

# Leading Steel

Today &  
Tomorrow



posco

# Leading

## Today & Tomorrow

### Contents

Financial Highlights	2
2003 at a Glance	4
Chairman's Message	6
<b>Leadership</b>	<b>10</b>
<b>Trust</b>	<b>20</b>
<b>Innovation</b>	<b>30</b>
<b>Growth</b>	<b>40</b>
<b>Caring</b>	<b>50</b>
Board of Directors	58
Executive Officers	60
Organization	61
Global Network	62
Corporate Milestones	64
Financial Statements	65

# Steel

Generations mature. New ones are born. And the timeless challenge is to pass on the wisdom and principles that will help the next one achieve greater success and prosperity in changing times. At POSCO, we've been actively preparing to lead the next generation of steel over the past four years. The following pages tell the story of our progress in 2003—our best year ever—as we moved a step closer to our vision of becoming a leading global company.

## Financial Highlights

The year 2003 was the most profitable yet in POSCO's 35-year history thanks to our successful efforts to expand production and sales of our four strategic product categories: automotive steel, linepipe steel, ferritic stainless steel, and high-grade electrical steel. While higher raw materials and logistics costs pushed our cost of goods sold up 14.1% for the year, these expenses were far outpaced by increased sales of higher margin products and substantial organizational efficiencies gained from our ongoing Process Innovation initiative now entering its fifth year, propelling our financial performance to record highs.

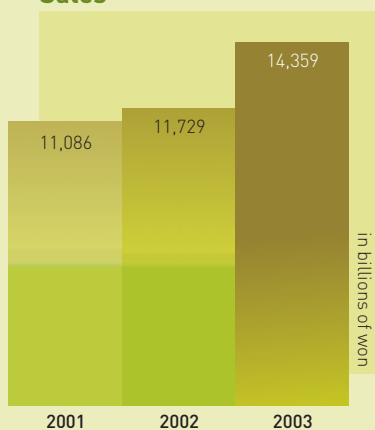
	1999	2000	2001	2002	2003
<b>Income &amp; Balance Sheet Data</b> in billions of won					
Sales	10,696	11,692	11,086	11,729	14,359
Operating Income	1,820	2,099	1,429	1,834	3,058
Net Income	1,558	1,637	819	1,101	1,981
Total Assets	17,228	17,767	17,616	17,245	18,407
Total Liabilities	8,141	8,337	7,419	5,678	5,449
Shareholders' Equity	9,087	9,430	10,197	11,567	12,958

### Other Financial Data

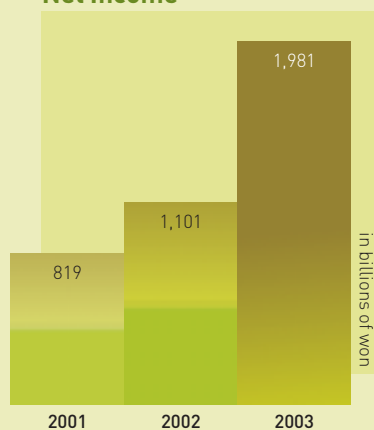
Operating Margin	17.0%	18.0%	12.9%	15.6%	21.3%
Return on Equity	17.8%	17.7%	8.4%	10.2%	16.3%
Net Debt to Equity	34.2%	37.6%	42.4%	26.8%	10.1%
Number of Shares Outstanding	96,480,625	96,480,625	93,589,485	90,781,795	88,966,155
Earnings per Share (Korean won)	16,242	19,161	10,043	13,442	24,306
Year End Stock Price (Korean won)	125,000	76,500	122,000	118,000	163,000

The financial results in this selection are for POSCO only

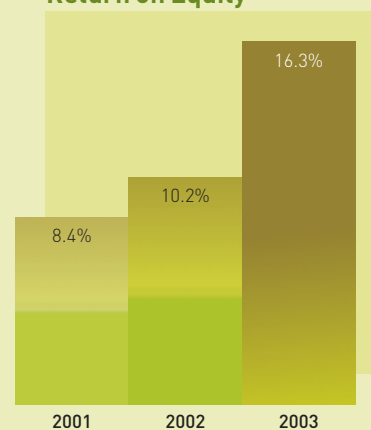
### Sales



### Net Income

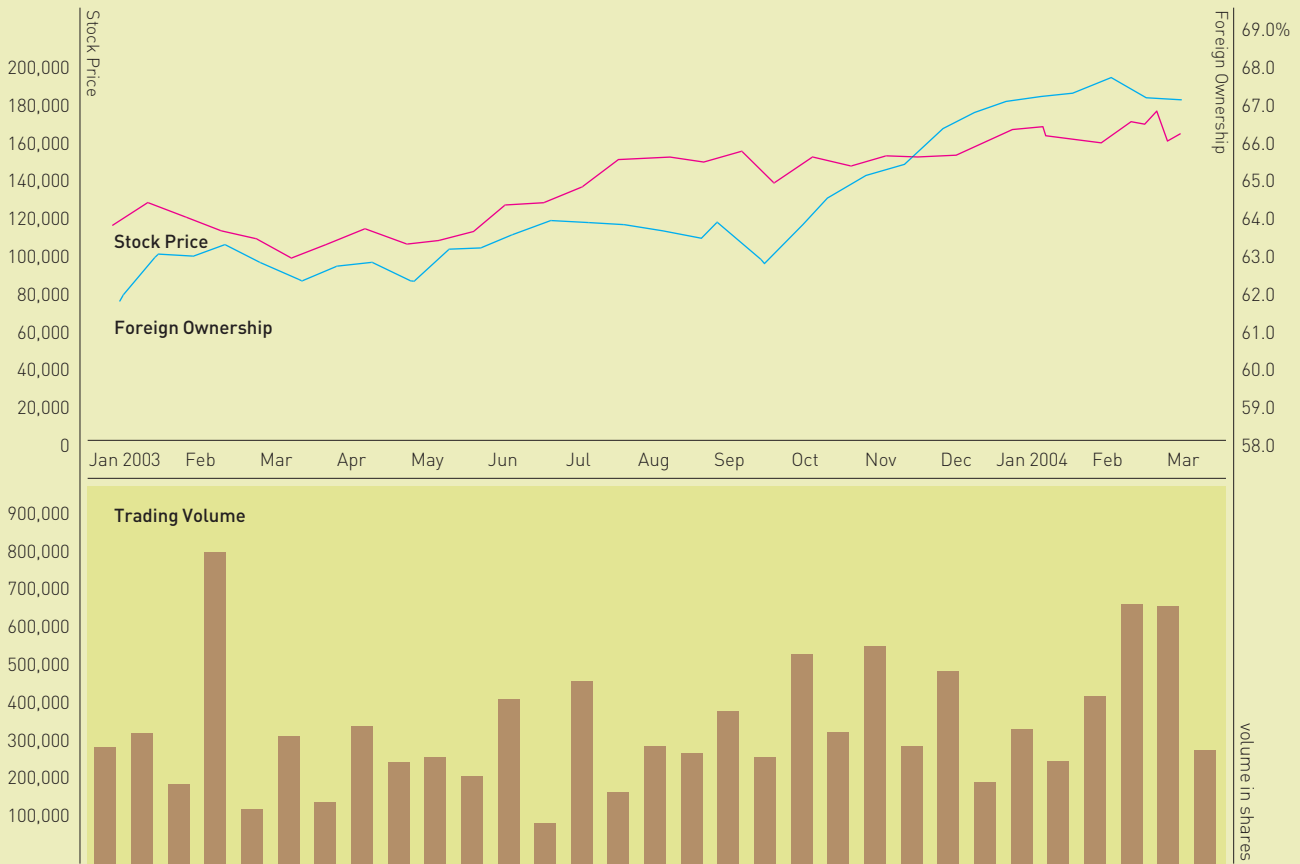


### Return on Equity

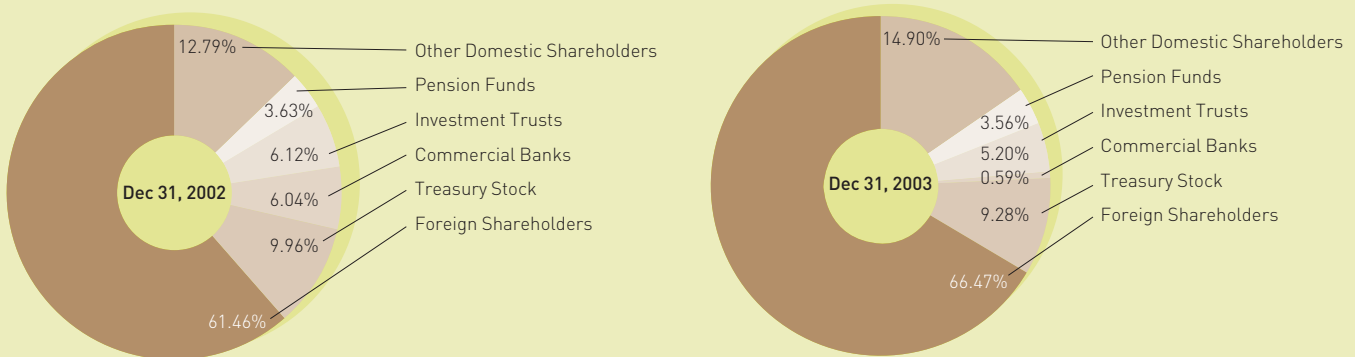


During the year, rising global steel prices and a more-profitable sales mix propelled sales up 22.4% to KRW 14,359 billion. Our increasingly efficient cost structure enabled us to achieve a level of profitability unheard of in the steel industry with an operating margin of 21.3% and net earnings of KRW 1,981 billion. Our EBITDA margin jumped from 26.9% to 31.5%. ROE leaped from 10.2% to 16.3%. Our financial structure has never been more solid. And the stock market rightly rewarded our efforts to deliver shareholder value by pushing our stock price up 38.1%, handily outpacing the KOSPI's 29.2% gain in 2003.

### Foreign Ownership & Stock Price



### Shareholder Demographics



## 2003 at a Glance

Our 35th year in the steel business was one of solid growth and expansion.

### January 17

POSPIA enterprise portal officially launched

Korea's first web-based enterprise portal allows our people to handle virtually every work activity from their homepage. The portal has increased POSPIA utilization rates from 76% to 95% and productivity by 10% to 30%.

### January 21

Automotive Steel Application Center opens

This KRW 24.3 billion center at Gwangyang enables us to work more closely with our automaking clients as we develop new automotive steel manufacturing techniques such as tailor-welding and hydroforming.

### March 15

New leadership takes over

President Ku-Taek Lee assumes POSCO's helm as chairman and CEO, capping a career with the company that

began back in 1969. Vice-President Chang-Oh Kang becomes president at the same time following board approval.

### April 3

Tailor-welded blank plant commissioned

Capable of producing 1.7 million blanks annually, this Gwangyang plant marks a major boost for our value-added automotive steel lineup. A second phase will raise capacity to 3.6 million blanks by the end of 2004.

### May 2

Knowledge management system launched

This new central repository of group intelligence and institutional memory consolidates knowledge that was formerly distributed across 36 independent systems, handling upwards of 250,000 searches a day.

January



March



May



**May 29**

**FINEX demo plant commissioned**

Now in the final stages of commercialization, this new eco-friendly iron-making process represents the future of ironmaking and our dedication to sustainable development.

**June 2**

**New POSCO Code of Conduct announced**

We update our code for the 21st century to emphasize our commitment to integrity in all our stakeholder dealings. Our new Corporate Ethics Department provides guidance as well as monitoring compliance.

**July 3**

**The POSCO Museum opens**

Opening on the 30th anniversary of Pohang Works Phase 1 completion, the museum recounts the myriad challenges and successes that have shaped us during our 35-year history.

**August**

**Steel's highest credit ratings rise**

Standard & Poor's raises our rating from BBB+ to A- on the 8th, followed by Moody's with a boost from Baa2 to A3 on the 13th. These ratings are the same as Korea's sovereign rating and the highest of any steelmaker.

**September 19**

**ZPSS commissions new cold-rolling mill**

Increasing capacity by 180,000 tons, the new mill positions Zhangjiagang POSCO Stainless Steel to win new business in China for its value-added stainless steel products.

**October 30**

**POSMAC joint venture mine officially opens**

Our 20% stake in this venture with BHP Billiton and two other firms in Western Australia guarantees us 3 million tons of Marra Mamba iron ore

annually over the next 25 years at a significant discount.

**November 7**

**POSCO China Holding Corporation launched**

Established in Beijing with US\$35 million in capital, the firm will plan and execute an integrated growth strategy for our expanding local network of 16 ventures and offices.

For the latest POSCO news, please visit our online press room at [www.POSCO.co.kr](http://www.POSCO.co.kr).

July



September



October



November







# To Our Shareholders and Customers

On behalf of the 19,300-strong POSCO family, I'm pleased to announce that we far surpassed our 2003 sales goal with outstanding growth of 22.4% that pushed revenues to KRW 14,359 billion. While we're proud of this new sales record, we're even prouder of our industry-leading 21.3% operating margin and 79.9% growth in our bottom-line earnings to KRW 1,981 billion.

### **2003 Review**

Our stellar financial performance came at a time of political and economic turmoil highlighted by the war in Iraq, SARS, and snowballing consumer debt and bankruptcy in Korea. On the upside, strong growth in China continued to help mitigate the steel industry's chronic overcapacity problem, while trade pressure from the EU persuaded the United States to drop protective tariffs in early December, with China following suit at the end of the year.

### **Increasing capacity for growth**

We joined the ranks of the world's top-five stainless steelmakers in April with the commissioning of our Pohang No. 3 Stainless Steelmaking Plant. We also had a banner year in China, completing expansion projects

at mills in Zhangjiagang, Dalian, and Shunde, breaking ground for a new stainless mill in Qingdao, establishing an automotive steel processing center in Suzhou and a mill in Benxi, winning approval to build a stainless steelmaking plant in Zhangjiagang, and setting up POSCO China Holding Corporation to manage our growing network.

### **Improving competitiveness**

Our focus on four strategic product categories—automotive steel, linepipe steel, ferritic stainless steel, and high-grade electrical steel—boosted sales of these value-added products by 1.24 million tons to 4.31 million tons. In August, we monetized a portion of our SK Telecom shareholdings in a ¥52 billion exchangeable bond issue, the first by a Korean firm to boast a negative yield. S&P and Moody's also upgraded our credit rating to A- and A3, respectively—the same as Korea's sovereign rating. In October, we officially opened our POSMAC iron ore joint venture in Australia, gaining a valuable hedge against increasingly volatile raw materials markets.

### **Transforming innovation**

Our Process Innovation initiative continued to transform the way we do business in 2003. We passed our 18-month Six Sigma milestone in October with 995 projects completed. At year-end, we had 24 Master Black Belts, 70 Black Belts, and 312 Green Belts, giving us the capacity to drive Six Sigma on our own. As we pushed ahead with our web-enabled manufacturing network project, we also completed or upgraded our balanced scorecard, supplier relationship management, customer relationship management, treasury, knowledge management, and human resource management systems.

### **Setting new standards**

We reviewed and updated our own ethical standards in line with current global norms, introducing a new code of conduct in June. We also commissioned an outside analysis of our governance, resulting in significant changes in the makeup and operation of our board.

### **Increasing shareholder value**

We paid out a combined interim and year-end cash dividend equivalent to 120% of par value as well as buying and retiring 2% of our outstanding shares. We upgraded our investor services with expanded disclosure and quarterly conference call webcasts. Our efforts were rewarded with a 38% rise in our stock price, propelling us into the No. 4 position on the Korea Stock Exchange with a market capitalization of KRW 14,500 billion.

## 2004 Preview

With global markets forecast to grow around 3% in 2004, brisk exports and facility investments will put Korea's growth in the 4% range. While we expect this broad-based recovery to push global steel demand past 900 million tons, tight raw material supplies will constrain production growth, pushing up steel prices across the board. In 2004, we'll be focusing on growth, competitiveness, and innovation as we take aim at sales of KRW 16 trillion.

### Investing in growth

We'll be investing over KRW 2 trillion in 2004 to boost annual crude steel output to 32 million tons by 2008. At Pohang, we'll commission our first 1.5 million-ton capacity FINEX ironmaking plant. At Gwangyang, we'll focus on the automobile industry by breaking ground for our fifth and sixth continuous galvanizing lines. In addition to joint ventures in China, we'll be pursuing opportunities in India, Southeast Asia, and other markets with abundant natural resources.

### Rising above the competition

We aim to boost our annual crude steel output to 29 million tons and finished steel production to 28 million tons by achieving an optimal material balance between our steelworks and eliminating manufacturing bottlenecks. We'll be upgrading our distribution network and building an integrated marketing network to link our production bases at home and abroad. In addition to actively collaborating with our suppliers to develop iron ore and other resources, we'll continue to expand our global R&D network through strategic alliances and partnerships.

### Innovating to the next level

We continue to prepare for the workplace changes our new activity-based management system and integrated manufacturing network will bring when they come online at year-end. We'll also be implementing projects that stimulate innovations in employee learning and corporate culture with a special focus on cross-functional projects as we expand our Six Sigma program.


In closing, our commitment to world-class products and governance, sustainable development, and community service continued to win the trust and respect of all our stakeholders in 2003, adding luster the POSCO brand. We hope you'll join us as we continue to forge the future of steel in 2004.

Best regards,



**Ku-Taek Lee**  
Chairman & CEO

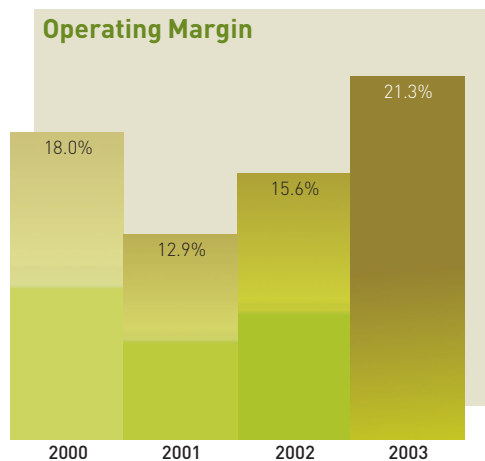
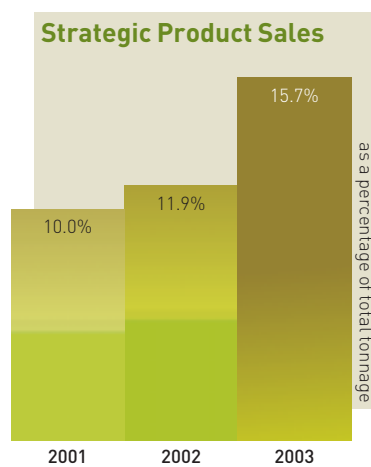
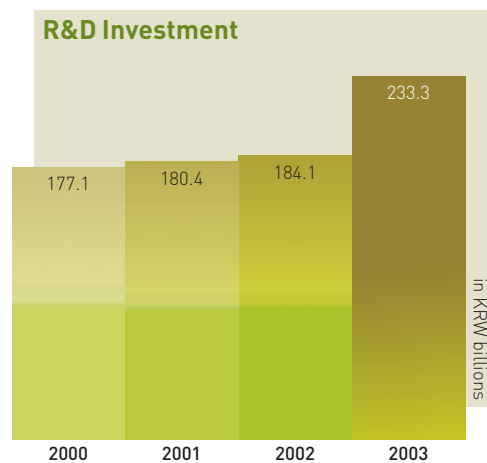




How does  
**leadership**  
begin with focus?

## How does leadership begin with focus?

In today's global marketplace, simply being the cheapest steel producer isn't a strategy for long-term competitiveness. That's why we're focusing on higher quality products that require advanced technology and expertise. It's a focus that requires savvy investments in products, processes, and facilities. And one that pays big dividends in the form of lower costs, higher quality, and industry leading profitability.



In 2003, we continued to lay a solid foundation for future growth by increasing investment in R&D 26.7%. Higher overall sales as well as a steadily rising percentage of value-added strategic products—automotive steel, linepipe steel, ferritic stainless steel, and high-grade electrical steel—helped us achieve an industry leading 21.3% operating margin.



**Myoung-Rae Cho**  
Engineer  
Cold-Rolling Technology Development Group

“In February 2003, we entered a general technology cooperation agreement with Salzgitter Flachstahl of Germany to jointly develop higher quality steel for the automotive industry. We expect the partnership to lead to even more efficient cold-rolling processes and shorter development cycles for new grades and techniques, enhancing the competitiveness of both companies in this value-added sector.”



# Leading technology

As a global leader in steel, we continually strive to achieve the highest level of technical excellence, developing the higher-quality products and cost-effective production processes that will give us a superior competitive edge. In 2003, we invested KRW 233.3 billion in R&D—just over 1.6% of sales—in our pursuit of technical leadership in six strategic fields: automotive steel, linepipe steel, ferritic stainless steel, high-grade electrical steel, FINEX ironmaking, and high-strength structural steel.

## Automotive Steel

In 2003, we sold 2,722,000 tons of automotive steel. Opening in January 2003, our Automotive Steel Application Center is the base for our early vendor involvement programs with all four Korean automakers and three overseas firms. In March 2003, we commissioned a state-of-the-art tailor-welded blank plant capable of laser welding 1.7 million blanks annually, and a project to boost capacity to 3.6 million blanks annually by October 2004 is now well underway. We also plan to commission two hydroforming production lines by March 2005 that will enable us to produce complex part designs that are both light and strong.

## Linepipe Steel

In 2003, we delivered 1,140,000 tons of API-specification linepipe for China's West-East Gas Pipeline project and a number of other projects worldwide. Since early 2002, we have developed hot-rolled X70 and X80 grades as well as P110 grade for oil wells. We are now developing production technology for X100 grade steel as we work to establish ourselves as a major supplier through joint R&D projects with Russia's Bardin Institute and technical alliances with international pipemakers.

## Ferritic Stainless Steel

In April 2003, we commissioned the Pohang No. 3 Stainless Steelmaking Plant and the Pohang No. 3 Annealing & Pickling Line, increasing capacity by 360,000 tons and making our Pohang Works one of the world's largest ferritic stainless steel production facilities. Consistent with our long-term capacity expansion plans, we continue to pursue breakthroughs in productivity and low-cost processing which will make us even more competitive. Toward this end, we have optimized key processes such as argon-oxygen decarburization, slag control, and low-temperature, low-speed rolling as well as devel-

## Strategic expansion

Capacity expansion goes hand-in-hand with our focus on value-added products. In 2003, we added a third stainless steelmaking plant, boosting our stainless steel capacity by nearly 600,000 tons to 1.66 million tons. In 2004, we'll be moving ahead with plans to boost automotive steel production, breaking ground for our fifth and sixth continuous galvanizing lines that will add 850,000 tons of steel capacity by 2006.

### E-procurement successes

Information technology has revolutionized procurement at POSCO. Launched in 2001, our e-procurement system has reduced processing time from 9 days to just 2.3 days in 2003, handling 93% of total purchases. During the year, we upgraded our strategic sourcing capabilities by implementing a supplier relationship management system that's now elevating the competitiveness of our supply chain. The system provides our suppliers with performance feedback, current inventory information, bi-annual raw material requirement forecasts, channels to make proposals and introduce new technology, and up-to-the-minute information on transport ship location.



oped a cost-effective manufacturing process that runs on a conventional tandem cold-rolling mill.

### High-Grade Electrical Steel

In 2003, we began expanding our high-grade grain-oriented steel production capacity and developed new production technologies for high-grade non-oriented very-low-core-loss electrical steels commonly used in large motors and generators. We also developed new grain-oriented low-core-loss electrical steels with magnetic domain refinement technologies. As we review additional production capacity expansion for thin-gauge and high-grade grain-oriented electrical steels, we will continue to boost production of high-grade non-oriented electrical steels through technical advances and process optimization to meet increasing demands for applications like environment-friendly hybrid electric vehicles.

### FINEX Ironmaking

Our FINEX process has a host of advantages over the traditional blast-furnace process. The process offers lower production costs thanks to the ability to use cheaper coking coal for fuel. FINEX also eliminates costly up-front investment in sinter and coke plants, a significant environmental-friendly advance that produces only 6% of the SO<sub>x</sub>, 4% of the NO<sub>x</sub>, and 85% of the CO<sub>2</sub>. Commissioned in May 2003, our 600,000-ton-per-year FINEX demo plant is now being used to evaluate and verify process and facility reliability. In 2004, we plan to build and commission our first commercial 1.5-million-ton capacity plant. We fully expect FINEX technology to emerge as a leading ironmaking technology that will help keep steel sustainably growing in the 21st century.

### High-Strength Structural Steel

High-strength structural steel used in the construction, automobile, and shipbuilding industries, high-strength structural steel features a fine crystalline grain structure approaching 2 microns that is formed without alloying or heat treatment, resulting in a tensile strength in excess of 800 MPa. Today, we're developing ultrafine-grain plate, hot-rolled, and wire rod products using our existing rolling facilities as we move ahead with projects to commercialize ultrahigh-strength 1,300 MPa-class bolt steel and highly corrosion-resistant steels that will dramatically extend the service life of seaside steel structures.

### Manufacturing Productivity

At an integrated steelworks, high productivity in the ironmaking and steelmaking processes is essential to keep downstream processes working smoothly. In 2003, we continued to develop cutting-edge technologies, processes, and systems that will enable us to get more stable and productive performance from our steelworks facilities in the years ahead. In the ironmaking field, we focused on the operational stability of our aging blast furnaces as we worked to achieve zero downtime through a comprehensive inspection and preventive maintenance regime. We developed and implemented an online furnace temperature control system at the Pohang No. 4 Blast Furnace. These and other advances enabled us to increase our 2003 pig iron output by 744,000 tons to 27,314,000 tons. In the steelmaking field, we continued to develop key technologies to



“We’re excited to be working with POSCO on the future of steel. While the company is well known for its long-standing relationships with Pohang University of Science and Technology and the Research Institute of Industrial Science & Technology, POSCO has also dramatically expanded its support of basic research to leading universities in Korea and abroad over the past decade.”

**Suk-Hoon Kang** left  
Masters Candidate  
Laboratory of Material Deformation & Processing  
Seoul National University

**Kyung-Moon Lee** right  
Masters Candidate  
Alloy Design Laboratory  
Seoul National University



**Jung-Jyn Ha** left  
**Soo-Yeon Choi** right  
Sales Associates  
Plate & Wire Rod Sales Department

“In the end, business comes down to relationships. And our new customer relationship management system is helping us build even stronger ones. While these tools are helping us better understand our customers and their needs, the challenge is to translate that understanding into action to deliver what our customers need, when they need it. It’s a challenge we look forward to meeting with higher-grade products and service.”

improve converter productivity and durability. In recent years, we have improved our dynamic refractory brick repair process and slag control methods, developed a zero-downtime refractory reconstruction process, and installed an N<sub>2</sub> splash-coating facility. These ongoing advances at the Pohang No. 2 Steelmaking Plant have produced an industry-leading converter lifespan performance, rising from 5,967 heats in 2001 to 7,218 heats in 2003. Together, these advances enabled us to raise our 2003 crude steel output by 834,000 tons to 28,900,000 tons.

### **Maintaining Excellence**

In 2003, the second full year since we launched our Maximo computerized maintenance management system in 2001, facility downtime fell 47.9% at Pohang and 9.9% at Gwangyang, while planning accuracy rose by 23.2% and 27%, respectively. Ongoing facility upgrades and systematic inspections extended our regular hot-rolling mill shut-down cycle from four weeks to five weeks, eliminated annual overhauls at our continuous casting plants, and steadily reduced the need for scheduled facility shutdowns. Over the next four years, we will continue to extend maintenance intervals and optimize the use of our maintenance resources as we aim to reduce maintenance costs by around KRW 500 billion annually at each of our steelworks.

### **Procuring Competitiveness**

In 2003, we purchased a total of 73,773,000 tons of raw materials, including 41,290,000 tons of iron ore, 19,871,000 tons of coal, 1,444,000 tons of metallics, and 743,000 tons of stainless steel materials such as nickel, ferrochrome, and stainless scrap. While total materials purchased increased by 2.8% in terms of tonnage, higher international prices in virtually all major raw materials categories and logistics costs pushed expenditures up 19.5% to KRW 5,200 billion.

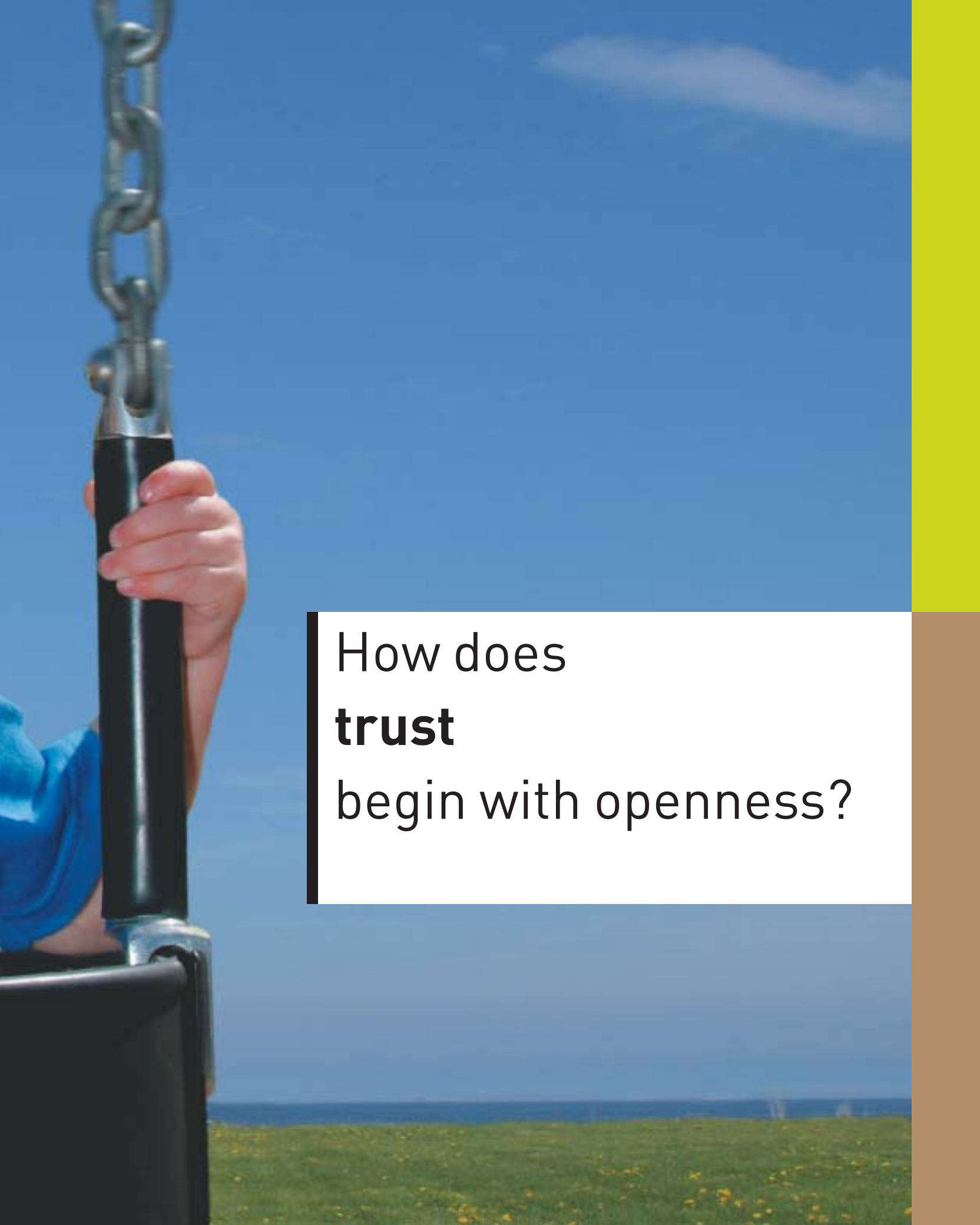
Over the years, we have partnered with major international raw materials suppliers to develop mines and build processing facilities to secure a stable supply of materials for our operations. We have invested in coal mines in Australia and Canada since the early 1980s, and our joint ventures in Brazil and South Africa have been producing iron ore pellets and ferrochrome since 1998. In October 2003, our POSMAC iron ore mine venture with BHP Billiton in Australia officially opened, marking our debut in this key resource development field. As expanding global mill capacity in China and elsewhere, continues to tighten supply, we are aggressively moving to ensure our materials procurement needs are met through long-term contracts and larger bulk purchases. At the same time, we continue to lower costs by increasing purchases of inexpensive materials as well as sourcing from regional suppliers. We have also begun using futures markets to procure a portion of our requirements for materials such as nickel that are currently experiencing significant price volatility.

