprise | Samsung Life Insurance Company | 39,000 | 39,000 |
| | Handok Ice Card Co., Ltd. and others | Chohung Bank and others | 50,066 | 50,066 |
| | | | US\$ 15,295,220 | |
| | | | ₩ 140,711 | ₩ 159,072 |

As of December 31, 2002, the Company has provided seventeen blank promissory notes and others to the Bank of China and other financial institutions as collateral for outstanding loans.

The Company is named as a defendant in various domestic and foreign legal actions arising from the normal course of business. The aggregate amounts of domestic and foreign claims with the Company as the defendant amounted to approximately ₩107,875 million and US\$14,733,587 (one claim with an unsettled amount as of December 31, 2002) in fifteen cases, respectively, which are pending as of December 31, 2002. The Company believes that the outcome of these matters is uncertain but, in any event, they would not result in a material ultimate loss for the Company.

The Company entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of five to ten years and provide for periodic price adjustments to market price. As of December 31, 2002, 165 million tons of iron ore and 33 million tons of coal remained to be purchased under such long-term contracts.

Continued ;

POSCO E & C provides guarantees for the performance of construction contracts to Samsung Corporation and other companies amounting to ₩942,859 million, and Samsung Corporation and other five companies provide guarantees for the performance of construction contracts and payment for borrowings to POSCO amounting to ₩484,287 million.

In addition, POSCO E & C entered into an agreement with Arabia Corporation ("ARCO") to build a plant. However, due to the disputes over technical issues the issuance of Performance Acceptance Certificate and Final Acceptance Certificate are being delayed by ARCO. Accordingly, the payment is also being delayed by ARCO and the dispute between POSCO E & C and ARCO, with respect to settlement of final payment, was submitted to the international arbitration committee and is pending as of December 31, 2002. In relation to the performance guarantees for the construction contracts, P-Bond deposits amounting to ₩16,444 million was deposited in the Bank of New York, and the safeguarding of this deposit is being requested to the arbitration committee. However, due to the uncertain collectibility, the Company recorded related receivables and P-Bond deposits amounting to ₩26,078 million, net of performance reserve, as an allowance for doubtful accounts.

As of December 31, 2002, Pohang Coated Steel Co., Ltd., POSDATA Co., Ltd. and POSCO Machinery & Engineering Co., Ltd., have outstanding balances of discounted notes amounting to ₩10,037 million, ₩7,882 million and ₩5,808 million, respectively, and POSCO E & C has an outstanding balance of endorsed notes amounting to ₩45,000 million. Additionally, as of December 31, 2002, Posteel Co., Ltd. has an unsettled delivery acceptance balance in relation to exports amounting to US\$21,006,469 and delivery payments amounting to JPY174,848,475 and US\$581,502.

For the year ended December 31, 2002, the Company paid a tax penalty amounting to ₩29,908 million in connection with the timing of an interim settlement for severance benefits payment during the prior year. Also, the Company paid value-added tax amounting to ₩3,065 million in relation to Kwangyang Community Center, a contributed building, which will be used by the Company for a certain period of time, with the title being transferred to the other party. These payments were recorded as other current assets. As of December 31, 2002, the Company has appealed to the National Tax Tribunal for tax refunds totaling ₩32,973 million that has been paid by the Company.

The Company paid US\$159,600,000 on behalf of POSVEN on June 19, 2001, an affiliate, which is 58.63% owned by the Company. This payment represented 58.63% of the total long-term debt of POSVEN guaranteed by the Company. On July 20, 2001, an additional payment of US\$53,200,000 was due, representing a long-term debt guaranteed by Raytheon Company ("Raytheon"), a shareholder of POSVEN and a joint venture partner with the Company in the construction of a facility in Venezuela. The Company and Raytheon disagreed as to which company is responsible for the payment of the US\$53,200,000 amount due. In the meantime, both companies agreed that each would pay half of the amount until the dispute is resolved. The Company, therefore, made a payment of US\$26,600,000. Should the dispute be resolved in Raytheon's favor, the Company may be required to reimburse Raytheon for its US\$26,600,000 debt payment made on behalf of POSVEN. In addition, should the dispute be resolved in Raytheon's favor, each shareholder of POSVEN, including the Company, will be required to proportionally take over 10% of equity owned by Raytheon, which amounts to US\$11,200,000 as of December 31, 2002.

In addition, pursuant to a resolution during the general meeting of shareholders on December 23, 2002, the liquidation of POSVEN was approved. Accordingly, the payment amounting to ₩236,858 million (US\$186,200,000) made on behalf of POSVEN and recorded as other investment, is fully reserved as part of allowance for doubtful accounts as of December 31, 2002. For the year ended December 31, 2002, in relation to receivables from POSVEN, other bad debt expense and valuation loss using the equity method of accounting for investment securities amounted to ₩132,904 million and ₩134,501 million, respectively.

Continued ;

POSCO has guaranteed usage of bulk carriers with Keo Yang Shipping Co., Ltd. in order to ensure transportation of raw materials through 2010.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

17. Capital Surplus:

Capital surplus as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|----------------------------|------------------------|--------------------|
| | 2001 | 2002 |
| Revaluation surplus | ₩ 3,240,018 | ₩ 3,220,275 |
| Additional paid-in capital | 463,825 | 463,825 |
| Others | 155,186 | 113,637 |
| | <u>₩ 3,859,029</u> | <u>₩ 3,797,737</u> |

18. Retained Earnings:

Retained earnings as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|-----------------------|------------------------|--------------------|
| | 2001 | 2002 |
| <u>Appropriated</u> | | |
| Legal reserve | ₩ 241,202 | ₩ 241,201 |
| Other legal reserve | 654,867 | 746,667 |
| Voluntary reserve | 6,020,323 | 7,181,845 |
| <u>Unappropriated</u> | 49,797 | 49,786 |
| | <u>₩ 6,966,189</u> | <u>₩ 8,219,499</u> |

Legal Reserve -

The Commercial Code of the Republic Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Other Legal Reserve -

Pursuant to the Special Tax Treatment Control Law, the Company appropriates retained earnings as a reserve for overseas investment loss and research and human resource development. These reserves are not available for dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Voluntary Reserve -

The Company appropriates a certain portion of retained earnings, such as reserve for business rationalization, reserve for business expansion and appropriated retained earnings for dividends, pursuant to a shareholder resolution, as a voluntary reserve. This reserve may be transferred to unappropriated retained earnings by the resolution of shareholders, and may be distributed as dividends after its reversal.

Additional Losses of Minority Interest -

Accumulated deficit of POSLILAMA Steel Structure Co., Ltd., an affiliate included in the consolidated financial statements, resulted in losses in excess of minority interest amounting to ₩2,321 million, ₩2,037 million and ₩2,495 million, for the years ended December 31, 2000, 2001 and 2002, respectively. The additional losses are deducted from the consolidated retained earnings to be charged to the controlling company. The Company plans to add any profits resulting from POSLILAMA Steel Structure Co., Ltd. to the controlling company's equity until it recovers the amount of loss in excess of minority interest.

19. Dividends:

Details of dividends for the years ended December 31, 2000, 2001 and 2002 are as follows:

Interim dividends (ex-dividend date: June 30, 2000, 2001 and 2002)

| | 2000 | 2001 | 2002 |
|--|------------|------------|------------|
| Number of shares | 83,648,929 | 81,601,759 | 81,683,875 |
| Dividend ratio | 10 % | 10 % | 10 % |
| Dividend amount(in millions of Korean Won) | ₩ 41,824 | ₩ 40,800 | ₩ 40,842 |

Year-end cash dividends (ex-dividend date: December 31, 2000, 2001 and 2002)

| | 2000 | 2001 | 2002 |
|--|------------|------------|------------|
| Number of shares | 81,439,955 | 81,623,759 | 81,738,519 |
| Dividend ratio | 40 % | 40 % | 60 % |
| Dividend amount(in millions of Korean Won) | ₩ 162,880 | ₩ 163,248 | ₩ 245,216 |

Details of the dividend payout ratio and dividend yield ratio are as follows:

| | 2000 | 2001 | 2002 |
|-----------------------|--------|--------|--------|
| Dividend payout ratio | 12.53% | 24.13% | 26.26% |
| Dividend yield ratio | 3.27% | 2.05% | 2.85% |

20. Capital Adjustments:

Capital adjustments as of December 31, 2001 and 2002 consist of the following:

| | Millions of Korean Won | |
|--|------------------------|----------------------|
| | 2001 | 2002 |
| Treasury stock | ₩ (1,185,404) | ₩ (915,995) |
| Valuation gain on investment securities | (79,172) | (386,347) |
| Cumulative foreign currency translation adjustment | 138,920 | 97,968 |
| Others (Note 22) | 652 | - |
| | <u>₩ (1,125,004)</u> | <u>₩ (1,204,374)</u> |

For the stabilization of the stock price, retirement of stock and completion of privatization, the Company holds 8,221,266 shares of its own common stock amounting to ₩824,852 million and 822,010 shares of specified money in trust amounting to ₩91,143 million as of December 31, 2002. The treasury is carried at acquisition cost.

