STEEL, OUR MOST PRECIOUS METAL

Steel is an environmentally friendly material that contributes to the preservation of our earth in many ways. It is 100% recyclable, and one of the most recycled materials in the world. And due to its lasting properties, steel remains unchanged no matter how many times it is recycled.

Steel is a valuable construction material because not only is it durable, non-combustible, and inorganic — which means it won’t burn, rot, split, or crack — but it can also be ultra lightweight, having the highest strength to weight ratio among metals — which results in less energy consumption and conservation of natural resources. For example, steel as a building material for houses saves our forests and minimizes waste. As lightweight construction of ships and automobiles decreases the use of fuel, amount of carbon dioxide and dust emissions is reduced.

Steel is all around us and its growing influence touches our daily lives through many products, including home appliances and electronics, food containers and cans, furniture and decorative accessories, and hospital equipment, such as heart pacemakers, scalpels and needles.

POSCO moves the world silently with pride as a leading steelmaker.
Newton’s Cradle
Harmonious and continuous movement of a cradle symbolizes POSCO’s efforts to promote the economic profitability, environmental soundness and social responsibility, and to devote itself to the realization of growth potential.
POSCO’S SUSTAINABILITY INITIATIVES

Forever

However countlessly recycled, steel never changes in its nature. POSCO as a steelmaker will never divert from contributing to the sustainable development of humankind.

Future

Building a bright future for our children is our responsibility. In an effort to be remembered as a responsible member who has passed on a clean environment to the next generation, POSCO makes continuous efforts to support education for accomplishing dreams of the children.

Fine

Small, inconspicuous steel can regain its value and beauty with the touch of POSCO. POSCO works hard to recycle steel cans effectively with the belief that our efforts contributes to making our world a better place to live in.
CEO’S MESSAGE
As a responsible player of the global business community enabling sound and bright future of the mankind, we, POSCO, are fully committed to the continued communication with our stakeholders.

Dear all stakeholders of POSCO home and abroad,

I am pleased to meet you through the sustainability report 2004. Sustainability management pursues balanced development of social responsibility, environmental preservation and profit-seeking business activities for the sustainable development of humanity. The paradigm is rapidly spreading throughout the business communities in the world, recognizing it as an integral part of the competitiveness and survival of business entities. POSCO, in line with this trend, is ready to proactively participate in the waves. We aim to grow to be a global company with strong competitiveness which is trusted by all stakeholders.

The world steel industry now has faced a second revival, producing more than 1 billion tons of crude steel. However, it faces extreme uncertainty at the same time due to the dramatic increase in the raw material prices and deepened competition among steelmakers. In addition, the Kyoto Protocol has come to effect this February, superimposing to the industry the task of forming a new competition paradigm that places the environmental soundness as one of the most rudimentary bases of the survival of a company.

In particular, we expect that, as we strive to be a global company with manufacturing and sales activities spanning all across the world, we will meet various stakeholders from every corner of the world. Our business success cannot be guaranteed, unless we, along with all stakeholders, peacefully resolve issues that will challenge us.

Sustainability is our wheel to cope with the harsh wave of globalization and to fly high. We firmly believe that the sustainability through balanced development of society, environment and economy contributes to the heightened corporate value and ultimately enhances the benefits for stakeholders, and we are in the process of preparing policies and practices that embody such belief.

For the second time, we have published the report assured by internationally trusted institution to broadcast our efforts during the last year. The report covers our efforts on various fronts during 2004 in accordance with the 2002 GRI sustainability report guidelines, and it consistently and objectively describes the social, environmental and economic activities and performances of the company in a systematic and balanced manner. Furthermore, we have organized a new team for the sustainability management — responsible for the publication — to enhance the professionalism.

The report itself is not a proof of sustainability management. We have to prepare and implement a management strategy that encompasses society, environment and economy, create a common ground for the voluntary and proactive participation of all officers and employees, and commit ourselves to the continued communication with stakeholders. We promise that we will not spare our efforts for the tasks, heralding the healthier and happier future for the humanity. We will be a company of responsibility.

We are eager to hear from you stakeholders.

Thank you very much.

Chairman and CEO  Ku-Taek Lee
OVERVIEW AND SCOPE OF THE REPORT

About This Report
In October 2004, POSCO first published a sustainability report detailing our management activities to deliver a direct and indirect impact on, and performance with respect to, the environment and society. Based on the last year’s experience, we have tried to contain in this report, and organize in a systematic way, the management information that we consider to be important for our stakeholders.