Since 1983, we have retained a fleet of bulk carrier vessels to transport our raw materials. Our 37-vessel fleet currently delivers 75% of our requirements, with the remaining 25% covered through short- and long-term chartering contracts. We believe this strategy gives us the flexibility to minimize the impact of increasing volatility in the global shipping industry.

### **Mine development**

BHP Billiton's Mining Area C officially opened in the Pilbara region of Western Australia on October 30, 2003. Known as "POSMAC", the venture is jointly owned by BHP Billiton (65%), POS-Ore (20%), CI Minerals Australia (8%), and Mitsui Iron Ore Corporation (7%). POSMAC will play a key role in ensuring we have a stable supply of raw materials, providing us with 3 million tons of Marra Mamba iron ore annually for the next quarter-century at a savings of more than 10% over market prices. The venture agreement also lays a framework for a long-term strategic alliance with BHP Billiton on future ore development projects, a natural progression of a long-lasting relationship that dates back to POSCO's earliest days.



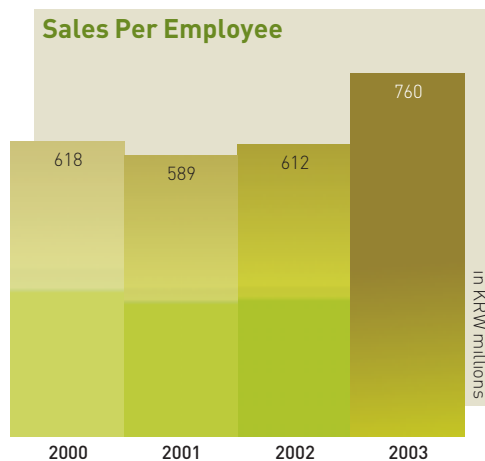
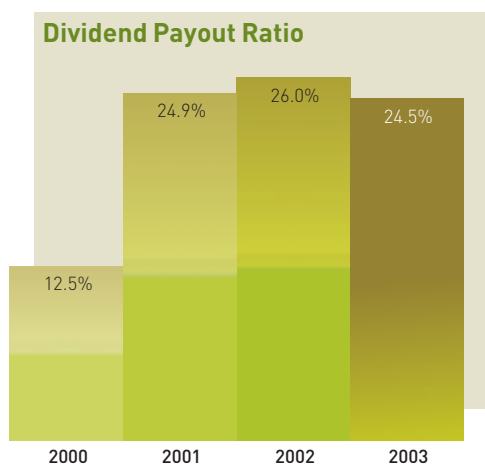
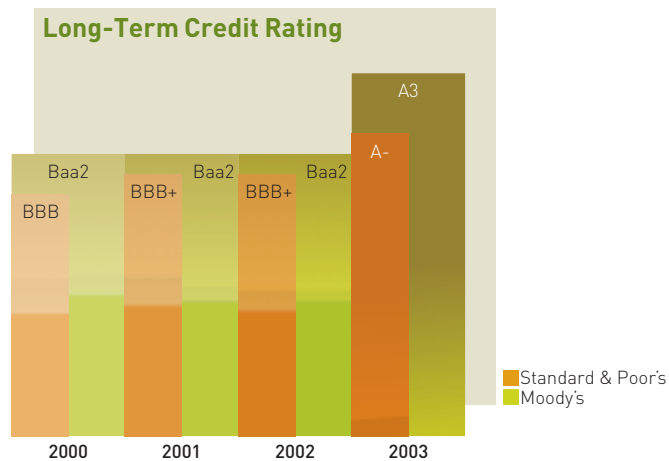
A person's hand is visible on the left, gripping a black handle attached to a metal chain. The background is a clear blue sky with a few wispy clouds and a green field with small yellow flowers at the bottom. A vertical yellow bar is on the right side of the image.

How does  
**trust**  
begin with openness?

## How does trust begin with openness?

A good reputation is one of the most valuable assets a corporation can have. But it's not an entitlement. It's something that must be earned day-in and day-out in every interaction we have with our stakeholders. Guided by our values and standards as embodied in our new code of conduct, we are now achieving a higher level of openness, integrity, and discipline in all our relationships, inspiring trust that will serve us well in years ahead.





Both Standard & Poor's and Moody's raised our credit ratings to match Korea's sovereign rating in 2003. While our dividend payout ratio held steady at around 25%, strong earnings produced a dividend of KRW 6,000 for our shareholders, a remarkable 71.4% increase over 2002. Employee productivity also continued to increase, rising 24.2% in terms of sales per employee.

# The ethos of success

Sound corporate ethics is emerging as the cornerstone of competitiveness in the global marketplace. At POSCO, we aspire to earn the respect and trust of our stakeholders by embracing the highest ethical standards in every aspect of our business. On June 2, 2003, we culminated an extensive review and analysis of ethical norms from home and abroad with the unveiling of the updated POSCO Code of Conduct. Today, the challenge is to live up to its principles in all our relationships, both internal and external.

The success of today's POSCO is due in great part to the values and standards we embraced from the very beginning. Our founding commitment to integrity and discipline combined with an uncompromising stance toward the illegal and improper gave us a solid foundation from which to overcome the difficulty and adversity of our earliest days to emerge as a world-class steelmaker some three decades later. This tradition of responsibility helped us make history in 1993 when we became the first Korean firm to publicly unveil a code of conduct.

In recent years, a number of high-profile corporate scandals and failures have once again put the public spotlight on corporate ethics. We have seized on this opportunity to reaffirm our values and standards as we elevate our thinking and ethical values to international standards.

The updated POSCO Code of Conduct has five sections outlining our fundamental responsibilities as well as our ethical commitments to each of our stakeholder groups. It is augmented by rules of conduct providing general guidance on ethical behavior in seven specific areas as well as compliance guidelines offering concrete advice concerning gifts, entertainment, and other common issues. We have compiled all these materials into a handy pocket-sized handbook and printed a five-point integrity self-test on the back of each employee ID card to assist our employees in making ethical decisions in their daily work.

The upgraded code required an upgrade to the organizational unit tasked with supporting it. Formerly a team-level group, the new Corporate Ethics Department provides employees with walk-in access to counselors to discuss ethical issues and personal con-

## Governance recognition

In its September 2003 issue, *Asiamoney* published the results of its second annual corporate governance poll of 120 companies in 10 industry groups across the Asia-Pacific region. The poll consisted of two questionnaires: one filled out by each company with a maximum score of 56, and another filled out by research analysts with a maximum score of 60 points. Our combined score of 89 points—44 from our self-assessment and 45 from analysts—put us at the top of the rankings in the materials category for a second straight year.



“In conjunction with the launch of the new POSCO Code of Conduct, the Corporate Ethics Department sponsored a competition to select ideas, slogans, cyber posters, and screensavers to help build awareness. I’m proud that my design won first place in the cyber poster category. But it makes me even prouder when I see my work positively impacting the way my coworkers approach their work and stakeholder relationships.”

**Jeong-Wook Kwon**  
Corporate Communications Department



**Jeffrey D. Jones**  
Attorney at Law  
Kim & Chang

“It’s a distinct honor to be elected to the POSCO Board of Directors. In the two decades since I began practicing law in Korea in 1980, I’ve seen Korean businesses undergo a remarkable transformation that has seen many of them become global powers in their industries. Today, they’re also paying increasing attention to good governance. As an outside director and member of the Audit and Insider Trading Committees, I look forward to helping POSCO measure up to its commitment to timely and fair disclosure in the years ahead.”

cerns. Employees can also seek guidance from department heads or ethics leaders, or directly phone or e-mail their questions or violation reports to the department.

With the introduction of the new code, we also embarked on an aggressive training and PR program to build consensus for our goal of ethical excellence. Early on, we conducted two company-wide workshops that played a key role in fostering awareness and active participation. We consistently promoted the new code through the company newspaper, intranet, and website. We selected and trained ethics leaders in each division and department to mentor their colleagues. We also made corporate ethics an integral part of many of our training programs, including new employee orientations. An online corporate ethics course is now available on-demand via the POSCO e-learning system, enabling employees to challenge and measure their ethical awareness and sensitivity.

Perhaps the most crucial and difficult challenge in adopting the new code was enlisting the support of our business partners. CEO Ku-Taek Lee sent letters to each of our affiliates, customers, suppliers, and partners explaining the new code and requesting their cooperation in abiding by it. We also followed up the letters with orientation meetings to avoid misunderstandings about the new standards, particularly our strict prohibition of traditional gift giving and receiving practices associated with major holidays, to avoid all appearances of improper influence in our business relationships.

### Cultivating Credibility

In 2003, we put a lot of effort into upgrading the supporting infrastructure and quality of our investor services. On the infrastructure side, we created a database with key information on major fund managers, analysts, and potential investors. On the quality side, we began actively utilizing our corporate knowledge management system and data warehouse as a communications resource as we applied Six Sigma methods to improve service quality, resulting in more timely and accurate business information for both analysts and investors.

Starting with Seoul in January, we held our annual CEO Investor Forum meetings in five key financial markets to review our 2002 corporate performance and preview our 2003 plans and prospects. Our busy year on the road also saw us participate in eight major investor conferences as well as hold over 250 one-on-one meetings with fund managers and buy- and sell-side analysts.

During the year, three influential Korean organizations—the *Korea Economic Daily*, Korea Investor Relations Association, and *Money Today*—recognized us with their highest IR awards. While local accolades are always rewarding, it's especially meaningful to be highly rated by Asia's top analysts. In the 2nd annual *Reuters Investor Relations Asia Equities Investment Report*, both buy-side and sell-side analysts ranked us as having Asia's best company IR in the basic materials category as well as being the most improved. Even more rewarding was our ranking by sell-side analysts having Korea's best company IR.

### Stock retirement

In October 2003, we continued to increase shareholder value by repurchasing and retiring treasury shares for the third straight year. This time, we repurchased and retired 2% of the total issued and outstanding shares—1,815,640 shares valued at KRW 253.4 billion—reducing outstanding shares to 88,966,155 while boosting earnings per share by 2.04%. Given the dividend effect of share retirements, it is our ongoing policy to coordinate our dividend and share retirement policies to maximize the shareholder benefit.

At year-end, we held a total of 7,346,200 treasury shares, excluding 912,010 shares held in a monetary trust fund. In addition to treasury shares repurchased directly on the open market, we indirectly acquired shares in accordance with the trust fund. We also extended a KRW 100 billion monetary trust operated in conjunction with the fund for an additional year at the time of maturity in November 2003.

### Risk management

We have identified foreign exchange rate and interest rate risk as the market risks most likely to negatively impact our sales and profitability.

For foreign exchange rate risk, we estimate VaR using a 95% confidence level for both cashflow-at-risk and translation-at-risk. CfaR is calculated on short-term (1 month) and long-term (2~12 months) bases using a parametric analysis. TaR is calculated for foreign currency assets and debts extending beyond the current year using a Monte Carlo analysis. This simulation allows us to predict future exchange rate scenarios with a lognormal distribution created using historic information on the volatility of the underlying currency and a correlation coefficient. Both correlation and volatility are calculated using RiskMetrics Group's RiskMetrics™ data set.

For interest rate risk, we estimate IaR using a 95% confidence level for all variable interest-rate debt using a parametric analysis. This simulation allows us to predict future interest rate scenarios with a lognormal distribution created using historic interest rate information and a correlation coefficient. As above, both correlation and volatility are calculated using RiskMetrics Group's RiskMetrics™ data set.

In 2004, we will be working even harder to expand our shareholder base as we make building trust with the international investment community through timely and fair disclosure a top priority.

### Inspiring Excellence

In 2003, we focused on upgrading the competitiveness of our workforce to meet the rapidly changing needs of business in this age of the digital innovation and globalization. At the heart of our efforts is an evolving competency- and performance-based human resource management process that is now transforming the way we hire, recruit, reward, train, and retain top talent to keep us growing and innovating at the forefront of our industry.

During the year, we hired 390 new employees as well as 60 experts in global management, cutting-edge manufacturing technology, and other key fields. We selected and sponsored more than 70 employees in study programs at home and abroad as we continued to systematically foster professional and leadership growth across our organization. We also upgraded our capabilities in future areas of growth by assigning our best people to strategic technical fields as well as key overseas investment projects in China and elsewhere.

Cultivating tomorrow's leaders is a top priority for us. During the year, our e-Leaders Academy career development program graduated its second class of 25 carefully selected managers. With a succession plan for over 60 department-level management positions now in place, we are currently in the process of implementing tailored mentoring and training programs to prepare these future managers for leadership excellence.

We executed a major overhaul of our compensation system in 2003. In addition to boosting the employee profit-sharing ratio, the new system increased the salary range for all manager-level and above staff to provide more flexibility in rewarding exceptional competencies and performance. We continue to fine-tune the impartiality and effectiveness of this new merit-based pay system by improving the alignment of individual and organizational goals during goal-setting and upgrading training for performance evaluators.

We continued to lead in employee welfare in 2003, becoming one of the first Korean firms to adopt a five-day, 40-hour workweek in advance of the government-mandated implementation scheduled for July 2005. As expected, the change from a 44-hour workweek has increased the productivity of our workforce, validating the win-win premise behind this important labor issue. We also upgraded the cafeteria benefit plan implemented in 2002, enabling our employees to pick-and-choose from a "menu" of benefits to match their specific needs and lifestyles.



“As an analyst covering Asia’s steelmaking sector, I naturally spend a fair amount of time researching what POSCO is up to. Over the past couple of years, POSCO has made significant advances in its investor relations program, improving both the quality and quantity of the information available. An analyst’s job is never easy, but POSCO has made it a lot easier to get the information I need to do my job. Keep up the good work!”

**Geoffrey C. Boyd**  
Senior Analyst  
CLSA Asia-Pacific Markets



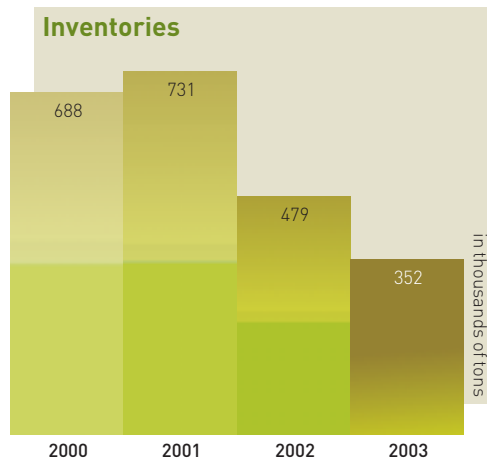
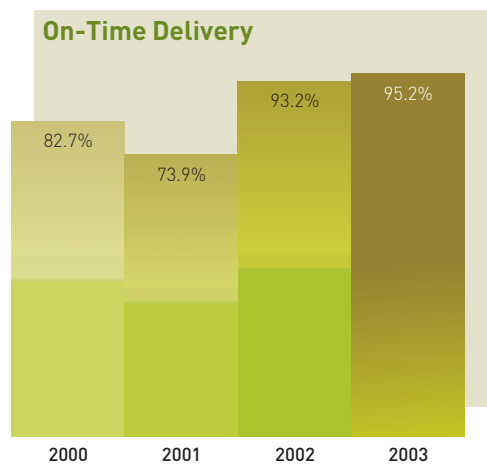
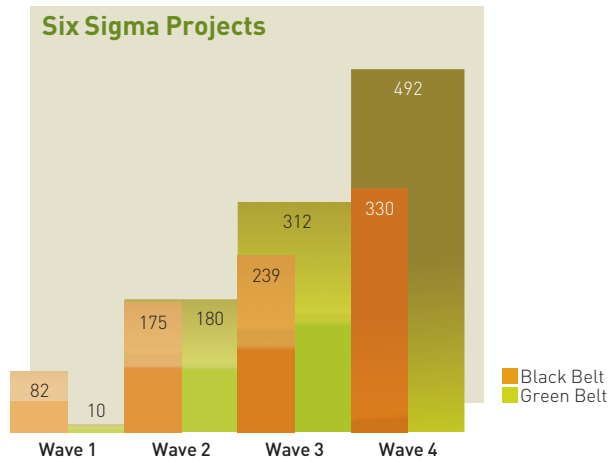




How does  
**satisfaction**  
begin with innovation?

## How does satisfaction begin with innovation?

If there's one constant in business today, it's change. Not so long ago, companies only had to worry about a handful of local competitors. Today, they're competing with hundreds and thousands from around the world. Driven by a commitment to continuous improvement, we're now putting the finishing touches on a comprehensive multi-year transformation that has solidified our position as one of the world's most-competitive steelmakers.



Our Six Sigma program began generating significant savings in 2003, the first full fiscal year of its existence. The calculated savings amounted to KRW 204.6 billion, up from KRW 10.7 billion in 2002. We also continued to improve our on-time performance as we reduced inventories from 6.8 days to 4.6 days.



**Kwan-Su Jeon**  
Curriculum Planner  
Human Resources Development Center

“E-learning technology has revolutionized the way POSCO people train. What started out with five online courses in 2000 has grown to 211 courses at the end of 2003. Today, over 87% of our courses are online and total enrollment exceeds 212,000! In 2004, we’ll be working on customizing courses to meet student needs as well as expanding our online and blended course offerings to give our people the best training possible.”

How does satisfaction begin with innovation?

# Innovation in action

Over the past four years, our Process Innovation initiative has transformed the way we do business from the inside out. Along the way, we've upgraded our "hardware" with information technology and our "software" with Six Sigma, sharpening our competitiveness for the challenges that lie ahead as well as delivering greater satisfaction to our customers.

The second phase of our Process Innovation initiative launched in November 2001 has intensified our focus on the customer over the past two years as we have continued to systematically improve our internal business processes. Slated to run through the end of 2004, PI-2 continued to focus on our expanding Six Sigma program, ongoing manufacturing execution system refresh project, and remaining PI-1 follow-up projects in 2003.

## Heading Toward Six Sigma

Launched in May 2002, our Six Sigma program shifted from the introductory phase to the expansion phase with the launch of Wave 3 in June 2003. The 551 projects carried out in Wave 3 (312 Green Belt, 239 Black Belt) far surpassed the combined 447 projects of Waves 1 and 2, with over 2,000 employees participating on either a full- or part-time basis.

While the first two waves were an opportunity to get acquainted with the Six Sigma concept and acquire hands-on experience with various methodologies and tools, Wave 3 was when Six Sigma came into its own as a powerful vehicle for executing our business strategy. Rather than dealing with worksite problems on an ad hoc basis, we began applying Six Sigma principles and methods to business planning, technical development, and other real-world processes that determine our corporate goals. As we clearly defined the individual roles and responsibilities of multiple divisions and departments, the number of cross-functional projects dramatically expanded. The "Mega Y" automotive steel project and other cross-functional projects spanning all six of our strategic fields accounted for 32% of the 251 total Black Belt projects undertaken in 2003.

Wave 3 also marked the expansion of our program scope beyond our internal processes to include suppliers and partners. During 2003, we launched five pilot Black Belt projects with four major supply-chain partners: POSCON, POSCO Machinery, Chosun

## IT recognition

One of America's top-three business publications, *BusinessWeek* named us in the streamlining category of its Web Smart 50 list in November 2003 for our use of online systems to cut costs by US\$17 per ton since 1999. Remarkably, we were the only Korean firm and the world's only steelmaker to make the list.



### Six Sigma progress

Our Six Sigma program took center stage in our ongoing PI initiative in 2003, affirming the success of our initial adoption as we worked to expand it company-wide during the year. Driven by the determination and vision of top management and the dedication and commitment of employees at all levels of our organization, we made significant progress toward to our Six Sigma vision, moving beyond tools and methodologies to change the way we think and work as we continued to accelerate our transformation into a learning organization capable of evolving to meet the challenges of the future.



## Six Sigma

Refractories, and POSDATA. We didn't neglect our customers either, expanding our Six Sigma program to every stage of the value chain. With nearly 1,000 projects under monitoring at the end of Wave 3, we're now pushing ambitiously ahead in Wave 4 with the launch of over 800 new projects that will make innovation an integral part of daily life throughout our organization in 2004.

### Manufacturing Satisfaction

Launched in 2002, our manufacturing execution system refresh project is now putting in place a highly scalable web-enabled manufacturing network that integrates and standardizes the myriad operational processes at our integrated steelworks. Based on our best manufacturing processes, this state-of-the-art network will enable us to achieve maximum operational efficiency, allowing workers to spend more time on creative analysis and decision-making tasks as it creates a fertile environment for Six Sigma and other ongoing initiatives.

Covering all 81 plants and 47 storage yards at our two steelworks, the execution system is the first by a domestic manufacturer to be programmed in the platform-independent Java language using a component-based development methodology. Phase one of the refresh project encompassing our raw materials handling, ironmaking, and chemical treatment operations was launched in January 2002 and completed in Gwangyang in December 2003 and in Pohang in January 2004. When the rest of the new manufacturing network comes online in December 2004, our POSPIA integrated information system will become a seamless conduit between our marketing department and mills, sharply focusing our value chain on meeting the customer's quality, delivery, and information needs.

### Expanding Innovation

Six out of eight remaining PI-1 follow-up projects were successfully completed in 2003.

Our expanded balanced scorecard system now extends from the enterprise to the department level, enabling us to more effectively align and monitor individual department objectives and performance with strategic corporate objectives.

Our new supplier relationship management system is now enhancing competitiveness across the supply chain, complementing the strategic sourcing capabilities of our e-procurement platform by providing greater accuracy and efficiency in supplier evaluation as well as timely decision-making information.

Our new customer relationship management system consolidates all customer information in a single database, enabling us to deliver tailored customer service as part of our customer touchpoint strategy.

Our new knowledge management system systematically brings together knowledge and information scattered throughout the enterprise, enabling us to enhance work performance and accelerate the implementation of Six Sigma and other key business strategies.



“I’ve enjoyed the challenge of helping POSCO architect its next-generation manufacturing network. The goal of the manufacturing execution system project I’m involved in is to integrate and standardize manufacturing processes at the Pohang and Gwangyang Works with a web-based integrated system that has the flexibility and scalability to grow with the company and its needs. When the network comes fully online at the end of 2004, POSCO’s competitive lead in manufacturing is certain to grow even further.”

**Maurits Blok**  
Global Consultant  
Oracle

### Enterprise portal launch

We launched Korea's first web-based enterprise portal system in January 2003. The POSPIA enterprise portal provides a unified gateway for employees to access information from the corporate intranet, Internet, or any other external source. Since portal launch, POSPIA utilization rates have risen from 76% to over 95%. The enterprise portal connects employees with a total of 85 internal systems and some 5,000 task screens with a productivity boosting customizable interface.



Our new treasury system adds greater efficiency in cash flow management and speeds up the management decision-making process.

Our expanded human resources management system is also proving to be a big productivity booster, enabling employees to view payroll, appraisal, timekeeping, benefit, hiring, and application status information online.

As we head toward the conclusion of our PI initiative in December 2004, we'll be focusing on wrapping up the final two PI-1 follow-on projects: the expansion of our existing activity-based costing system into an activity-based management system, and the extension of our data warehouse to cover finance, purchasing, and other remaining business processes.

### Serving Customers Better

The launch of our customer relationship management system in July 2003 marked a fundamental shift in our focus toward the customer both in mindset and business processes, enabling us to deliver the products and services our customers want when they want them. In conjunction with this launch, we upgraded our sales system and practices, implementing a mobile sales support system that allows our sales staff to process orders and provide service at any customer touchpoint. The new system also enables us to get to know end-user customers by providing direct links to our technical and sales departments as well as online access to current order, production, and shipment information via our Steel-N.com website for a superior service experience. These and other service innovations played a key role in boosting our internal customer satisfaction index rating from 70.4% in 2000 to 81.6% in 2003.

### Delivering Satisfaction

Despite a week-long strike in May by unionized truck drivers that temporarily suspended domestic ground shipments, proactive management, continued innovation, and close cooperation with our customers enabled us to achieve a remarkable 97.7% on-time delivery performance for 2003. During the year, we continued to streamline and upgrade our logistics capabilities by consolidating control over all storage facilities, enabling us to cut inventories by 26.5% from 479,000 tons to 352,000 tons. We helped improve customer productivity and our own sales by spearheading a project to develop lightweight transport trailers, enabling us to ship up to two tons more steel on each land shipment. We also expanded our rail shipment capabilities, opening a rail yard capable of storing 18,000 tons of steel products in the Seoul region in December 2003. To meet the yard's 500,000-ton annual handling capacity target, we purchased 74 coil steel railcars, reducing shipping costs as well as shaving two days off the normal delivery time by ship.






“Everyone’s heard the saying ‘knowledge is power’. Well, since we launched our enterprise knowledge management system in May 2003, I’ve seen that power first-hand, and it’s exciting. Our knowledgebase has been growing by an average of 1,000 entries a day, and searches are running well over the quarter-million mark. I can literally see POSCO getting smarter every day as we evolve into a learning organization.”

**Yul-Ran Kim**  
Assistant Manager  
Knowledge Asset Department

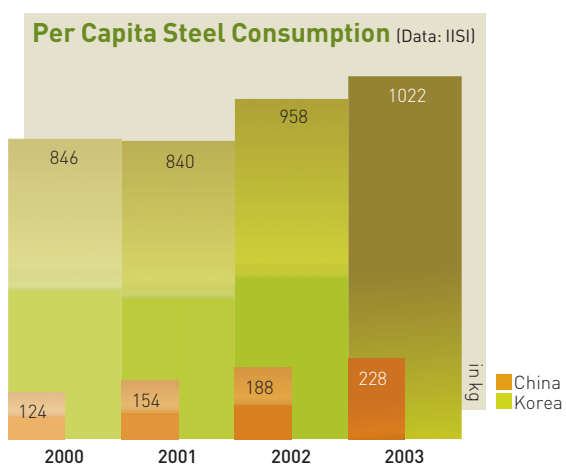
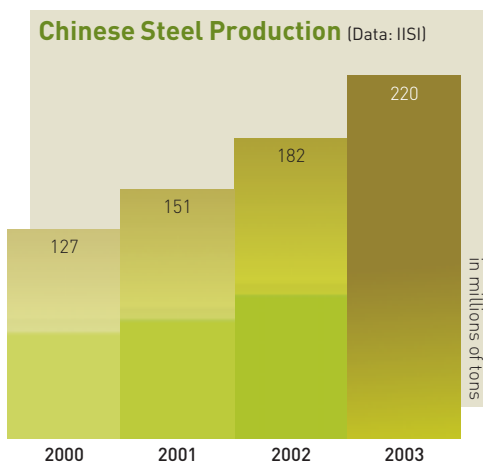
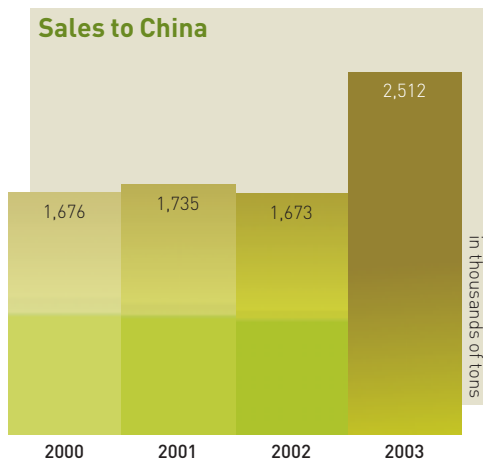




How does  
**growth**  
begin with nurturing?

## How does growth begin with nurturing?

While mergers and acquisitions are often the favored vehicle for growth in today's ultracompetitive markets, we prefer to partner with local firms in our global growth strategy. Over the years, we've cultivated partnerships in raw materials development, technical development, and downstream manufacturing that now reach around the globe. And more and more of these win-win partnerships are coming into full bloom.



We commissioned a considerable amount of new capacity at our Chinese joint ventures in 2003, enabling us to boost feedstock sales by 50.1% in terms of tonnage. During the year, China accounted for 36.7% of our exports, followed by Japan at 21.4%, Southeast Asia at 16.7%, the United States at 7.9%, and other countries at 17.3%.

# To China and beyond

A year after surpassing the United States as the world's top importer of steel, China's insatiable appetite for steel continued to set new records in 2003 at 266 million tons. No other international steelmaker is more at home in this market than POSCO. We've invested in local projects valued at US\$838 million to date, and we're committed to others valued at US\$1.41 billion through 2006. And our global vision has only just begun to dawn.

Our business in China dates back to 1991 when we established our first office in Beijing. Over the past 12 years, we have pursued a comprehensive business strategy here, directly investing in facilities to produce value-added products in key industrial centers across the nation as well as sourcing coal and other raw materials locally. Today, we are supplying the advanced steelmaking technology and capital this dynamic market demands through a growing network of downstream processing mills producing galvanized sheet, prepainted sheet, electrical sheet, and cold-rolled stainless steel, proving ourselves to be a valuable partner in growth.

Zhangjiagang POSCO Stainless Steel Co., Ltd., an 82.5:17.5 joint venture with Jiangsu Shagang Group in Jiangsu Province, produces up to 120,000 tons of galvanized sheet and 280,000 tons of cold-rolled stainless steel annually. Responding to rising local demand, ZPSS doubled its stainless cold-rolling capacity in September 2003. ZPSS saw 2003 sales rise 32.8% to US\$538 million, while earnings fell by 47.7% to US\$15.7 million due to capacity expansion.