POSCO retired 2,891,140 and 2,807,690 shares of treasury stock with the approval of the Board of Directors on August 25, 2001 and November 20, 2002, respectively.

The Company restricts the voting rights of treasury stock in accordance with the Korean Commercial Code as of December 31, 2002. In addition, the Company sold 634 thousand shares of treasury stock to the employee stock ownership association and the difference between the fair value and the sales proceeds amounting to ₩40,168 million was expenses.

Details of treasury stock for the years ended December 31, 2000, 2001 and 2002 are as follows:

| | Million of Korean Won except for shares in thousand | | | | | |
|--------------------------|---|--------------------|---------------|--------------------|--------------|------------------|
| | 2000 | | 2001 | | 2002 | |
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Beginning balance | 5,098 | ₩ 473,951 | 15,042 | ₩ 1,470,903 | 11,966 | ₩ 1,185,404 |
| Increase (decrease), net | 9,944 | 996,952 | (3,076) | (285,499) | (2,923) | (269,409) |
| Ending balance | <u>15,042</u> | <u>₩ 1,470,903</u> | <u>11,966</u> | <u>₩ 1,185,404</u> | <u>9,043</u> | <u>₩ 915,995</u> |

21. Stock Option Plan:

POSCO granted stock options to its executive officers in accordance with the stock option plan approved by the Board of Directors. The details of the stock options granted are as follows:

| | 1st Grant | 2nd Grant | 3rd Grant |
|-------------------|--|------------------------------------|------------------------------------|
| Grant date | July 23, 2001 | April 27, 2002 | Sept. 18, 2002 |
| Exercise price | ₩98,400 per share | ₩135,800 per share | ₩115,600 per share |
| Number of shares | 488,000 shares | 60,000 shares | 22,000 shares |
| Cancelled option | 10,000 shares | - | - |
| Exercise period | July 24, 2003 ~ July 23, 2008 | April 28, 2004 ~ April 27, 2009 | Sept. 19, 2004 ~ Sept. 18, 2009 |
| Settlement method | Cash or stock compensation for the difference between the exercise price and fair market value of the option | | |

POSCO applied the intrinsic value method to calculate the compensation cost related to the stock options and such compensation costs are amortized over the vesting period of the stock grants.

The compensation costs for stock options granted to employees and executives recognized for the year ended December 31, 2002 and for the future periods are as follows:

| | Millions of Korean Won | | | |
|------|------------------------|-----------|-----------|----------|
| | 1st Grant | 2nd Grant | 3rd Grant | Total |
| 2001 | ₩ 1,790 | ₩ - | ₩ - | ₩ 1,790 |
| 2002 | 6,477 | - | 20 | 6,497 |
| 2003 | 3,200 | - | 119 | 3,319 |
| | ₩ 11,467 | ₩ - | ₩ 139 | ₩ 11,606 |

The details of the stock options granted by POSDATA Co., Ltd. as of December 31, 2002 are as follows:

| | 1st Grant |
|-------------------|--|
| Grant date | April 17, 2002 |
| Exercise price | 25,400 per share |
| Number of shares | 138,000 shares |
| Exercise period | April 18, 2004- April 17, 2009 |
| Settlement method | Cash or stock compensation for the difference between the exercise price and fair market value of the option |

No stock compensation expense was recognized by POSDATA Co., Ltd. for the year ended December 31, 2002, since the exercise price was greater than the fair market value on the grant date.

Continued ;

The assumptions applied by POSCO to estimate the fair value of each option on the date of grant using the Black-Scholes option pricing model are as follows:

| | 1st Grant | 2nd Grant | 3rd Grant |
|---|-----------|-----------|-----------|
| Expected volatility | 0.65 | 0.59 | 0.56 |
| Risk free interest rate | 5.56% | 6.24% | 5.34% |
| Expected option life | 2.00 | 2.00 | 2.00 |
| Total compensation cost (in millions of Korean Won) | ₩ 223,896 | ₩ 2,418 | ₩ 895 |
| Compensation costs per share (in Korean Won) | ₩ 32,974 | ₩ 41,969 | ₩ 42,366 |

The details of pro-forma net income and earnings per share, when the fair market value method is applied on stock option plan using the Black-Scholes option pricing model, are as follows:

| | Millions of Korean Won | | | |
|---|------------------------|-----------|-------------|-----------|
| | 2001 | | 2002 | |
| | As reported | Pro forma | As reported | Pro forma |
| Compensation expense | ₩ 1,790 | ₩ 3,477 | ₩ 6,497 | ₩ 8,836 |
| Net income | 845,679 | 843,992 | 1,089,288 | 1,086,949 |
| Basic and diluted earnings per share (in Korean Won) | 10,366 | 10,346 | 13,295 | 13,266 |

The details of pro-forma effect on expected compensation cost in 2003 and 2004, when the fair market value method is applied on stock option plan using the Black-Scholes option pricing model, are as follows:

| | Millions of Korean Won | | | |
|------|------------------------|-----------|-----------|---------|
| | 1st Grant | 2nd Grant | 3rd Grant | Total |
| 2003 | ₩ 4,406 | ₩ 1,207 | ₩ 447 | ₩ 6,060 |
| 2004 | - | 387 | 320 | 707 |
| | ₩ 4,406 | ₩ 1,594 | ₩ 767 | ₩ 6,767 |

22. Derivatives:

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2000 and related contracts outstanding as of December 31, 2000 are as follows: The details of the stock options granted by POSDATA Co., Ltd. as of December 31, 2002 are as follows:

| Company | Type of transaction | Purpose of transaction | Financial institutions | Millions of Korean Won | | | |
|------------------|---------------------|-------------------------|----------------------------|------------------------|------------------|-------------------|--------------------|
| | | | | Valuation gains | Valuation losses | Transaction gains | Transaction losses |
| POSCO | Currency swap | Fair market value hedge | Bank of America and others | ₩ 14,966 | ₩ 49,183 | ₩ - | ₩ - |
| Posteel Co.,Ltd. | Currency forward | Trading | Koram Bank | - | - | 180 | 44 |
| | | | | <u>₩ 14,966</u> | <u>₩ 49,183</u> | <u>₩ 180</u> | <u>₩ 44</u> |

The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2001 and related contracts outstanding as of December 31, 2001 are as follows:

| Company | Type of transaction | Purpose of transaction | Financial institutions | Millions of Korean Won | | | |
|------------------------------|---------------------|----------------------------|----------------------------|------------------------|------------------|-------------------|--------------------|
| | | | | Valuation gains(*) | Valuation losses | Transaction gains | Transaction losses |
| POSCO | Currency swap | Fair market value hedge | Bank of America and others | ₩ - | ₩ - | ₩ 12,462 | ₩ - |
| POSCO | Currency forward | Cash flow hedge or trading | Bank of America and others | 652 | - | - | 20,981 |
| Posteel Co.,Ltd. | Currency forward | Trading | Koram Bank | 5 | 25 | 40 | 64 |
| Pohang Coated Steel Co.,Ltd. | Currency forward | Fair market value hedge | Shinhan Bank | 163 | 510 | 1,324 | - |
| | | | | <u>₩ 820</u> | <u>₩ 535</u> | <u>₩ 13,826</u> | <u>₩ 21,045</u> |

(*) The valuation gain amounting to ₩652 million with respect to the currency forward contracts to hedge the fluctuation risk of future cash flows was recorded as a capital adjustment.