This report has the following characteristics:
First, although the first sustainability report published by POSCO in 2004 took into consideration the guidelines presented by the Global Reporting Initiative (GRI), it did not include a comparison table of each item of the GRI guidelines and had other insufficiencies. This report, however, follows the GRI guidelines more thoroughly, including an item-by-item comparison table attached at the end.
Second, we have changed the organizational structure of the report. Compared to the last report which explained our economic performance up front, this report contains the economic achievements of the company at the end following the overview of the company, society and environment, because the final performance of various management activities culminates in the economic performance.
Third, we have supplemented the general overview of the company encompassing the economy, environment and society. Above all, in this part, we have tried to fully deliver information on the historical background and philosophy of sustainability management, and our policies and efforts to implement a proper corporate governance structure, fair trade and corporate ethics to enhance the transparency and consistency of the report.
Finally, we have added the objective evaluation of an independent institution regarding the corporate activities aimed at sustainability. In order to enhance the trusts of the stakeholders by showing our willingness to open and change our insufficiencies and improvements for sustainability management, we have opened up the results of such evaluation.

Reporting Framework
There are no generally accepted principles on the presentation of the sustainability report, and, in particular, there is no mandatory guidelines in reporting on environmental and social activities. However, many companies around the world follow the GRI Sustainability Report Guidelines, and this report is also prepared in accordance with the guidelines. The financial information, standards and definitions in this report properly reflect the financial statements and attached documents that we report in accordance with the Generally Accepted Accounting Principles for corporations in Korea. Also, at our discretion, we have added to the report evaluation items of various agencies evaluating sustainability.

Reporting Scope and Period
Unless otherwise specified or explained, the report describes the activities of the POSCO head office, Pohang Works and Gwangyang Works from January 1, 2004 until December 31, 2004, but does not include the management activities of companies which are subsidiaries of POSCO or joint ventures.
The POSCO annual report 2004 contains the consolidated financial statements and footnotes, and describes the accounting treatment and status of the companies in which POSCO has invested and joint ventures. However, the financial information of the sustainability report 2004 is of POSCO alone.
Financial data in the report are denominated in Korean Won(KRW). For the ease of reference, you may apply the foreign exchange rate of KRW 1,035.10 per USD 1 — the noon buying exchange rate on December 31, 2004 according to the U.S. Federal Reserve Bank of New York — and for Euros, we recommend to use the exchange rate of KRW 1,401.32 per EUR 1 under the same criteria. Also, ‘ton’ in this report means the Metric Ton.

Significant Changes
There is no substantial change from the sustainability report of POSCO published last year. However, for better understanding, we have reorganized the report structure, and added or omitted certain portions. Still, there has been no change or redrafting of standards or financial numbers showing POSCO management activities.

Independent Assurance
The details of the report have been subject to assurance procedures by KPMG for selected samples of information. This sustainability report is published in the English and Korean languages. In case of any discrepancy between these versions, the English version shall prevail. For the independent assurance report, please see appendix, pages 70 through 71.

Supplementary Information by POSCO
Major publications of POSCO include the Annual Report, the Fact Book (both in Korean and English), Form 20-F (in English), POSCO Weekly (in Korean), which are accessible through the internet homepage of POSCO (www.posco.co.kr) along with news articles on POSCO.
Also, we disclose recent and past business reports and major business project information, etc. through the electronic disclosure system of the Financial Supervisory Service (DART: http://dart.fss.or.kr), and major information of the company through the Internet homepage of the Securities Exchange Commission of the U.S. (www.sec.gov).
MAJOR SUSTAINABILITY ACTIVITIES OF 2004

JAN
- Won 'The Best Company' award in the competition of the most highly respected businessman and company by Seoul Economic Daily and Federation of Korean Industry

MAR
- Launched ‘Beautiful Saturday’ event
- Introduced cumulative voting, voting in writing, and Insider Trading Committee
- Confirmed the POSCO Corporate Governance Charter
- Conducted ‘Sharing Saturday’ event
- HR Development Center, receiving an award from Ministry of Labor as an excellent training center

APR
- Won the first i2 planet chairman award for the company that has the best Supply Chain Management process
- Selected as the most ethical company among the largest 100 Korean companies by a survey of Kyosushinmoon, a newspaper for professors

MAY
- Established internal control evaluation system

JUN
- Selected as the company having the best governance in 2004 by The Korea Corporate Governance Service
- Started construction of POSTRIP demo plant to commercialize the strip casting process
- Selected as the most competitive company by World Steel Dynamics for the three consecutive years
- Started construction of a hydro-forming plant
- Introduced a benefit sharing program

JUL
- Ranked the 361st best company in the world by Fortune magazine
- Selected as the best IR company in the Steel & Mining Industry in Asia by Institutional Investor

AUG
- Received special award for the contribution to Korean society by Seoul Economic Daily
- Selected as the best company by Korean Academic Society of Business Administration
- Implemented Special Provision for Ethics Practice
- Introduced a compensation program for reporting unethical behavior
- Started building commercialization facility of FINEX
- Obtained BS7799 certification, an international security standard

SEP
- Implemented Matching Grant program

OCT
- Introduced Volunteer Mileage program
- Published sustainability report 2003