Dalian POSCO-CFM Coated Steel Co., Ltd., a 55:30:15 joint venture with China National Ferrous Metal Material Corporation and SK Networks in Liaoning Province, produces up to 100,000 tons of galvanized sheet and 150,000 tons of prepainted sheet annually. While sales rose 8.5% to US\$115 million in 2003, PCCS recorded a US\$5 million loss due to a 100,000-ton prepainted sheet capacity expansion completed in March 2003 and increasing competition.

Shunde Pohang Coated Steel Co., Ltd., a 93.7:6.3 joint venture with Beijiao Investment in Guangdong Province, produces up to 100,000 tons of galvanized sheet and 150,000 tons of electrical and prepainted sheet annually. In 2003, SHUNPO saw sales rise 27.6% to US\$74 million, while earnings fell 74.5% to US\$1.4 million due to the addition of a multi-coating

## Partners in progress

China is a formidable steel power, accounting for a fifth of the world's production and a quarter of its consumption. This as well as close proximity to Korea and rapidly growing local demand for high-quality steel products makes the Middle Kingdom a key market for us as we continue to shift our focus to value-added steel grades. By establishing POSCO China Holding Corporation, we aim to fully integrate ourselves with Chinese society as a partner for national growth.



“Although POSCO has operated an office here in Shanghai since 1992, the launch of POSCO-China in November 2003 signals that this is a company committed to putting down roots in China. This idea of partnership is symbolized by the hyphen in our corporate logo. We’re not here to exploit the Chinese market, we’re here to help it reach its full potential. And that’s a win-win proposition we Chinese can relate to.”

**Xin Feng In** left  
Salesman, Shanghai Office  
POSCO China Holding Corporation

**La Shu Juan** right  
Accountant, Shanghai Office  
POSCO China Holding Corporation



**Dr. Mao Zheng Dong**  
Head of R&D  
Zhangjiagang Pohang Stainless Steel

“At ZPSS, our goal is to be China’s quality and price leader in cold-rolled stainless steel. In 2003, we took an important step toward this goal by winning regulatory approval to add a stainless steelmaking plant and hot rolling mill to our existing operations. In addition to boosting our annual capacity by 600,000 tons, these facilities will give us an invaluable upstream processing capability that will make us even more competitive in the years ahead.”



production line for electrical and prepainted sheet that came online in February 2003.

Qingdao Pohang Stainless Steel Co., Ltd., an 80:20 joint venture established in December 2002 with Qingdao Steel in Shandong Province, will produce up to 150,000 tons of cold-rolled stainless steel annually. Ground was broken for the US\$130.7 million QPSS venture in April 2003, and the project is slated for a December 2005 completion.

POSCO Suzhou Automotive Steel Processing Center Co., Ltd., a wholly owned subsidiary established in August 2003 in Jiangsu Province near Shanghai, will produce up to 200,000 tons of automotive sheet steel annually. Ground was broken for the US\$20 million project in September 2003, and completion is scheduled for May 2004.

The launch of POSCO China Holding Corporation on November 7, 2003 marked the first concrete step of a growth strategy CEO Ku-Taek Lee has advocated since he took the POSCO helm in March 2003. POSCO China is expected to significantly boost the competitiveness of our present and future investments in China, streamlining management of our local ventures and enabling us to leverage our technical and managerial leadership to cost-effectively deliver the advanced technology and quality steel local customers demand and expect.

We launched two other major local projects in the second-half of 2003 that will increase the total value of projects we are involved in from US\$838 million today to nearly US\$2.25 billion through 2006. On August 19, 2003, we signed an agreement with Benxi Iron & Steel forming a US\$664 million 10:90 joint venture capable of producing 1.8 million tons of cold-rolled steel coil and galvanized sheet annually. Located in Liaoning Province, BX Steel POSCO Cold Rolled Sheet Co., Ltd. will be formally incorporated in April 2004 with completion scheduled in May 2006.

September 8, 2003 marked another milestone in our international operations when we received approval to add a stainless steelmaking plant and hot-rolling mill with a combined annual capacity of 600,000 tons to our existing joint venture in Zhangjiagang. Our first upstream production project to date outside Korea is tasked with providing a stable supply of hot-rolled stainless steel coil to ZPSS and QPSS. The US\$744 million project is scheduled to come online in December 2006, eliminating the current domestic stainless steel shortage as it provides local processors with cheaper, higher-quality feedstock.

### **Manufacturing Beyond China**

Second only to China in both population and economic growth, India figures prominently in our global production strategy. Pushing ahead with an early advance into this emerging market, we aim to gain investment experience by building a local presence with small-scale processing centers that will allow us to gauge local market trends in the near-term, gradually expanding as demand grows.

In Asia, Vietnam is challenging China's leading growth rate with high-single-digit rates of its own. We intend to aggressively compete for major upcoming national projects, leveraging the long-standing relationships we've forged with the government and local steel-

#### **Auto steel project**

Construction at the POSCO Suzhou Automotive Steel Processing Center near Shanghai continued on schedule for completion in May 2005. Our first solo manufacturing venture in China, the center will provide higher quality steel and services to local automakers like Shanghai Volkswagen and Shanghai GM. The Chinese auto market is expected to more than triple to 10 million vehicles annually by 2010, increasing demand for automotive sheet steel by roughly the same factor.

### LNG terminal project

Work on the Gwangyang LNG Terminal continued on track for completion in July 2005. In August 2003, we signed HOA to purchase 550,000 tons of the clean-burning fuel annually for our power plants from the Tangguh LNG project in Indonesia. In addition to locking in an annual cost savings of approximately US\$39 million, this LNG contract represents the next step in what we expect to be a growth business as deregulation in the Korean energy industry opens new opportunities for us in this field.



makers. In the short-term, we'll be following Hanoi's lead by setting up joint-venture processing centers, gradually expanding to include the entire steelmaking process.

In recent years, Southeast Asia has experienced skyrocketing demand for stainless steel, making it the world's second-largest market for imported cold-rolled stainless coil. We are now in the process of acquiring production facilities across the region as we aim to establish ourselves as the undisputed leader in this product category.

### Collaborating Globally

Collaborative partnerships are essential to staying competitive in today's global steel market. We have technical exchanges with 10 firms including Arcelor, U.S. Steel, and Shanghai Baosteel. We have R&D partnerships with four firms including Salzgitter and Dillinger. We also hold regular meetings to discuss developments in the raw materials field with BHP Billiton and other major suppliers. Our first annual workshop with BHP Billiton in late 2003 focused on continuing supply instability in raw materials markets due to the rapid growth of the Chinese steel industry. Besides the fields mentioned above, we actively team up in other fields on a regular or ad-hoc basis as needs arise.

Since entering a strategic alliance agreement with Nippon Steel in August 2000, we have partnered in basic technology development, conducted R&D exchanges, co-invested in overseas raw materials development, and exchanged personnel. These efforts continue to pay dividends for both of our firms, enabling us to avoid unproductive competition, foster stability in the Asian steel market, and increase opportunities for collaboration. This alliance as well as our good working relationship with JFE Steel—Japan's top two steelmakers—also ensures that we are well positioned for whatever direction industry consolidation in our neighbor market may take in the future.

### Looking Beyond Steel

While steelmaking is and will remain our core business for the foreseeable future, ongoing industry restructuring and consolidation as well as rising competition from China and other global markets have made it prudent for us to explore our options for diversification beyond steel. Today, we allocate up to 5% of our annual investment budget for projects that promise opportunities for synergy with our core steel business, such as new materials and energy, as well as partnering with firms that have groundbreaking technology in entirely new fields like biotechnology as we strategically expand our business horizons. Our partnership with POSCO BioVentures Management LLC, an unrelated firm, through our POSCO America Corporation subsidiary is a case in point. Since September 2002, a venture fund we seeded has invested in promising U.S. biotech ventures, giving us a potentially lucrative stake in this growth industry as well as a valuable network for future ventures. Another strategic biobusiness partnership we have is with the Postech Biotech Center, which opened in October 2003 at Pohang University of Science and Technology. As the center grows to play a leading role in Korean biotech research, we'll play a key role in helping bring its discoveries to market as we continue to establish ourselves in this high-tech field.



“POSTECH—Korea’s premier science university—has a long record of working with POSCO in the field of steel. Now, the company is supporting bioscience research that promises to improve the quality of life. Breakthroughs in our field usually take years of work to bear fruit, so it’s crucial to have solid financial backing. POSCO gives us that and much more. We won’t be surprised to see the POSCO name on much more than steel in the near future.”

**Jin-Bong Hong** left  
Researcher  
Supersensitive Molecular Layer Lab  
Pohang University of Science and Technology

**Daniel P. Walsh** right  
Researcher  
Combinatorial Chemistry & Molecular  
Evolution Lab  
Pohang University of Science and Technology

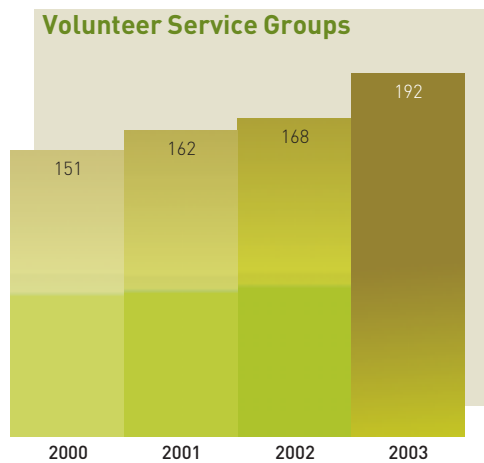
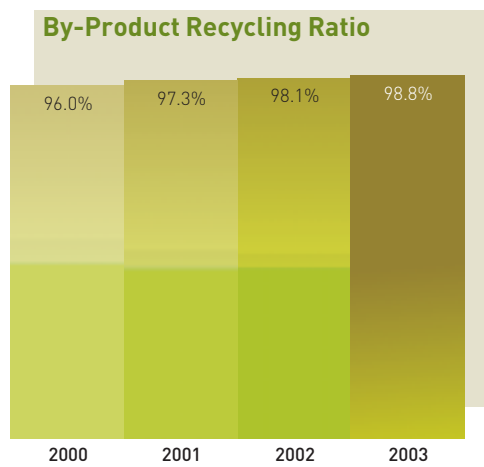
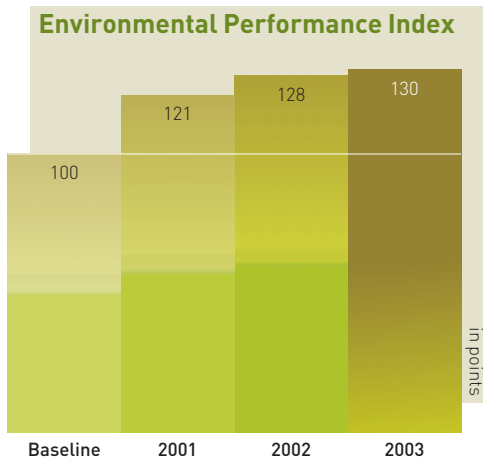




How does  
**caring**  
begin with sharing?

## How does caring begin with sharing?

Communities know that there's more to sustainable development than end-of-pipe pollution control these days. We're proud that our steelworks are among the most eco-friendly in the industry, and we continue to aggressively eliminate pollution at the source. We've also developed a strong tradition of community service over the years. And that's the kind of sharing that's bringing many more smiles to life.



In 2003, we continued to improve our environmental performance in every category. We were also identified as a sector leader by the Carbon Disclosure Project, a survey of the FT500 Global Index companies initiated by 35 European institutional investors to review what the world's top companies are doing about greenhouse gases.



54

**Jang-Hoi Choi** left  
Engineer  
FINEX R&D Project Department

**Soo-Hyeun Lee** right  
Engineer  
Environment & Energy Department

“The best way to handle pollution is to prevent it in the first place. FINEX ironmaking technology is a perfect example of this. The process eliminates the need for sinter and coke plants, both major sources of pollution. It’s also more economical to operate than conventional blast furnaces. Thanks to FINEX, the skies over Pohang and Gwangyang are going to be even bluer in the decades ahead.”



How does caring begin with sharing?

# Sustainable steel

At POSCO, we recognize that we have a corporate responsibility to help foster sustainable development wherever we do business. From the boardroom to the mill floor, the crucial issues of environmental and social responsibility provide perspective as we make “clean and green” steelmaking the core of our win-win partnerships with local communities.

Since acquiring ISO 14001 certification of our environmental management system in July 1996, we have progressively embraced eco-efficiency as an integral component of our management philosophy. Introduced in 2001, the POSCO environmental performance index—POSEPI—serves as a balanced scorecard for evaluating the success of our environmental efforts, providing a comprehensive overview of our operational, management, and environmental performance as defined by ISO 14031 guidelines. In 2003, we acquired yet another powerful evaluation tool with the launch of a company-wide environmental accounting system to aid in quantifying the financial impact and benefits of our environmental stewardship.

## Caring for the Environment

At POSCO, we aggressively strive to lower emissions, increase by-product recycling, and reduce energy consumption to ensure our operations are as eco-friendly as possible. In addition to ongoing pollution control equipment and facility upgrades, we continue to develop and implement cleaner production processes as well as adopt cleaner fuels and raw materials to reduce pollution at the source. We vigilantly monitor air and water quality using automated telemetry systems, including sophisticated “open path” monitoring systems to identify hazardous emissions not detected by conventional air quality monitoring methods.

In 2003, we invested KRW 93.2 billion—6.3% of our entire investment spending—to improve our pollution control capabilities. We installed dust collectors and waste processing facilities at Pohang as part of the No. 3 Stainless Steelmaking Plant expansion project. At Gwangyang, we installed additional dust collectors on all steelmaking lines as well as equipment to reduce volatile organic compound emissions during chemical processing.

Over the past six years, we have raised our by-product recycling ratio from 77% in 1997 to 98.8% in 2003, dramatically reducing the amount of waste disposed of in our landfills. We have achieved a 100% recycling rate for slag, channeling this material that accounts for 73.9% of our

## Sustainable development

Since 1994, we have published an annual environmental progress report to share with our stakeholders our efforts to promote sustainable development. Our comprehensive approach includes aggressive pollution monitoring and end-of-pipe treatment, eco-friendly product and process development, recycling, beautification and rehabilitation, and community education. We have also adopted environmental accounting to more accurately track and quantify the true environmental costs of our operations to aid in management decision-making.



### Volunteer spirit

In May 2003, we founded "POSCO Volunteers" to create a formal organizational framework for our community service efforts that will bring us and our neighbors even closer in the years ahead. The colorful logo symbolizes our commitment to growing with our stakeholders—our shareholders, customers, local communities, and employees—in the spirit of unity, sharing, service, and love.

by-product stream into applications like cement, fertilizer, and roadbed aggregates. We have also continued to develop applications to recycle waste refractory, dust, and sludge.

Steelmaking is an extremely energy-intensive process. In 2003, we used the equivalent of 15,070,000 tons of petroleum (TOE) to fuel our operations. Coal, the reducing agent used to extract iron from ore, accounts for about 91% of the total. The waste gases recovered in that process are used in other production processes as well as power generation. The rest of our energy needs are met by clean-burning LNG (3.8%), electricity (5%), and crude oil (0.2%).

In 2003, our major energy-related accomplishments included the installation of convertor-gas heat-recovery boilers at the Pohang No. 2 Steelmaking Plant and variable-speed fluid couplings on descaling pumps at our Gwangyang hot-rolling mills. We also completed development and implementation of an online energy management system that allows us to continuously monitor usage at each discrete manufacturing process.

As part of our efforts to identify opportunities for energy savings, we work closely with each manufacturing department to conduct comprehensive inspections, holding monthly meetings with each facility to analyze usage and promote conservation with frontline workers. This ongoing inspection and progress review process enables us to consistently meet our goals. In 2003, we achieved 107% of our energy conservation goal, saving 110,000 TOE in 381 projects at Pohang and 132,000 TOE in 312 projects at Gwangyang. Over the next five years, we aim to cut annual consumption by 466,000 TOE, saving upwards of KRW 122 billion annually as well as substantially reducing greenhouse gas emissions.

### Serving the Community

Department-organized community service is a proud POSCO tradition that began in 1991. Today, our departments have strong community ties with 212 local government and service organizations serving over 60% of the population in both Pohang and Gwangyang. The range of activities we support is just as diverse as the community groups we serve—from agricultural and marine product bazaars, to farm equipment repair, to fundraisers for children with terminal diseases. In addition to building closer relationships with local communities, these activities have the added benefit of burnishing our corporate image, creating a healthy rapport that helps avert potential issues of conflict before they arise.

Our tradition of volunteerism also extends to employee-organized service groups. In 2003, there were 192 registered groups—99 in Pohang and 93 in Gwangyang—with a total of 19,508 members participating in activities ranging from work projects to scholarship funds. This outstanding service record was honored once again at the National Volunteer Service Competition sponsored by the *Joongang Ilbo* for a remarkable sixth-straight year. In May 2003, we founded "POSCO Volunteers", an organizational framework for our community service efforts that will bring us and our neighbors even closer in the years ahead.



“One of southern Seoul’s best-kept cultural secrets is POSCO Center. Beyond the full schedule of cultural exhibits and programs is the outstanding free monthly concert series that brings popular local and international artists from all genres to perform right here in the center’s atrium. It’s a great opportunity for the community to expand its cultural horizons. The only way it could be better is if the concerts were weekly!”

**Jee-Sook Cha** left  
Marketing Strategy Department

**Yeon-Hee Han** center  
Secretariat Department

**Jeong-Ae Park** right  
Corporate Communications Department

## Board of Directors

### Jeffrey D. Jones

- Audit Committee
- Insider Trading Committee

### Joon-Yang Chung

- Executive Vice President
- Executive Management Committee

### Kwang-Woo Jun

- Evaluation and Compensation Committee
- Finance and Operation Committee



### Hyun-Shik Yoo

- Director Candidate
- Recommendation Committee Chair
- Audit Committee
- Insider Trading Committee

### Kwang-Woong Choi

- Senior Executive Vice President
- Executive Management Committee
- Director Candidate Recommendation Committee
- Finance and Operation Committee

### Chang-Oh Kang

- President
- Executive Management Committee

### Yoon-Suk Suh

- Audit Committee
- Insider Trading Committee

### Director Candidate Recommendation Committee

Hyun-Shik Yoo, Chair  
Han-Kyoung Kim  
E. Han Kim  
Kwang-Woong Choi

### Evaluation and Compensation Committee

Young-Ju Park, Chair  
Samuel F. Chevalier  
Kwang-Woo Jun  
Won-Soon Park

### Finance and Operation Committee

Han-Kyoung Kim, Chair  
Young-Ju Park  
Kwang-Woo Jun  
Kwang-Woong Choi  
Seok-Man Yoon

The POSCO Board of Directors has 15 members, nine 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 major business decisions.

In 2003, the Board convened eight times with a 95% average attendance rate. A total of 46 agenda items were deliberated and resolved, including the construction of the Gwangyang No. 5 Continuous Galvanizing Line, plans for stock buyback and cancellation, an expansion project at Zhangjiagang POSCO Stainless Steel in China, and the establishment of POSCO China Holding Corporation in Beijing to facilitate business in China.

During the year, the Director Candidate Recommendation and Evaluation Committee held seven meetings, taking up 15 agenda items related to outside director nominations, candidate qualification screening, and corporate management performance evaluation.

The Finance and Operation Committee held nine meetings, taking up 20 agenda items, including the establishment of BX Steel POSCO Cold Rolled Sheet Co., Ltd., a joint venture with Benxi Iron & Steel of China. Eight of the items were resolved by the committee under authorization granted by the Board, while recommendations for the remaining 12 were delivered to the Board for approval.

### E. Han Kim

- Audit Committee Chair
- Insider Trading Committee Chair
- Director Candidate Recommendation Committee

### Kyeong-Ryul Ryoo

- Senior Executive Vice President
- Executive Management Committee

### Seok-Man Yoon

- Senior Executive Vice President
- Executive Management Committee
- Finance and Operation Committee

### Young-Ju Park

- Evaluation and Compensation Committee Chair
- Finance and Operation Committee



### Won-Soon Park

- Evaluation and Compensation Committee

### Ku-Taek Lee

- Chairman of the Board and CEO
- Executive Management Committee Chair

### Samuel F. Chevalier

- Evaluation and Compensation Committee

### Han-Kyoung Kim

- Finance and Operation Committee Chair
- Director Candidate Recommendation Committee

The Executive Management Committee met 14 times, deliberating 35 agenda items.

The Audit Committee, which is composed of four outside directors, met six times to deliberate and approve contract terms with the external auditor and the results of the 2002 fiscal year audit. The committee also reviewed the 2003 results on a quarterly basis.

In addition to the business mentioned above, the Board took significant steps to improve the company's governance structure. Aiming to strengthen managerial and accounting transparency, the Board began by reviewing recent changes in domestic and overseas governance regulations and benchmarking the best practices of major global corporations. At the same time, the Board commissioned a professional research institute to identify specific governance areas in need of improvement. Finally, the Board hosted an open seminar on December 3, 2003 to gather feedback from the full spectrum of our stakeholders.

As a direct result of the above activities, the Board resolved to raise the proportion of outside directors from 8 to 9 to reinforce its independence, adopt cumulative and write-in voting systems to strengthen the protection of shareholder rights, and delete a clause in the articles of incorporation regarding convertible preferred share issuance. These proposals were presented and approved at the annual shareholders' meeting held on March 12, 2004.

### Executive Management Committee

Ku-Taek Lee, Chair  
Chang-Oh Kang  
Kwang-Woong Choi  
Kyeong-Ryul Ryoo  
Seok-Man Yoon  
Joon-Yang Chung

### Audit Committee

E. Han Kim, Chair  
Hyun-Shik Yoo  
Jeffrey D. Jones  
Yoon-Suk Suh

### Insider Trading Committee

E. Han Kim, Chair  
Hyun-Shik Yoo  
Jeffrey D. Jones  
Yoon-Suk Suh

## Executive Officers As of March 31, 2004

### Dong-Jin Kim

Senior Executive Vice President

- POSCO-China President
- Chinese subsidiaries
- Benxi Cold Rolling Project Dept.

### Youn Lee

Senior Executive Vice President

- Stainless Steel Division Manager
- Stainless Steel Raw Materials Procurement Dept.

### Sung-Sik Cho

Executive Vice President

- Corporate Strategic Planning Dept. I&II
- Investment Management Dept.

### Jong-Tae Choi

Executive Vice President

- General Administration Dept.
- HR Planning & Improvement Dept.
- Outside Service Dept.

### Sang-Ho Kim

Executive vice President

- Legal Affairs

### Jong-Doo Choi

Senior Vice President

- Cold Rolled Steel Sales Dept.
- Automotive Flat Products Sales Dept.
- Coated Steel Sales Dept.

### Chang-Ho Kim

Senior Vice President

- Education and Training Center

### Nam-Suk Hur

Senior Vice President

- Electrical Steel Sector Manager
- Technology Development Dept.
- Knowledge Asset Dept.
- Environment & Energy Dept.

### Chang-Kwan Oh

Senior Vice President

- Marketing Strategy Dept.
- Market Development Dept.
- Sales & Production Planning Dept.

### Jeon-Young Lee

Senior Vice President

- Strategic Business Development Dept.
- POSCO Bio Project Dept.

### Young-Tae Kwon

Senior Vice President

- Iron Making Raw Materials Procurement Dept.
- Steel Making Raw Materials Procurement Dept.
- Stainless Steel Making Raw Materials Procurement Dept.

### Hyun-Shik Chang

Senior Vice President

- LNG Project Dept. Manager

### Oh-Joon Kwon

Senior Vice President

- General Manager, European Union Office

### Dong-Hwa Chung

Senior Vice President

- Deputy General Superintendent, Gwangyang Works (Maintenance)

### Jin-Il Kim

Senior Vice President

- Process Innovation Dept.
- Six Sigma Dept.
- PI Enablement Dept.

### Chun-Hwan Lee

Senior Vice President

- Facilities Investment Planning Dept.

### Dong-Hee Lee

Senior Vice President

- Finance Dept.
- Finance Management Dept.

### Byung-Jo Choi

Senior Vice President

- Deputy General Superintendent, Gwangyang Works (Hot & Cold Rolling)
- TWB Project Dept.

### Sang-Young Lee

Senior Vice President

- Deputy General Superintendent, Gwangyang Works (Iron & Steel Making)

### Hyun-Uck Sung

Senior Vice President

- Deputy General Superintendent, Pohang Works (Maintenance)

### Han-Yong Park

Senior Vice President

- Corporate Ethics Dept.
- Audit Dept.

### Keel-Sou Chung

Vice President

- Zhangjiagang POSCO Stainless Steel President

### Sang-Wook Ha

Vice President

- Deputy General Superintendent, Pohang Works (Hot & Cold Rolling)

### Sang-Young Kim

Vice President

- Corporate Communication Dept. Manager

### Young-Suk Lee

Vice President

- Stainless Steel Sales Dept.
- Stainless Steel Strategy Dept.

### Sang-Myun Kim

Vice President

- Deputy General Superintendent, Gwangyang Works (General Administration)
- Labor & Safety Dept. Manager, Gwangyang Works

### Kun-Soo Lee

Vice President

- Deputy General Superintendent, Pohang Works (General Administration)

### Ki-Chul Shin

Vice President

- Deputy General Superintendent, Pohang Works (Iron & Steel Making)

### Kee-Yeoung Park

Vice President

- Wire Rod Sector Manager
- Hot Rolled Steel Sales Dept.
- Plate & Wire Rod Sales Dept.

### Kyu-Jeong Lee

Vice President

- Production Order & Process Dept.
- Quality Service Dept.
- Automotive Steel Mega Y Project Dept.

### Byung-Ki Jang

Vice President

- MRO Procurement Dept.
- Plant & Equipment Procurement Dept.

# Organization As of 2004, 3/E

## CEO/Member of the Board

### President/Member of the Board (Pohang Works, Gwangyang Works, Technical Research Laboratories, Stainless Steel Division, Task Forces)

Secretariat Dept.			Corporate Ethics Dept.		
Corporate Strategic Planning Dept.I	Corporate Strategic Planning Dept.II	Auditing Dept.	Process Innovation Dept.	Six Sigma Dept.	PI Enablement Dept.
Corporate Communication Dept.	Iron & Steel Facilities Investment Planning Dept.	Rolling Facilities Investment Planning Dept.	Investment Management Dept.	Strategic Business Development Dept.	General Administration Dept.
Legal Affairs Dept.	HR Planning & Improvement Dept.	Human Resources Dept.	Labor & Welfare Dept.	Finance Dept.	Finance Management Dept.
MRO Procurement Dept.	Plant & Equipment Procurement Dept.	Outside Service Dept.	Coal Procurement Dept.	Iron Ore Procurement Dept.	Steel Making Raw Materials Procurement Dept.
Stainless Steel Raw Materials Procurement Dept.	Marketing Strategy Dept.	Sales & Production Planning Dept.	Market Development Dept.	Production Order & Process Dept.	Hot Rolled Steel Sales Dept.
Plate & Wire Rod Sales Dept.	Cold Rolled Steel Sales Dept.	Automotive Flat Products Sales Dept.	Coated Steel Sales Dept.	Quality Service Dept.	Technology Development Dept.
Knowledge Asset Dept.	Environment & Energy Dept.	HRD Center -Education Improvement Group    -Curriculum Development Group    -e-Learning Group    -Global Education Group -Management Education Group    -Technology Education Group    -Gwangyang HRD Group			

## Pohang Works

Administration & Support Dept.	Public Relations Dept.	Labor & Safety Dept.	Production & Delivery Control Dept.	Quality Control Dept.	Iron Making Dept.
Coke Making Dept.	Steel Making Dept.	Hot Rolling Dept.	Plate Rolling Dept.	Wire Rod Rolling Dept.	Cold Rolling Dept.
Stainless Steel Dept.	Environment & Energy Dept.	Maintenance Technology Dept.	Mechanical Maintenance Dept.	Electric & Control Maintenance Dept.	

## Gwangyang Works

Administration & Support Dept.	Labor & Safety Dept.	Production & Delivery Control Dept.	Quality Control Dept.	Iron Making Dept.	Coke Making Dept.
Steel Making Dept.	Hot Rolling Dept.	Cold Rolling Dept.	Mini Mill Dept.	Environment & Energy Dept.	Maintenance Technology Dept.
Mechanical Maintenance Dept.	Electric & Control Maintenance Dept.				

## Technical Research Laboratories

Research Planning Group	Iron-making Research Group	Steel-making Research Group	Plate Research Group	Sheet Products & Process Research Group	Electrical Steel Sheet Research Group
Stainless Steel Research Group	Joining Steel Research Group	Rolling Technology & Process Control Research Group	Instrumentation Research Group	Wire Rod Research Team	Automotive Steel Products Research Group
Automotive Steel Applications Research Group	Surface Technology Research Group	Gwangyang Research Supporting Group			

## Stainless Steel Division

Stainless Steel Strategy Dept.	Stainless Steel Sales Dept.	Stainless Steel Production Dept.
--------------------------------	-----------------------------	----------------------------------

## Global Network

# POSCO

### Headquarters

1, Goedong-dong, Nam-gu  
Pohang, Gyeongsangbuk-do  
790-785, Korea  
Tel: 054-220-0114  
Fax: 054-220-6000  
Website: www.posco.co.kr.