Continued ;

The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2002 and related contracts outstanding as of December 31, 2002 are as follows:

| Company | Type of transaction | Purpose of transaction | Financial institutions | Millions of Korean Won | | | |
|----------------------------------|---------------------|----------------------------|----------------------------|------------------------|------------------|-------------------|--------------------|
| | | | | Valuation gains(*) | Valuation losses | Transaction gains | Transaction losses |
| POSCO | Currency swap | Fair market value hedge | Citibank and others | ₩ - | ₩ 11,775 | ₩ - | ₩ - |
| POSCO | Currency forward | Cash flow hedge or trading | Bank of America and others | - | - | - | 2,796 |
| POSCO E & C | Currency forward | Fair market value hedge | Citibank | 569 | - | 1,884 | 54 |
| Posteel Co., Ltd. | Currency forward | Trading | Koram Bank | - | - | 14 | 6 |
| Pohang Coated Steel Co., Ltd. | Currency forward | Fair market value hedge | Shinhan Bank | - | - | 11,236 | 472 |
| POSCO Refractories & Environment | Currency forward | Fair market value hedge | Korea Development Bank | - | - | 26 | 48 |
| | | | | <u>₩ 569</u> | <u>₩ 11,775</u> | <u>₩ 13,160</u> | <u>₩ 3,376</u> |

23. Selling and Administrative Expenses:

Selling and administrative expenses for the years ended December 31, 2000, 2001 and 2002 consist of the following:

| | Millions of Korean Won | | |
|--------------------------------------|------------------------|------------------|------------------|
| | 2000 | 2001 | 2002 |
| Transportation and storage | ₩ 335,693 | ₩ 406,182 | ₩ 404,771 |
| Salaries | 83,565 | 101,889 | 130,226 |
| Depreciation and amortization | 38,492 | 63,726 | 72,049 |
| Welfare | 37,914 | 48,906 | 62,002 |
| Fees and charges | 35,274 | 40,551 | 53,417 |
| Research and development expenses | 23,090 | 30,658 | 40,627 |
| Advertising | 18,584 | 23,860 | 36,886 |
| Sales commissions | 17,206 | 17,515 | 18,324 |
| Severance benefits | 20,096 | 11,334 | 16,058 |
| Travel | 10,712 | 13,289 | 14,822 |
| Rent | 6,980 | 6,608 | 12,430 |
| Training | 5,01 | 8,047 | 10,919 |
| Repairs | 1,411 | 5,235 | 8,149 |
| Taxes and public dues | 7,720 | 9,244 | 8,072 |
| Sales promotions | 3,835 | 3,953 | 5,769 |
| Office supplies | 4,380 | 6,528 | 6,819 |
| Entertainment | 4,180 | 5,153 | 6,595 |
| Stock compensation expense (Note 21) | - | 1,790 | 6,497 |
| Provision for doubtful accounts | 30,072 | 9,289 | 6,410 |
| Vehicle expenses | 3,474 | 4,754 | 5,828 |
| Membership fees | 5,249 | 5,800 | 5,590 |
| Communications | 3,353 | 3,463 | 3,767 |
| Subscriptions and printing | 2,747 | 2,916 | 3,072 |
| Insurance | 1,485 | 1,495 | 1,844 |
| Utilities | 2,004 | 2,000 | 1,733 |
| Others | 15,573 | 19,884 | 24,115 |
| | <u>₩ 718,103</u> | <u>₩ 854,069</u> | <u>₩ 966,791</u> |

24. Donations:

Donations contributed by the Company for the years ended December 31, 2000, 2001 and 2002 consist of the following:

| | Millions of Korean Won | | |
|---|------------------------|-----------------|-----------------|
| | 2000 | 2001 | 2002 |
| POSCO Educational Foundation | ₩ 39,585 | ₩ 36,500 | ₩ 37,800 |
| Pohang University of Science and Technology | 300,000 | - | 3,000 |
| Employees welfare fund | 33,000 | 33,000 | - |
| Support for local community and others | 76,262 | 13,695 | 9,347 |
| | <u>₩ 448,847</u> | <u>₩ 83,195</u> | <u>₩ 50,147</u> |

25. Income Taxes:

The statutory income tax rate applicable to the Company, including resident tax surcharges, was approximately 30.8 % in 2000 and 2001, and 29.7% in 2002.

Income tax expense for the years ended December 31, 2000, 2001 and 2002 consists of the following:

| | Millions of Korean Won | | |
|-------------------------|------------------------|------------------|------------------|
| | 2000 | 2001 | 2002 |
| Current income tax | ₩ 662,767 | ₩ 311,920 | ₩ 522,171 |
| Deferred income tax (*) | 25,964 | 25,543 | (123,866) |
| | <u>₩ 688,731</u> | <u>₩ 337,463</u> | <u>₩ 398,305</u> |

(*) POSAM and fourteen other overseas subsidiaries recorded taxes payable for the year ended December 31, 2002 as income tax expense in accordance with the applicable tax laws.

The following table reconciles income tax expense computed at the statutory rates to the actual income tax expense recorded by the Company:

| | Millions of Korean Won | | |
|---|------------------------|------------------|------------------|
| | 2000 | 2001 | 2002 |
| Net income before income tax expense | ₩ 2,331,081 | ₩ 1,174,673 | ₩ 1,507,437 |
| Statutory tax rate (%) | 30.80 | 30.80 | 29.70 |
| Income tax expense computed at statutory rate | 717,973 | 361,799 | 447,709 |
| Tax credit of POSCO (*) | (63,255) | (61,258) | (80,829) |
| Others, net (**) | 34,013 | 36,922 | 31,425 |
| Income tax expense | <u>₩ 688,731</u> | <u>₩ 337,463</u> | <u>₩ 398,305</u> |
| Effective rate (%) | <u>29.55</u> | <u>28.73</u> | <u>26.42</u> |

(*) Tax credit consists of investment tax credit, purchasing card tax credit and others.

(**) Others consist of permanent differences and others.

26. Earnings Per Share:

Basic earnings per share is computed by dividing net income allocated to common stock, by the weighted average number of common shares outstanding during the year.

| Period | Number of shares issued (*) | Number of shares in treasury stock (**) | Number of days outstanding | Weighted number of shares |
|-----------------------|-----------------------------|---|----------------------------|---------------------------|
| 2002.1.1~2002.11.21 | 93,589,485 | (11,633,578) | 325 | 26,635,669,775 |
| 2002.11.22~2002.12.31 | 90,781,795 | (9,043,276) | 40 | 3,269,540,760 |
| | | | | <u>29,905,210,535</u> |

(*) On November 22, 2002, in accordance with the approval of the Board of Directors on November 20, 2002, the Company retired 2,807,690 shares of treasury stock.

(**) Weighted average

Weighted average number of common shares for the year ended December 31, 2000 $31,254,057,600 \div 366 = 85,393,600$

Weighted average number of common shares for the year ended December 31, 2001 $29,776,820,815 \div 365 = 81,580,331$

Weighted average number of common shares for the year ended December 31, 2002 $29,905,210,535 \div 365 = 81,932,084$

Earnings per share for the years ended December 31, 2000, 2001 and 2002 are calculated as follows:

| | Millions of Korean Won | | |
|---|------------------------|-----------------|-----------------|
| | 2000 | 2001 | 2002 |
| Net income | ₩ 1,633,667 | ₩ 845,679 | ₩ 1,089,288 |
| Weighted average number of shares of common stock | 85,393,600 | 81,580,331 | 81,932,084 |
| Earnings per share in Korean Won | <u>₩ 19,131</u> | <u>₩ 10,366</u> | <u>₩ 13,295</u> |

Diluted Earnings Per Share -

Diluted earnings per share for the year ended December 31, 2002 are the same as basic earnings per share, since there is no dilution effect resulting from stock option plan as of December 31, 2002.