NOV
- Ranked as 16th company in AMR Research Supply Chain Top 25

DEC
- Received Presidential Award at the 2004 National Voluntary Workers’ Conference
- Awarded for the contribution to a transparent society by Seoul Shinmun, a daily newspaper, and Transparency International Korea
- Implemented full cash payment for small to medium sized enterprises
- Reached an agreement to reduce emission of chemical material with eight domestic leading companies and civil organizations
HIGHLIGHTS FOR 2004

Gwangyang Works

- Location: Gwangyang City, Jeollanamdo
- Start construction of the 1st phase: March, 1985
- Completion: October, 1992
- Employees: 7,179
- Crude Steel Production: 16.8 million tons
- Small items and mass production systems
- Product: Hot-rolled Steel, Cold-rolled Steel
- Others: Production of high-valued strategic products such as automotive steel, high strength hot rolled steel and high quality API Steel, etc.

Pohang Works

- Location: Pohang City, Gyeongsangbukdo
- Start construction of the 1st phase: April, 1970
- Completion: May, 1983
- Employees: 8,209
- Crude Steel Production: 13.4 million tons
- Multiple items and small production system
- Product: Hot-rolled Steel, Plate Steel, Wire Rod Steel, Cold-rolled Steel, Electrical Steel, Stainless Steel
- Others: Operating the environmentally-friendly ironmaking process called FINEX at our Demo Plant capable of producing 0.6 million tons Building a commercial plant capable of producing 1.5 million tons from August 2004.
Task of Modernizing National Economy

POSCO has developed in tune with the growth of the Korean economy. POSCO was incorporated to revitalize the national economy that had been crippled by the Japanese colonialism and the Korean War. During late 1960s, the Korean government had established a policy of modernization of the national economy through focused support of backbone industries. However, Korea at that time did not have the capital with which to build the steel industry. Thus, we were forced to use part of the money the Korean government had received from Japan as the fund of claim against Japan’s colonization. Worse yet, we did not have any technology or expertise.

On April 1, 1968, Tae Jun Park and 39 staffs held the incorporation ceremony, and began their long journey to build an integrated steel mill. The plant site was like a desert, with sandy winds blowing from everywhere, and the construction headquarter was housed in a two-story wooden building with a slate roof. However, they were dedicated and united to build the works, firmly believing that the compensation for their forefathers’ bloodshed should not be wasted in vain. They named the construction headquarter the ‘Rommel House’, after General Rommel, who was famous for his expertise in desert warfare. The office built in the sandy wind reminded people of the headquarter in the battle field in the desert. They were eager to build our country with the steel works.

We Value Employees

Since its incorporation, POSCO has never stopped consistently and systematically investing in its employees. To build a steel works on desert-like land and to vitalize the steel industry, we needed to gather talented people and nurture their capabilities. Such an approach is well summarized in the basic guidelines for the Human Resource (HR) management, adopted in 1973, which is grounded on the basic principles of ‘small number talented people with expertise, promotions from inside the company, and the ability first.’

In accordance with these HR principles, POSCO has provided our employees with training opportunities to learn advanced steelmaking technologies from advanced steelmakers overseas so that they can enhance their capabilities. Furthermore, we have tried hard to assist our employees in maintaining stable lives by building housing complexes with comfortable living conditions, high quality educational facilities and other convenience facilities before building production facilities. In addition, we tried to help our employees enjoy healthy lives by providing medical facilities and health clubs. It has been the established HR management philosophy of POSCO since the establishment of the company that only when employees have the opportunity to develop their ability, be compensated according to their ability and performance, and realize their own visions and enjoy their life’s work, can the competitiveness of the company grow.

Steelworks inside Parks

In 1970, when society lacked the understanding of environmental conservation, and when the 1st phase of the construction of Pohang Works was started, we began, and have still been continuing, investments in pollution prevention facilities. Initially, the environmental policy was to increase anti-pollution facilities, and to make a green environment around the factory. For this purpose, we have been trying hard to reduce the output of environmentally hazardous materials generated during the steelmaking process, and to recycle used water and manage the outflow of water in accordance with standards which are stricter than those required by law.

Also, we have been building the ground for the green environment by changing the sandy alkali soil of the reclaimed ground to quality landscaping soil. Through the Green Project to systematically build the green zone around the factory and the steelworks, POSCO was able to build the factory amid a park, not on windy, sandy ground.

With Community

POSCO has been actively contributing to various aspects of social development such as vitalization of the local economy, human resource development, athletics, social welfare, and volunteer work. Until the mid-1980s, when the construction of steel works and steelmaking had to be done at the same time, we could not devote ourselves to local development as much as we would have liked. In 1989, after the establishment of a new organization for this purpose, we have made strenuous efforts to address complaints of local citizens, participated in various
community events, and maintained a good relationship with the neighboring society.