### Seoul Office

POSCO Center  
892, Daechi-4-dong, Gangnam-gu  
Seoul 135-777, Korea  
Tel: 02-3457-0114  
Fax: 02-3457-1999

### Pohang Works

5, Dongchon-dong, Nam-gu  
Pohang, Gyeongsangbuk-do  
790-360, Korea  
Tel: 054-220-0114  
Fax: 054-220-6000

### Gwangyang Works

700, Geumho-dong, Gwangyang  
Jeollanam-do 540-090, Korea  
Tel: 061-790-0114  
Fax: 061-790-7000

### POSCO Tokyo Branch

4th Fl., POSCO Tokyo Bldg.  
11-14, Ginza 5-chome  
Chuo-ku, Tokyo 104, Japan  
Tel: 81-3-3546-1212  
Fax: 81-3-3546-1215

### POSCO Europe Office

8th Fl., Nordsternhaus  
Georg-Glock-Str. 14  
Duesseldorf 40474, Germany  
Tel: 49-211-435-3031  
Fax: 49-211-435-3030

### POSCO Hanoi Office

7th Fl., Daeha Business Center  
360 Kim Ma St., Ba Dinh District  
Hanoi, Vietnam  
Tel: 84-4-831-7862-5  
Fax: 84-4-831-7861

### POSCO Mexico City Office

Paseo de la Reforma, No. 265  
Piso 12, Colonia Cuauhtemoc  
Mexico City 06500, Mexico  
Tel: 52-55-5255-0805  
Fax: 52-55-5525-0815

### POSCO Washington Office

1800 K Street NW, Suite 1110  
Washington, DC 20006, United States  
Tel: 1-202-785-5643  
Fax: 1-202-785-5647

### POSCO Rio de Janeiro Office

Rua Lauro Muller, 116, S/1603  
Botafogo, Rio de Janeiro  
RJ 22290, Brazil  
Tel: 55-21-2541-3945  
Fax: 55-21-2542-2692

### POSCO Singapore Office

10 Shenton Way  
#11-06/07 MAS Bldg.  
Singapore 079117  
Tel: 65-6220-8223  
Fax: 65-6220-4212

### POSCO China Holding Corp.

Room 1210, Handerson Center  
18 Jianguomennei Avenue  
Beijing 100005, China  
Tel: 86-10-5166-6677  
Fax: 86-10-6518-2509-10

### POSAM

POSCO Steel America Corp.  
2 Executive Drive, Suite #805  
Fort Lee, NJ 07024, United States  
Tel: 1-201-585-3060  
Fax: 1-201-585-6001

### UPI

USS-POSCO Industries  
(P.O. Box 471) 900 Loveridge Road  
Pittsburg, CA 94565, United States  
Tel: 1-925-439-6767  
Fax: 1-925-439-6741

### KOBRASCO

Companhia Coreano-Brasileira de  
Pelotizacao, Av. Dante Michelini No. 5500  
Jardim Camburi, Ponta do Tubarao-Vitoria-  
E.S.-Brazil  
Tel: 55-27-3333-5984 / 4864  
Fax: 55-27-3333-4762

### POSVEN

Zona Industrial Matanzas  
Sector Punta Cuchillo, Ciudad Guayana  
Estado Bolivar, Venezuela  
Tel: 58-286-952-2222  
Fax: 58-86-52-1225

### Dalian POSCO-CFM Coated Steel Co., Ltd.

1-4-5 Zhenpeng Industrial City  
Dalian Economic & Technical  
Development Zone, China  
Tel: 86-411-751-4685 / 4690  
Fax: 86-411-751-4710

### Shunde POSCO Coated Steel Co., Ltd.

Wei-Ye Road No. 1  
Beijiao Industrial Global Network Zone  
Beijiao Town, Shunde City  
Guangdong Province, China  
Tel: 86-765-2665-7870  
Fax: 86-765-2665-7760

### Myanmar-POSCO Steel Co., Ltd.

No. 3 Trunk Road  
Pyinmabin Industrial Complex  
Mingaladon Township, Yangon, Myanmar  
Tel: 95-1-635-367  
Fax: 95-1-635-418

### POSINVEST

POSCO Investment Co., Ltd.  
Room 5607, Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong  
Tel: 852-2802-7188  
Fax: 852-2845-7737

### POSVINA

POSVINA Co., Ltd.  
Phuoc Long Village, Thu Duc District  
Ho Chi Minh City, Vietnam  
Tel: 84-8-731-3630(3037)  
Fax: 84-8-731-3619

### VPS

VSC-POSCO Steel Corp.  
Anhung Village, Hongbang District  
Haiphong, Vietnam  
Tel: 84-31-850124-5  
Fax: 84-31-850123

### Zhangjiagang POSCO Stainless Steel Co., Ltd.

North of Yan Jiang Road  
Lian Xing Cun, Jinfeng Town  
Zhangjiagang, Jiangsu Province  
China  
Tel: 86-520-855-3660  
Fax: 86-520-855-3680

### POA

POSCO Asia Co., Ltd.  
Room 5508, Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong  
Tel: 852-2827-8787/1437  
Fax: 852-2827-5005/6006



## **POSA**

**POSCO Australia Pty. Ltd.**  
Suite C, Level 49  
Governor Phillip Tower  
1 Farrer Place, Sydney  
N.S.W. 2000, Australia  
Tel: 61-2-9241-2345  
Fax: 61-2-9241-2001

## **Poschrome Pty. Ltd.**

Billiton PLC, Room 803A  
No. 6 Hollard Street  
Johannesburg, South Africa  
Tel: 27-11-376-3019  
Fax: 27-11-376-3043

## **SUS**

**The Siam United Steel (1995) Co., Ltd.**  
9, Soi G5, Eastern Industrial Estate  
Pakorn Songkrohraj Road  
Muang, Rayong 21150, Thailand  
Tel: 66-3868-7290  
Fax: 68-3868-5133

## **PIO**

**POSCO International Osaka Inc.**  
2nd-3rd Fl., POSCO Osaka Bldg.  
3-7, Nanba 2-chome  
Chuo-ku, Osaka 542, Japan  
Tel: 81-6-214-0970  
Fax: 81-6-214-0971-2

# POSTEEL

## **POSTEEL Jakarta Office**

17th Fl., #1701  
Jakarta Stock Exchange Tower 2  
Jl. Jend. Sudirman Kav. 52-53  
Jakarta 12190, Indonesia  
Tel: 62-21-515-7670-71  
Fax: 62-21-515-7665

## **POSTEEL Ho Chi Minh Office**

6th Fl., Room 604, Diamond Plaza Bldg.  
34 Le Duan Blvd., District 1  
Ho Chi Minh City, Vietnam  
Tel: 84-8-822-6862-3  
Fax: 84-8-822-6864

## **POSTEEL Kuala Lumpur Office**

CEO Suite No. 9 at Level 36  
Menara Maxis, Kuala Lumpur City Center  
Kuala Lumpur 50088, Malaysia  
Tel: 60-3-2615-0040-1  
Fax: 60-3-2615-0042

## **POSMETAL Inc.**

8th Fl., Daiichi Seimei Bldg.  
1-4-1 Hakataekimae, Hakata-ku  
Fukuoka, Japan  
Tel: 81-92-412-0539  
Fax: 81-92-452-2788

## **Fujiura Butsuryu Center Co., Ltd.**

116-3, Shiomi-cho, Izumiotsu  
Osaka 595-0054, Japan  
Tel: 81-725-31-4577  
Fax: 81-725-31-4578

## **POSCAN**

**POSCO Canada Ltd.**  
(P.O. Box 11617) #2350-650  
West Georgia Street, Vancouver  
B.C. V6B 4N9 Canada  
Tel: 1-604-669-6689  
Fax: 1-604-669-5805

## **POS-Tianjin Coil Center Co., Ltd.**

168 Huanghai Street, 5th Avenue  
Tianjin Economic-Technical Development  
Area (TEDA), Tianjin 300457, China  
Tel: 86-22-2532-3016-20  
Fax: 86-22-2532-3015/7923

## **SDC**

**Suzhou Dongshin Color Metal Sheet Co., Ltd.**  
Wujiang Fenhui Economic and Technological  
Development Zone  
Jiangsu Province, China  
Tel: 86-512-6327-0041  
Fax: 86-512-6327-0042

## **POS-Thai**

**POS-Thai Steel Service Center Co., Ltd.**  
700/453 Moo 7  
Bangpakong Industrial Park 2  
T. Donhuaroh A. Muang  
Chonburi 20000, Thailand  
Tel: 66-38-454200-6  
Fax: 66-38-454207-8

## **Zhangjiagang Xiaosha Coil Service Center Co., Ltd.**

North of Yanjiang Road  
Jinfeng Town, Zhangjiagang City  
Jiangsu Province, China  
Tel: 86-512-5856-5181  
Fax: 86-512-5855-3411

## **Shunde Xingpu Steel Center Co., Ltd.**

No. 2, Lin Gang South Road  
Industrial Park  
Beijiao Town, Shunde City  
Guangdong Province, China  
Tel: 86-765-633-0413/0408  
Fax: 86-765-666-1107/1109

## **POS-Qingdao Coil Center Co., Ltd.**

Huaxian Road, Danshan Industrial Park  
Chengyang District, Qingdao City  
Shandong Province, China  
Tel: 86-532-608-9926  
Fax: 86-532-608-9929

## **POS-Hyundai Steel Manufacturing India Private, Ltd.**

F-70, Sipcot Industrial Park  
NH-4, Bangalore Highway, Irungattukottai  
Sriperumbudur, Kanchipuram Dt. 602 105  
Tamilnadu, India  
Tel: 91-4111-356057-61  
Fax: 91-4111-356458

## **Assan Hyundai Celik Urunleri Sanayi Ve Ticaret A.S.**

Merkez Office, E-5 Karayolu 32. Km  
Tuzla 81700, Istanbul, Turkey  
Tel: 90-216-395-8464  
Fax: 90-216-395-2970/7945

## **PT. POSMI Steel Indonesia**

MM2100 Industrial Town  
Block H-4-1, Cikarang Barat  
Bekasi 17520, Indonesia  
Tel: 62-21-898-2842  
Fax: 62-21-898-0775

# POSCO E&C

## **Shanghai POS-Plaza**

12th Fl., POS-Plaza Bldg.  
480 Pudian Road, Pudong  
Shanghai 200122, China  
Tel: 86-21-6875-9999  
Fax: 86-21-6875-1690

## **POSLILAMA Steel Structure Co., Ltd.**

Industrial Zone B, Tuy Ha  
Nhon Trach, Dong Nai, Vietnam  
Tel: 84-61-84-8633  
Fax: 84-61-84-8634

## **IBC Corp.**

5th Fl., Diamond Plaza  
34 Le Duan Street, District 1  
Ho Chi Minh City, Vietnam  
Tel: 84-8-822-1922  
Fax: 84-8-822-8562

## **POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.**

Sanxing Riverside Development Zone,  
Zhangjiagang City, Jiangsu Province, China

## Corporate Milestones

1960	Apr 68	Pohang Iron and Steel Company, Limited (POSCO) established
1970	Apr 70	Pohang Works Phase 1 begun
	Jul 73	Pohang Works Phase 1 completed (Annual crude steel capacity: 1.03 million tons)
	May 76	Pohang Works Phase 2 completed (Annual crude steel capacity: 2.6 million tons)
	Dec 78	Pohang Works Phase 3 completed (Annual crude steel capacity: 5.5 million tons)
1980	Feb 81	Pohang Works Phase 4-1 completed (Annual crude steel capacity: 8.5 million tons)
	May 83	Pohang Works Phase 4-2 completed (Annual crude steel capacity: 9.1 million tons)
	Mar 85	Gwangyang Works Phase 1 begun
	Apr 86	USS-POSCO Industries (UPI) established
	Dec 86	Pohang University of Science and Technology (POSTECH) founded
	Mar 87	The Research Institute of Industrial Science & Technology (RIST) founded
	May 87	Gwangyang Works Phase 1 completed (Annual crude steel capacity: 11.8 million tons)
	Jun 88	POSCO stock listed on the Korea Stock Exchange
	Jul 88	Gwangyang Works Phase 2 completed (Annual crude steel capacity: 14.5 million tons)
1990	Dec 90	Gwangyang Works Phase 3 completed (Annual crude steel capacity: 17.5 million tons)
	Oct 92	Gwangyang Works Phase 4 completed (Annual crude steel capacity: 20.8 million tons)
	Dec 93	ISO 9002 certification acquired
	Oct 94	POSCO ADRs listed on the New York Stock Exchange
	Dec 94	Pohang Light Source completed
	Jul 95	POSCO Center in Seoul completed
	Oct 95	POSCO ADRs listed on the London Stock Exchange
	Nov 95	Pohang Works COREX ironmaking plant completed
	Oct 96	Gwangyang Works No. 5 Blast Furnace project began
	Mar 97	Non-standing directorships introduced
	Aug 97	Gwangyang Works No. 4 Cold Rolling Mill completed
	Sep 97	Pohang Works No. 3 Plate Mill completed
	Jul 98	Government announces POSCO privatization plan
	Dec 98	Process Innovation initiative launched
	Mar 99	Gwangyang Works No. 5 Blast Furnace completed
2000	Apr 00	Strategic alliance with Nippon Steel announced
	Oct 00	Privatization completed
	Jul 01	POSPIA integrated information system launched
	Mar 02	Legal corporate name changed to POSCO
	Jun 03	New POSCO Code of Conduct announced
	Jul 03	The POSCO Museum opened

# FINANCIAL STATEMENTS

Management's Discussion & Analysis	66
Report of Independent Registered Public Accounting Firm	74
Financial Statements	75
Investor Information	145

# MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion should be read in conjunction with the consolidated financial statements of POSCO, including the notes thereto, appearing elsewhere in this annual report. Such financial statements have been prepared in accordance with Korean GAAP. Certain statements contained in this annual report may constitute forward-looking statements. These statements involve a number of risks, uncertainties and other factors that could cause actual results to be materially different, as discussed more fully in our filings with the Securities and Exchange Commission, including our annual reports on Form 20-F.

## Operating Results-2003 compared to 2002

Our sales in 2003 increased by 23.9% to KRW 17,789 billion from KRW 14,355 billion in 2002, reflecting an increase of 18.1% in the average unit sales price per ton of our steel products and a 1.1% increase in the sales volume of our steel products.

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

Steel Product	Year Ended December 31,	
	2002	2003
	Thousands of KRW	per Ton
Hot rolled products	298.1	363.5
Plates	404.1	433.1
Wire rods	419.5	383.2
Cold rolled products	453.6	533.1
Silicon steel sheets	588.0	642.0
Stainless steel products	1,634.4	1,783.7
Others	460.9	624.6
Average <sup>(1)</sup>	443.9	524.1

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed products.

Average unit sales price of hot rolled products, which accounted for 37.6% of total sales volume, increased by 21.9%. Average unit sales price of cold rolled products, which is our second largest product category in terms of sales volume with 31.9%, increased by 17.5%. On the other hand, average unit sales price of wire rods, which accounted for 9.1% of total sales volume, decreased by 8.7%.

The table below sets out our sales volume by major steel product categories for the periods indicated.

Steel Product	Year Ended December 31,			
	2002		2003	
	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	11,461	37.8	11,514	37.6
Plates	3,060	10.1	3,047	9.9
Wire rods	2,808	9.3	2,777	9.1
Cold rolled products	9,503	31.3	9,770	31.9
Silicon steel sheets	589	1.9	671	2.2
Stainless steel products	1,394	4.6	1,778	5.8
Others	1,518	5.0	1,100	3.5
Total <sup>(1)</sup>	30,333	100.0	30,657	100.0

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

Sales volume of stainless steel products showed greatest increase among our major steel product categories in 2003 with 27.6% while sales volume of silicon steel sheets increased by 13.9%. In addition, sales volume of cold rolled products and hot rolled products, our two largest product categories in terms of sales volume, increased by 2.8% and 0.5%, respectively. On the other hand, sales volume of other steel products, wire rods and plates decreased by 27.6%, 1.1% and 0.4%, respectively.

Domestic sales in 2003 increased by 27.0% in terms of total

sales revenues and 0.2% in terms of sales volume of steel products compared to 2002. The increase in domestic sales revenues in 2003 compared to 2002 was attributable primarily to an increase in the price of steel products sold in Korea.

Export sales in 2003 increased by 17.9% in terms of total sales revenues and 3.2% in terms of sales volume of steel products compared to 2002. The increase in export sales revenues in 2003 compared to 2002 was attributable primarily to an increase in the price of steel products sold abroad, as well as stronger demand for our products from China.

Gross profit in 2003 increased by 43.8% to KRW 4,338 billion from KRW 3,017 billion in 2002. Gross margin in 2003 increased to 24.4% from 21.0% in 2002, as the 23.9% increase in sales more than offset an 18.6% increase in cost of goods sold in 2003 compared to 2002. The increase in cost of goods sold was attributable primarily to increases in purchase of raw materials and depreciation, as well as an increase in labor expenses resulting from higher performance bonuses. Raw materials costs in 2003 increased primarily as a result of a general increase in the unit cost of nickel, scrap metal and iron ore, as well as an increase in our production of crude steel to 28.9 million tons in 2003 compared to 28.1 million tons in 2002.

Including all associated costs such as customs duties and transportation costs, the average price of nickel per ton increased by 30.8% in 2003 to KRW 11,037 thousand from KRW 8,436 thousand in 2002. The average price of scrap metal per ton increased by 30.7% in 2003 to KRW 196,687 from KRW 150,529 in 2002. The average price of iron ore per ton increased by 2.1% in 2003 to KRW 31,721 from KRW 31,064 in 2002. These increases more than offset a 2.8% decrease in the average price of coal per ton in 2003 to KRW

60,276 from KRW 61,993 in 2002.

Operating income in 2003 increased by 59.2% to KRW 3,263 billion compared to KRW 2,050 billion in 2002. Operating margin increased to 18.3% in 2003 from 14.3% in 2002, as selling, general and administrative expenses increased by 11.2% in 2003 to KRW 1,075 billion compared to KRW 967 billion in 2002. The increase in selling, general and administrative expenses resulted principally from increases in transportation and storage expenses, labor-related expenses, research and development expenses and stock compensation expenses. Our transportation and storage expenses in 2003 increased by 10.0% to KRW 446 billion compared to KRW 405 billion in 2002, primarily as a result of an increase in our transportation fees per ton. Our labor-related expenses included in selling, general and administrative expenses, which consist of salaries, welfare expenses and provisions for severance benefits, increased by 14.9% to KRW 239 billion in 2003 compared to KRW 208 billion in 2002, primarily as a result of increases in wages and higher performance bonuses, as well as an increase in welfare expenses. In 2003, salaries increased by 9.3% to KRW 142 billion compared to KRW 130 billion in 2002 and welfare expenses increased by 22.1% to KRW 76 billion compared to KRW 62 billion in 2002. An increase of 39.9% in research and development expenses to KRW 57 billion in 2003 from KRW 41 billion in 2002 resulted primarily from our increased research activities on implementation of Six Sigma projects and commercialization of a low-cost steel making process called FINEX. Our stock compensation expenses in 2003 increased by 190.8% to KRW 19 billion from KRW 6 billion in 2002 primarily as a result of an increase in our share price in 2003.

Our net income in 2003 increased by 83.2% to KRW 1,996 billion compared to KRW 1,089 billion in 2002 as an increase in

# MANAGEMENT'S DISCUSSION & ANALYSIS

operating income and decreases in other bad debt expense, loss on valuation of equity method investments and interest expense more than offset decreases in gain on foreign currency translations and gain on foreign currency transactions, as well as an increase in donations. We did not recognize any other bad debt expense in 2003 compared to KRW 178 billion in 2002 and our loss on valuation of equity method investments in 2003 decreased by 96.5% to KRW 5 billion from KRW 129 billion in 2002. In 2002, we recognized bad debt expense of KRW 133 billion and valuation loss of KRW 135 billion from the liquidation of POSVEN. Our interest expense in 2003 decreased by 24.6% to KRW 250 billion from KRW 332 billion in 2002 as the interest rate paid on interest-bearing liabilities generally decreased in 2003 compared to 2002. Gain on foreign currency translations in 2003 decreased by 95.0% to KRW 6 billion from KRW 129 billion in 2002 and gain on foreign currency transactions in 2003 decreased by 36.1% to KRW 84 billion from KRW 132 billion in 2002 as the Korean Won appreciated against major foreign currencies in 2003, including the Dollar. Our donations in 2003 increased by 105.8% to KRW 103 billion from KRW 50 billion in 2002, primarily as a result of a donation of KRW 51 billion to our employees' welfare fund in 2003.

Our loss on impairment of property, plant and equipment in 2003 increased by 7.8% to KRW 151 billion from KRW 140 billion in 2002 as we continued to recognize impairment resulting from our decision to permanently cease construction of our no. 2 minimill in Gwangyang.

Our effective tax rate in 2003 was 26.6% compared to 26.4% in 2002. We recognized deferred income tax of KRW 16 billion in 2003 compared to KRW 129 billion in 2002.

## Liquidity and Capital Resources

### Capital Requirements

Uses of cash consisted principally of purchases of property, plant and equipment and other assets and payments of long-term debt. Net cash used for investing activities was KRW 2,146 billion in 2002 and KRW 2,135 billion in 2003. These amounts included purchases of property, plant and equipment of KRW 1,689 billion in 2002 and KRW 1,299 billion in 2003. We recorded net acquisition of trading securities of KRW 603 billion in 2002 compared to net acquisition of trading securities of KRW 81 billion in 2003. We also recorded net acquisition of investment securities of KRW 8 billion in 2002 compared to net acquisition of investment securities of KRW 493 billion in 2003. In our financing activities, we used cash of KRW 1,578 billion in 2002 and KRW 1,317 billion in 2003 for principal repayments of outstanding long-term debt. We also used KRW 91 billion in 2002 and KRW 263 billion in 2003 for the repurchase of our shares from the market as treasury stock. We cancelled 2,807,690 and 1,815,640 shares of treasury stock on November 20, 2002 and October 16, 2003, respectively.

We anticipate that capital expenditures and repayments of outstanding debt will represent the most significant uses of funds for the next several years. Our total capital expenditures were KRW 1,299 billion in 2003 and, under current plans, are estimated to increase to approximately KRW 2,787 billion in 2004 to maintain our competitive strengths and develop higher margin, higher value-added products. We retain the ability to reduce or suspend our planned capital expenditures.

In addition to our funding requirements relating to our capital investment program, payments of the principal of and

interest on indebtedness will require considerable resources. Principal repayment obligations with respect to long-term debt outstanding as of December 31, 2003 are KRW 1,122 billion in 2005, KRW 1,171 billion in 2006, KRW 25 billion in 2007 and KRW 601 billion in 2008. Long-term debt maturing after December 31, 2007 is KRW 49 billion. We expect to repay these obligations primarily through cash provided by operations and additional borrowings.

We paid dividends on common stock in the amount of KRW 214 billion in 2002 and KRW 326 billion in 2003.

### **Capital Resources**

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through long-term and short-term debt. We do not depend on the use of off-balance sheet financing arrangements.

Our major sources of cash have been net income before depreciation and amortization and proceeds of long-term debt and other long-term liabilities, and we expect that these sources will continue to be our principal sources of cash in the future. Net income before depreciation and amortization were KRW 2,543 billion in 2002 and KRW 3,564 billion in 2003, and cash proceeds from long-term debt were KRW 647 billion in 2002 and KRW 656 billion in 2003. Total long-term debt, including current portion, was KRW 4,514 billion as of December 31, 2002 and KRW 3,973 billion as of December 31, 2003.

We intend to continue to rely primarily on cash provided by operations and issuances of long-term debt, including foreign currency borrowings, to meet our future working capi-

tal and other capital requirements.

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

Our total shareholders' equity increased from KRW 11,820 billion at December 31, 2002 to KRW 13,250 billion at December 31, 2003. This growth is attributable to growth in retained earnings.

### **Liquidity**

Our liquidity is affected by exchange rate fluctuations. Approximately 32.0% of our sales in 2003 were denominated in foreign currencies. As of December 31, 2003, approximately 54.7% of our long-term debt, including the current portion thereof, was denominated in foreign currencies, principally in Dollars and Yen. We have incurred foreign currency debt in the past principally due to the limited availability and cost of Won-denominated financing in Korea, which had historically been higher than for Dollar or Yen-denominated financings.

Our liquidity is also affected by changes in our capital expenditures and raw materials purchases. Our total capital expenditures were KRW 1,299 billion in 2003 and, under cur-

# MANAGEMENT'S DISCUSSION & ANALYSIS

rent plans, are estimated to increase to approximately KRW 2,787 billion in 2004. We have also entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of five to ten years and provide for periodic price adjustments to then-market prices. At December 31, 2003, 146 million tons of iron ore and 55 million tons of coal remained to be purchased under long-term contracts. We may face unanticipated increases in capital expenditures and raw materials purchases. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources which are sufficient for our unanticipated needs.

We had a working capital (current assets minus current liabilities) surplus of KRW 1,695 billion as of December 31, 2002 and KRW 3,450 billion as of December 31, 2003. As of December 31, 2003, we had cash and cash equivalents of KRW 593 billion, short-term financial instruments of KRW 695 billion and trading securities of KRW 1,321 billion, compared to KRW 267 billion of cash and cash equivalents, KRW 258 billion of short-term financial instruments and KRW 1,192 billion of trading securities as of December 31, 2002. Under Korean GAAP, bank deposits and all highly liquid temporary cash investments within maturities of three months are considered as cash equivalents. Short-term financial instruments primarily consist of time and trust deposits with maturities between four to twelve months.

As of December 31, 2003, we had unused credit lines of approximately KRW 1,248 billion out of total available credit lines of KRW 1,834 billion. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

## Our Business

We produced over 28.9 million tons of crude steel in 2003. We are the largest and the only fully integrated steel producer in Korea. We manufacture and sell a broad line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products.

In Korea, we produce almost all of our steel at Pohang Works and Gwangyang Works. Currently, Pohang Works has 12.66 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 15.80 million tons.

We sell primarily to the Korean market, with Korean sales accounting for 68.9% of our total sales volume of steel products in 2003.

Our exports in 2003 accounted for 31.1% of our total steel sales volume. Our major export market is Asia, with China accounting for 36.8%, Japan 18.0% and the rest of Asia 23.7% of our total steel export sales volume in 2003.

## Major Products

### Hot-rolled products

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



value-added products such as cold rolled products and silicon steel sheets.

Our deliveries of hot rolled products amounted to 11.5 million tons in 2003, representing 37.6% of our total steel sales volume. The Korean market accounted for 9.1 million tons or 78.6% of our hot rolled product sales in 2003. The largest customers of our hot rolled products are downstream steel-makers in Korea who use the products to manufacture pipes and cold rolled products.

### **Cold-rolled products**

Cold rolled coils and further refined galvanized cold rolled products are used mainly in the automobile industry to produce car body panels. Other users include the household goods, electrical appliances, engineering and metal goods industries. Sales of cold rolled products in recent years had experienced growth due to increasing demand for higher quality products in the automobile, electrical appliances and other industries.

Our deliveries of cold rolled products amounted to 9.8 million tons in 2003, representing 31.9% of our total steel sales volume. The Korean market accounted for 5.1 million tons or 52.4% of our cold rolled product sales in 2003.

### **Plates**

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

Our deliveries of plates amounted to 3.0 million tons in 2003, representing 9.9% of our total steel sales volume. The

Korean market accounted for 2.7 million tons or 88.1% of our plate sales in 2003. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

### **Wire rods**

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

Our deliveries of wire rods amounted to 2.8 million tons in 2003, representing 9.1% of our total steel sales volume. The Korean market accounted for 2.2 million tons or 78.5% of our wire rod sales in 2003. The largest customers for our wire rods are manufacturers of wire and nails.

### **Stainless steel products**

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

Our deliveries of stainless steel products amounted to 1,778 thousand tons in 2003, representing 5.8% of our total steel sales volume. The Korean market accounted for 983 thousand tons or 55.3% of our stainless steel product sales in 2003.

Although sales of stainless steel products accounted for only 5.8% of our total sales volume in 2003, they represented 19.7% of our total revenues from sales of steel products in 2003.

# MANAGEMENT'S DISCUSSION & ANALYSIS

## Silicon steel sheets

Silicon steel sheets are used mainly in the manufacture of power transformers and generators and rotating machines. Sales of silicon steel sheets in recent years had experienced growth due to increased demand from manufacturers of power transformers and generators and rotating machines.

Our deliveries of silicon steel sheets amounted to 671 thousand tons in 2003, representing 2.2% of our total steel sales volume. The Korean market accounted for 448 thousand tons or 66.8% of our silicon steel sheet sales in 2003.

## Other products

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

## Major Markets

The table below set out our sales of steel products in terms of sales volume by geographical market.

Area	Year Ended December 31,			
	2002		2003	
	Thousands of Tons	%	Thousands of Tons	%
Korea	21,089	69.5	21,123	68.9
China	2,828	9.3	3,510	11.4
Asia (excluding China and Japan)	2,414	8.0	2,259	7.4
Japan	1,780	5.9	1,719	5.6
North America	978	3.2	715	2.3
Europe	294	1.0	236	0.8
Other	950	3.1	1,095	3.6
Total <sup>(1)</sup>	30,333	100.0	30,657	100.0

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

## Korea

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.

In 2003, domestic sales accounted for approximately 68.9% of our total sales volume of steel products. 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. We provide service technicians to major customers and distributors in each major product category.

## Exports

Exports and sales of steel products by our overseas subsidiaries represented 31.1% of our total sales volume of steel products in 2003, 78.5% of which was generated in Asia. Our exports in terms of sales volume increased by 3.2% to 9.5 million tons in 2003, primarily as a result of an increase in our exports to China, which more than offset decreases in Asia (excluding China and Japan) and North America. Exports to China, our largest export market which accounted for 36.8% of our export volume of steel products in 2003, increased by 24.1% to 3.5 million tons, primarily due to our increased marketing focus in this region. The principal products exported to China were cold-rolled steel products and stainless steel products. Our exports to Asia other than China and Japan decreased by 6.4% to 2.3 million tons in 2003 primarily due to our decision to increase sales in China. Our exports to North America decreased by 26.9% to 715 thousand tons in response to anti-dumping proceedings brought by the U.S. government in 2003.

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.

## Competition

### Korea

We are currently the only fully integrated steelmaker in Korea, and we generally face only fragmented competition in the domestic market. In the hot-rolled category, 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, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from Japan and Russia.

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitor in Korea is INI Steel Company, the second largest electric-furnace steel producer in the world with an annual crude steel capacity of 7.3 million tons.

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

### Exports

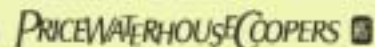
Competitors in our export markets include all the leading steel manufacturers of the world, particularly those in Luxembourg, Japan, the United States, and the United Kingdom. Major competitive factors include the range of products offered, quality, price, delivery performance and customer service.

## Diversification

Our first priority is to maximize revenues and profits from our steel operations. We also seek to diversify selectively into other areas, in part to prepare for the eventual maturation of the Korean steel market. Businesses on which we have focused in the past and intend in the future to focus our diversification efforts include pharmaceuticals, logistics, information and technology and advanced materials.

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

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



Samil PricewaterhouseCoopers

Kukje Center Building  
191 Hankangro 2 ga, Yongsanku, Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

## 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, 2002 and 2003, 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, 2003. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2002 and 2003, and the results of their operations and their cash flows for the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the Republic of Korea.

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. Information relating to the nature and effect of such differences is presented in Note 33 to the consolidated financial statements.