27. Foreign Currency Translation:

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2002 are as follows:

| | | Foreign currency | | Won equivalen (In Millions) |
|---|---------------------------|------------------|---|-----------------------------|
| Assets: | | | | |
| Cash and cash equivalents (a) | US\$ | 72,827,360 | ₩ | 87,422 |
| | JPY | 287,019,608 | | 2,907 |
| | EUR | 106,388 | | 134 |
| Trade accounts and notes receivable | Overseas subsidiaries (c) | 108,794,345 | | 130,597 |
| | US\$ | 110,707,973 | | 132,894 |
| | JPY | 815,486,450 | | 8,260 |
| | EUR | 1,190,542 | | 1,497 |
| Other accounts and notes receivable | Overseas subsidiaries (c) | 220,606,551 | | 264,817 |
| | US\$ | 197,788 | | 237 |
| | JP | 77,814,049 | | 788 |
| Short-term loans | Overseas subsidiaries (c) | 3,759,288 | | 4,513 |
| | US | 870,000 | | 1,044 |
| Long-term trade accounts and notes receivable | Overseas subsidiaries (c) | 1,687,554 | | 2,028 |
| | Overseas subsidiaries (c) | 44,872 | | 54 |
| Investment securities | US\$ | 28,993,070 | | 34,804 |
| Long-term loans | Overseas subsidiaries (c) | 63,174,460 | | 75,853 |
| Guarantee deposits | US\$ | 14,100,989 | | 16,962 |
| | Overseas subsidiaries (c) | 490,440 | | 589 |
| | US\$ | 626,254,690 | | |
| | JPY | 1,180,320,107 | ₩ | 765,400 |
| | EUR | 1,296,930 | | |

Continued ;

| | | Foreign currency | Won equivalent (In Millions) |
|---|---------------------------|------------------|------------------------------|
| Liabilities: | | | |
| Trade accounts and notes payable | US\$ | 187,806,972 | ₩ 225,443 |
| | JP | 454,956,775 | 4,608 |
| | EU | 3,030,911 | 3,811 |
| | Overseas subsidiaries (c) | 59,941,257 | 71,953 |
| Other accounts and notes payable | US\$ | 6,882,694 | 8,262 |
| | JPY | 92,728,233 | 939 |
| | EUR | 7,723 | 10 |
| | Overseas subsidiaries (c) | 5,901,060 | 7,084 |
| Accrued expenses | US\$ | 77,389,641 | 92,898 |
| | JPY | 1,184,497,963 | 11,997 |
| | EUR | 5,691,534 | 7,156 |
| | Overseas subsidiaries (c) | 7,483,484 | 8,983 |
| Short-term borrowings | US\$ | 6,813,716 | 8,179 |
| | JPY | 991,080,277 | 10,038 |
| | Overseas subsidiaries (c) | 404,277,692 | 485,296 |
| | Withholdings | JPY | 6,430,000 |
| | Overseas subsidiaries (c) | 1,289,285 | 1,548 |
| Long-term debt (b, d) | US\$ | 809,916,431 | 972,224 |
| | JPY | 80,000,000,000 | 810,296 |
| | Overseas subsidiaries (c) | 843,777 | 1,013 |
| Foreign currency loans (d) | US\$ | 4,395,714 | 5,277 |
| | JPY | 6,323,561,468 | 64,050 |
| | Overseas subsidiaries (c) | 77,202,803 | 106,165 |
| Loans from foreign financial institutions (d) | US\$ | 189,380,163 | 227,332 |
| | JPY | 2,983,289,425 | 30,217 |
| | EUR | 33,313,207 | 41,887 |
| | US\$ | 1,839,524,689 | |
| | JPY | 92,036,544,141 | ₩ 3,206,731 |
| | EUR | 42,043,375 | |

(a) Cash and cash equivalents, short-term financial instruments and long-term financial instruments are included.

(b) Represented at face value.

(c) Currencies other than US\$, JPY, and EUR have been converted into US\$ and the amounts of overseas subsidiaries are converted into US\$.

(d) Includes current portion of long-term debt.

28. Related Party Transactions:

Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2000, 2001 and 2002 and the related account balances as of December 31, 2000, 2001 and 2002 are as follows:

| Company | Millions of Korean Won | | | | | |
|---|------------------------|--------------------|--------------------|------------------|--------------------|--------------------|
| | Sales (*) | | | Purchases (*) | | |
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| POSCO E & C | ₩ 2,412 | ₩ 3,020 | ₩ 3,089 | ₩ 266,596 | ₩ 623,874 | ₩ 863,525 |
| Possteel Co., Ltd. | 1,751,051 | 1,617,591 | 1,431,012 | 9,830 | 2,111 | 2,969 |
| POSCON Co., Ltd. | | 44 | 40 | 115,155 | 124,859 | 146,872 |
| Pohang Coated Steel Co., Ltd | 263,644 | 227,154 | 233,474 | 4,036 | 2,125 | 1,279 |
| POSCO Machinery & Engineering Co., Ltd. | - | 220 | 67 | 77,726 | 85,757 | 87,852 |
| POSDATA Co., Ltd. | - | 872 | 753 | 122,262 | 145,403 | 167,782 |
| POSCO Research Institute | - | 1 | - | 11,493 | 10,429 | 10,232 |
| POS-AC Co., Ltd. | - | 384 | 408 | 6,525 | 10,533 | 14,054 |
| Changwon Specialty Steel Co., Ltd. | 7,291 | 4,796 | 417 | 64,548 | 66,206 | 62,141 |
| POSCO Machinery Co., Ltd. | - | 41 | 40 | 64,780 | 64,778 | 72,194 |
| POSAM | 278,607 | 220,935 | - | - | 338 | 473 |
| POSA | - | - | - | 123,852 | 77,168 | 72,714 |
| POSCAN | - | - | - | 48,948 | 62,060 | 41,932 |
| POA | - | 25 | 149,590 | 72,556 | 52,803 | 68,047 |
| PIO | - | 229 | 114,561 | - | 1,550 | 7,066 |
| POSCO Refractories & Environment | - | 54 | 36 | - | 133,317 | 149,185 |
| Others | 3,651 | 137 | 995 | 373 | 91 | 1,225 |
| | <u>₩ 2,306,656</u> | <u>₩ 2,075,503</u> | <u>₩ 1,934,482</u> | <u>₩ 988,680</u> | <u>₩ 1,463,402</u> | <u>₩ 1,769,542</u> |

| Company | Millions of Korean Won | | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|------------------|
| | Receivables (**) | | | Payables (**) | | |
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| POSCO E & C | ₩ 32,557 | ₩ 45,560 | ₩ 8,495 | ₩ 70,381 | ₩ 59,945 | ₩ 72,310 |
| Possteel Co., Ltd. | 203,918 | 183,645 | 186,335 | | 15 | 900 |
| POSCON Co., Ltd. | 5,646 | 6,961 | 4,399 | 26,319 | 12,542 | 15,741 |
| Pohang Coated Steel Co., Ltd. | 48,510 | 30,267 | 25,477 | - | 121 | 121 |
| POSCO Machinery & Engineering Co., Ltd. | - | 2,425 | 2,119 | 15,001 | 6,817 | 6,795 |
| POSDATA Co., Ltd. | - | 138 | 118 | 23,515 | 18,330 | 26,908 |
| POSCO Research Institute | - | - | - | 3,384 | 3,277 | 3,370 |
| Changwon Specialty Steel Co., Ltd. | 5 | 1,602 | 79 | 10,709 | 3,633 | 12,879 |
| POSCO Machinery Co., Ltd. | - | 934 | 317 | 13,369 | 8,562 | 9,561 |
| POSA | - | - | - | 42,091 | 11,934 | 587 |
| POA | - | - | 16,965 | 957 | 3,161 | 2,960 |
| PIO | - | 37 | 3,092 | - | 150 | 231 |
| POSCO Refractories & Environment | - | 3 | 4 | - | 11,285 | 16,271 |
| Others | 7,481 | 583 | 583 | 1,987 | 540 | 801 |
| | <u>₩ 298,117</u> | <u>₩ 272,155</u> | <u>₩ 247,983</u> | <u>₩ 207,713</u> | <u>₩ 140,312</u> | <u>₩ 169,435</u> |

Continued ;

Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2000, 2001 and 2002 and related account balances as of December 31, 2000, 2001 and 2002 are as follows:

| Company | Millions of Korean Won | | | | | |
|-------------------|------------------------|------------|------------------|--------------------------|------------------|------------------|
| | Sales and others (*) | | | Purchases and others (*) | | |
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| KOBRASCO | ₩ - | ₩ - | ₩ - | ₩ 91,835 | ₩ 88,744 | ₩ 94,038 |
| UPI | - | - | 291,528 | - | - | - |
| POSCHROME | - | 3 | - | 22,759 | 29,581 | 22,937 |
| eNtoB Corporation | - | - | - | - | 7,487 | 15,383 |
| POSVEN | - | - | - | - | 3,071 | - |
| Korea Daily News | - | - | - | - | 436 | 310 |
| | <u>₩ -</u> | <u>₩ 3</u> | <u>₩ 291,528</u> | <u>₩ 114,594</u> | <u>₩ 129,319</u> | <u>₩ 132,668</u> |

| Company | Millions of Korean Won | | | | | |
|-------------------|------------------------|------------------|------------------|----------------|----------------|----------------|
| | Receivables (**) | | | Payables (**) | | |
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| KOBRASCO | ₩ - | ₩ - | ₩ - | ₩ 7,725 | ₩ - | ₩ 5,065 |
| POSCHROME | - | - | - | 1,218 | 2,660 | - |
| eNtoB Corporation | - | - | - | - | 648 | 1,728 |
| POSVEN | - | 172,996 | 172,996 | - | - | - |
| Korea Daily News | - | - | - | - | 14 | 42 |
| | <u>₩ -</u> | <u>₩ 172,996</u> | <u>₩ 172,996</u> | <u>₩ 8,943</u> | <u>₩ 3,322</u> | <u>₩ 6,835</u> |

(*) Sales and others include sales and non-operating income; purchases and others include purchases and overhead expenses.