In 1986, we established Pohang University of Science & Technology (POSTECH) to nurture talented individuals who would greatly contribute to the development of the nation and humanity, and it has become one of the best colleges in Korea. In April 1973, we launched the company soccer team to contribute to social harmony and national status, which has been the groundwork for professional soccer teams in Pohang and Gwangyang cities. POSCO also built a soccer stadium, which was the first in Korea.

In addition, we built performance halls in Pohang and Gwangyang to address the citizens’ desire for culture and arts. Also, we have been continuously contributing to the development of local society and the enhanced quality of life by building parks and bridges. In May 2003, we launched POSCO Volunteers to further expand and systematize our locality-centered volunteer activities.

Continued Change and Innovation

Starting with nine researchers in January 1976, we established the Technical Research Laboratories to prepare the groundwork for technological independence in 1997, and built the industry-academy-research cooperation system that interconnects POSCO, POSTECH and the Research Institute of Industrial Science & Technology (RIST).

In order to efficiently respond to changes in the demands of industry following the advancement of industrial structure, we must be equipped with manufacturing technology for high value-added steel products. For this purpose, POSCO has established the Automotive Steel Application Center and other organizations and systems to increase the investment in research and development. By focusing on alternatives to the blast furnace method — considered to be the most competitive technology by steel manufacturers during the last 100 years — we were able to develop a more environmentally-friendly new technology called FINEX.

In late 1997, the Korean economy was hit hard by the foreign exchange crisis, and the worldwide steel industry was dealt a hard blow by the heat of restructuring. In order to overcome this crisis, POSCO plunged into process innovations encompassing all parts and areas of the company. Through two phases of process innovations between 1999 and 2004, we successfully digitalized all business processes spanning from manufacturing to sales activities. Furthermore, we are eager to strengthen the individual and organizational capabilities, and to change our corporate culture to fit ourselves to a new way of working through Six Sigma activities.

Transparent and Trusted Company

The rapidly changing domestic and international environments demand high standards of corporate ethics and transparent management. To properly address such demands, POSCO has enacted the code of conduct in 2003, which contains the value standards and guidelines for conduct that should be obeyed inside works and outside. We strongly urge, and practice, that when the company’s profits conflict with the ethical code, ethics should take precedence. In addition, more than half of the members of our board of directors are outside directors, and we have put additional efforts to make POSCO a transparent and trusted company.

POSCO has been profitable since its incorporation, but our profits reached their highest levels in 2004. We were regarded to be one of the most competitive companies in the world. POSCO is fully armed with the process and system to satisfy our customers, rewards our shareholders with high profit through enhancement of the corporate value, and is committed to a management practice that revitalizes our suppliers and outside service partners alike.

Now, POSCO is fully committed to further heightening our philosophy of ‘Strengthen Our Country through Steelmaking’ into sustainable development of humankind. By pursuing growth and innovation while keeping in mind economic profitability, environmental soundness and social responsibility, we will realize the growth potential of the company, contribute to human development, and be a genuinely global company.
Steel is the basic material we need for our everyday life. Steel has buttressed the rapid development of the civilization. Steel is used not only for automobiles, shipbuilding and home appliances, but also for medical equipment, musical instruments and even nails, bolts and nuts. Our mission as a maker of such an essential product is to provide satisfactory products and services to our customers.

We care not only for our customers. We treat all our suppliers, outside service partners and employees who directly or indirectly participate in the steelmaking process as our partners for our sustainable growth. Also, we believe that the local community is our best supporter, which made the POSCO of today possible. Together with all of them, POSCO contributes to the sustainable development of humankind. For this, all the members of POSCO pursue the best, honor creativity, and firmly believe that the fundamentals matter the most.

Also, POSCO wants to establish itself as a global company that continues growing into the future, based on its capability built on the steel industry. POSCO envisions itself as a steelmaker with the highest values in the world, a company armed with the engine to continue growth into the 21st century through the development of human resources, and a company with sustainable growth.

Our first requisite for survival in the global competitive environment
- High brand value of products, services and company.
- Excellent management of resources and performance.

Be the best in everything we do

Source of creation of value in the 21st century knowledge-based society
- Sustained innovation targeting efficiency.
- Development of innovative technologies and ideas.

Foster human creativity

Basis for perpetual growth of a company
- Transparent and responsible management for shareholders.
- Compliance with corporate ethics and honoring social responsibility.

Value our principles of integrity and discipline

We provide products and services that are essential to society and contribute to the sustainable development of humankind.

We, as a global player, sustain healthy growth with our competence in steel business.
- A company with a crowning steel business
- A company with a new growth engine for the 21st century
- A company with a strong commitment to innovation and human resource development

Discussion Session for Management Strategies
POSOCO’s fame among, and contribution to, domestic and overseas industries affects various spectrums of our stakeholders. Opinions and demands of the stakeholders are reflected on our management decision-making through various channels, and they also express their opinions on the company policies and management. Our task at POSOCO for sustainable management is to identify decision-making channels that are not fully supported by the process or are found imperfect during implementation, and to amend and systematize the processes so as to create successful relationships with the stakeholders.