74

Seoul, Republic of Korea

March 5, 2004

# POSCO AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2003

in millions of Korean Won and thousands of US Dollar

ASSETS	(Note 2)		
	2002	2003	2003
Current assets:			
Cash and cash equivalents, net of government grants (Notes 3 and 27)	₩ 267,380	₩ 592,602	\$ 497,149
Short-term financial instruments (Notes 3 and 27)	258,132	695,169	583,195
Trading securities (Note 4)	1,192,204	1,321,301	1,108,474
Current portion of held-to-maturity securities (Note 7)	27,845	250,481	210,135
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 13, 27 and 28)	1,739,605	2,308,445	1,936,615
Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 28)	72,739	95,564	80,171
Inventories (Notes 6 and 29)	1,671,446	2,068,371	1,735,210
Other current assets, net of allowance for doubtful accounts (Note 11)	185,499	289,665	243,008
Total current assets	5,414,850	7,621,598	6,393,957
Property, plant and equipment, net (Notes 8, 13, 14 and 29)	10,324,574	9,845,777	8,259,880
Investment securities (Notes 7 and 29)	2,528,438	2,318,830	1,945,327
Intangible assets, net (Notes 9 and 29)	474,812	474,496	398,067
Long-term loans, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 29)	117,260	82,877	69,528
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Note 5 and 29)	44,863	43,665	36,632
Deferred income tax assets (Note 25 and 29)	51,659	43,324	36,346
Guarantee deposits (Note 27 and 29)	25,577	31,067	26,063
Long-term financial instruments (Notes 3, 27 and 29)	20,574	18,002	15,102
Other long-term assets, net of allowance for doubtful accounts and present value discount (Note 11 and 29)	74,242	288,913	242,377
Total assets	₩ 19,076,849	₩ 20,768,549	\$ 17,423,279

Continued;

# POSCO AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2003

in millions of Korean Won and thousands of US Dollar

	2002	2003	(Note 2) 2003
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Trade accounts and notes payable (Notes 27 and 28)	₩ 689,745	₩ 917,495	\$ 769,710
Short-term borrowings (Notes 12, 27 and 28)	587,955	731,781	613,910
Current portion of long-term debt, net of discount on debentures issued (Notes 12, 13 and 27)	1,319,531	1,020,865	856,430
Accrued expenses (Note 27)	225,932	346,186	290,425
Other accounts and notes payable (Note 27)	146,567	187,610	157,391
Withholdings (Note 27)	66,048	82,770	69,438
Income tax payable	415,429	572,860	480,587
Dividends payable	8,690	2,505	2,101
Other current liabilities (Note 16)	260,376	309,846	259,939
Total current liabilities	3,720,273	4,171,918	3,499,931
Long-term debt, net of current portion and discount on debentures issued (Notes 12, 13, 27 and 28)	3,194,015	2,952,384	2,476,832
Accrued severance benefits, net (Note 15)	103,472	162,662	136,462
Deferred income tax liabilities (Note 25)	135,564	119,979	100,654
Other long-term liabilities (Note 16)	103,879	112,039	93,991
Total liabilities	7,257,203	7,518,982	6,307,870
<b>Commitments and contingencies (Note 17)</b>			
<b>Shareholders' equity</b>			
Common stock, ₩5,000 par value, authorized 200 million shares: issued and outstanding 90,781,795 shares in 2002 and 88,966,155 shares in 2003	482,403	482,403	404,701
Capital surplus (Note 18)	3,797,737	3,828,773	3,212,058
Retained earnings (Note 19) (Net income: ₩845,679 million in 2001 and ₩1,089,288 million in 2002 and ₩1,995,983 million in 2003 Losses in excess of minority interest: ₩2,037 million in 2001 and ₩2,495 million in 2002 and ₩3,163 million in 2003)	8,464,715	9,875,080	8,284,463
Capital adjustments, net (Note 20)	(1,204,374)	(1,229,988)	(1,031,869)
	11,540,481	12,956,268	10,869,353
<b>Minority interest</b>			
Common stock	130,888	142,678	119,696
Capital surplus and retained earnings	148,277	150,621	126,360
	279,165	293,299	246,056
Total shareholders' equity	11,819,646	13,249,567	11,115,409
Total liabilities and shareholders' equity	₩ 19,076,849	₩ 20,768,549	\$ 17,423,279

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, 2001, 2002 and 2003

in millions of Korean Won and thousands of US Dollar, except per share amounts

	(Note 2)			
	2001	2002	2003	2003
<b>Sales</b>	₩ 13,121,097	₩ 14,354,918	₩ 17,789,237	\$ 14,923,857
<b>Cost of goods sold</b>	10,679,735	11,338,260	13,450,786	11,284,217
Gross profit	2,441,362	3,016,658	4,338,451	3,639,640
<b>Selling and administrative expenses (Note 23)</b>	854,069	966,791	1,075,470	902,240
Operating income	1,587,293	2,049,867	3,262,981	2,737,400
<b>Non-operating income</b>				
Interest and dividend income	134,934	72,792	97,233	81,572
Gain on foreign currency transactions	118,947	132,276	84,459	70,855
Gain on foreign currency translation	90,191	128,844	6,415	5,382
Gain on valuation of trading securities	11,505	6,366	6,387	5,358
Gain on disposal of trading securities	41,886	49,938	35,993	30,196
Gain on disposal of property, plant and equipment	10,435	22,361	8,061	6,763
Gain on derivatives transaction (Note 22)	13,826	13,160	2,481	2,081
Gain on valuation of derivatives (Note 22)	168	569	2,849	2,390
Gain on recovery of allowance for doubtful accounts	9,344	-	12,798	10,737
Gain on disposal of investments	2,851	6,454	11,099	9,312
Gain on disposal of scrap	26,213	52,221	27,440	23,020
Others	88,640	58,463	64,162	53,825
	548,940	543,444	359,377	301,491
<b>Non-operating expenses</b>				
Interest expense	450,546	331,776	250,319	210,000
Other bad debt expense	-	178,476	-	-
Loss on foreign currency transactions	101,390	96,976	77,979	65,419
Loss on foreign currency translation	118,024	28,768	118,231	99,187
Loss on valuation of equity method investments (Note 7)	29,047	128,769	4,523	3,794
Donations (Note 24)	83,195	50,147	103,191	86,570
Loss on disposal of property, plant and equipment	25,008	38,215	43,217	36,256
Loss on valuation of derivatives (Note 22)	535	11,775	30,781	25,823
Loss on impairment of investment securities (Note 7)	12,575	27,041	10,651	8,935
Loss on impairment of property, plant and equipment (Note 8)	53,951	139,833	150,750	126,468
Loss on valuation of inventories	21,231	1,178	4,580	3,842
Others	66,058	52,920	80,866	67,840
	961,560	1,085,874	875,088	734,134
Net income before income tax expense and minority interest	1,174,673	1,507,437	2,747,270	2,304,757
Income tax expense (Note 25)	337,463	398,305	730,270	612,642
Net income before minority interest	837,210	1,109,132	2,017,000	1,692,115
Minority interest in income (losses) of consolidated subsidiaries	(8,469)	19,844	21,017	17,632
Net income (Note 26)	₩ 845,679	₩ 1,089,288	₩ 1,995,983	\$ 1,674,483
Basic and diluted earnings per share				
(Note 26) (in Korean Won and US Dollar)	₩ 10,366	₩ 13,295	₩ 24,496	\$ 20.55

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

# POSCO AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2001, 2002 and 2003

in millions of Korean Won

	Common stock		Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total
	Shares	Amount					
<b>Balance as of January 1, 2001</b>	96,480,625	₩ 482,403	₩ 3,860,756	₩ 6,758,350	₩ (1,539,953)	₩ 159,623	₩ 9,721,179
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	-	-	-	(203,681)	-	(8,093)	(211,774)
Change in losses in excess of minority interest	-	-	-	284	-	(284)	-
Retirement of treasury stock	(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 income consolidated subsidiaries	-	-	-	-	-	(8,469)	(8,469)
Others	-	-	3,163	15,587	670	(615)	18,805
<b>Balance as of December 31, 2001</b>	<u>93,589,485</u>	<u>₩ 482,403</u>	<u>₩ 3,859,029</u>	<u>₩ 7,129,436</u>	<u>₩ (1,125,004)</u>	<u>₩ 168,171</u>	<u>₩ 10,514,035</u>
<b>Balance as of January 1, 2002</b>	93,589,485	₩ 482,403	₩ 3,859,029	₩ 7,129,436	₩ (1,125,004)	₩ 168,171	₩ 10,514,035
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)	13,572	-	106,833	49,986
Dividends	-	-	-	(204,089)	-	(13,751)	(217,840)
Change in losses in excess of minority interest	-	-	-	(458)	-	458	-
Retirement of treasury stock	(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	1,154	(652)	(779)	8,850
<b>Balance as of December 31, 2002</b>	<u>90,781,795</u>	<u>₩ 482,403</u>	<u>₩ 3,797,737</u>	<u>₩ 8,464,715</u>	<u>₩ (1,204,374)</u>	<u>₩ 279,165</u>	<u>₩ 11,819,646</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, 2001, 2002 and 2003

in millions of Korean Won

	Common stock		Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total
	Shares	Amount					
<b>Balance as of January 1, 2003</b>	90,781,795	₩482,403	₩ 3,797,737	₩ 8,464,715	₩ (1,204,374)	₩ 279,165	₩ 11,819,646
Net income for 2003	-	-	-	1,995,983	-	-	1,995,983
Effect of change in percentage of ownership of investees	-	-	(7,345)	-	-	3,248	(4,097)
Dividends	-	-	-	(326,865)	-	(7,538)	(334,403)
Loss on prior period unadjusted equity method	-	-	-	(16,124)	-	-	(16,124)
Change in losses in excess of minority interest	-	-	-	(668)	-	668	-
Retirement of treasury stock	(1,815,640)	-	-	(253,381)	253,381	-	-
Change in treasury stock	-	-	21,635	-	(175,555)	-	(153,920)
Overseas operations translation adjustment	-	-	-	-	44,496	(1,006)	43,490
Valuation loss on investment securities	-	-	-	-	(152,089)	(5,157)	(157,246)
Minority interest in income consolidated subsidiaries	-	-	-	-	-	21,017	21,017
Others	-	-	16,746	11,420	4,153	2,902	35,221
<b>Balance as of December 31, 2003</b>	<u>88,966,155</u>	<u>₩ 482,403</u>	<u>₩ 3,828,773</u>	<u>₩ 9,875,080</u>	<u>₩ (1,229,988)</u>	<u>₩ 293,299</u>	<u>₩ 13,249,567</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, 2001, 2002 and 2003

in thousands of US Dollars

	Common stock		Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total
	Shares	Amount					
<b>Balance as of January 1, 2003</b>	90,781,795	\$ 404,701	\$ 3,186,021	\$ 7,101,271	\$ (1,010,381)	\$ 234,199	\$ 9,915,811
Net income for 2003	-	-	-	1,674,483	-	-	1,674,483
Effect of change in percentage of ownership of investees	-	-	(6,162)	-	-	2,725	(3,437)
Dividends	-	-	-	(274,215)	-	(6,324)	(280,539)
Loss on prior period unadjusted equity method	-	-	-	(13,527)	-	-	(13,527)
Change in losses in excess of minority interest	-	-	-	(561)	-	561	-
Retirement of treasury stock	(1,815,640)	-	-	(212,568)	212,568	-	-
Change in treasury stock	-	-	18,150	-	(147,278)	-	(129,128)
Overseas operations translation adjustment	-	-	-	-	37,329	(844)	36,485
Valuation loss on investment securities	-	-	-	-	(127,591)	(4,327)	(131,918)
Minority interest in income consolidated subsidiaries	-	-	-	-	-	17,632	17,632
Others	-	-	14,049	9,580	3,484	2,434	29,547
<b>Balance as of December 31, 2003</b>	<u>88,966,155</u>	<u>\$ 404,701</u>	<u>\$ 3,212,058</u>	<u>\$ 8,284,463</u>	<u>\$ (1,031,869)</u>	<u>\$ 246,056</u>	<u>\$ 11,115,409</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, 2001, 2002 and 2003

in millions of Korean Won and thousands of US Dollars

Cash flows from operating activities	(Note 2)			
	2001	2002	2003	2003
Net income	₩ 845,679	₩ 1,089,288	₩ 1,995,983	\$ 1,674,483
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	1,316,516	1,453,253	1,568,057	1,315,483
Accrual of severance benefits	86,878	119,091	165,018	138,438
Provision (reversal of allowance) for doubtful accounts	(56)	184,887	(3,843)	(3,225)
Unrealized foreign exchange losses (gains)	8,468	(105,716)	111,736	93,738
Gain on valuation of trading securities	(11,505)	(6,366)	(5,756)	(4,829)
Loss on valuation of derivatives, net	367	11,206	27,932	23,433
Loss (gain) on derivatives transaction, net	7,219	(9,784)	(821)	(688)
Gain on disposal of trading securities and investments, net	(42,334)	(52,713)	(39,738)	(33,337)
Loss on disposal of property, plant and equipment, net	14,573	15,854	35,156	29,493
Loss on valuation of inventories	21,231	1,178	4,580	3,842
Loss on impairment of investment securities and property, plant and equipment	66,526	166,874	161,402	135,403
Loss on valuation of equity method investments, net	23,961	128,769	4,523	3,794
Minority interest in income of consolidated subsidiaries	(8,469)	19,844	21,017	17,632
Stock compensation expense	1,790	6,497	18,894	15,851
Others	58,587	672	91,413	76,692
	<u>1,543,752</u>	<u>1,933,546</u>	<u>2,159,570</u>	<u>1,811,720</u>
Changes in operating assets and liabilities				
Increase in trade accounts and notes receivable	367,157	(151,351)	(502,944)	(421,933)
Decrease (increase) in inventories	173,755	69,950	(392,255)	(329,073)
Increase in trade accounts and notes payable	(170,118)	151,699	89,220	74,849
Decrease (increase) in other accounts and notes receivable	67,312	28,938	(23,233)	(19,491)
Increase in other accounts and notes payable	(453,022)	11,588	83,506	70,055
Increase (decrease) in accrued expenses	(121,445)	(61,507)	120,087	100,744
Increase in income tax payable	(280,363)	271,347	149,376	125,315
Deferred income tax, net	12,828	(137,771)	(2,164)	(1,816)
Payment of severance benefits	(9,168)	(14,469)	(25,045)	(21,011)
Others	(66,886)	22,081	(153,504)	(128,777)
	<u>(479,950)</u>	<u>190,505</u>	<u>(656,956)</u>	<u>(551,138)</u>
Net cash provided by operating activities	<u>1,909,481</u>	<u>3,213,339</u>	<u>3,498,597</u>	<u>2,935,065</u>

Continued;

# POSCO AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001, 2002 and 2003

in millions of Korean Won and thousands of US Dollars

	2001	2002	2003	2003
[Note 2]				
<b>Cash flows from investing activities</b>				
Disposal of trading securities	₩ 9,058,501	₩ 11,547,221	₩ 10,800,373	\$ 9,060,715
Acquisition of trading securities	(8,582,000)	(12,150,384)	(10,881,694)	(9,128,938)
Disposal of short-term financial instruments	3,640,112	1,317,099	1,940,605	1,628,025
Acquisition of short-term financial instruments	(3,621,042)	(1,140,400)	(2,365,200)	(1,984,228)
Acquisition of property, plant and equipment	(1,495,961)	(1,688,840)	(1,298,848)	(1,089,638)
Disposal of property, plant and equipment	35,175	91,238	69,886	58,629
Acquisition of investment securities	(661,248)	(117,790)	(726,766)	(609,703)
Disposal of investment securities	139,159	109,523	234,038	196,340
Proceeds from short-term loans	34,949	147,650	45,512	38,181
Short-term loans provided	(29,239)	(56,910)	(52,401)	(43,961)
Long-term loans provided	(68,654)	(46,162)	(30,192)	(25,329)
Acquisition of intangible assets	(97,547)	(96,676)	(103,828)	(87,104)
Others	89,059	(61,133)	233,246	195,678
Net cash used in investing activities	<u>(1,558,736)</u>	<u>(2,145,564)</u>	<u>(2,135,269)</u>	<u>(1,791,333)</u>
<b>Cash flows from financing activities</b>				
Payment of cash dividends	(228,736)	(214,277)	(325,961)	(273,457)
Proceeds from (payment of) short-term borrowings	(656,673)	(85,565)	102,131	85,681
Proceeds from long-term debt	1,450,904	646,848	656,071	550,395
Repayment of current portion of long-term debt	(1,234,520)	(1,299,970)	(1,314,762)	(1,102,989)
Repayment of long-term debt	(149,417)	(278,086)	(2,129)	(1,786)
Proceeds from minority interest	14,513	54,107	4,033	3,383
Acquisition of treasury stock	-	(91,143)	(263,351)	(220,932)
Disposal of treasury stock	-	95,187	43,885	36,816
Others	(19,700)	(5,351)	53,919	45,235
Net cash used in financing activities	<u>(823,629)</u>	<u>(1,178,250)</u>	<u>(1,046,164)</u>	<u>(877,654)</u>
Effect of exchange rate changes on cash and cash equivalents	6,365	(12,862)	9,107	7,640
Net decrease in cash and cash equivalents from changes in consolidated subsidiaries	(6,543)	(16,097)	-	-
Net increase (decrease) in cash and cash equivalents	(473,062)	(139,434)	326,271	273,718
<b>Cash and cash equivalents at the beginning of the year</b>	880,171	407,109	267,675	224,559
<b>Cash and cash equivalents at the end of the year</b>	<u>₩ 407,109</u>	<u>₩ 267,675</u>	<u>₩ 593,946</u>	<u>\$ 498,277</u>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid during the year for interest	<u>₩ 423,809</u>	<u>₩ 327,575</u>	<u>₩ 255,762</u>	<u>\$ 214,566</u>
Cash paid during the year for income tax	<u>₩ 604,998</u>	<u>₩ 264,729</u>	<u>₩ 589,052</u>	<u>\$ 494,171</u>

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

# POSCO AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001, 2002 and 2003

## 1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (the "Company"), including POSCO Engineering & Construction Co., Ltd. (POSCO E & C) and twelve other domestic subsidiaries and twenty-one overseas subsidiaries, whose accounts are included in the consolidated financial statements, and fourteen 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 28,700 thousand tons; 12,870 thousand tons at the Pohang mill and 15,830 thousand tons at the Gwangyang 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.

Under its Articles of Incorporation, the Company is authorized to issue 200,000,000 shares of common stock (par value of ₩5,000 per share). As of December 31, 2003, 88,966,155 shares of common stock were issued. In addition, the Company 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 has decided to retire 1,815,640 shares of treasury stock with the approval of the Board of Directors on July 22, 2003. The aforementioned treasury shares were retired on October 16, 2003. Accordingly, total issued shares reduced to 88,966,155 in 2003 from 90,781,795 in 2002.

As of December 31, 2003, POSCO's shareholders are as follows:

	<b>2003</b>	
	<b>Number of shares</b>	<b>Percentage of shares (%)</b>
Pohang University of Science and Technology	2,905,000	3.27
Nippon Steel Corporation	2,894,435	3.25
SK Telecom Co.	2,481,310	2.79
Government of Singapore	2,858,209	3.21
National Pension Corporation	2,471,097	2.78
Others	75,356,104	84.70
	<u>88,966,155</u>	<u>100.00</u>

As of December 31, 2003 and 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, 2003.

Subsidiaries	Primary business	Capital (c) in millions of Korean Won	Number of outstand- ing shares	Number of shares			Percentage of owner- ship (%) (a)	Location	Percentage of owner- ship of sub- sidiaries
				POSCO	Subsidiaries	Total			
<b>Domestic:</b>									
POSCO E & C (POSEC)	Engineering and construction	₩ 722,171	30,000,000	27,281,080	-	27,281,080	90.94	Pohang	-
Posteel Co., Ltd.	Steel sales and service	257,008	18,000,000	17,155,000	-	17,155,000	95.31	Pohang	-
POSCON Co., Ltd.	Electronic control devices manufacturing	77,961	3,435,000	3,098,610	-	3,098,610	90.21	Pohang	-
Pohang Coated Steel Co., Ltd.	Coated steel manufacturing	252,363	6,000,000	4,000,000	-	4,000,000	66.67	Pohang	-
POSCO Machinery & Engineering Co., Ltd.	Steel work maintenance	31,976	1,700,000	1,700,000	-	1,700,000	100.00	Pohang	-
POSDATA Co., Ltd.	Computer hardware and software distribution	104,070	6,155,160	4,000,000	-	4,000,000	64.99	Sungnam	-
POSCO Research Institute	Economic research and consulting	22,559	3,800,000	3,800,000	-	3,800,000	100.00	Seoul	-
Seung Kwang Co., Ltd.	Athletic facilities operation	42,644	4,145,000	2,737,000	1,208,000	3,945,000	92.53	Suncheon	POSCO E&C(29.14)
POS-AC Co., Ltd.	Architecture and consulting	7,411	130,000	130,000	-	130,000	100.00	Seoul	-
Changwon Specialty Steel Co., Ltd.	Specialty steel manufacturing	355,270	30,000,000	26,000,000	4,000,000	30,000,000	99.04	Changwon	POSTEEL (6.67), POSCON (6.67)
POSCO Machinery Co., Ltd.	Machinery installation	23,239	1,000,000	1,000,000	-	1,000,000	100.00	Gwangyang	-
POSTECH Venture Capital Co., Ltd.	Investment in venture companies	33,307	6,000,000	5,700,000	-	5,700,000	95.00	Pohang	-
POSCO Refractories & Environment (POSREC)	Manufacturing	85,992	5,907,000	3,544,200	-	3,544,200	60.00	Pohang	-
<b>Foreign:</b>									
POSCO America Corp. (POSAM)	Steel trading	153,544	308,610	306,855	1,755	308,610	99.97	U.S.A.	POSCAN (0.57)
POSCO Australia Pty. Ltd.(POSA)	Steel trading	55,834	761,775	761,775	-	761,775	100.00	Australia	-

Continued;

Subsidiaries	Primary business	Capital (c) in millions of Korean Won	Number of outstand- ing shares	Number of shares			Percentage of owner- ship (%) (a)	Location	Percentage of owner- ship of sub- sidiaries
				POSCO	Subsidiaries	Total			
POSCO Canada Ltd. (POSCAN)	Coal trading	₩ 44,511	1,099,885	-	1,099,885	1,099,885	95.31	Canada	Posteel (100.00)
POSCO Asia Co., Ltd. (POA)	Steel trading	13,542	9,360,000	9,360,000	-	9,360,000	100.00	Hongkong	-
POSCO International Osaka, Inc. (PIO)	Steel trading	10,523	800	800	-	800	100.00	Japan	-
VSC POSCO Steel Corporation (VPS)	Steel manufacturing	15,199	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	36,467	N/A	N/A	N/A	N/A	54.30	China	Posteel (15.00) (b)
POS-Tianjin Coil Center Co., Ltd.	Steel service center	13,466	N/A	N/A	N/A	N/A	67.19	China	Posteel (60.00) (b)
POSMETAL Co., Ltd.	Steel service center	5,069	6,000	-	3,000	3,000	47.66	Japan	Posteel (50.00)
Shanghai Real Estate Development Co., Ltd.	Real estate rental	68,582	N/A	N/A	N/A	N/A	90.94	China	POSCO E & C (100.00) (b)
IBC Corporation	Real estate rental	13,963	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	(7,359)	N/A	N/A	N/A	N/A	64.10	Vietnam	POSCO E & C (60.00), Posteel (10.00) (b)
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	239,659	N/A	N/A	N/A	N/A	82.48	China	- (b)
SHUNDE Pohang Coated Steel Co., Ltd.	Coated steel manufacturing	30,973	N/A	N/A	N/A	N/A	93.80	China	- (b)
POS-THAI Service Steel Center Co., Ltd.	Steel service center	8,028	4,091,570	477,288	2,136,208	2,613,496	61.43	Thailand	Posteel (52.21)

Continued;

Subsidiaries	Primary business	Capital (c) in millions of Korean Won	Number of outstanding shares	Number of shares			Total	Percentage of ownership [%] (a)	Location
				POSCO	Subsidiaries				
Qingdao Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	₩ 42,130	N/A	N/A	N/A	N/A	80.00	China	- (b)
Myanmar-POSCO Co., Ltd.	Steel manufacturing	7,351	19,200	13,440	-	13,440	70.00	Myanmar	-
Zhangjiagang POSHA Steel Port Co., Ltd.	Depot service	9,878	N/A	N/A	N/A	N/A	76.35	China	POSCO E&C(25.00), Zhangjiagang Pohang Stainless Steel (65.00) (b)
POSCO Investment Co., Ltd.	Finance	36,937	2,000,000	2,000,000	-	2,000,000	100.00	Hongkong	-
POSCO (SUZHOU) Automotive Processing Center Co., Ltd.	Steel service center	18,981	N/A	N/A	N/A	N/A	100.00	China	- (b)
POS-Qingdao Coil Center Co., Ltd.	Steel service center	10,328	N/A	N/A	N/A	N/A	65.84	China	Posteel (69.08) (b)

(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) Capital of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.



## Equity Method Investees

The following table sets forth certain information with regard to equity method investees as of December 31, 2003.

Investees.	Primary business	Capital (e) in millions of Korean Won	Number of shares			Percentage of ownership (%) (a)	Location	Percentage of ownership of subsidiaries
			POSCO	Subsidiaries	Total			
<b>Domestic:</b>								
eNtoB Corporation	E-business	₩ 14,357	560,000	180,000	740,000	21.94	Seoul	POSDATA and others (5.00)
MIDUS Information Technologies Co., Ltd.	Engineering	8,802	-	866,190	866,190	23.57	Seoul	POSCO E&C (25.92) (d)
<b>Foreign:</b>								
KOBRASCO	PELLET	2,514	2,010,719,185	-	2,010,719,185	50.00	Brazil	- (c)
Fujiura Butsuruyu Center Co., Ltd.	Warehousing	1,660	-	600	600	30.00	Japan	PIO (30.00)
USS-POSCO Industries (UPI)	Material processing	191,314	N/A	N/A	N/A	49.99	U.S.A.	POSAM (50.00) (b) (c)
Suzhou Dongshin Color Metal Sheet Co., Ltd.	Coloring	13,553	N/A	N/A	N/A	28.59	China	Posteel (30.00) (b)
POSCHROME	Fe-Cr	26,845	21,675	-	21,675	25.00	Republic of South Africa	-
Shunde Xingpu Steel Center Co., Ltd.	Metal processing	15,672	N/A	N/A	N/A	20.51	China	Posteel (10.50) (b)
POS-HYUNDAI STEEL	Metal processing	6,381	2,345,558	4,573,838	6,919,396	28.58	India	Posteel (19.50)
POSCO Bioventures LP.	Investment in companies in the bio-tech industry	31,119	N/A	N/A	N/A	79.98	U.S.A.	POSAM (80.00) (b) (c)
PT POSMI STEEL Indonesia	Steel service center	2,453	743	2,229	2,972	35.40	Indonesia	Posteel (27.52) (c)
Posmmit Steel Centre SDN BHD (POS-MMIT)	Steel service center	8,494	4,200,000	-	4,200,000	30.00	Malaysia	-
POSVINA Co., Ltd.	Steel manufacturing	7,940	N/A	N/A	N/A	50.00	Vietnam	- (b) (c) (d)
POSVEN	Steel manufacturing	Negative Capital	4,480	2,240	6,720	58.63	Venezuela	POSCO E&C (10.00) POSTEEL (10.00)

(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) The Company owns over 30 % of equity interest in KOBRASCO, UPI, and PT POSMI STEEL Indonesia, however, the Company is not the major shareholder of these companies. The Company owns over 79.98 % and 50 % of equity interest in POSCO Bioventures LP. and POSVINA Co., Ltd., 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.

(d) Total asset exceeded ₩7,000 million as of December 31, 2002, accordingly, it is included in consolidated subsidiaries in 2003.

(e) Capital of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.

## Subsidiaries Excluded from the Consolidated Financial Statements

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

Investees	Primary business	Shareholders' equity(e) in millions of Korean Won	Number of shares			Percentage of ownership (%) (a)	Location	Percentage of ownership of subsidiaries
			POSCO	Subsidiaries	Total			
<b>Domestic:</b>								
POSCO Terminal Co., Ltd.	Distribution and warehousing	₩ 2,882	51,000	-	51,000	51.00	Gwangyang	- (b)
<b>Foreign:</b>								
PT. POSNESIA Stainless Steel Industry	STS/CR	2,537	29,610,000	-	29,610,000	70.00	Indonesia	- (c)
POSEC-HAWAII Inc.	Construction	8,260	-	18,100	18,100	90.94	U.S.A.	POSCO E&C (100.00) (c)
POS-ORE Pty. Ltd.	Soft coal	16,205	-	17,500,001	17,500,001	100.00	Australia	POSA (100.00) (d)

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

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

(c) As of December 31, 2003, the company's operations have been suspended for more than one year.

(d) The total assets of POS-ORE Pty. Ltd. are less than ₩7,000 million as of December 31, 2002.

(e) Capital of the Company's oversea subsidiaries is translated at the exchange rate as of the balance sheet date.

## Change in Scope of Consolidation

The consolidated financial statements include the accounts of Qingdao Pohang Stainless Steel Co., Ltd., which was excluded from consolidation as of December 31, 2002, due to the increase in total assets exceeding ₩7,000 million as of December 31, 2003. Also, the consolidated financial statements include the accounts of POSCO (SUZHOU) Automotive Processing Center Co., Ltd., which was newly incorporated in 2003, since the Company has an actual controlling financial interest in POSCO (SUZHOU) Automotive Processing Center Co., Ltd.

## 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 Statements of Korean Financial Accounting Standards ("SKFAS"), including SKFAS No. 1 through No.9, are summarized below:

### Basis of Consolidated Financial Statements Presentation

POSCO and its domestic subsidiaries maintain their 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. 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 in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language consolidated financial statements, but not required for a fair presentation of POSCO and its domestic subsidiaries' financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

The Company has already adopted SKFAS No. 12 "Construction-Type Contracts" covering periods beginning after December 31, 2002. The adoption of this statement had no material impact on the Company's financial position or results of operations.

### Accounting Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different 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 consolidated 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 from long-term service contracts 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 historical collection experience.

## 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 the net realizable value and the difference between the cost and revalued amount is charged to current operations.

## Investment Securities

Investment securities are classified into trading securities, available-for-sale securities or held-to-maturity securities in accordance with the intention of the Company.

Investment securities are initially carried at cost, including incidental expenses, with cost determined by the moving-average method. Trading and available-for-sale securities are reported at fair value, including incidental expenses. Securities that are not publicly traded and which the fair value cannot be reasonably measured are recorded at acquisition cost. Held-to-maturity securities are reported at cost. Differences between the initial cost and face value are amortized using the effective interest rate over its term. 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 changes in shareholders' equity. The accumulated amount in shareholders' equity is reported in current operations when the relevant securities are disposed or losses are recognized. If the collectible amount of the securities is less than its cost, such losses are recognized in current operations.

Investments in equity securities of companies over which the Company has the ability to exercise a 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 of the investee. All significant unrealized profits resulting from intercompany transactions of inventories and property, plant and equipment are 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, net of accumulated depreciation, 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"):

	<b>Estimated useful lives (years)</b>
Buildings and structures	5 ~ 60
Machinery and equipment	3 ~ 25
Tools	4 ~ 10
Vehicles	4 ~ 10
Furniture and fixtures	4 ~ 20

The acquisition cost of an asset is comprised of its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use. When the estimated cost of dismantling and removing the asset and restoring the site, after the termination of the asset's useful life, meets the criteria for the recognition of provisions, the present value of the estimated expenditure shall be included in the cost of the asset.