(**) Receivables include trade accounts receivable and other accounts receivable; payables include trade accounts payable and other accounts payable

Eliminations of inter-company revenues and expenses for the year ended December 31, 2000 are as follows:

| Revenues | Millions of Korean Won | Expenses | Millions of Korean Won |
|-----------------|------------------------|-------------------------------------|------------------------|
| Sales | ₩ 4,760,761 | Cost of goods sold | ₩ 4,699,722 |
| Interest income | 5,192 | Interest expense | 3,863 |
| Rental income | 436 | Selling and administrative expenses | 57,755 |
| Others | 3,684 | Others | 8,733 |
| | <u>₩ 4,770,073</u> | | <u>₩ 4,770,073</u> |

Continued ;

Eliminations of inter-company revenues and expenses for the year ended December 31, 2001 are as follows:

| Revenues | Millions of Korean Won | Expenses | Millions of Korean Won |
|-----------------|------------------------|-------------------------------------|------------------------|
| Sales | ₩ 4,833,469 | Cost of goods sold | ₩ 4,747,583 |
| Interest income | 6,472 | Interest expense | 6,888 |
| Rental income | 685 | Selling and administrative expenses | 73,523 |
| Others | 6,999 | Others | 19,631 |
| | <u>₩ 4,847,625</u> | | <u>₩ 4,847,625</u> |

Eliminations of inter-company revenues and expenses for the year ended December 31, 2002 are as follows:

| Revenues | Millions of Korean Won | Expenses | Millions of Korean Won |
|-----------------|------------------------|-------------------------------------|------------------------|
| Sales | ₩ 4,602,603 | Cost of goods sold | ₩ 4,485,812 |
| Interest income | 1,654 | Interest expense | 1,678 |
| Rental income | 594 | Selling and administrative expenses | 88,482 |
| Others | 2,798 | Others | 31,677 |
| | <u>₩ 4,607,64</u> | | <u>₩ 4,607,649</u> |

Eliminations of significant inter-company receivables and payables for the years ended December 31, 2000, 2001 and 2002 are as follows:

| | | 2000 | |
|----------------------------------|------------------------|-------------------------------------|------------------------|
| Classification | Millions of Korean Won | Classification | Millions of Korean Won |
| Trade accounts and notes payable | ₩ 441,337 | Trade accounts and notes receivable | ₩ 578,614 |
| Short-term borrowings | 38,869 | Short-term loans | 39,896 |
| Other accounts and notes payable | 139,726 | Other accounts and notes receivable | 14,906 |
| Long-term debt | 70,206 | Long-term loans | 74,055 |
| Other liabilities | 69,397 | Other assets | 52,064 |
| | <u>₩ 759,535</u> | | <u>₩ 759,535</u> |

Continued ;

2001

| Classification | Millions of Korean Won | Classification | Millions of Korean Won |
|----------------------------------|------------------------|-------------------------------------|------------------------|
| Trade accounts and notes payable | ₩ 389,252 | Trade accounts and notes receivable | ₩ 482,204 |
| Short-term borrowings | 5,172 | Short-term loans | 19,395 |
| Other accounts and notes payable | 104,693 | Other accounts and notes receivable | 45,551 |
| Long-term debt | 49,570 | Long-term loans | 46,599 |
| Other liabilities | 318,263 | Other assets | 273,201 |
| | <u>₩ 866,950</u> | | <u>₩ 866,950</u> |

2002

| Classification | Millions of Korean Won | Classification | Millions of Korean Won |
|----------------------------------|------------------------|-------------------------------------|------------------------|
| Trade accounts and notes payable | ₩ 353,444 | Trade accounts and notes receivable | ₩ 477,520 |
| Short-term borrowings | - | Short-term loans | 4,754 |
| Other accounts and notes payable | 133,431 | Other accounts and notes receivable | 12,529 |
| Long-term debt | 43,551 | Long-term loans | 38,797 |
| Other liabilities | 26,877 | Other assets | 23,703 |
| | <u>₩ 557,303</u> | | <u>₩ 557,303</u> |

29. Segment and Regional Information:

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2000.

| | Millions of Korean Won | | | | |
|-------------------------------|------------------------|--------------------|--------------------|-------------------------|---------------------|
| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
| Statement of income: | | | | | |
| Net sales: | | | | | |
| External customers | ₩ 10,925,940 | ₩ 2,241,294 | ₩ 608,980 | ₩ - | ₩ 13,776,214 |
| Inter-segment | 2,504,724 | 1,336,946 | 970,245 | (4,811,915) | - |
| | <u>₩ 13,430,664</u> | <u>₩ 3,578,240</u> | <u>₩ 1,579,225</u> | <u>₩ (4,811,915)</u> | <u>₩ 13,776,214</u> |
| Operating income | ₩ 2,224,915 | ₩ 30,581 | ₩ 71,701 | ₩ (20,734) | ₩ 2,306,463 |
| Balance sheet: | | | | | |
| Inventories | ₩ 1,698,178 | ₩ 46,591 | ₩ 176,781 | ₩ (9,907) | ₩ 1,911,643 |
| Investments | 4,019,326 | 320,500 | 556,550 | (2,046,396) | 2,849,980 |
| Property, plant and equipment | 9,778,257 | 180,008 | 986,289 | (408,418) | 10,536,136 |
| Intangible assets | 377,460 | 716 | 58,575 | 17,357 | 454,108 |

Continued ;

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2001.

| | Millions of Korean Won | | | | |
|----------------------------------|------------------------|--------------------|--------------------|----------------------------|---------------------|
| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
| Statement of income: | | | | | |
| Net sales: | | | | | |
| External customers | ₩ 10,614,745 | ₩ 2,196,105 | ₩ 310,247 | ₩ - | ₩ 13,121,097 |
| Inter-segment | 2,245,314 | 964,793 | 1,690,496 | (4,900,603) | - |
| | <u>₩ 12,860,059</u> | <u>₩ 3,160,898</u> | <u>₩ 2,000,743</u> | <u>₩ (4,900,603)</u> | <u>₩ 13,121,097</u> |
| Operating income | ₩ 1,538,188 | ₩ 20,960 | ₩ 98,325 | ₩ (70,180) | ₩ 1,587,293 |
| Balance sheet: | | | | | |
| Inventories | ₩ 1,563,656 | ₩ 26,335 | ₩ 156,516 | ₩ (9,256) | ₩ 1,737,251 |
| Investments | 4,636,043 | 342,381 | 629,536 | (2,255,036) | 3,352,924 |
| Property, plant and equipment | 9,922,585 | 187,868 | 878,287 | (387,974) | 10,600,766 |
| Intangible assets | 394,588 | 4,898 | 146,747 | (55,525) | 490,708 |

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2002.

| | Millions of Korean Won | | | | |
|----------------------------------|------------------------|--------------------|--------------------|----------------------------|---------------------|
| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
| Statement of income: | | | | | |
| Net sales: | | | | | |
| External customers | ₩11,516,625 | ₩ 1,898,282 | ₩ 940,011 | ₩ - | ₩ 14,354,918 |
| Inter-segment | 2,076,385 | 686,250 | 1,859,673 | (4,622,308) | - |
| | <u>₩13,593,010</u> | <u>₩ 2,584,532</u> | <u>₩ 2,799,684</u> | <u>₩ (4,622,308)</u> | <u>₩ 14,354,918</u> |
| Operating income | ₩ 1,972,379 | ₩ 21,789 | ₩ 202,246 | ₩ (146,547) | ₩ 2,049,867 |
| Balance sheet: | | | | | |
| Inventories | ₩ 1,470,931 | ₩ 26,933 | ₩ 193,871 | ₩ (20,289) | ₩ 1,671,446 |
| Investments | 3,925,503 | 295,959 | 557,102 | (1,898,577) | 2,879,987 |
| Property, plant and equipment | 10,068,549 | 217,739 | 594,364 | (556,079) | 10,324,573 |
| Intangible assets | 391,271 | 3,444 | 83,002 | (2,905) | 474,812 |