**Customers**

The CRM (Customer Relationship Management) which we began operating in July 2003 has been introduced to systematically aggregate and analyze customer demands, so as to offer specialized services to our customers. Now, POSOCO will be able to communicate more actively with our customers through web-based integrated channels.

Since 1997, POSOCO has delegated the customer satisfaction surveys on our various activities to outside institutions to build upon the specialty and reliability. Furthermore, we have regularized ‘customer-care activities’ to visit our customers to gather and address their demands. We are committed to enhancing the customer satisfaction. Please refer to 36 page.

**Shareholders and Investors**

The IR activities of POSOCO are focused on providing transparent and useful management information to, and make the same easily accessible by our shareholders and investors. We hold the CEO Forum every year, in which the CEO personally participates, and delivers the management performance and plan. We also visit New York, Boston, London and other major cities around the world to uphold company IR sessions for the institutional investors residing in those cities.

Also, we schedule one-on-one meetings with investors and analysts to discuss and share information on the current issues surrounding the company and the steel industry, and we eagerly solicit their opinions and advice on ways to enhance our corporate value. POSOCO Research Institute (POSRI) surveys and evaluates the IR performance of POSCO and investor reaction on a regular basis so that we may use the data as a basis for providing better services to our investors.

Furthermore, in accordance with the Securities and Exchange Act that requires immediate disclosure of major management issues related to the interests of shareholders,
POSCO promptly publishes the implementation of new investment projects, acquisition of treasury shares and other major management matters through the Korea Stock Exchange and our company homepage. Further, we file the quarterly/half year/annual business reports through the electronic disclosure system of the Financial Supervisory Service for disclosure. Finally, we prepare and file Form 20-F, a business report form required by the U.S. Stock Exchange.

**Employees**

POSCO reflects the opinions of the employees with respect to policy making through surveys and consultation on professionalism and requests to the company. We also make various efforts to build productive and effective labor-management relationships through corporate information sharing.

Employee engagement survey, such as the employees’ perception on the company and the work performance, is regularly researched by independent outside survey agencies, and the recommendations of the research are properly reflected in our policies and system. Also, the monthly management meeting where all employees and officers join to review the performance of management is a place where the status of the company and other useful information are shared.

At the Labor-Management Council, in which employee representatives and manager members participate, the employees and the management agree on matters directly related to the treatment of employees. The labor union, which was established in 1988, is an organization separate and independent from the Labor-Management Council. The Young Board, which was established in 1999, is a seat where creative and innovative ideas of employees are gathered, and where mid-managers can get a broader view and management perspectives on the company. Please refer to 29 page.

**Suppliers and Outside Service Partners**

POSCO understands that suppliers and outside service partners are really our partners for joint development. Our century is an era where corporate competitiveness is maintained not by an individual company but only by joint efforts between business partners who share a value chain.

Through the SRM(Supplier Relationship Management), POSCO leads the autonomous improvement of suppliers and strengthens cooperation with quality suppliers so as to enhance competitiveness. We also try hard to establish an ‘Open and Fair’ purchase practice through an e-Procurement system.

POSCO now calls the outsourcing companies to ‘outside service partners’, because we are eager to innovate the 30-year-old practice, understanding and culture of the inter-company cooperation and service supply, and to improve our relationship with our outside service partners. Through this, we wish to convert the whole system into a new paradigm, which enhances the competitiveness of the supply chain as a whole. Please refer to 37 page.

**Communities**

In order to seek ways to co-develop the company and the local community, POSCO has established individual Community Relations Teams in Pohang and Gwangyang. Those teams provide citizens of Pohang and Gwangyang with information on the local living environment as well as the environmental impact of the steel industry. In addition, we regularly meet officials of the local governments to solicit their opinions on the company management and reflect the same in our management policy. Please refer to 38 ~ 43 and 48 pages.
The world steel industry is undergoing dramatic changes in the 21st century. The production volume of crude steel has reached about one billion tons after 2000, compared to an average of 700 million tons since 1972. The steel companies around the world have become larger and more global. Such a trend only accelerates, so that in October 2004, we have witnessed the birth of a steel company with the steelmaking capacity of at least twice that of POSCO. It is an example of which track the steel industry has chosen to survive in the 21st century.

In addition, the dramatic increase of steel production in China has radically increased the demand for the steel ore and coals, while three providers of raw materials cover 78% of the world supplies, and they are exercising even bigger bargaining power day by day. The radical increase of the price for the raw materials we have recently eyewitnessed exemplifies such a trend.

In this business environment, POSCO has chosen the following management strategy: Global POSCO through growth and innovation.