Subsequent expenditure on property, plant and equipment shall be capitalized only when it increases future economic benefits beyond its most recently assessed standard of performance; all other subsequent expenditure shall be recognized as an expense in the period in which it is incurred.

## Long-Lived Assets

Long-lived assets, including certain identifiable intangibles with finite-lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If an asset is determined to be impaired, the loss is measured based on differences between the carrying value and quoted market price in active markets, if available, with resulting impairment loss charged to current operations. If quoted market price is not available, the net realized value is based on various valuation techniques, including a discounted value of estimated future cash flows and fundamental analysis. The Company reports an asset to be disposed of at the lower of its carrying value or fair value less cost to sell.

## 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.

	<b>Estimated useful lives (years)</b>
Goodwill	5 ~ 10
Negative goodwill	5
Intellectual property rights	5 ~ 50
Port facilities usage rights	2 ~ 33 (c)
Land usage rights	25 ~ 50
Internally used software	4 ~ 20(b)
Deferred development expenses	(a)
Others	3 ~ 50

(a) The costs incurred in relation to the development of new products and new technologies are recognized and recorded as development costs only if it is probable that future economic benefits that are attributable to the asset will flow into the entity and the cost of the asset can be measured reliably. The useful life of development costs is based on its estimated useful life, not to exceed twenty years from the date when the asset is available for use.

(b) The costs directly relating to the development of internally used software, of which the estimated future benefits are probable, are capitalized as internally used software. Internally used software systems that are part of production line are amortized over the estimated useful lives of twenty years.

(c) Port facilities usage rights, which represent rights to use certain port facilities, are stated at cost less accumulated amortization and are amortized over the term of the rights.

## 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 an interest expense.

## Government Grants

The government grants related to fixed assets are accounted for as reduction of the cost of the related asset or deferred credits and amortized over the life of the assets. Other government grants without any specified condition are accounted for as other income.

## 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 an 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 reporting and income tax purposes.

## Accrued Severance Benefits

Employees and directors with one year or more 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 and directors 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.

## Lease Transactions

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment acquired under capital lease agreements are recorded at cost as property, plant and equipment and depreciated using the straight-line method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. The related lease rentals are charged to expense when incurred.

## 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.

## Stock Appreciation Rights

Compensation expenses for stock appreciation rights, either partially or fully vested, is recorded based on the difference between the base unit price at the date of grant and the moving weighted average of quoted market price at the end of the period proportionally recognized over the vesting period and adjusted for previous recognized expense (Note 21).

## Derivative Instruments

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

## 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).

## Cash Flow Statement

The cash flow statements are prepared under the basis of accounting used in the primary financial statements complies with U.S. generally accepted accounting principles. Cash flows from forward contracts and swap contracts are accounted for as hedges are classified in the same category as the item being hedged.

## 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 ₩1192.0: US\$ 1, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2003. 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.

## 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 became effective for the Company on January 1, 2003. The balance sheet as of December 31, 2002, presented herein for comparative purposes, was restated in accordance with SKFAS No. 6. As a result, the dividends payable, previously recorded as current liabilities, decreased by ₩245,216 million and the balance of retained earnings increased by same amount.

The Company plans to adopt SKFAS No. 10 "Inventory" and other statements in its financial statements for the year ending December 31, 2004.

## Significant Accounting Policies of POSCO and its Controlled Subsidiaries

Company	Inventories (a)	Depreciation of property, plant and equipment
POSCO	Moving-average method	Straight-line method
POSCO E & C	Moving-average method	Straight-line method
Posteel Co., Ltd.	Moving-average method	Straight-line method
POSCON Co., Ltd.	Moving-average method	Straight-line method, declining-balance method
Pohang Coated Steel Co., Ltd.	Gross average method	Straight-line method
POSCO Machinery & Engineering Co., Ltd.	Moving-average method	Straight-line method
POSDATA Co., Ltd.	Moving-average method	Straight-line method
POSCO Research Institute	N/A	Straight-line method
Seung Kwang Co., Ltd.	Gross average method	Straight-line method, declining-balance method
POS-AC Co., Ltd.	N/A	Straight-line method, declining-balance method
Changwon Specialty Steel Co., Ltd.	Moving-average method	Straight-line method
POSCO Machinery Co., Ltd.	Moving-average method	Straight-line method
POSTECH Venture Capital Co., Ltd.	N/A	Declining-balance method
POSCO Refractories & Environment (POSREC)	First-in, First-out, Moving-average method	Straight-line method, declining-balance method
POSCO America Corp. (POSAM)	Moving-average method	Straight-line method
POSCO Australia Pty. Ltd. (POSA)	Gross average method	Straight-line method
POSCO Canada Ltd. (POSCAN)	Gross average method	Straight-line method, unit of production method
POSCO Asia Co., Ltd. (POA)	N/A	Declining-balance method
POSCO International Osaka, Inc. (PIO)	Gross average method	Straight-line method
VSC POSCO Steel Corporation (VPS)	Moving-average method	Straight-line method
DALIAN POSCO - CFM Coated Steel Co., Ltd.	Moving-average method	Straight-line method
POS-Tianjin Coil Center Co., Ltd.	Specific identification method, Moving-average method	Straight-line method
POSMETAL Co., Ltd.	Moving-average method	Straight-line method
Shanghai Real Estate Development Co., Ltd.	N/A	Straight-line method
IBC Corporation	Specific identification method	Straight-line method
POSLILAMA Steel Structure Co., Ltd.	Moving-average method	Straight-line method
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Moving-average method	Straight-line method
SHUNDE Pohang Coated Steel Co., Ltd.	Moving-average method	Straight-line method
POS-THAI Service Steel Center Co., Ltd.	Moving-average method	Straight-line method
Qingdao Pohang Stainless Steel Co., Ltd.	Moving-average method	Straight-line method
Myanmar-POSCO Co., Ltd.	Moving-average method	Straight-line method
Zhangjiagang POSHA Steel Port Co., Ltd.	Moving-average method	Straight-line method
POSCO Investment Co., Ltd.	N/A	Straight-line method
POSCO (SUZHOU) Automotive Processing Center Co., Ltd.	N/A	Straight-line method
POS-Qingdao Coil Center Co., Ltd.	N/A	Straight-line method

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



### 3. Cash and Cash Equivalents and Financial Instruments

Cash and cash equivalents and short-term and long-term financial instruments as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	Annual interest rates (%) as of December 31, 2003	2002	2003
<b>Cash and cash equivalent</b>			
Cash on hand and bank deposits	0.01 ~ 3.00	₩ 9,382	₩ 9,732
Corporate bank deposits	0.10 ~ 5.00	6,060	37,874
Checking accounts	-	3,397	4,704
Time deposits in foreign currency and others	0.00 ~ 6.00	118,658	351,430
Maintained by overseas affiliates	0.01 ~ 5.28	130,178	190,206
		267,675	593,946
Government grants		(295)	(1,344)
		₩ 267,380	₩ 592,602
<b>Short-term financial instruments</b>			
Time deposits	1.00 ~ 6.00	₩ 171,643	₩ 285,850
Installment accounts	5.00 ~ 6.00	6,887	77,276
Time deposits in foreign currency	0.55 ~ 0.85	199	2,463
Money in trust	3.70 ~ 3.90	46,979	2,121
Negotiable certificates of deposit	4.40 ~ 4.80	-	259,000
Commercial Paper	5.60 ~ 6.72	-	42,109
Others	3.00 ~ 5.10	32,005	10,322
Maintained by overseas affiliates	-	419	16,028
		₩ 258,132	₩ 695,169
<b>Long-term financial instruments</b>			
Installment accounts	1.00 ~ 5.00	₩ 6,898	₩ 498
Guarantee deposits for opening accounts	-	120	113
Time deposits in foreign currency and others	4.00 ~ 5.80	13,556	17,391
		₩ 20,574	₩ 18,002

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 collateral deposits for long-term borrowings and long-term financial instruments amounting to ₩120 million in relation to collateral deposits for opening checking accounts (Note 13).

As of December 31, 2003, the Company's financial assets amounting to ₩8,255 million are pledged as collateral and, accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collateral include short-term financial instruments and long-term financial instruments amounting to ₩8,000 million and ₩142 million in relation to performance guarantee deposits, long-term financial instruments amounting to ₩113 million in relation to collateral deposits for opening checking accounts and others (Note 13).

## 4. Trading Securities

Trading securities as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	2002	2003
Beneficiary certificates (*)	₩ 1,192,204	₩ 1,147,219
Mutual funds	-	174,082
	<u>₩ 1,192,204</u>	<u>₩ 1,321,301</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, 2002 and 2003 are as follows:

in millions of Korean Won	2002	2003
Trade accounts and notes receivable	₩ 1,762,701	₩ 2,332,737
Less: Allowance for doubtful accounts	(22,834)	(23,327)
Present value discount	(262)	(965)
	<u>₩ 1,739,605</u>	<u>₩ 2,308,445</u>
Other accounts and notes receivable	₩ 125,480	₩ 152,053
Less: Allowance for doubtful accounts (*)	(52,741)	(56,489)
	<u>₩ 72,739</u>	<u>₩ 95,564</u>
Long-term trade accounts and notes receivable	₩ 69,203	₩ 61,734
Less: Allowance for doubtful accounts	(5,737)	(2,090)
Present value discount	(18,603)	(15,979)
	<u>₩ 44,863</u>	<u>₩ 43,665</u>
Long-term loans	₩ 117,429	₩ 83,346
Less: Allowance for doubtful accounts	(49)	(384)
Present value discount	(120)	(85)
	<u>₩ 117,260</u>	<u>₩ 82,877</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 ₩43,378 million and allowances for doubtful accounts amounting to ₩41,724 million for receivables with uncertain collectibility.

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

in millions of Korean Won

Accounts	Company	Face value	Present value discount	Book value	Maturity (year)	Discount rate (%)
<b>Long-term deferred payment:</b>						
Long-term loans	Employees Others	₩ 159	₩ 32	₩ 127	2017	7.54
		<u>260</u>	<u>53</u>	<u>207</u>	2006	7.54
		419	85	334		
Other long-term assets (Note 11)	Cointop Software Corp.	<u>183</u>	<u>44</u>	<u>139</u>	2008	6.50
		<u>183</u>	<u>44</u>	<u>139</u>		
		<u>₩ 602</u>	<u>₩ 129</u>	<u>₩ 473</u>		
<b>Rescheduled payment:</b>						
Long-term trade accounts and notes receivable	BNG Steel Co., Ltd	₩ 61,338	₩ 16,053	₩ 45,285	2005 ~ 2009	8.00 ~ 8.62
	Hanbo Iron and Steel Co., Ltd. and others	<u>2,284</u>	<u>891</u>	<u>1,393</u>	2004 ~ 2017	4.97 ~ 10.00
		<u>63,622</u>	<u>16,944</u>	<u>46,678</u>		
Less: Current portion		<u>(8,957)</u>	<u>(965)</u>	<u>(7,992)</u>		
		54,665	15,979	38,686		
Other long-term assets (Note 11)	Dong Sung Construction Co., Ltd. and others	<u>368</u>	<u>45</u>	<u>323</u>	2005 ~ 2018	7.54
		<u>368</u>	<u>45</u>	<u>323</u>		
		<u>₩ 55,033</u>	<u>₩ 16,024</u>	<u>₩ 39,009</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.

Valuation and qualifying accounts for allowance for doubtful accounts for the years ended December 31, 2001, 2002 and 2003 are as follows:

in millions of Korean Won

Description	Balance at beginning of period	Additions		Deductions (a)	Balance at the end of period
		Charged to costs and expenses	Charged to other accounts (b)		
<b>Year ended December 31, 2003:</b>					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	₩ 321,534	₩ 8,955	₩ -	₩ 5,302	₩ 325,187
<b>Year ended December 31, 2002:</b>					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	44,047	184,886	103,954	11,353	321,534
<b>Year ended December 31, 2001:</b>					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	56,724	10,951	-	23,628	44,047

(a) Deduction for allowance for doubtful accounts includes recoveries of bad debts and amount written off as uncollectible.

(b) Includes ₩104 billion related to the consolidation adjustment resulting from the change in scope of consolidation.

## 6. Inventories

Inventories as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	2002	2003
Finished goods	₩ 312,9154	₩ 340,814
By-products	2,309	3,226
Semi-finished goods	390,827	457,954
Raw materials	637,456	699,970
Materials in-transit	269,744	513,645
Others	58,195	52,762
	₩ 1,671,446	₩ 2,068,371

## 7. Investment Securities

Investment securities as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	2002	2003
Available-for-sale securities	₩ 2,254,609	₩ 2,147,013
Held-to-maturity securities	110,817	17,481
Equity method investments	163,012	154,336
	<u>₩ 2,528,438</u>	<u>₩ 2,318,830</u>

### Available-For-Sale Securities

Available-for-sale securities as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	2002	2003
Marketable equity securities	₩ 1,619,928	₩ 1,647,038
Non-marketable equity securities	605,145	226,793
Debt security investments	12	243,691
Others	29,524	29,491
	<u>₩ 2,254,609</u>	<u>₩ 2,147,013</u>

Investments in marketable equity securities as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	Number of shares	Percentage of ownership (%) as of December 31, 2003	2002		2003	
			Book value	Acquisition cost	Book value (c)	
Hanil Iron Steel Co., Ltd. (a)	206,798	10.14	₩ 2,215	₩ 2,412	₩ 2,337	
Hi Steel Co., Ltd. (a)	123,052	9.95	1,477	1,608	1,053	
MunBae Steel Co., Ltd. (b)	1,849,380	9.02	1,219	3,588	1,840	
Chohung Bank	135,394	0.02	555	3,757	529	
Hana Bank	4,617,600	2.34	75,267	29,998	101,587	
SK Telecom Co.(d)	5,794,924	7.04	1,327,037	1,657,348	1,153,190	
Samjung P&A Co., Ltd.	270,000	9.00	2,295	2,714	1,866	
DongYang Steel Pipe Co., Ltd.	1,564,250	2.46	579	3,911	508	
Nippon Steel Corporation	147,876,000	2.17	208,193	285,102	380,794	
Others	-	-	1,091	3,373	3,334	
			<u>₩ 1,619,928</u>	<u>₩ 1,993,811</u>	<u>₩ 1,647,038</u>	

(a) On January 1, 2003, Hanil Iron Steel Co., Ltd. was split-off into Hi Steel Co., Ltd. and Hanil Iron Steel Co., Ltd.

(b) Munbae Steel Co., Ltd had stock splits of 1:5.

(c) 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.

(d) 1,696,428 SK Telecom shares classified as available-for-sale securities have been placed as a collateral for exchangeable bonds (Notes 13 and 16).

Investments in non-marketable equity securities as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	Number of shares	Percentage of ownership (%) as of December 31, 2003	2002		2003		
			Book value	Acquisition cost	Net assetvalue (a)	Book value	
<b>Dae Kyeong Special Steel</b>							
Co., Ltd.	1,786,000	19.00	₩ 8,930	₩ 8,930	₩ 4,422	₩ 8,930	
Kihyup Corporation	600,000	10.34	3,000	3,000	3,441	3,000	
Powercomm	7,500,000	5.00	246,000	246,000	68,407	68,407	
The Siam United Steel	9,000,000	10.00	26,640	26,640	8,174	26,640	
<b>PT-POSNESIA Stainless</b>							
Steel Industry (b)	29,610,000	70.00	9,474	9,474	2,537	2,537	
Keo Yang Shipping Co., Ltd.	150,000	0.88	780	780	1,191	780	
Korea Economic Daily	57,456	0.46	309	309	169	308	
<b>Daewoo Commercial Vehicle</b>							
Co., Ltd.	10,185	0.06	51	51	50	51	
POSCO Terminal Co., Ltd. (c)	204,000	51.00	-	1,020	1,470	1,020	
Gloval Unity Ltd.	70,649	10.00	710	710	540	710	
Korea Daily News (c)	1,614,000	19.40	-	18,520	8,611	9,551	
Incheon Airport Train Co., Ltd.	8,978,468	11.87	30,525	44,892	34,794	44,892	
CENIX	1,460,344	6.00	1,509	12,829	903	903	
POS-Ore Pty Ltd.	17,500,001	100.00	680	15,697	16,205	15,697	
POSEC-HAWAII Inc.	18,100	90.94	8,617	10,132	8,515	8,260	
SK IMT (d)	-	-	192,002	-	-	-	
Others	-	-	75,918	43,268	20,941	35,107	
			<u>₩ 605,145</u>	<u>₩ 442,252</u>	<u>₩ 180,370</u>	<u>₩ 226,793</u>	

(a) The net asset value of the non-marketable equity securities is determined based on the investee companies' most recent available financial information, which has not been reviewed or audited, except for POSCO Terminal Co., Ltd, as of December 31, 2003. Powercomm shares were based on the discounted cash flow method, and the difference between the acquisition cost and the discounted cash flow (₩177,593 million) was accounted for as a capital adjustment. Except for Powercomm, shares without an objective market value were based on acquisition costs.

(b) As of December 31, 2002, the operation of PT-POSNESIA Stainless Steel Industry has been suspended for more than one year.

(c) POSCO Terminal Co., Ltd, having initial capital less than ₩7,000 million, and Korea Daily News, in which the Company no longer has a significant interest, were eliminated from the equity method.

(d) The shares of SK IMT held by the Company are fully disposed and accordingly no shares of SK IMT are held by the Company as of December 31, 2003.

Debt security investments as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	Maturity (year)	2002		2003
		Book value	Acquisition cost	Book value
Government and municipal bonds	1 ~ 5	₩ 12	₩ 210,220	₩ 211,503
	5 ~ 10	-	124	124
Other bonds	1 ~ 5	-	32,231	32,064
		<u>₩ 12</u>	<u>₩ 242,575</u>	<u>₩ 243,691</u>

Other investments as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	2002		2003
	Book value	Acquisition cost	Book value
Investments in capital			
Stock Market Stabilization Fund	₩ 4,343	₩ 1,184	₩ 3,542
Contractor Financial Fund	12,472	12,167	12,167
POSTEC Venture Fund 2 and others	12,709	13,727	13,782
	<u>₩ 29,524</u>	<u>₩ 27,078</u>	<u>₩ 29,491</u>

Details of valuation gains and losses on available-for-sale securities for the year ended December 31, 2003 are as follows:

in millions of Korean Won	Beginning balance	Increase (decrease)	Ending balance
Marketable equity securities:			
Hanil Iron & Steel Co., Ltd.	₩ (197)	₩ 122	₩ (75)
HISTEEL Co., Ltd.	(131)	(424)	(555)
Munbae Steel Co., Ltd.	(2,369)	621	(1,748)
Chohung Bank	(3,202)	(26)	(3,228)
Hana Bank	45,269	26,320	71,589
SK Telecom Co.	(330,311)	(173,847)	(504,158)
Samjung P&A Co., Ltd.	(419)	(429)	(848)
Dong Yang Steel Pipe Co., Ltd.	(3,332)	(71)	(3,403)
Nippon Steel Coporation	(76,909)	172,601	95,692
Others	(332)	293	(39)
	<u>(371,933)</u>	<u>25,160</u>	<u>(346,773)</u>
Non-marketable equity securities:			
Powercomm	-	(177,593)	(177,593)
Others	-	(5,411)	(5,411)
	-	<u>(183,004)</u>	<u>(183,004)</u>
Total	<u>₩ (371,933)</u>	<u>₩ (157,844)</u>	<u>₩ (529,777)</u>

## Held-To-Maturity Securities

Held-to-maturity securities as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	Maturity (year)	2002		2003
		Book value	Acquisition cost	Book value
Current portion of held-to-maturity securities:				
Government and municipal bonds	Within one year	₩ 386	₩ 141,898	₩ 141,163
Bonds with stock warrants	"	432	-	-
Financial bonds	"	-	99,668	97,966
Corporate bonds in foreign currency	"	15,925	US\$ 9,400,000	11,352
Others	"	11,102	-	-
			₩ 241,566	
		27,845	US\$ 9,400,000	250,481
Held-to-maturity securities:				
Financial bonds	1 ~ 5	49,668	₩ -	-
Government and municipal bonds	"	5,082	15,232	15,232
Corporate bond in foreign currency	5 ~ 10	-	US\$1,000,000	1,207
Government and municipal bonds	"	11,486	₩ 583	583
Others	-	44,581	459	459
			₩ 16,274	
		110,817	US\$ 1,000,000	17,481
			₩ 257,840	
		₩ 138,662	US\$10,400,000	₩ 267,962

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 (Note 13).



## Equity Method Investments

Details of equity method investees as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	Number of shares	Percentage of ownership (%) as of December 31, 2003 (d)	2002		2003	
			Book value	Acquisition cost	Net asset value (e)	Book value
Korea Daily News (a)	-	-	₩ 13,750	₩ -	₩ -	₩ -
eNtoB Corporation	740,000	21.94	2,579	3,700	3,150	3,295
KOBRASCO (c)	2,010,719,185	50.00	-	32,950	1,257	562
POSCHROME	21,675	25.00	4,379	4,859	6,711	6,711
Shunde Xingpu Steel Center Co., Ltd.(b)	-	20.51	2,992	1,852	3,214	3,291
POS-HYUNDAI STEEL	6,919,396	28.58	1,379	3,136	1,824	1,883
POS-MMIT	4,200,000	30.00	2,308	2,308	2,548	2,625
PT POSMI STEEL Indonesia	2,972	35.40	1,467	1,467	868	1,572
POSVINA Co.,Ltd. (b)	-	50.00	-	1,527	3,970	3,970
Fujiura Butsuruyu Center Co., Ltd.	600	30.00	553	632	498	538
Suzhou Dongshin Color Metal Sheet Co., Ltd. (b)	-	28.59	3,606	2,547	3,875	4,066
MIDUS Information Technologies Co., Ltd.	866,190	23.57	-	433	2,075	2,281
POSCO Bioventures LP. (b)	-	79.98	10,020	18,368	24,889	24,889
USS-POSCO Industries (b)	-	49.99	119,979	234,293	95,638	98,653
POSVEN (f)	6,720	58.63	-	66,876	Negative capital	-
			<u>₩ 163,012</u>	<u>₩ 374,948</u>	<u>₩ 150,517</u>	<u>₩ 154,336</u>

(a) In November 2003, the Company donated 3% of its Korea Daily News holdings to Kumho Culture Center, resulting in the loss of its significant influence over Korea Daily News. As a result, its holding was accounted as part of available-for-sale securities.

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

(c) As of December 31, 2002, the Company discontinued using the equity method of accounting for investments in KOBRASCO. However, as of December 31, 2003, KOBRASCO has recovered its net asset value and as a result, it has been applied with the equity method. Accordingly, unaccounted equity method valuation loss of ₩16,124 million during the year ended December 31, 2002 was deducted, during the current year from retained earnings before appropriations.

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

(e) 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 has not been audited or reviewed as of December 31, 2003.

(f) POSVEN had a negative capital during the prior period and is under going the liquidating process. As a result, the Company has suspended to applied the equity method.

Details of equity method valuation for the year ended December 31, 2002 and 2003 are as follows:

in millions of Korean Won	2002 Beginning balance	Valuation gain or loss using equity method	Other increase or decrease(a)	2002 Ending balance	Valuation gain or loss using equity method	Other increase or decrease (a)	2003 Ending balance
POSVEN	₩ -	₩ (134,501)	₩ 134,501	₩ -	₩ -	₩ -	₩ -
Korea Daily News	23,718	(3,415)	(6,553)	13,750	(2,874)	(10,876)	-
eNtoB Corporation	2,704	(225)	100	2,579	812	(96)	3,295
KOBRASCO	13,292	(15,827)	2,535	-	21,447	(20,885)	562
POSCHROME	3,127	922	330	4,379	695	1,637	6,711
Shunde Xingpu Steel Center Co., Ltd.	2,664	608	(280)	2,992	137	162	3,291
POS-HYUNDAI STEEL	1,243	232	(96)	1,379	377	127	1,883
POS-MMIT	-	-	2,308	2,308	322	(5)	2,625
PT POSMI STEEL Indonesia	-	-	1,467	1,467	817	(712)	1,572
POSVINA Co., Ltd.	-	-	-	-	2,263	1,707	3,970
Fujiura Butsuruyu Center Co., Ltd.	636	(84)	1	553	(102)	87	538
Suzhou Dongshin Color Metal Sheet Co., Ltd	2,783	1,127	(304)	3,606	413	47	4,066
MIDUS Information Technologies Co.,Ltd.	-	-	-	-	1,706	575	2,281
POSCO Bioventures LP.	-	(284)	10,304	10,020	(2,186)	17,055	24,889
USS-POSCO Industries	124,832	22,678	(27,531)	119,979	(28,350)	7,024	98,653
POSREC	18,199	-	(18,199)	-	-	-	-
Total	₩ 193,198	₩ (128,769)	₩ 98,583	₩ 163,012	₩ (4,523)	₩ (4,153)	₩ 154,336

(a) Other increase or decrease represents the fluctuation of investment securities due to acquisitions (disposals) in the current period, dividends received, valuation gain or loss on investment securities, changes in retained earnings and others.

Details on the elimination of unrealized gain or loss for the years ended December 31, 2002 and 2003 are as follows:

in millions of Korean Won	2002			2003		
	Current assets	Property, plant, equipment and intangible assets	Total	Current assets	Property, plant, equipment and intangible assets	Total
eNtoB Corporation	₩ 11	₩ -	₩ 11	₩ 10	₩ 15	₩ 25
Fujiura Butsuryu Center Co., Ltd.	6	-	6	-	-	-
KOBRASCO	-	-	-	655	-	655
UPI	-	-	-	6,237	-	6,237
POSCHROME	93	-	93	-	-	-
	<u>₩ 110</u>	<u>₩ -</u>	<u>₩ 110</u>	<u>₩ 6,902</u>	<u>₩ 15</u>	<u>₩ 6,917</u>

## 8. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	2002	2003
Buildings and structures	₩ 4,751,118	₩ 5,040,909
Machinery and equipment	17,863,238	18,995,021
Tools	299,925	347,664
Vehicles	150,986	166,062
Furniture and fixtures	165,046	195,602
	<u>23,230,313</u>	<u>24,745,258</u>
Less: Accumulated depreciation	(15,698,572)	(17,147,340)
Less: Accumulated impairment	(2,786)	(2,786)
	<u>7,528,955</u>	<u>7,595,132</u>
Land	1,250,851	1,212,850
Less: Accumulated impairment	(566)	(566)
	<u>1,250,285</u>	<u>1,212,284</u>
Construction in-progress	1,785,348	1,121,978
Less: Accumulated impairment	(240,014)	(83,617)
	<u>1,545,334</u>	<u>1,038,361</u>
	<u>₩ 10,324,574</u>	<u>₩ 9,845,777</u>

The value of land based on the posted price issued by the Korean tax authority amounted to ₩2,666,325 million and ₩2,796,338 million as of December 31, 2002 and 2003, respectively.

As of December 31, 2002 and 2003, property, plant and equipment are insured against fire and other casualty losses up to ₩4,538,778 million and ₩4,568,357 million, respectively. In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

Continued;

Construction in-progress included in property, plant and equipment includes capital investments in Gwangyang 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 temporarily ceased/suspended due to the economic situation in the Republic of Korea and the Asia Pacific region. The continuing unstable economic condition and related decrease in the selling price of products, resulting in the deterioration in profitability, drove the management's operation committee's decision in April 2002 to cease the construction on the No. 2 Minimill, and instead use the buildings for the Tailor Welded Blank ("TWB") project designed to manufacture custom-made automobile body panels. Previously recognized impairment loss on the buildings and equipment machinery in Gwangyang No. 2 Minimill amounted to ₩4,795 million and ₩235,219 million, respectively, as of December 31, 2002. In June 2003, due to a continuing unfavorable market condition, the Company amended its plan and concluded that only a portion of buildings of the No. 2 Minimill will be used for the TWB project. In addition, with the approval of Board of Directors, the Company is negotiating the terms of sales agreement and the selling price for the machinery of the No. 2 Minimill with a third party as of December 31, 2003. Accordingly, the Company recognized an additional impairment loss on the area of the buildings, which would not be used for the TWB project, and machinery based on the net realizable value and estimated selling price, respectively. In addition, for the year ended December 31, 2003, the Company recognized an impairment loss on the buildings and equipment machinery amounting to ₩78,822 million and ₩71,928 million, respectively, for the year ended December 31, 2003. Accumulated impairment loss on the buildings and equipment machinery as of December 31, 2003 amounted to ₩83,617 million and ₩307,147 million, respectively. As of December 31, 2003, the Company has reclassified related equipment machinery held to be disposed in the future as other investment assets.

The Company has reclassified Bloom equipment held to be disposed as other investment assets. As of December 31, 2003, the differences between carrying value and net realizable value, amounting to ₩619 million, are accounted for as impairment loss on investment assets.

The changes in the carrying value of property, plant and equipment for the year ended December 31, 2003 are as follows:

in millions of Korean Won	As of December 31, 2002	Acquisition	Disposal	Depreciation	Other (a)	Elimination of intercompany transactions	As of December 31, 2003
Land	₩ 1,250,285	₩ 3,756	₩ 49,414	₩ -	₩ 3,213	₩ 4,444	₩ 1,212,284
Buildings	2,223,336	254,983	30,159	158,032	10,767	13,163	2,314,058
Structures	956,068	71,674	3,015	75,613	(6,981)	(28,569)	913,564
Machinery and equipment	4,192,877	1,320,043	12,893	1,264,247	(1,729)	(55,334)	4,178,717
Vehicles	20,979	23,074	516	11,251	47	1,534	33,867
Tools	92,982	66,820	7,125	55,536	(289)	4,321	101,173
Furniture and equipment	42,713	30,418	506	26,417	197	7,349	53,754
Construction inprogress	1,545,334	960,468	137,843	-	(1,427,760)	98,161	1,038,360
	<u>₩ 10,324,574</u>	<u>₩ 2,731,236</u>	<u>₩ 241,471</u>	<u>₩ 1,591,096</u>	<u>₩ (1,422,535)</u>	<u>₩ 45,069</u>	<u>₩ 9,845,777</u>

(a) Including foreign currency translation adjustment and transfers of an asset.

## 9. Intangible Assets

Intangible assets, net of accumulated amortization, as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	<b>2002</b>	<b>2003</b>
Goodwill	₩ 3,674	₩ 234
Negative goodwill	(2,358)	(914)
Intellectual property rights	266	523
Port facilities usage rights	134,209	129,698
Organization costs	2,609	-
Development costs	44,991	18,272
Internally used software	189,829	233,000
Land usage rights	42,017	12,750
Others	59,575	80,933
	<u>₩ 474,812</u>	<u>₩ 474,496</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 Gwangyang, Pohang, Pyoungtaek and Masan. The related amortization expense amounted to ₩16,307 million for the year ended December 31, 2003.