Continued ;

Substantially all of the Company's operations are for the production of steel products. Net sales and non-current assets by geographic area as of and for the years ended December 31, 2000, 2001 and 2002 are as follows:

| | 2000 | |
|---|------------------------|---------------------|
| | Millions of Korean Won | |
| | Sales | Non-current assets |
| Korea | ₩ 9,159,560 | ₩ 12,744,261 |
| Japan | 931,622 | 65,123 |
| China | 1,871,968 | 382,728 |
| Asia/Pacific, excluding Japan and China | 854,557 | 147,965 |
| North America | 533,296 | 161,440 |
| Others | 425,211 | 338,707 |
| | ₩ 13,776,214 | ₩ 13,840,224 |

| | 2001 | |
|---|------------------------|---------------------|
| | Millions of Korean Won | |
| | Sales | Non-current assets |
| Korea | ₩ 8,507,086 | ₩ 13,195,547 |
| Japan | 692,072 | 55,196 |
| China | 2,037,185 | 486,185 |
| Asia/Pacific, excluding Japan and China | 821,662 | 178,322 |
| North America | 385,889 | 176,106 |
| Others | 677,203 | 353,042 |
| | ₩ 13,121,097 | ₩ 14,444,398 |

| | 2002 | |
|---|------------------------|---------------------|
| | Millions of Korean Won | |
| | Sales | Non-current assets |
| Korea | ₩ 9,531,423 | ₩ 12,870,717 |
| Japan | 650,029 | 43,110 |
| China | 2,088,735 | 369,075 |
| Asia/Pacific, excluding Japan and China | 1,069,432 | 236,359 |
| North America | 473,289 | 142,238 |
| Others | 542,010 | 17,873 |
| | ₩ 14,354,918 | ₩ 13,679,372 |

Reconciliation to U.S. Generally Accepted Accounting Principles—Restated:

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Republic of Korea ("Korean GAAP"), which differs in certain material respects from generally accepted accounting principles in the United States of America, as restated ("U.S. GAAP"). Application of U.S. GAAP would have affected the balance sheets as of December 31, 2000, 2001 and 2002 and net income for the years then ended to the extent described below.

As indicated in note 30(i), the U.S. GAAP reconciliation adjustments as of and for the years ended December 31, 2000 and 2001 have been restated. A description of the material differences between Korean GAAP and U.S. GAAP as they relate to the Company are discussed in detail below, taking into consideration the effect of the restatement items.

30. Significant differences between Korean GAAP and U.S. GAAP:

(a) Fixed asset revaluation and Special Depreciation

Under Korean GAAP, certain fixed assets were subject to upward revaluations in accordance with the Asset Revaluation Law, with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. When assets are sold, any revaluation surplus related to those assets under Korean GAAP would be reflected in income as additional gain on sale of assets under U.S. GAAP.

In addition, special depreciation recognized prior to 1995 under Korean GAAP for certain energy saving and productivity promotion facilities and equipment is recognized on a straight-line method over the life of the assets under U.S. GAAP.

(b) Salvage Value

Pursuant to a 1994 tax reform and in accordance with Korean GAAP, the Company elected to depreciate the 10 percent salvage value of all depreciable assets that were fully depreciated at December 31, 1993 over a three-year period starting in 1994. Under U.S. GAAP, property, plant and equipment, net of estimated salvage value, were depreciated over their estimated useful lives. Effective July 1, 1995, the Company revised the estimated salvage value of substantially all its fixed assets from 10 percent to zero. This change in estimate was necessitated by changes in technology and estimated removal costs associated with such assets. Amounts previously attributed to salvage value were depreciated over a three-year period for Korean GAAP. A three-year period was chosen in order to conform the financial accounting for this item to the Company's tax accounting, which used a three-year period as allowed by the Corporate Income Tax Law of Korea. Conforming the financial and tax accounting for the depreciation of amounts previously attributed to salvage value is permitted under Korean GAAP. Under U.S. GAAP, amounts previously attributed in salvage value have been depreciated over the estimated remaining useful lives of the related assets.

In 1999, Korean GAAP was again changed to require that all amounts previously attributed to salvage value be written off during 1999. The Company's accounting under U.S. GAAP was unaffected.

(c) Capitalized costs

Under Korean GAAP, the Company capitalizes certain foreign exchange gains and losses on borrowings associated with property, plant and equipment during the construction period. Under U.S. GAAP, all foreign exchange gains and losses are included in the

Continued ;

results of operations for the current period. Net capitalized foreign exchange gains and losses amounted to ₩ [2,316] million, ₩30,298 million and ₩20,611 million in 2000, 2001 and 2002, respectively.

In addition, in connection with capitalized interest costs under Korean GAAP, interest is capitalized on specific borrowings related to the construction of all property, plant and equipment incurred prior to completing the acquisition as part of the costs of such assets. Under U.S. GAAP, the Company is required to capitalize the amount that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use. Capital projects that have had their progress halted would suspend the capitalization of interest and would also delay the accumulation of depreciation during the suspense period.

Capitalized interest for the years ended December 31, 2000, 2001 and 2002 are as follows:

| | (Millions of Korean Won) | | |
|--------------------------------------|--------------------------|------------------|------------------|
| | 2000 | 2001 | 2002 |
| Capitalized interest | ₩ 82,948 | ₩ 69,315 | ₩ 64,788 |
| Depreciation of capitalized interest | (72,299) | (73,629) | (73,254) |
| Net income impact | <u>₩ 10,649</u> | <u>₩ (4,314)</u> | <u>₩ (8,466)</u> |

(d) Reserve for Repairs and Capitalized repairs

Prior to 2002, Korean GAAP permitted the establishment of a reserve for future repair costs associated with the Company's furnaces to be provided for over the estimated replacement cycle of such facilities. Costs of repairs are then charged to this reserve. As a result of a change in Korean GAAP in 2002 (Note 2), the Company reversed all previously recorded reserve for repairs to beginning retained earnings and commenced expensing such expenditures as incurred. In addition, expenditures made against reserve for repairs are expensed as incurred under Korean GAAP, regardless of the nature of the expenditure. U.S. GAAP requires that repairs that extend an asset's useful life or significantly increase its value be capitalized when incurred and depreciated. Routine maintenance and repairs are expensed as incurred.

(e) Intangible Assets

Under Korean GAAP, organization costs, research and development costs and internal use software costs have been recorded as intangible assets and amortized over a period not exceeding 20 years. Under U.S. GAAP, organization costs as well as research and developments costs are generally expensed as incurred. In relation to costs incurred for software developed for internal use, U.S. GAAP requires that costs incurred in the preliminary project stage be expensed as incurred. External direct costs such as material and service, payroll or payroll related costs for employees who are directly associated with the project, and interest costs incurred when developing computer software for internal use, should be capitalized and amortized on a straight-line method over the estimated useful life. Training costs, data conversion costs and general administrative costs should be expensed as incurred.

(f) Marketable Securities and Investments in Debt and Equity Securities

Under Korean GAAP, investments in debt and equity securities that are held for short-term cash management purposes are included in the "marketable securities" account and reported at fair value with unrealized gains and losses included in current earnings.

Continued ;

Investments in publicly traded debt and equity securities that are being held for long-term investment purposes are reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity. Investments in non-publicly traded equity securities are reported at cost. Investments in debt securities that management intends to hold until maturity are carried at amortized cost. If the fair value of an investment permanently declines compared to its acquisition cost as evidenced by events such as bankruptcy, liquidation, negative net asset values and cessation of operations, the carrying value of the debt or equity security is adjusted to fair value, with the resulting valuation loss charged to current operations. If the fair value of the security subsequently recovers, a gain is recognized up to the amount of previously recognized impairment loss.

For U.S. GAAP purposes, the Company accounts for those investments under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". SFAS No. 115 requires that marketable equity securities and all debt securities be classified in three categories and accounted for as follows:

- A) Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- B) Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- C) Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of accumulated other comprehensive income within shareholders' equity.

Under U.S. GAAP, declines in fair value of individual investments below their cost that are other-than-temporary result in write-downs of the investments' carrying value to their fair value. In addition, U.S. GAAP prohibits gain recognition based on subsequent recoveries of previously impaired investments.