**Build-up of Global Steelmaking System**

POSCO plans to build a production system capable of sustainable growth in tune with the growing demand for steel. By strengthening the efficiency of our facilities on schedule, we plan to expand the production capacity of Pohang and Gwangyang Works to 34 million tons by 2008, and will be ranked 3rd in the world in terms of production capacity for the stainless. In addition, we will build manufacturing posts in China and India to seize those markets with a huge potential before anyone else and to secure raw materials. In short, we plan to develop the global steel production system.

**Stabilized and Economical Procurement of Raw Materials**

A stable procurement of raw materials for steel manufacturing is the lifeline of steelmakers. For this reason, POSCO plans to increase investments for the development of overseas raw materials from 12% in 2004 to 27% by 2009, and increase the ratio of long term contracts from 80% in 2004 to 88% by 2009. In accordance with this plan, in November, we have entered into an agreement to purchase 130 million tons of iron ore from CVRD of Brazil during the next 10 years, and in December, 125 million tons from BHP Billiton of Australia during the next 10 years.

Also, in order to strengthen our partnership with suppliers, we are scaling up the SCM (Supply Chain Management) drive, and uphold regular exchange sessions to build a win-win situation.

**Technology Leadership**

In order to actively respond to the growing demand for steel and secure our profitability, POSCO is currently turning our production facility in Korea toward high-quality, high value-added steel products. At the same time, we are committed to developing technology with which to increase and commercialize the production capacity of the FINEX from the current 600 thousand tons to 1,500 thousand tons. FINEX is a revolutionary process of skipping sintering and coke making, which had been essential in blast furnace methods, so that not only costs but also the production of environmentally hazardous materials will be reduced. In addition, we plan to implement the strip casting technology as soon as possible, which would greatly contribute to the reduction of the production costs as well as the energy consumption and emission of pollutants.

Also, we are focusing our efforts to our eight strategic products targeting the expansion of the automotive steel, electrical steel, API steel and other high value-added steel products. Further, we are fully committed to the development of the Cr-free steel production technology, in order to substitute the Cr which is widely used to process the surface of the steel products for home appliances and automobiles with the environmentally-friendly surface processing methods.

In conclusion, POSCO wants to establish itself as a model steel company with a high value-added production system, innovative steelmaking technology and the environmentally-friendly steel products. We will lead in technological competitiveness.

**Continued Management Innovation**

In order to successfully achieve a ‘Global POSCO’, we have to continue our innovation initiatives from within. The Process Innovation project that POSCO has been driving in two phases from 1999 has been culminated with the establishment of the integrated MES (Manufacturing Execution System) at the Gwangyang Works in November 2004, and the Pohang Works in January of the next year. With this, we have built the infrastructure for the sustained management innovation.
MES is an internet-based manufacturing system which, by integrating and standardizing the various manufacturing systems which had been run separately by each factory unit and steelworks so as to run 81 different factory units in Pohang and Gwangyang as if they constitute one factory, contributes to the reduction of the supply period and furthermore enhances customer satisfaction.

At the first phase of PI, POSCO started the operation of Enterprise Resource Planning (ERP) called POSPIA, an integrated management system. And at the second phase of PI, we built MES, focusing on systematic manufacturing process. POSCO is equipped with solid and efficient infrastructure under which the company is better managed through the management systems for strategy, planning and management and Enterprise Portal that comprises individual work support system.

We will establish the way of works and company culture fit for the global company through changes and innovation and at the same time to secure competitiveness.

The purpose of the Six Sigma at POSCO is to establish among us the commonly applicable way of working around the world. POSCO supports Six Sigma so as to strengthen the organizational capability in all areas, establish our global leadership in steel industry, and lead all daily business to

**Company with the Best SCM Process**

POSCO has received the Chairman Award as the company implementing the best Supply Chain Management (SCM) process at the i2 Planet 2004 Conference held at San Diego, USA, from April 27 to 29, 2004. The award is given to a company that has deployed the most innovative and successful SCM renovation in the world. POSCO has gained the highest scores in the innovation, management leadership, management performance and the global impacts, and was designated as the first award winner.

The Advanced Manufacturing Research (AMR), a market analysis institute headquartered in Boston, USA, has announced the 'Supply Chain Top 25,' ranking POSCO as the 16th. In particular, POSCO has been rated high in terms of the growth potential and asset management efficiency. Especially, through the supply chain management system of the Process Innovation that has been implemented company-wide since 1999, we have been rated as offering the best quality services to all customers and suppliers from the raw material shipping, manufacturing, delivery and inventory management.
customer satisfaction and value creation.

The existing POSPIA System and recently adopted MES offer various objective data, supporting the creation of talents working in accordance with rational thinking and processes. By implementing the Six Sigma program, the capabilities of our employees and officers are raised to a global level, and we are currently pursuing Six Sigma tasks to innovate the processes, organizations, institutions, cultures and all areas of corporate management.