As of December 31, 2002 and 2003, accumulated amortization of intangible assets amounts to ₩535,479 million and ₩433,138 million, respectively.

The estimated aggregated amortization expenses for each of the next five fiscal years are as follows:

in millions of Korean Won	
2004	₩ 122,490
2005	96,656
2006	67,989
2007	45,260
Thereafter	11,613
	<u>₩ 344,008</u>

## 10. Research and Development Costs and Others

The changes in the carrying value of development costs, internally used software and other intangible assets for the years ended December 31, 2002 and 2003 are as follows:

in millions of Korean Won	<b>2002</b>	<b>2003</b>
Beginning balance	₩ 274,899	₩ 294,395
Increase	110,185	125,069
Decrease (*)	79,532	78,087
Foreign exchange	(11,157)	(9,172)
Ending balance	<u>₩ 294,395</u>	<u>₩ 332,205</u>

(\*) Decrease consists of amortization and dispositions.

The Company expensed research and development costs amounting to ₩202,102 million and ₩255,696 million for the years ended December 31, 2002 and 2003, respectively. For the years ended December 31, 2002 and 2003, the Company recorded research and development costs as cost of goods sold amounting to ₩161,475 million and ₩198,871 million, respectively, and selling and administrative expenses amounting to ₩40,627 million and ₩56,825million, respectively.

## 11. Other Assets

Other assets as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	<b>2002</b>	<b>2003</b>
<b>Other current assets</b>		
Short-term loans	₩ 37,456	₩ 85,027
Accrued income	41,548	60,440
Advance payments	59,472	125,754
Prepaid expenses	7,746	10,498
Others	42,003	13,059
Less: Allowance for doubtful accounts	(2,726)	(5,113)
	<u>₩ 185,499</u>	<u>₩ 289,665</u>
<b>Other long-term assets</b>		
Other investment assets	₩ 311,748	₩ 526,784
Less: Allowance for doubtful accounts	(237,447)	(237,782)
Present value discount	(59)	(89)
	<u>₩ 74,242</u>	<u>₩ 288,913</u>

## 12. Short-Term Borrowings and Current Portion of Long-Term Debt

Short-term borrowings as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won

<b>Financial institutions</b>	<b>Annual interest rates (%) as of December 31, 2003</b>	<b>2002</b>	<b>2003</b>
<b>Won currency borrowings:</b>			
Korea Development Bank and others	4.00 ~ 5.00	₩ 84,442	₩ 164,931
<b>Foreign currency borrowings:</b>			
Thai Farmers Bank	1.00	211	10,221
Bank of America and others	1.00 ~ 3.00	503,302	556,629
		503,513	566,850
		₩ 587,955	₩ 731,781

Current portion of long-term debt as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won

<b>Financial institutions</b>	<b>Annual interest rates (%) as of December 31, 2003</b>	<b>2002</b>	<b>2003</b>
<b>Debentures:</b>			
Domestic and foreign debentures	1.00 ~ 8.00	₩ 1,255,671	₩ 789,405
Less: Discount on debentures issued		(4,321)	(1,958)
		1,251,350	787,447
<b>Won currency borrowings:</b>			
Korea Development Bank and others	2.00 ~ 7.00	2,052	1,618
<b>Foreign currency borrowings:</b>			
Citibank and others	1.00 ~ 6.97	65,157	230,493
<b>Lease obligations:</b>			
IBM Korea and others	5.00	972	1,307
		68,181	233,418
		₩ 1,319,531	₩ 1,020,865

## 13. Long-Term Debt

Long-term borrowings as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won

Financial institutions	Annual interest rate (%) as of December 31, 2003	2002	2003
<b>Won currency borrowings:</b>			
Korea Development Bank and others	1.00 ~ 9.90	₩ 12,730	₩ 11,953
Less: Current portion		(2,052)	(1,618)
		10,678	10,335
<b>Foreign currency borrowings:</b>			
Development Bank of Japan and others	0.75 ~ 8.28 LIBOR + 0.60	474,928	504,863
Less: Current portion		(65,157)	(230,493)
		409,771	274,370
<b>Debentures:</b>			
Domestic debentures	5.00 ~ 9.00	2,266,010	1,796,060
Foreign bonds	0.54 ~ 7.40	1,783,533	1,098,331
Exchangeable bonds (*)	-	-	577,960
		4,049,543	3,472,351
Less: Current portion	1.84 ~ 8.00	(1,255,671)	(789,405)
Discount on debentures issued	-	(20,306)	(15,267)
		2,773,566	2,667,679
		₩ 3,194,015	₩ 2,952,384

Certain current assets, investments and property, plant and equipment are pledged as collateral for the above borrowings (Notes 17).

(\*) The Company issued exchangeable bonds on August 20, 2003. It is exchangeable with 15,267,837 SK Telecom Co. ADSs (American Depository Shares).

Details of exchangeable bonds as of December 31, 2003 are as follows:

Issuance date:	August 20, 2003
Maturity date:	August 20, 2008 (full amount of principal is repaid if not exercised)
Rate:	Interest rate of 0%
Face value:	JPY 51,622,000,000
Issuance price:	JPY 51,880,110,000
Exchangeable price:	JPY 3,398/ADS
Exercise period Call:	Commencing ten business days following the issuance date until ten business days prior to maturity date
Put:	Exactly three years following the issuance date

Continued;



On August 20, 2003, the Company has disposed 1,696,428 shares of SK Telecom to Zeus (Cayman), an exempted company formed with limited liability under the laws of the Cayman Islands (the "Issuer"). Zeus (Cayman), then issued JPY51,622 million "Zero Coupon Guaranteed Exchangeable Notes" due 2008 of which are fully and unconditionally guaranteed by the Company. The notes do not bear interest and are exchangeable at the option of the holders into SK Telecom Co. ADSs. In accordance with the Korean generally accepted accounting principles, considering the substance of transaction, the Company has accounted above transaction as a borrowing transaction.

The notes will be redeemable on August 21, 2006 at the option of holders thereof at their early redemption amount, and upon exercise of such option, the Company will have the right to purchase the notes at their early redemption amount. The notes will be redeemable at the option of the Issuer, in whole or in part, at their early redemption amount at any time on or after August 21, 2006 in the event that the market price per SK Telecom Co. ADS has been at least 120% of the exchange price then in effect for a certain period as set forth herein. The notes may also be redeemed by the Issuer at their early redemption amount in the event of the imposition of certain Korean or Cayman Islands taxes or in the event that at least 90% of the original issued principal amount of the notes has been redeemed, exchanged or purchased and cancelled. In addition, the holder of any note, at its election, may cause the Issuer to purchase such note at the early redemption amount on August 21, 2006 or upon the occurrence of any of certain events, including a change of control of SK Telecom or a delisting of the SK Telecom Co. ADSs.

Contractual maturities of long-term debt outstanding as of December 31, 2003 are as follows:

in millions of Korean Won

Year	Debentures	Local currency borrowings	Foreign currency borrowings	Total
2005	₩ 987,431	₩ 3,433	₩ 131,325	₩ 1,122,189
2006	1,117,556	2,097	50,915	1,170,568
2007	-	1,765	23,153	24,918
2008	577,959	1,383	21,847	601,189
Thereafter	-	1,657	47,130	48,787
	<u>₩ 2,682,946</u>	<u>₩ 10,335</u>	<u>₩ 274,370</u>	<u>₩ 2,967,651</u>

Details of assets pledged as collateral for short-term and long-term borrowings as of December 31, 2002 and 2003 are as follows:

in millions of Korean Won	Financial institutions	2002	2003
Land	Shinhan Bank and others	₩ 43,261	₩ 52,851
Buildings and structures	Kookmin Bank and others	25,710	46,540
Machinery and equipment	Industrial and Commercial Bank of China and others	67,061	8,583
Cash and cash equivalents	Kyongnam Bank and others	6,355	4,000
Trade accounts and notes receivable	Comerica Bank and others	124,191	70,574
Available-for-sale securities	Exchangeable Bond Creditor	-	337,589
Others (*)	Korea Development Bank and others	41,142	36,050
		<u>₩ 307,720</u>	<u>₩ 556,187</u>

(\*) The Company provided the 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 (Note 7).

Continued;

Details of loans from foreign financial institutions covered by guarantees provided by financial institutions as of December 31, 2003 and 2002 are as follows:

in millions of Korean Won except for foreign currencies

Financial institutions	2002		2003	
	Foreign currency	Won equivalent	Foreign currency	Won equivalent
Korea Development Bank	US\$ 695,761	₩ 835	-	₩ -
	JPY 161,834,050	1,639	-	-
	EUR 8,502,876	10,691	EUR 7,900,852	11,872
		₩ 13,165		₩ 11,872

## 14. Capital Lease and Operating Lease Agreement

### Capital Lease

As of December 31, 2003, the Company acquired certain tools and vehicles under capital lease agreements, with acquisition cost amounting to ₩4,082 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 expense, with respect to the above lease agreements, for the year ended December 31, 2003 amounted to ₩349 million.

Future minimum lease payments under capital lease agreements are as follows:

in millions of Korean Won	Principal	Interest	Total
2004	₩ 1,307	₩ 157	₩ 1,464
2005	1,371	93	1,464
2006	1,181	26	1,207
	₩ 3,859	₩ 276	₩ 4,135

### Operating Lease

As of December 31, 2003, the Company acquired certain tools and equipment under operating lease agreements from Macquarie Capital Korea Co., Ltd. The Company's rent expenses, with respect to the above lease agreements, amounted to ₩8,705 million for the year ended December 31, 2003. Future lease payments under the above lease agreements are as follows:

in millions of Korean Won		
2004		₩ 6,328
2005		4,597
2006		1,449
	₩	12,374

## 15. Accrued Severance Benefits

The changes in the carrying value of accrued severance benefits for the year ended December 31, 2003 are as follows:

in millions of Korean Won	<b>Accrued severance benefits</b>	<b>National Pension Fund</b>	<b>Group severance insurance deposits</b>	<b>Total</b>
Beginning balance	₩ 255,125	₩ (2,117)	₩ (149,536)	₩ 103,472
Increase	165,018	(8)	(90,472)	74,538
Decrease	25,045	(136)	(7,449)	17,460
Foreign currency adjustment and others	2,331	-	(219)	2,112
Ending balance	<u>₩ 397,429</u>	<u>₩ (1,989)</u>	<u>₩ (232,778)</u>	<u>₩ 162,662</u>

## 16. Other Liabilities

Other liabilities as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	<b>2002</b>	<b>2003</b>
<b>Other Current Liabilities</b>		
Advances received	₩ 230,273	₩ 215,489
Unearned revenue	2,226	2,082
Others	27,877	92,275
	<u>₩ 260,376</u>	<u>₩ 309,846</u>
<b>Other long-term liabilities</b>		
Reserve for allowance	₩ 12,068	₩ 16,553
Others	91,811	95,486
	<u>₩ 103,879</u>	<u>₩ 112,039</u>

## 17. Commitments and Contingencies

As of December 31, 2003, contingent liabilities for outstanding guarantees provided between the related companies for the repayment of loans of affiliated companies are as follows:

In millions of Korean Won and thousands of U.S. Dollars

Grantors	Entity being guaranteed	Financial institutions	Amount guaranteed		Won equivalent
POSCO	VPS	Credit Lyonnais	US\$	1,642	₩ 1,967
	POS-HYUNDAI STEEL	India Development Bank and others		162	194
	POS-Investment	Industrial & Commercial Bank of China and others		132,000	158,109
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China		12,000	14,374
	POSMI	Korea Exchange Bank		1,800	2,156
POSCO E & C	IBC Corporation	The Export-Import Bank of Korea and others		67,780	81,187
	POSLILAMA Steel Structure Co., Ltd.	The Export-Import Bank of Korea and others		17,000	20,363
	Shanghai Real Estate Development Co., Ltd.	Korea Development Bank and others		36,000	43,121
Poosteel Co., Ltd.	POS-Tianjin Coil Center Co., Ltd.	Shinhan Bank	₩	6,348	6,348
	POS-THAI Service Steel Center Co., Ltd.	Hana Bank		8,434	8,434
	POSMI	Korea Exchange Bank		6,468	6,468
	POS-HYUNDAI STEEL	Industrial Development Bank of India		1,182	1,182
POSCO Investment Co., Ltd.	Qingdao Pohang Stainless Steel Co., Ltd.	Bank of Tokyo-Mitsubishi		67,077	67,077
	POSVINA Co., Ltd.	Shinhan Bank		1,797	1,797
PIO	Fujiura Butsuryu Center Co., Ltd.	Korea Exchange Bank and others		12,540	12,540
			US\$	268,384	
			₩	103,846	₩ 425,317

As of December 31, 2002, contingent liabilities for outstanding guarantees provided between the related companies for the payment of loans of affiliated companies amount to ₩402,672 million.

As of December 31, 2003, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

In millions of Korean Won and thousands of U.S. Dollars

Grantors	Entity being guaranteed	Financial institutions	Amount guaranteed	Won equivalent
POSCO	S U S	J-BIC	US\$ 10,000	₩ 11,978
	Dae Kyeong Special Steel Co., Ltd.	Korea Development Bank	3,249	3,892
			₩ 4,318	4,318
	DC Chemical Co., Ltd.	LG-Caltex Gas	1,921	1,921
	Zeus	Related creditors	JPY 51,622,000	577,960
POSCO E & C	Zenith	Woori Bank	₩ 94,500	94,500
	Keumseki Distribution Co., Ltd.	Hansol Mutual Savings Bank and others	45,000	45,000
	Humanrex	Woori Bank	44,290	44,290
	Iron City Co., Ltd. and Others	Samsung Life Insurance Company and others	28,365	28,365
			12,337	12,337
	WorldView Co., Ltd.	Hana Bank	US\$ 13,249	
		JPY 51,622,000		
		₩ 230,731	₩ 824,561	

As of December 31, 2002, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment for loans amount to ₩159,072 million.

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 ₩107,440 million and US\$10.497 thousand in fifteen cases, respectively, which are pending as of December 31, 2003. 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.

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 was 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 and uncertainty of court decision, the Company recorded related receivables and P-Bond deposits amounting to ₩26,078 million, net of performance reserve, as an allowance for doubtful accounts. However, during 2003, the full amount of performance bonds was recovered due to the favorable outcome of the court decision and in accordance with the resolution of the international arbitration committee, the Company has paid related brokerage and legal fees amounting to ₩21,981 million for the year ended December 31, 2003.

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 the market price. As of December 31, 2003, 146 million tons of iron ore and 55 million tons of coal remained to be purchased under such long-term contracts.

The Company paid US\$159,600,000 on behalf of POSVEN on June 21, 2001, an affiliate which is 58.63 % owned 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. Both companies agreed that each would pay half of the amount. The Company, therefore, made a payment of US\$26,600,000.

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 made on behalf of POSVEN and recorded as other investments, was fully reserved as part of allowance for doubtful accounts as of December 31, 2003.

Continued;

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

On August 14, 2003, the Company entered into an agreement with Tangguh LNG in Indonesia to purchase LNG commencing from the year 2005. In accordance with the agreement, 550,000 tons of LNG will be purchased annually for a period of 20 years.

As of December 31, 2003, POSCO entered into a bank overdraft agreement with Woori Bank amounting to ₩160,000 million. In addition, POSCO has provided one blank promissory note to Bank of China as collateral for outstanding loans of overseas subsidiaries and three blank promissory notes and others to Development Bank collateral for outstanding foreign loans.

POSCO E & C has provided seven blank promissory notes and other eight notes, amounts equivalent to approximately ₩318,831 million, to other financial institutions as collateral for agreements and outstanding loans. As of December 31, 2003, POSCO E & C has an outstanding balance of endorsed notes amounting to ₩45,000 million.

As of December 31, 2003 Posteel Co., Ltd. has an unsettled delivery acceptance balance in relation to exports amounting to JPY 437,642,114 and US\$ 29,816,933 and delivery payments amounting to JPY 41,032,324. In addition, Posteel Co., Ltd. entered into credit limit agreement with Hana Bank up to ₩559,644 million.

POSDATA Co., Ltd. has an outstanding balance of discounted accounts receivable (purchase card) amounting to ₩4,948 million as of December 31, 2003.

Changwon Specialty Steel Co., Ltd. entered into electronic factoring agreements for trade accounts receivable up to ₩30,000 million with Woori Bank. In addition, Changwon Specialty Steel Co., Ltd. entered into an agreement with Korea First Bank in relation to the opening of letters of credit amounting to ₩30,000 million and US\$ 60,000,000.

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices, including corporate governance. The Company may be either directly or indirectly affected by these volatile economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

## 18. Capital Surplus

Capital surplus as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	2002	2003
Revaluation surplus	₩ 3,220,275	₩ 3,213,414
Additional paid-in capital	463,825	463,825
Others	113,637	151,534
	₩ 3,797,737	₩ 3,828,773

## 19. Retained Earnings

Retained earnings as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	2002		2003	
<b>Appropriated</b>				
Legal reserve	₩	241,201	₩	241,201
Appropriated retained earnings for business stabilization		918,300		918,300
Other legal reserve		654,867		746,667
Voluntary reserve		5,102,023		6,263,545
<b>Unappropriated</b>		1,548,324		1,705,367
	₩	<u>8,464,715</u>	₩	<u>9,875,080</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 ₩2,495 million and ₩3,164 million, for the years ended December 31, 2002 and 2003, 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.

### Dividends

The Company declared interim dividends, which were approved through a resolution of the Board of Directors on July 22, 2003. Details of interim and year-end dividends for the years ended December 31, 2002 and 2003 are as follows:

#### Interim cash dividends:

in millions of Korean Won	2001		2002		2003	
Number of shares		81,601,759		81,683,875		81,648,519
Dividend ratio		10%		10%		20%
Dividend amount	₩	<u>40,800</u>	₩	<u>40,842</u>	₩	<u>81,649</u>

Continued;

### Year-end cash dividends:

in millions of Korean Won	2001		2002		2003	
Number of shares	81,623,759		81,738,519		80,707,945	
Dividend ratio	40%		60%		100%	
Dividend amount	₩ 163,248		₩ 245,216		₩ 403,540	

Details of the dividend payout ratio and dividend yield ratio for the years ended December 31, 2001, 2002 and 2003 are as follows:

	2001		2002		2003	
	Dividend payout ratio	Dividend yield ratio	Dividend payout ratio	Dividend yield ratio	Dividend payout ratio	Dividend yield ratio
Common shares	24.13%	2.05%	26.26%	2.85%	24.31%	3.68%

## 20. Capital Adjustments

Capital adjustments as of December 31, 2002 and 2003 consist of the following:

in millions of Korean Won	2002		2003	
Treasury stock	₩ (915,995)		₩ (838,169)	
Valuation loss on investment securities	(386,346)		(538,435)	
Cumulative foreign currency translation adjustment	97,967		142,463	
Others	-		4,153	
	₩ (1,204,374)		₩ (1,229,988)	

For the stabilization of the stock price, retirement of stock and completion of privatization, the Company holds 7,346,200 shares of its own common stock amounting to ₩737,055 million and 912,010 shares of specified money in trust amounting to ₩101,114 million as of December 31, 2003. The treasury stock is carried at acquisition cost.

The Company restricts the voting rights of treasury stock in accordance with the Korean Commercial Code as of December 31, 2003. In addition, the Company sold 875,066 shares of its treasury stock to the association of employee stock ownership on July 23, 2003 with the approval of the Board of Directors on July 22, 2003 with the differences between the fair value and the proceeds, amounting to ₩74,687 million, being charged to welfare expenses.

Treasury stocks sold to the association of employee stock ownership are treated as outstanding in computing the Company's earnings per share. In addition, dividends on treasury stocks held by the association of employee stock ownership are charged to retained earnings. As of December 31, 2003, 1,507,236 treasury stocks, amounting to ₩181,622 million, are held by the association of employee stock ownership.

Details of treasury stock for the years ended December 31, 2001, 2002 and 2003 are as follows:

	2001		2002		2003	
	Shares	Amount	Shares	Amount	Shares	Amount
Beginning balance	15,042	₩ 1,470,903	11,966	₩ 1,185,404	9,043	₩ 915,995
Decrease, net	(3,076)	(285,499)	(2,923)	(269,409)	(785)	(77,826)
Ending balance	11,966	₩ 1,185,404	9,043	₩ 915,995	8,258	₩ 838,169



## 21. Stock Appreciation Rights

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

	1st Grant	2nd Grant	3rd Grant	4th Grant
<b>Before the modifications (*):</b>				
Number of shares	488,000 shares	60,000 shares	22,000 shares	141,500 shares
Exercise price	₩ 98,400 per share	₩ 135,800 per share	₩ 115,600 per share	₩ 102,900 per share
<b>After the modifications (*):</b>				
Grant date	July 23, 2001	April 27, 2002	Sept. 18, 2002	April 26, 2003
Exercise price	₩ 98,900 per share	₩ 136,400 per share	₩ 116,100 per share	₩ 102,900 per share
Number of shares	421,979 shares	57,036 shares	20,913 shares	138,670 shares
Exercise period	July 24, 2003 ~July 23, 2008	April 28, 2004 ~April 27, 2009	Sept. 19, 2004 ~Sept. 18, 2009	April 27, 2005 ~April 26, 2010
Settlement method	Cash or stock compensation for the difference between the exercise price and fair market value of the option			

(\* The Company changed the number of shares granted and the exercise price as presented above, in accordance with the resolution of the Board of Directors on April 26, 2003 and October 17, 2003.

POSCO applied the intrinsic value method to calculate the compensation cost related to the stock appreciation rights, and such compensation costs are amortized over the vesting period of the stock grants. The intrinsic value method for awards that call for settlement in cash, shares, or a combination of both measures compensation at the end of each period as the amount by which the moving weighted average of quoted market value of the shares of the enterprise's stock covered by a grant exceeds the option price.

The compensation costs for stock appreciation rights granted to employees and executives recognized for the year ended December 31, 2003 and for the future periods are as follows:

in millions of Korean Won	1st Grant	2nd Grant	3rd Grant	4th Grant	total
Prior periods	₩ 8,267	₩ -	₩ 20	₩ -	₩ 8,287
Current year	15,306	770	469	2,349	18,894
Future periods	-	148	272	4,529	4,949
	<u>₩ 23,573</u>	<u>₩ 918</u>	<u>₩ 761</u>	<u>₩ 6,878</u>	<u>₩ 32,130</u>

Continued;

The following table summarizes information about appreciation rights granted and expense recognized at the award date:

in Korean Won

	2002		2003	
	Number of stock appreciation rights	Weighted-average exercise price per share	Number of stock appreciation rights	Weighted-average exercise price per share
<b>Stock appreciation rights outstanding,</b>				
Beginning of year	580,000	₩ 102,921	570,000	₩ 103,001
Granted	-	-	141,500	102,900
Exercised	-	-	(18,788)	98,900
Canceled	(10,000)	98,400	(9,221)	98,900
Forfeited	-	-	(44,893)	95,565
Stock appreciation rights outstanding, end of year	<u>570,000</u>	<u>₩ 103,001</u>	<u>638,598</u>	<u>₩ 103,681</u>
Exercisable at the year end	<u>-</u>	<u>₩ -</u>	<u>421,979</u>	<u>₩ 98,900</u>
Weighted-average fair value at grant date	<u>₩ 95,179</u>		<u>₩ 95,641</u>	

The following table summarizes information about stock appreciation rights outstanding at December 31, 2003:

in Korean Won

Exercise prices	Shares	Weighted-average remaining contractual Life	Appreciation rights outstanding	
			Weighted-average exercise price per share	
98,900	421,979	4.56 years	₩	98,900
136,400	57,036	5.33 years		136,400
116,100	20,913	5.72 years		116,100
102,900	138,670	6.32 years		102,900
	<u>638,598</u>	<u>5.05 years</u>	<u>₩</u>	<u>103,681</u>

## 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, 2001 and related contracts outstanding as of December 31, 2001 are as follows:

in millions of Korean Won

Company	Type of transaction	Purpose of transaction	Financial institutions	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	-
				₩ 820	₩ 535	₩ 13,826	₩ 21,045

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:

in millions of Korean Won

Company	Type of transaction	Purpose of transaction	Financial institutions	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 and trading	Bank of America	-	-	-	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
POSCO Refractories & Environment (POSREC)	Currency forward	Trading	The Korea Development Bank	-	-	26	48
Pohang Coated Steel Co., Ltd.	Currency forward	Trading	Shinhan Bank	-	-	11,236	472
				₩ 569	₩ 11,775	₩ 13,160	₩ 3,376

Continued;

The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2003 and related contracts outstanding as of December 31, 2003 are as follows:

in millions of Korean Won

Company	Type of transaction	Purpose of transaction	Financial institutions	Valuation gains	Valuation losses	Transaction gains	Transaction losses
POSCO	Currency swap	Fair market value hedge	Citibank and others	₩ -	₩ 29,693	₩ -	₩ -
POSCO	Currency forward	Trading	The Bank of New York	-	-	451	-
POSCO	Nickel forward	Cash flow hedge	Sempra Metal., Ltd.	4,153	-	-	-
POSCO E & C	Currency forward	Fair market value hedge	Citibank and others	2,646	1,066	936	124
Posteel Co., Ltd.	Currency forward	Trading	Hana Bank	12	22	305	329
Pohang Coated Steel Co., Ltd.	Currency forward	Trading	Shinhan Bank	189	-	789	1,180
Changwon Specialty Steel Co., Ltd.	Currency forward	Fair market value hedge	Korea First Bank	2	-	-	27
				<u>₩ 7,002</u>	<u>₩ 30,781</u>	<u>₩ 2,481</u>	<u>₩ 1,660</u>

The net loss of fair value hedges' ineffectiveness, amounting to ₩2,865 million, are recognized in current operations for the year ended December 31, 2003.

## 23. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2001, 2002 and 2003 consist of the following:

in millions of Korean Won	2001	2002	2003
Transportation and storage	₩ 406,182	₩ 404,771	₩ 445,723
Salaries	101,889	130,226	142,400
Welfare	48,906	62,002	75,730
Depreciation and amortization	63,726	72,049	65,384
Research and development expenses	30,658	40,627	56,825
Fees and charges	40,551	53,417	54,662
Advertising	23,860	36,886	40,681
Severance benefits	11,334	16,058	21,217
Stock compensation expense (Note 21)	1,790	6,497	18,894
Sales commissions	17,515	18,324	18,759
Travel	13,289	14,822	16,075
Rent	6,608	12,430	12,554
Training	8,047	10,919	11,835
Taxes and public dues	9,244	8,072	11,534
Repairs	5,235	8,149	9,159
Provision for doubtful accounts	9,289	6,410	8,955
Sales promotions	3,953	5,769	6,333
Vehicle expenses	4,754	5,828	5,983
Entertainment	5,153	6,595	5,796
Office supplies	6,528	6,819	5,660
Membership fees	5,800	5,590	5,294
Communications	3,463	3,767	3,823
Subscriptions and printing	2,916	3,072	3,757
Insurance	1,495	1,844	2,572
Utilities	2,000	1,733	1,864
Others	19,884	24,115	24,001
	₩ 854,069	₩ 966,791	₩ 1,075,470

## 24. Donations

Donations contributed by the Company for the years ended December 31, 2001, 2002 and 2003 consist of the following:

in millions of Korean Won	2001	2002	2003
POSCO Educational Foundation	₩ 36,500	₩ 37,800	₩ 38,800
Pohang University of Science and Technology	-	3,000	2,267
Employees' welfare Fund	33,000	-	51,100
Support for local community and others	13,695	9,347	11,024
	<u>₩ 83,195</u>	<u>₩ 50,147</u>	<u>₩ 103,191</u>

## 25. Income Taxes

The statutory income tax rate applicable to the Company, including resident tax surcharges, was approximately 30.8% in 2001 and 29.7 % in 2002 and 2003.

Income tax expense for the years ended December 31, 2001, 2002 and 2003 consists of the following:

in millions of Korean Won	2001	2002	2003
Current income tax	₩ 313,328	₩ 527,381	₩ 746,482
Deferred income tax	24,135	(129,076)	(16,212)
	<u>₩ 337,463</u>	<u>₩ 398,305</u>	<u>₩ 730,270</u>

POSAM and fifteen other overseas subsidiaries recorded taxes payable for the year ended December 31, 2003 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:

in millions of Korean Won	2001	2002	2003
Net income before income tax expense	₩ 1,174,673	₩ 1,507,437	₩ 2,747,270
Statutory tax rate (%)	30.80	29.70	29.70
Income tax expense computed at statutory rate	361,799	447,709	815,939
Tax credit of POSCO	(61,258)	(87,628)	(22,482)
Others, net	36,922	38,224	(63,187)
Income tax expense	<u>₩ 337,463</u>	<u>₩ 398,305</u>	<u>₩ 730,270</u>
Effective rate (%)	<u>28.73</u>	<u>26.42</u>	<u>26.58</u>

## 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 period.

Period	Number of shares issued	Number of shares in treasury stock (*)	Number of days outstanding	Weighted number of shares
Jan 1, 2003 ~ March 31, 2003	90,781,795	(9,105,054)	90	7,350,906,690
April 1, 2003 ~ June 30, 2003	90,781,795	(9,133,276)	91	7,430,015,229
July 1, 2003 ~ Sept 30, 2003	90,781,795	(8,903,778)	92	7,532,777,564
Oct 1, 2003 ~ Oct 15, 2003	90,781,795	(9,894,117)	15	1,213,315,170
Oct 16, 2003 ~ Dec 31, 2003	88,966,155	(8,258,210)	77	6,214,511,765
			<u>365</u>	<u>29,741,526,418</u>

(\*) Weighted-average

Period	Weighted-average number of common shares
2001	29,776,820,815 ÷ 365 = 81,580,331
2002	29,905,210,535 ÷ 365 = 81,932,084
2003	29,741,526,418 ÷ 365 = 81,483,634

Earnings per share for the years ended December 31, 2001, 2002 and 2003 are calculated as follows:

in millions of Korean Won except for per share amount	2001	2002	2003
Net income	₩ 845,679	₩ 1,089,288	₩ 1,995,983
Weighted-average number of shares of common stock	81,580,331	81,932,084	81,483,634
Earnings per share	<u>₩ 10,366</u>	<u>₩ 13,295</u>	<u>₩ 24,496</u>

### Diluted Earnings Per Share

Diluted earnings per share for the years ended December 31, 2001, 2002 and 2003 are the same as basic earnings per share, since there is no dilutive effect resulting from the stock option plan as of December 31, 2001, 2002 and 2003.