Information with respect to marketable securities and available-for-sale debt and equity securities at December 31, 2000, 2001 and 2002 is as follows:

Trading Securities (In millions of Korean Won):

| As of December 31, | Carrying Value | Net unrealized Gains/Losses | Impairment Loss | Fair Value |
|--------------------|----------------|--------------------------------|-----------------|------------|
| 2000 | ₩ 945,629 | ₩ 10,847 | ₩ - | ₩ 956,476 |
| 2001 | 518,917 | 11,486 | - | 530,403 |
| 2002 | 1,196,310 | 6,366 | - | 1,202,676 |

Continued ;

Available-for-Sale Securities (In millions of Korean Won):

| | As of December 31, | | |
|--|--------------------|--------------------|--------------------|
| | 2000 | 2001 | 2002 |
| Book value | ₩ 2,350,250 | ₩ 2,647,082 | ₩ 2,708,481 |
| Unrealized gains and losses | (197,046) | 132,744 | (298,640) |
| Permanent impairment loss | (4,666) | (12,575) | (27,041) |
| Fair value (Korean GAAP) | 2,148,538 | 2,767,251 | 2,382,800 |
| | | | |
| Other-than-temporary impairment | (19,323) | (19,323) | (191,435) |
| Fair value (US GAAP) | <u>₩ 2,129,215</u> | <u>₩ 2,747,928</u> | <u>₩ 2,191,365</u> |

(g) Dividends

Under Korean GAAP, a proposed dividend that is subject to ratification from the Company's board of directors is recognized as a dividend payable in current liabilities, whereas under U.S. GAAP, only a declared dividend is recorded as a current liability.

(h) Deferred Income Taxes

In general, accounting for deferred income taxes is substantially the same between Korean GAAP and U.S. GAAP. The Company is also required to recognize the additional deferred tax effects that result from differences between the reported Korean GAAP and U.S. GAAP amounts. Korean GAAP does not require the income tax effect to be calculated for components within other comprehensive income. However, U.S. GAAP requires the presentation of the income tax effect allocated to components of other comprehensive income.

(i) Restatement of fiscal year 2000 and 2001 amounts

The Company's U.S. GAAP net income and shareholders' equity for fiscal years 2000 and 2001 have been restated to reflect certain corrections to previously reported net income and shareholders' equity in accordance with U.S. GAAP. The effects of these corrections are analyzed as follows:

| | (Millions of Korean Won) | |
|--|--------------------------|------------------|
| | 2000 | 2001 |
| U.S. GAAP net income as previously reported: | ₩ 1,626,805 | ₩ 703,856 |
| Adjustments: | | |
| (i) Salvage value | 140,873 | 129,735 |
| (ii) Impairment loss on fixed assets | - | 132,719 |
| (iii) Fixed asset revaluation | 13,417 | 11,109 |
| (iv) Others, net | (19,045) | 16,429 |
| (v) Deferred income taxes | (19,138) | (86,155) |
| U.S. GAAP net income as adjusted: | <u>₩ 1,742,912</u> | <u>₩ 907,693</u> |

Continued ;

Earnings per share ("EPS") in accordance with U.S. GAAP (in won)

| | | |
|--------------------------------------|----------|----------|
| U.S. GAAP EPS as previously reported | ₩ 19,051 | ₩ 8,628 |
| U.S. GAAP EPS as adjusted | ₩ 20,410 | ₩ 11,126 |

| | | (Millions of Korean Won) | |
|--|---------------------------------|--------------------------|---------------------|
| | | 2000 | 2001 |
| U.S. GAAP shareholders' equity as previously reported: | | ₩ 10,269,136 | ₩ 10,869,882 |
| Adjustments: | | | |
| (i) | Salvage value | (423,129) | (293,394) |
| (ii) | Impairment loss on fixed assets | - | 132,719 |
| (iii) | Fixed asset revaluation | 292,992 | 306,779 |
| (iv) | Others, net | (18,282) | (17,610) |
| (v) | Deferred income taxes | (184,295) | (252,691) |
| U.S. GAAP shareholders' equity as adjusted: | | <u>₩ 9,936,422</u> | <u>₩ 10,745,685</u> |

(i) Salvage value

As stated in footnote 31(b), effective July 1, 1995, the Company revised the estimated salvage value of substantially all of its assets from 10 percent to zero. For pre-1994 acquisitions that had not been fully depreciated as of December 31, 1993, the Company began depreciating the 10% salvage value over an additional three years under Korean GAAP and eight years under U.S. GAAP. Although the change in estimate was made as of July 1, 1995, the Company commenced depreciation of salvage value after the original 90% depreciable base was fully depreciated. This method of accounting for depreciation of salvage value extended the life of the fixed assets by three years under Korean GAAP and eight years under U.S. GAAP. U.S. GAAP requires changes in accounting estimates to be applied prospectively from the date of change. The change in estimate of salvage value should have been applied prospectively from July 1, 1995 over the remaining useful lives of the assets.

(ii) Impairment loss on fixed assets

An additional impairment loss of ₩132,719 million was previously reflected as a U.S. GAAP adjustment in 2001, based on a Board resolution on April 4, 2002 to permanently suspend the construction of the No.2 Minimill. The Company approved an alternative use for the structures and building to manufacture specialized auto body parts. The recognition of additional impairment charges was to reflect the write-down of certain machinery and equipment that do not have alternative uses to their net realizable values. Under U.S. GAAP, the additional impairment based on the net realizable value of the assets held for disposal should have been recorded in the 2002 financial statements with footnote disclosures in the 2001 financial statements. This adjustment will result in the recognition of impairment charge under both Korean GAAP and U.S. GAAP in 2002 and eliminates the GAAP difference previously reported.

(iii) Fixed asset revaluation

As stated in footnote 31(a), U.S. GAAP does not permit fixed asset revaluations, and as such, fixed asset revaluations as well as additional depreciation expenses recorded under Korean GAAP should be reversed under U.S. GAAP. This GAAP difference was previously considered but not calculated correctly. This adjustment is to reflect corrections to the revaluation

Continued ;

amounts and related depreciation expense previously reported.

(iv) Others, net

This adjustment revises amounts previously reported in the Company's 2000 and 2001 financial statements, including additional capitalized foreign exchange gains and losses, start-up costs and capitalized interest.

(v) Deferred income taxes

Under U.S. GAAP, deferred tax assets or liabilities should be recognized as a result of differences between the reported Korean GAAP and U.S. GAAP amounts. This adjustment is to correct previously reported deferred tax amounts recognized in the 2000 and 2001 financial statements.

This adjustment also reflects the deferred income tax effects of the restated U.S. GAAP adjustments based on corrections made on the Company's 2000 and 2001 financial statements.

(j) Reconciliation of net income from Korean GAAP to U.S. GAAP (as restated)

| | (Millions of Korean Won) | | |
|---|--------------------------|------------------|--------------------|
| | 2000 | 2001 | 2002 |
| Net income under Korean GAAP | ₩ 1,633,667 | ₩ 845,679 | ₩ 1,089,288 |
| Adjustments: | | | |
| Property, plant and equipment: | | | |
| Fixed asset revaluation | 27,664 | 28,769 | 28,667 |
| Special depreciation | (13,110) | (13,250) | (6,972) |
| Salvage value | 16,662 | 5,524 | 1,435 |
| Capitalized costs: | 8,333 | 25,984 | 52,543 |
| Reserve for repairs | 137,362 | 46,278 | - |
| Capitalized repairs | (30,797) | (5,870) | (11,466) |
| Impairment loss on investment securities | (25,806) | - | (177,532) |
| Others, net | (245) | (9,140) | 12,436 |
| Income tax effect | (10,818) | (16,281) | 30,017 |
| | <u>109,245</u> | <u>62,014</u> | <u>(70,872)</u> |
| Net income as adjusted in accordance with U.S. GAAP | <u>₩ 1,742,912</u> | <u>₩ 907,693</u> | <u>₩ 1,018,416</u> |
| Basic and diluted earnings per share as adjusted in accordance with U.S. GAAP | 20,410 | 11,126 | 12,430 |
| Weighted-average shares outstanding (thousands) | 85,393,600 | 81,580,331 | 81,932,084 |