Six Sigma was started on May 2002 with 92 projects, and we have completed 2,722 projects as of the end of 2004 and have set 1,620 new projects. From the 1,787 tasks set for the year 2004, 9% (161 projects) were closely related to company strategy, such as building a mass production system for automotive steel with the capacity of five million tons, obtaining order of small lot materials and improvement of manufacturing system. Also 2,344 employees (12% of all employees, including 63 MBBs, 239 BBs and 2,042 GBs) are licensed as the Six Sigma Specialists, and 1,631 employees take courses for the specialist memberships.

- Champion: Manage and support the department projects
- MBB (Master Black Belt): Advises executives and champions, and trains BB/GB projects and develops Six Sigma methodologies
- BB (Black Belt): Implements the project, and trains GB projects
- GB (Green Belt): Participates in the BB project, and implements small-scale projects

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<th>Major Performances after PI (June, 2001)</th>
<th>Before PI</th>
<th>After PI</th>
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<td>Order lead time (hot rolled)</td>
<td>30 Days</td>
<td>14 Days</td>
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<tr>
<td>Finished goods inventory</td>
<td>One Million Ton</td>
<td>0.4 Million Ton</td>
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<tr>
<td>Integrated sales production planning cycle time</td>
<td>60 Days</td>
<td>15 Days</td>
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<tr>
<td>Budgeting cycle time</td>
<td>110 Days</td>
<td>30 Days</td>
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<tr>
<td>Month-end closing time</td>
<td>Six Days</td>
<td>One Day</td>
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<tr>
<td>E-procurement purchasing ratio</td>
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<td>98%</td>
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<tr>
<td>Number of items</td>
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<td>130 Thousand</td>
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</table>

Steps for Implementation of Six Sigma by POSCO

- **Introduction (2002. 5 ~ 2004. 6)**
  - Raising talented people for Six Sigma training and getting successful experience in all areas

- **Expansion (2004. 7 ~ 2006.12)**
  - Working as an Enabler for the accomplishment of management strategy

- **Establishment (2007. 1 ~ )**
  - Six Sigma activity
  - Establishing company culture
Since incorporation, POSCO has dutifully connected the corporate role for the environment and society to the management activities. We have built steelworks and, when expanding facilities, have maintained our investments in pollution prevention facilities and planting trees in the steelworks.

The Rio Environment Declaration of 1992 served as momentum for POSCO to prepare comprehensive and systematic environmental protection, and we have established our environmental policy that all corporate activities should first consider the environment. In 1996, we acquired the ISO 14001 certificate.

POSCO published an environmental report for the first time in 1995, detailing the environmental management activities for the prior year. In May 2004 we launched the CSM (Corporate Sustainability Management) Task Force, and published a sustainability report covering economic, environmental and social responsibilities along with the specific management activities for the first time in October of that year. In January 2005, we officially launched the CSM Team of the Innovation Strategy Planning Department to re-establish our management philosophy, reflect the sustainability to the management system of the company, and diagnose and monitor overall management policies, institutions and processes.

Role of the CSM Team

CSM Team is an organization to systematically integrate and implement the sustainability activities which had hitherto been performed by each department without any consistency. The team establishes the strategy and principles for sustainability, issues the sustainability report, and installs communication systems, so as to spread sustainability activities to all stakeholders as well as subsidiaries and our Supply Chains.

Currently, the CSM Team is developing a master plan to systematically implement the businesses related to sustainability, and is planning to reflect the opinions and demands of stakeholders on the company’s policies and management activities as well as incessantly implement innovation. Once established, the plan will be implemented through a systematic network with departments of finance, environment, social contribution and community cooperation which have been related to the corporate responsibility activities through individual opinion channels with stakeholders, as well as departments in charge of marketing, procurement, and health and safety.

Major Institutional Bodies

The Korea Business Council for Sustainable Development (KBCSD)

KBCSD is an organization formed with the participation of CEOs of various companies to pursue harmonious developments among economic growth, environmental preservation and social development. It was established in 2002 and has more than 30 member companies and has built a partnership with the international organization of WBCSD (The World Business Council for Sustainable Development). POSCO has been actively engaged in the institution from since its establishment to spread sustainable development to the global community.

International Iron and Steel Institute (IISI)

IISI is the organization covering all steel companies throughout the world. POSCO has participated in the Project Group, playing an important role in the contribution to the development of sustainability.

Through this institution, POSCO has shown its sincere interest in environmental issues and the resolutions realized by the Climate Change Convention and Stockholm Convention for the regulation of Persistent Organic Pollutant (POPs). It also maintains regular and irregular communications for technology exchange with many other steel companies throughout the world.

IISI published a Sustainability Report in 2004 which contains 11 indicators showing steelmakers’ sustainability. The report was developed from among 44 member companies, including POSCO, in the areas of economy, environment, and society.