## 27. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2003 are as follows:

in millions of Korean Won except for foreign currencies		Foreign currency (c)	Won equivalent
<b>Assets:</b>			
Cash and cash equivalents (a)	US\$	80,818,103	₩ 96,804
	JPY	17,130,996,104	191,799
	EUR	19,659	30
	Overseas subsidiaries	172,176,896	206,234
Trade accounts and notes receivable	US\$	205,789,975	246,495
	JPY	1,998,415,701	22,374
	EUR	3,322,846	4,993
	Overseas subsidiaries	200,952,723	240,701
Other accounts and notes receivable	US\$	30,522,047	36,559
	JPY	4,608,475	52
	Overseas subsidiaries	2,916,498	3,493
Short-term & Long-term loans	US\$	1,900,000	2,276
	Overseas subsidiaries	97,664,714	116,982
Long-term trade accounts and notes receivable	Overseas subsidiaries	70,513	84
Investment securities	US\$	10,482,213	12,556
	Overseas subsidiaries	29,374,172	35,184
Guarantee deposits	US\$	535,696	642
	Overseas subsidiaries	1,571,166	1,882
	US\$	834,774,716	
	JPY	19,134,020,280	
	EUR	3,342,505	₩ 1,219,140



in millions of Korean Won except for foreign currencies

		Foreign currency (c)	Won equivalent
<b>Liabilities:</b>			
Trade accounts and notes payable	US\$	163,706,585	₩ 196,088
	JPY	2,222,139,387	24,879
	EUR	130,245,785	195,705
	Overseas subsidiaries	108,186,414	129,586
Other accounts and notes payable	US\$	820,897	983
	JPY	37,853,352	424
	EUR	-	-
	Overseas subsidiaries	16,965,921	20,322
Accrued expenses	US\$	111,607,366	133,683
	JPY	-	-
	EUR	-	-
	Overseas subsidiaries	10,764,620	12,894
Short-term borrowings	US\$	500,918	600
	JPY	-	-
	Overseas subsidiaries	472,741,791	566,250
Withholdings	US\$	2,171,835	2,601
	JPY	-	-
	EUR	2,144,806	3,223
	Overseas subsidiaries	1,074,512	1,287
Long-term debt (b, d)	US\$	640,605,000	767,317
	JPY	81,187,477,671	908,974
	Overseas subsidiaries	-	-
Foreign currency loans (d)	US\$	-	-
	JPY	5,500,535,906	61,584
	Overseas subsidiaries	141,410,774	169,382
Loans from foreign financial institutions (d)	US\$	183,032,109	219,236
	JPY	942,165,425	10,548
	EUR	29,357,589	44,113
	US\$	1,853,588,742	
	JPY	89,890,171,741	
	EUR	161,748,180	
		<u>₩ 3,469,679</u>	

(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, 2001, 2002 and 2003, and the related account balances as of December 31, 2002 and 2003, are as follows:

in millions of Korean Won

Company	Sales and others (a)			Purchases and others (a)		
	2001	2002	2003	2001	2002	2003
POSCO E & C	₩ 3,020	₩ 3,089	₩ 4,834	₩ 623,874	₩ 863,525	₩ 314,456
Posteel Co., Ltd.	1,617,591	1,431,012	870,792	2,111	2,969	35,681
POSCON Co., Ltd.	44	40	72	124,859	146,872	167,642
Pohang Coated Steel Co., Ltd.	227,154	233,474	251,137	2,125	1,279	1,576
POSCO Machinery & Engineering Co., Ltd.	220	67	65	85,757	87,852	102,099
POSDATA Co., Ltd.	872	753	857	145,403	167,782	206,562
POSCO Research Institute	1	-	-	10,429	10,232	11,694
Seung Kwang Co., Ltd.	-	-	-	-	4	60
POS-AC Co., Ltd.	384	408	450	10,533	14,054	9,150
Changwon Specialty Steel Co., Ltd.	4,796	417	77	66,206	62,141	57,557
POSCO Machinery Co., Ltd.	41	40	126	64,778	72,194	80,908
POSAM	220,935	-	-	338	473	107
POSA	-	-	-	77,168	72,714	157,641
POSCAN	-	-	-	62,060	41,932	39,664
POA	25	149,590	367,998	52,803	68,047	111,889
PIO	229	114,561	226,276	1,550	7,066	10,922
Zhangjiagang Pohang Stainless Steel Co., Ltd.	-	29	349,723	-	-	-
POSTECH Venture Capital Co., Ltd.	-	50	54	-	10	-
POSCO Refractories & Environment	54	36	122	133,317	149,185	154,404
Others	137	916	33,110	91	1,211	-
	<u>₩ 2,075,503</u>	<u>₩ 1,934,482</u>	<u>₩ 2,105,693</u>	<u>₩ 1,463,402</u>	<u>₩ 1,769,542</u>	<u>₩ 1,462,012</u>

Continued;

in millions of Korean Won

Company	Receivables (b)		Payables (b)	
	2002	2003	2002	2003
POSCO E & C	₩ 8,495	₩ 247	₩ 72,310	₩ 29,888
Posteel Co., Ltd.	186,335	46,543	900	5
POSCON Co., Ltd.	4,399	3	15,741	20,297
Pohang Coated Steel Co., Ltd.	25,477	23,613	121	169
POSCO Machinery & Engineering Co., Ltd.	2,119	6	6,795	13,858
POSDATA Co., Ltd.	118	1	26,908	28,370
POSCO Research Institute	-	-	3,370	4,006
Seung Kwang Co., Ltd.	583	477	1	1
POS-AC Co., Ltd.	-	-	481	330
Changwon Specialty Steel Co., Ltd.	79	65	12,879	7,580
POSCO Machinery Co., Ltd.	317	2	9,561	10,477
POSA	-	17	587	4,618
POSCAN	-	17	-	4,074
POA	16,965	6,492	2,960	5,605
PIO	3,092	5,153	231	111
Zhangjiagang Pohang Stainless Steel Co., Ltd.	-	10,770	-	-
POSTECH Venture Capital Co., Ltd.	-	-	42	-
POSCO Refractories & Environment	4	5	16,271	17,263
Others	-	91	277	-
	<u>₩ 247,983</u>	<u>₩ 93,502</u>	<u>₩ 169,435</u>	<u>₩ 146,652</u>

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

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

Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2001, 2002 and 2003, and related account balances as of December 31, 2002 and December 31, 2003, are as follows:

in millions of Korean Won

Company	Sales and others (a)			Purchases and others (a)		
	2001	2002	2003	2001	2002	2003
KOBRASCO	₩ -	₩ -	₩ -	₩ 88,744	₩ 94,038	₩ 99,498
UPI	-	291,528	239,294	-	-	16
POSCHROME	3	-	-	29,581	22,937	33,267
Shunde Xingpu Steel Center Co., Ltd.	-	-	219	-	-	-
eNtoB Corporation	-	-	-	7,487	15,383	69,072
POSVINA Co., Ltd.	-	-	7,281	-	-	-
POSMMIT	-	-	480	-	-	-
MIDUS Information Technologies Co., Ltd.	-	-	-	-	-	99
POSVEN	-	-	-	3,071	-	-
	<u>₩ 3</u>	<u>₩ 291,528</u>	<u>₩ 247,274</u>	<u>₩ 128,883</u>	<u>₩ 132,358</u>	<u>₩ 201,952</u>

Continued;

in millions of Korean Won

Company	Receivables (b)		Payables (b)	
	2002	2002	2002	2003
KOBRASCO	₩ -	₩ -	₩ 5,065	₩ 6,145
eNtoB Corporation	-	-	1,728	3,029
POSVEN	172,996	-	-	-
	<u>₩ 172,996</u>	<u>₩ -</u>	<u>₩ 6,793</u>	<u>₩ 9,174</u>

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

(b) 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, 2001 are as follows:

Revenues	in millions of Korean Won	Expenses	in millions of Korean Won
Sales	₩ 4,900,603	Cost of goods sold	₩ 4,814,717
Interest income	6,472	Interest expense	6,888
Rental income	685	Selling and administrative expenses	73,523
Others	6,999	Others	19,631
	<u>₩ 4,914,759</u>		<u>₩ 4,914,759</u>

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

Revenues	in millions of Korean Won	Expenses in	millions of Korean Won
Sales	₩ 4,610,052	Cost of goods sold	₩ 4,493,261
Interest income	1,654	Interest expense	1,678
Rental income	594	Selling and administrative expenses	88,482
Others	2,798	Others	31,677
	<u>₩ 4,615,098</u>		<u>₩ 4,615,098</u>

Continued;

Eliminations of inter-company revenues and expenses for the year ended December 31, 2003 are as follows:

<b>Revenues</b>	<b>in millions of Korean Won</b>	<b>Expenses</b>	<b>in millions of Korean Won</b>
Sales	₩ 4,115,235	Cost of goods sold	₩ 4,007,975
Interest income	485	Interest expense	495
Rental income	612	Selling and administrative expenses	109,011
Others	3,023	Others	1,874
	<u>₩ 4,119,355</u>		<u>₩ 4,119,355</u>

Eliminations of significant inter-company receivables and payables for the years ended December 31, 2002 and 2003 are as follows:

		<b>2002</b>	
<b>Classification</b>	<b>in millions of Korean Won</b>	<b>Classification</b>	
Trade accounts and notes payable	₩ 353,444	Trade accounts and notes receivable	₩ 484,969
Short-term borrowings	-	Short-term loans	4,754
Other accounts and notes payable	140,880	Trade accounts and notes receivable	12,529
Long-term debt	43,551	Short-term loans	38,797
Other liabilities	26,877	Other liabilities	23,703
	<u>₩ 564,752</u>		<u>₩ 564,752</u>

		<b>2003</b>	
<b>Classification</b>	<b>in millions of Korean Won</b>	<b>Classification</b>	
Trade accounts and notes payable	₩ 213,137	Trade accounts and notes receivable	₩ 361,569
Short-term borrowings	38,434	Short-term loans	1,198
Other accounts and notes payable	101,846	Trade accounts and notes receivable	12,658
Long-term debt	26,927	Short-term loans	34,353
Other liabilities	100,202	Other liabilities	70,768
	<u>₩ 480,546</u>		<u>₩ 480,546</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, 2001:

in 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	<u>₩ 1,538,188</u>	<u>₩ 20,960</u>	<u>₩ 96,039</u>	<u>₩ (67,894)</u>	<u>₩ 1,587,293</u>
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:

in 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	1,847,417	(4,610,052)	-
	<u>₩ 13,593,010</u>	<u>₩ 2,584,532</u>	<u>₩ 2,787,428</u>	<u>₩ (4,610,052)</u>	<u>₩ 14,354,918</u>
Operating income	<u>₩ 1,972,379</u>	<u>₩ 21,789</u>	<u>₩ 191,174</u>	<u>₩ (135,475)</u>	<u>₩ 2,049,867</u>
Balance sheet:					
Inventories	₩ 1,470,931	₩ 26,933	₩ 193,871	₩ (20,289)	₩ 1,671,446
Investments	3,908,130	295,959	557,102	(1,898,578)	2,862,613
Property, plant and equipment	10,068,549	217,739	594,364	(556,078)	10,324,574
Intangible assets	391,271	3,444	83,002	(2,905)	474,812

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, 2003:

in millions of Korean Won	Steel	Trading	Others	Reconciling adjustments	Consolidated
<b>Statement of income:</b>					
Net sales:					
External customers	₩ 14,261,631	₩ 1,785,337	₩ 1,742,269	₩ -	₩ 17,789,237
Inter-segment	2,241,755	599,615	1,273,865	(4,115,235)	-
	<u>₩ 16,503,386</u>	<u>₩ 2,384,952</u>	<u>₩ 3,016,134</u>	<u>₩ (4,115,235)</u>	<u>₩ 17,789,237</u>
Operating income	<u>₩ 3,125,632</u>	<u>₩ 8,721</u>	<u>₩ 116,766</u>	<u>₩ 11,862</u>	<u>₩ 3,262,981</u>
<b>Balance sheet:</b>					
Inventories	₩ 1,867,743	₩ 51,638	₩ 160,389	₩ (11,399)	₩ 2,068,371
Investments	4,056,692	308,349	501,454	(2,039,817)	2,826,678
Property, plant and equipment	9,549,746	206,416	612,625	(523,010)	9,845,777
Intangible assets	402,439	2,351	79,593	(9,887)	474,496

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, 2001, 2002 and 2003 are as follows:

in millions of Korean Won	Sales	Non-current assets
<b>2001</b>		
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
	<u>₩ 13,121,097</u>	<u>₩ 14,444,398</u>

in millions of Korean Won	Sales	Non-current assets
<b>2002</b>		
Korea	₩ 9,531,423	₩ 12,853,344
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
	<u>₩ 14,354,918</u>	<u>₩ 13,661,999</u>

in millions of Korean Won	Sales	Non-current assets
<b>2003</b>		
Korea	₩ 12,100,326	₩ 12,146,239
Japan	770,765	55,430
China	2,706,120	613,078
Asia/Pacific, excluding Japan and China	1,078,675	130,410
North America	311,529	162,198
Others	821,822	39,596
	<u>₩ 17,789,237</u>	<u>₩ 13,146,951</u>

## 30. Operating Results for the Final Interim Period

Significant operating results for the three-month period ended December 31, 2003 are as follows:

in millions of Korean Won, except per share amount

Sales	₩ 5,101,288
Cost of sales	3,942,239
Operating income	870,180
Net income	460,451
Earnings per share	5,651

## 31. Reclassification of Prior Year Financial Statement Presentation

Certain amounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified to conform to the 2003 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

## 32. Events Subsequent to the Issuance of the Auditor's Report

On January 1, 2004, in order to strengthen its investment conditions and operations in China, the Company has restructured offices located in China and is planning to incorporate POSCO-China Holding Corp. POSCO-China Holding Corp. is 100% owned by the Company, with its capital amounting to US\$35,000,000. As of December 31, 2003, the Company's total investments in POSCO-China Holding Corp., amounting to ₩17,937 million, are accounted for as other investment assets. The remaining amounts of investment will be invested within two years from the date of incorporation.

In accordance with the approval of the Board of Directors on February 19, 2004, the Company donated ₩39,500 million to POSCO Educational Foundation and provided guarantees, amounting to US\$329,924,800, to Zhanjiagang Pohang Coated Steel Co., Ltd. for the payment of loans in relation to the extension of Stainless Steel (STS) facilities.

### Reconciliation to U.S. Generally Accepted Accounting Principles

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, 2002 and 2003 and net income for the three year periods then ended to the extent described below.

A description of the material differences between Korean GAAP and U.S. GAAP as they relate to the Company are discussed in detail below.



### **33. 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 results of operations for the current period. Net capitalized foreign exchange gains and losses amounted to ₩30,298 million, ₩20,611 million and ₩20,611million in 2001, 2002 and 2003, respectively.

In addition, effective from the period beginning after December 31, 2002, under Korean GAAP, interest costs 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 are generally expensed as incurred, except when certain criteria are met for capitalization. The Company has adopted this application and expensed financing costs subject to the capitalization. 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, 2001, 2002 and 2003 are as follows:

in millions of Korean Won	2001	2002	2003
Capitalized interest	₩ 69,315	₩ 64,788	₩ 54,386
Depreciation of capitalized interest	(73,629)	(73,254)	(54,857)
Net income impact	₩ (4,314)	₩ (8,466)	₩ (471)

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 addition, certain 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.

U.S. GAAP reconciliation adjustments for the capitalization and amortization of intangible assets for the years ended December 31, 2001, 2002 and 2003 are as follows:

in millions of Korean Won	2001	2002	2003
Net income impact	₩ (9,140)	₩ 12,347	₩ (3,953)

### (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 and are expensed as incurred under Korean GAAP, regardless of the nature of the expenditure. As a result of a change in Korean GAAP in 2002, the Company reversed all previously recorded reserve for repairs to beginning retained earnings and commenced expensing such expenditures as incurred. 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) Guarantees

Under Korean GAAP, the guarantor is required to disclose guarantees, including indirect guarantees of indebtedness of others. Under U.S. GAAP, the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after December 31, 2002. As of December 31, 2003, the guarantees issued or modified after December 31, 2002 by the Company for the repayment of loans amounts to ₩177,490 million, excluding guarantees issued either between parents and their subsidiaries or between corporation under common control (Note 17). The Company has recognized the fair value of liabilities amounting to ₩2,396 million for the year ended December 31, 2003.

### (f) Stock Appreciation Rights

Under Korean GAAP, the intrinsic value method for awards that call for settlement in cash, shares, or a combination of both measures compensation at the end of each period as the amount by which the moving weighted average of quoted market value of the shares of the enterprise's stock covered by a grant exceeds the option price. The moving weighted average of quoted market value is calculated based on the weighted average market price of last one week, last one month and last two months of each period. Under U.S. GAAP, "Accounting for Stock Appreciation Rights" requires compensation for awards that call for settlement in cash, shares, or a combination of both to be measured at the end of each period as the amount by which the quoted market value of the shares of the enterprise's stock covered by a grant exceeds the option price.

The compensation costs, in accordance with U.S. GAAP, for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2001, 2002 and 2003 are as follows:

in millions of Korean Won	2001	2002	2003
Stock compensation expense	₩ 2,604	₩ 4,298	₩ 24,894

### (g) Investment Securities

Under Korean GAAP, 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. In addition, available-for-sale securities, including securities that are not publicly traded, 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. In accordance with Korean GAAP, the Company has recorded certain securities that are not publicly traded at fair value based on discounted cash flows of investees with resulting valuation losses being charged to capital adjustments.

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. In addition, securities with not readily determinable market value are accounted for as cost method investments and carried at cost.

Information with respect to trading securities and available-for-sale debt and equity securities as of December 31, 2001, 2002 and 2003 is as follows:

Trading Securities:

in millions of Korean Won

Period	Carrying value	Net unrealized gains/losses	Impairment loss	Fair value
2001	₩ 518,917	₩ 11,486	₩ -	₩ 530,403
2002	1,185,838	6,366	-	1,192,204
2003	1,314,914	6,387	-	1,321,301

Available-for-Sale Securities:

in millions of Korean Won

	2001	2002	2003
Book value	₩ 2,421,822	₩ 2,580,290	₩ 2,315,508
Unrealized gains and losses	132,744	(298,640)	(157,844)
<b>Permanent impairment loss</b>	<u>(12,575)</u>	<u>(27,041)</u>	<u>(10,651)</u>
Fair value (Korean GAAP)	2,541,991	2,254,609	2,147,013
<b>Other-than-temporary impairment</b>	<u>(19,323)</u>	<u>(191,435)</u>	<u>(38,118)</u>
Fair value (US GAAP)	<u>₩ 2,522,668</u>	<u>₩ 2,063,174</u>	<u>₩ 2,108,895</u>

**(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) Reconciliation of net income from Korean GAAP to U.S. GAAP

in millions of Korean Won	2001	2002	2003
Net income under Korean GAAP	₩ 845,679	₩ 1,089,288	₩ 1,995,983
<b>Adjustments:</b>			
Property, plant and equipment:			
Fixed asset revaluation	28,769	28,667	26,351
Special depreciation	(13,250)	(6,972)	(377)
Salvage value	5,524	1,435	-
Capitalized costs	25,984	52,543	20,140
Reserve for repairs	46,278	-	-
Capitalized repairs	(5,870)	(11,466)	(9,721)
Impairment loss on investment securities	-	(177,532)	(22,557)
Others, net (*)	(9,140)	12,436	(12,349)
Income tax effect	(16,281)	30,017	(442)
	<u>62,014</u>	<u>(70,872)</u>	<u>1,045</u>
Net income as adjusted in accordance with U.S. GAAP	<u>₩ 907,693</u>	<u>₩ 1,018,416</u>	<u>₩ 1,997,028</u>
Basic and diluted earnings per share as adjusted in accordance with U.S. GAAP	<u>₩ 11,126</u>	<u>₩ 12,430</u>	<u>₩ 24,455</u>
Weighted-average shares outstanding (in thousands)	<u>81,580,331</u>	<u>81,932,084</u>	<u>81,662,552</u>

(\*) Others consist of intangible assets, guarantees and stock compensation expenses.

## (j) Reconciliation of shareholders' equity from Korean GAAP to U.S. GAAP

in millions of Korean Won	2001	2002	2003
Shareholders' equity before minority			
interest under Korean GAAP (*)	₩ 10,514,035	₩ 11,819,646	₩ 13,249,567
Minority interest	(168,171)	(279,165)	(293,299)
	<u>10,345,864</u>	<u>11,540,481</u>	<u>12,956,268</u>
<b>Adjustments:</b>			
Property, plant and equipment:			
Fixed asset revaluation	(289,165)	(247,823)	(221,472)
Special depreciation	7,349	377	-
Salvage value	(1,435)	-	-
Capitalized costs	164,451	216,994	237,134
Reserve for repairs	1,020,640	-	-
Capitalized repairs	39,645	28,179	18,458
Impairment loss			
on investment securities	(19,323)	(191,435)	(36,732)
Others, net	(22,248)	(9,813)	(22,162)
Income tax effect	(285,856)	44,031	34,517
Deferred taxes related to OCI	(19,865)	82,734	52,306
	<u>594,193</u>	<u>(76,756)</u>	<u>62,049</u>
Shareholders' equity as adjusted			
in accordance with U.S. GAAP	<u>₩ 10,940,057</u>	<u>₩ 11,463,725</u>	<u>₩ 13,018,317</u>

[\*] As indicated in note 2, 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. The balance sheet as of December 31, 2001 and 2002, was restated in accordance with SKFAS No. 6. As a result, the dividends payable, previously recorded as current liabilities, decreased by ₩163,248 million and ₩245,216 million and the balance of retained earnings increased by same amount as of December 31, 2001 and 2002, respectively.

### (k) Deferred taxes in accordance with U.S. GAAP

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities at December 31, 2002 and 2003, computed under U.S. GAAP, and a description of the financial statement items that created these differences are as follows:

in millions of Korean Won	2002	2003
<b>Deferred tax assets:</b>		
Fixed asset revaluation	₩ 48,375	₩ 37,545
Capitalized foreign exchange losses	17,644	8,574
Capitalized costs	(58,549)	-
Unrealized loss (gain) on valuation of securities	55,424	55,845
Impairment loss on fixed assets	71,284	116,057
Impairment loss on investment securities	59,771	10,912
Allowance for doubtful accounts	99,479	78,706
Depreciation expense	16,890	15,510
Capital expenditures	9,580	8,876
Research and development expense	13,476	9,768
Deferred taxes related to OCI	82,734	52,306
Others	65,708	279,358
Total deferred tax assets	<u>481,816</u>	<u>673,457</u>
<b>Deferred tax liabilities:</b>		
Earnings from equity-method investees	13,999	32,572
Reserve for repairs	154,132	140,267
Accrued income	11,028	15,748
Reserve for technology	228,977	255,379
Capitalized repairs	8,369	5,076
Capitalized costs	-	65,212
Others	22,451	149,035
Total deferred tax liabilities	<u>438,956</u>	<u>663,289</u>
Net deferred tax assets(liabilities)	<u>₩ 42,860</u>	<u>₩ 10,168</u>

## 34. Additional Financial Information in Accordance with U.S. GAAP

### (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, 2001, 2002, and 2003 is summarized as follows:

in millions of Korean Won	2001	2002	2003
Net income as adjusted			
in accordance with U.S GAAP	₩ 907,693	₩ 1,018,416	₩ 1,997,028
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(3,532)	(28,789)	34,414
Unrealized gains (losses) on investments	93,834	(214,059)	23,520
Comprehensive income as adjusted in accordance with U.S. GAAP	<u>₩ 997,995</u>	<u>₩ 775,568</u>	<u>₩ 2,054,962</u>

Accumulated other comprehensive income as of December 31, 2002 and 2003 is summarized as follows:

in millions of Korean Won	Foreign currency translation adjustments	Unrealized gains (losses) on investments	Accumulated other compre- hensive income
Balance, January 1, 2001	₩ 101,193	₩ (144,476)	₩ (43,283)
Foreign currency translation adjustments, net of tax benefit of ₩3,780 million	(3,532)	-	(3,532)
Unrealized gains (losses) on investments, net of tax expense of ₩(42,911) million	-	93,834	93,834
Current period change	<u>(3,532)</u>	<u>93,834</u>	<u>90,302</u>
Balance, December 31, 2001	₩ 97,661	₩ (50,642)	₩ 47,019
Foreign currency translation adjustments, net of tax benefit ₩12,163 million	(28,789)	-	(28,789)
Unrealized gains (losses) on investments, net of tax benefit of ₩90,436 million	-	(214,059)	(214,059)
Current period change	<u>(28,789)</u>	<u>(214,059)</u>	<u>(242,848)</u>
Balance, December 31, 2002	₩ 68,872	₩ (264,701)	₩ (195,829)
Foreign currency translation adjustments, net of tax benefit ₩(10,081) million	34,414	-	34,414
Unrealized gains (losses) on investments, net of tax benefit of ₩(20,347) million	-	23,520	23,520
Current period change	<u>34,414</u>	<u>23,520</u>	<u>57,934</u>
Balance, December 31, 2003	<u>₩ 103,286</u>	<u>₩ (241,181)</u>	<u>₩ (137,895)</u>



## (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 as of December 31, 2002 and 2003 are summarized as follows:

in millions of Korean Won	2002		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	₩ 267,380	₩ 267,380	₩ 592,602	₩ 592,602
Short-term financial instruments	258,132	258,132	695,169	695,169
Trading securities	1,192,204	1,192,204	1,321,301	1,321,301
Accounts receivable, including other receivables	1,857,207	1,857,207	2,447,674	2,447,674
Investment securities:				
Estimated fair value	1,619,928	1,619,928	1,647,038	1,647,038
Not practicable	908,510	-	671,792	-
Short-term borrowings	587,955	587,955	731,781	731,781
Trade accounts and notes payable	689,745	689,745	917,495	917,495
Long-term debt, including current portion	4,516,895	4,656,941	3,973,900	4,100,490

## (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) 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.

## 35. Recent Accounting Pronouncements

### U.S. GAAP

In January 2003, the Financial Accounting Standards Board ("FASB") issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities, and interpretation of ARB No. 51," (FIN 46R) which addresses consolidation by business enterprises of variable interest entities that do not have sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support from other parties or whose equity investors lack the characteristics of a controlling financial interest. The F-15 Interpretation provides guidance related to identifying variable interest entities and determining whether such entities should be consolidated. It also provides guidance related to the initial and subsequent measurement of assets, liabilities and noncontrolling interests in newly consolidated variable interest entities and requires disclosures for both the primary beneficiary of a variable interest entity and other beneficiaries of the entity. FIN 46R must be applied to all entities subject to this Interpretation as of March 31, 2004. However, prior to the required application of this Interpretation, FIN 46R must be applied to those entities that are considered to be special-purpose entities as of December 31, 2003. As indicated in note 13, on August 20, 2003, the Company has disposed 1,696,428 shares of SK Telecom to Zeus (Cayman), an exempted company formed with limited liability under the laws of the Cayman Islands. Zeus (Cayman), then issued JPY51,622 million "Zero Coupon Guaranteed Exchangeable Notes" due 2008 of which are fully and unconditionally guaranteed by the Company. The notes do not bear interest and are exchangeable at the option of the holders into SK Telecom Co. ADSs. In accordance with the Korean generally accepted accounting principles, considering the substance of transaction, the Company has accounted above transaction as a borrowing transaction and accordingly, the adoption of this statement, consolidation of Zeus (Cayman), has no impact on the Company's financial position or results of operation.

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements." The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not hold any financial instruments with characteristics of both liabilities and equity and accordingly, the adoption of this statement had no initial impact on the Company's financial position or results of operations.

### Korean GAAP

In October 2002, the Korean Accounting Standards Boards ("KASB") issued Statements of Korean Financial Accounting Standards ("SKFAS") No. 10, "Inventories." This statement prescribes the standards on accounting treatment and disclosure of inventories and requires valuation loss incurred when the market value of an inventory falls below its carrying amount shall be reported as a contra inventory account and added to the cost of goods sold. When circumstances that previously caused valuation loss of inventory on the application of lower of cost or market cease to exist, so as to cause an increase of the market value above the carrying amount, the valuation loss shall be reversed up to the extent amount of previously recognized valuation loss with resulting valuation gain charged to cost of goods sold. This statement becomes effective for financial statements covering periods beginning on or after December 31, 2003. However, early adoption of this statement is allowed. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In December 2003, KASB issued SKFAS 13, "Debt Restructurings." This statement establishes standards of financial accounting and reporting by the debtor and by the creditor for a troubled receivable or payable (collectively referred to as debt) restructuring. For the purpose of this statement, a restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. That concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. Under this statement, a debt restructuring is not necessarily a troubled debt restructuring if the debtor issues in exchange for its debt new marketable debt having an effective interest rate based on its market price that is at or near the current market interest rates of debt with similar maturity dates and stated interest rates issued by nontroubled debtors. In general, a debtor that can obtain funds from sources other than the existing creditor at market interest rates at or near those for nontroubled debt is not involved in a troubled debt restructuring. This statement becomes effective for financial statements covering periods beginning on or after December 31, 2003. However, early adoption of this statement is allowed. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

# Investor Information

## POSCO Securities

As of December 31, 2003 POSCO had 88,966,155 shares of common stock outstanding. The company's integrated common stock [code 05490] is listed and traded on the Korea Stock Exchange. Of the total outstanding, 19,256,084 shares [77,024,336 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.

The Bank of New York Company, Inc.  
ADR Division  
101 Barclay Street, 22nd Floor-West  
New York, NY 10286, USA  
Tel: 1-212-815-8161  
Fax: 1-212-571-3050

## Inquires

Investor Relations Team  
Finance Management Department  
POSCO  
POSCO Center  
892, Daechi-4-dong, Gangnam-gu  
Seoul 135-777, Korea  
Tel: 82-2-3457-0389, 82-2-3457-1086  
Fax: 82-2-558-3462  
Email: [ir@posco.co.kr](mailto:ir@posco.co.kr)

## Internet Websites

Selected information regarding POSCO is available at [www.POSCO.co.kr](http://www.POSCO.co.kr)  
POSCO's e-business information is available at [www.Steel-N.com](http://www.Steel-N.com)

**Headquarters**

1, Goedong-dong, Nam-gu, Pohang  
Gyeongsangbuk-do 790-600, Korea  
Tel: 82-54-220-0114  
Fax: 82-54-220-6000

**Seoul Office**

POSCO Center, 892, Daechi-4-dong  
Gangnam-gu, Seoul 135-777, Korea  
Tel: 82-2-3457-0114  
Fax: 82-2-3457-1999

**Pohang Works**

5, Dongchon-dong, Nam-gu, Pohang  
Gyeongsangbuk-do 790-600, Korea  
Tel: 82-54-220-0114  
Fax: 82-54-220-6000

**Gwangyang Works**

700, Geumho-dong, Gwangyang  
Jeollanam-do 540-090, Korea  
Tel: 82-61-790-0114  
Fax: 82-61-790-7000

[www.posco.co.kr](http://www.posco.co.kr)