(k) Reconciliation of shareholders' equity from Korean GAAP to U.S. GAAP (as restated)

| | (Millions of Korean Won) | | |
|---|--------------------------|---------------------|--------------------|
| | 2000 | 2001 | 2002 |
| Shareholders' equity before minority interest under | | | |
| Korean GAAP | ₩ 9,558,299 | ₩ 10,350,788 | ₩11,574,430 |
| Minority interest | (159,623) | (168,171) | (279,165) |
| | <u>9,398,676</u> | <u>10,182,617</u> | <u>11,295,265</u> |
| Adjustments: | | | |
| Property, plant and equipment: | | | |
| Fixed asset revaluation | (320,612) | (289,165) | (247,823) |
| Special depreciation | 20,599 | 7,349 | 377 |
| Salvage value | (6,959) | (1,435) | - |
| Capitalized costs | (129,632) | (103,648) | (51,105) |
| Reserve for repairs | 974,362 | 1,020,640 | - |
| Capitalized repairs | 45,515 | 39,645 | 28,179 |
| Impairment loss on investment securities | (19,323) | (19,323) | (191,435) |
| Dividends | 162,880 | 163,248 | 245,216 |
| Others, net | (13,109) | (22,249) | (9,813) |
| Income tax effect | (195,241) | (212,129) | 117,758 |
| Deferred taxes related to OCI | 19,266 | (19,865) | 82,734 |
| | <u>537,746</u> | <u>563,068</u> | <u>(25,912)</u> |
| Shareholders' equity as adjusted in accordance with U.S. GAAP | <u>₩ 9,936,422</u> | <u>₩ 10,745,685</u> | <u>₩11,269,353</u> |

(U) Deferred taxes in accordance with U.S. GAAP (as restated)

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities at December 31, 2001 and 2002, computed under U.S. GAAP, and a description of the financial statement items that created these differences are as follows:

| | (Millions of Korean Won) | |
|---|--------------------------|------------------|
| | 2001 | 2002 |
| Deferred tax assets: | | |
| Reserve for repairs | ₩ 144,774 | ₩ - |
| Fixed asset revaluation | 59,476 | 48,375 |
| Capitalized foreign exchange losses | 30,931 | 17,644 |
| Capitalized costs | 30,783 | 15,178 |
| Unrealized loss (gain) on valuation of securities | 32,229 | 55,424 |
| Impairment loss on fixed assets | 29,821 | 71,284 |
| Impairment loss on investment securities | 7,664 | 59,771 |
| Allowance for doubtful accounts | 35,007 | 99,479 |
| Depreciation expense | 16,845 | 16,890 |
| Capital expenditures | 9,586 | 9,580 |
| Research and development expense | 14,150 | 13,476 |
| Deferred taxes related to OCI | - | 82,734 |
| Others | 49,151 | 65,708 |
| Total deferred tax assets | <u>460,417</u> | <u>555,543</u> |
| Deferred tax liabilities: | | |
| Earnings from equity-method investees | 25,068 | 13,999 |
| Reserve for repairs | 303,130 | 154,132 |
| Accrued income | 25,328 | 11,028 |
| Reserve for technology | 193,039 | 228,977 |
| Capitalized repairs | 11,775 | 8,369 |
| Deferred taxes related to OCI | 19,865 | - |
| Others | 33,004 | 22,451 |
| Total deferred tax liabilities | <u>611,209</u> | <u>438,956</u> |
| Net deferred tax assets (liabilities) | <u>₩ (150,792)</u> | <u>₩ 116,587</u> |

31. Additional financial information in accordance with U.S. GAAP (as restated):

(a) Comprehensive income

Under Korean GAAP, there is no requirement to present comprehensive income. Under U.S. GAAP, comprehensive income and its components are required to be presented under the provisions of SFAS No.130, Reporting Comprehensive Income. Comprehensive income includes all changes in shareholders' equity during the period except those resulting from investments by, or distributions to owners, including certain items not included in the current year's results of operations. Comprehensive income for the years ended December 31, 2000, 2001, and 2002 is summarized as follows:

| | 2000 | 2001 | (Millions of Korean Won) 2002g getnsive in |
|--|------|------|---|
|--|------|------|---|

Accumulated other comprehensive income as of December 31, 2001 and 2002 is summarized as follows(In millions of Korea won):

(b) Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(i) Cash and cash equivalents, short-term financial instruments, accounts and notes receivable, accounts and notes payable, short-term borrowings and accounts payable.

The carrying amount approximates fair value due to the short-term nature of those instruments.

(ii) Marketable and Investment Securities

The fair value of market-traded investments such as listed company's stocks, public bonds and other marketable securities are based on quoted market prices for those investments. Investments in non-listed companies' stock, for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs.

(iii) Long-Term loans, trade account and notes receivable Loans receivable, accounts and notes receivable are reported net of specific and general provisions for impairment as well as present value discount factor. As a result, the fair values of long-term loans approximate their carrying values.

(iv) Long-Term debt

The fair value of long-term debt is based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

The estimated fair values of the Company's financial instruments stated under Korean GAAP at December 31, 2002 and 2001 are summarized as follows(In millions of Korean won):

| | 2001 | | 2002 | |
|---|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair value | Carrying Amount | Fair value |
| Cash and cash equivalents | ₩ 407,109 | ₩ 407,109 | ₩ 267,380 | ₩ 267,380 |
| Short-term financial instruments | 424,224 | 424,224 | 258,132 | 258,132 |
| Marketable securities | 530,403 | 530,403 | 1,202,676 | 1,202,676 |
| Accounts receivable | 1,787,981 | 1,787,981 | 1,885,739 | 1,885,739 |
| Investments Securities: | | | | |
| Estimated fair value | 1,902,747 | 1,902,747 | 1,619,928 | 1,619,928 |
| Not practicable | 1,507,702 | - | 937,204 | - |
| Short-term borrowings | 718,054 | 718,054 | 587,955 | 587,955 |
| Trade accounts and notes payable | 509,563 | 509,563 | 689,745 | 689,745 |
| Long-term debt, including current portion | 5,641,909 | 5,155,825 | 4,516,895 | 4,656,941 |

(c) Minority interest

Minority interests in consolidated subsidiaries are disclosed within the shareholders' equity section of the balance sheet. Under U.S. GAAP, minority interests are recorded between the liability section and the shareholders' equity section in the consolidated balance sheet.

(d) Assets held for sale

Korean GAAP does not require that assets to be disposed of be classified as "Held for Sale" or "Held and Used," depending on the existence of a disposal plan. Currently the assets relating to the No. 2 Minimill are classified within "Construction-in-Progress", net of impairment amounts. U.S. GAAP requires that long-lived assets that are to be disposed of be classified as "Held for Sale". Assets totaling ₩194,443 million acquired in connection with the No. 2 Minimill project are classified as "Held for Sale" as of December 31, 2002. Assets classified as held for sale are not subject to depreciation.

(e) Classification differences

Under Korean GAAP, certain income and expense items considered as non-operating or extraordinary would be considered as operating items under U.S. GAAP. In addition, Korean GAAP does not require cash balances that are restricted in use to be separately disclosed. Under U.S. GAAP such restricted cash balances would need to be separately presented on the face of the balance sheet. These reclassifications would have no impact on the shareholders' equity, net income or earnings per share amounts reported under U.S. GAAP.

32. Recent Accounting Pronouncements:

U.S. GAAP:

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

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement is effective for exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of this statement to have an impact on its financial position or results of operations.

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

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

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

Korean GAAP:

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

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

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

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- (a) There is a commitment by a third party to purchase the asset at the end of its useful life; or
- (b) There is an active market for that type of asset and it is probable that such a market will exist at the end of the asset's useful life.

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

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

- (a) Significant risks and rewards of ownership of the goods have been transferred to the buyer
- (b) The enterprise no longer retains legal title or effective control over the goods sold
- (c) The seller's price to the buyer is fixed or determinable
- (d) Collectibility is reasonably assured
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably

The Company's current policy for revenue recognition is not significantly different from the requirements of SKFAS No. 4. Accordingly, the Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

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

SKFAS No. 6 requires that proposed dividends that are subject to ratification from the Company's board of directors subsequent to the issuance of the financial statements not be recognized as a liability at the balance sheet date. In addition, appropriation of retained earnings subsequent to the balance sheet data should not be reflected in the current year balance sheet. SKFAS No. 6 also requires that companies that are undergoing liquidation to present their financial statements under the liquidation basis. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

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

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

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

Investor Information

POSCO Securities

As of December 31, 2002 POSCO had 90,781,795 shares of common stock outstanding. The company's integrated common stock [code 05490] is listed and traded on the Korean Stock Exchange. Of the total outstanding, 21,447,188 shares [85,788,752 ADRs] have been issued as depository receipts and are listed and traded under the symbol of PKX on the New York Stock Exchange and 0549q.L on the London Stock Exchange.

Depository and Transfer Agent for American Depository Receipts [ADRs]

Holders of ADRs should deal directly with the depository, the Bank of New York, on all matters relating to their ADRs.

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