Other activities of POSCO at and with IISI are as follows:

Environment Committee (ENCO) (1973.1–)
Promote cooperation to resolve environmental issue facing steel industry

CO2 Breakthrough Programme (2002.12–)
Conduct a collaboration project for the international technology development to reduce CO2 emission

Kyoto Protocol and the Steel Industry (2002.9–)
Exchange information on the CO2 emission methods to cope with Climate Change Convention with other steel companies.

LCA (Life Cycle Assessment) and LCI (Life Cycle Inventory) projects to spread environment friendly image of steel industry
Evaluation on POSCO’s Sustainability

POSCO has been receiving evaluations of agencies with objectivity and reliability to review our current sustainability level and use the data for the improvement of our corporate management.

We have answered questions for selection for the Dow Jones Sustainability Indexes by SAM (Sustainability Asset Management) Group, which evaluates the sustainability of 2,500 companies listed on the Dow Jones Global Indexes around the world. POSCO has been evaluated as a part of the Basic Resources Market Sector covering steel, aluminum, mining and pulp. POSCO was evaluated excellent for a steel company, but insufficient to be a member of the DJSI.

POSCO will reflect the results of the evaluation by SAM that contains requirements for various stakeholders and use the input for the improvement of our sustainability management. Furthermore, these requirements will be reflected as a reference for setting the policy direction of the company.

Meanwhile, POSCO was ranked, for three consecutive years, as the number one company holding the strongest competitiveness at the WSD (World Steel Dynamics) for the 21 strongest companies in the steel industry conducted in June 2004. In terms of profitability, market dominance, access to outside funds, pricing power with larger buyer, product quality, and skilled & productive workforce, POSCO was evaluated as the number one company. We also received higher scores in the areas of balance sheet, harnessing technological revolution, environment and safety.

Domestically, POSCO was assessed as the company holding best governance by the Korea Corporate Governance Service after studying its shareholder interest protection, operation of board of directors, transparency, and operation of the auditors committee. At the same time, Korean Business Council for the Arts has noted that POSCO is ‘Mecenat qualified company.’ The Economic Justice Research Institute under Citizens’ Coalition for Economic Justice granted the Korean Economic Justice Corporation Prize to POSCO for its contribution to the advancement of humankind shown through the activities of improvement in competitiveness, growth engine development, and corporate culture innovation.

The Korean Academic Society of Business Administration selected POSCO in August 2004 as the best company based on their comprehensive evaluation of competitiveness, transparency, and contribution to society. Considering all the evaluation and awards, it is safe to say that POSCO is receiving positive responses for its management direction.

POSCO’s Evaluation Results by SAM DJSI 2004

<table>
<thead>
<tr>
<th>Total</th>
<th>Economic</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industry average score in the industry groups</td>
<td>POSCO</td>
</tr>
<tr>
<td></td>
<td>0% 50% 100%</td>
<td>0% 50% 100%</td>
</tr>
<tr>
<td></td>
<td>56</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>56</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>29</td>
<td>74</td>
</tr>
</tbody>
</table>
We believe a sound and transparent governance structure is the key to the long-term enhancement of company value and trust. Especially after the privatization of October 2000, we continue our efforts to build an advanced governance structure based on the effective board activities.

**Board of Directors and Special Committees**

The Board of Directors (BOD) of POSCO is composed of directors who possess a wide range of backgrounds, expertise and problem solving capabilities. All board members are fully supported in terms of resources, personnel and organization for board activities.

In order to reinforce the independence and expertise of the BOD, POSCO has increased the ratio of outside directors to 60% through the resolution of the shareholders’ meeting of March 12, 2004. In addition, in 2004 we have organized the Outside Director Selection Consulting Group composed of five specialists with varying expertise in order to enhance the fairness and transparency of the appointment of outside directors. For the appointment of outside directors to serve on the Board during 2004, the Group has recommended for the shareholders’ meeting for the year a candidate pool three times larger than the body of outside directors, composed of CEO’s, lawyers, scholars, citizen activists and other specialists, and the Director Candidate Recommendation Committee has recommended the final six candidates to the shareholders’ meeting.

Following the same procedure, three outside directors have been appointed by the shareholders’ meeting in 2005, one of them being re-appointed.

On March 12, 2004, the BOD finalized the Corporate Governance Charter which systematically represents the philosophy and ideal of the corporate governance. The Charter has been useful for gaining the credit of shareholders, customers and other stakeholders, and as a framework for management activity. Composed of the Preamble, General Provisions and five Practices, the Charter emphasizes autonomous, responsible management by professional managers, checks and balances of the management power by a specialized and independent BOD, and the practice of open and transparent access to information by shareholders and other stakeholders. Please refer to from page 72 – page 74.

In addition, the number of committees of the BOD has been increased from four to six in order to heighten efficiency, specialization and independence. Accordingly, the Insider Trading Committee has been newly established, and the Director Candidate Recommendation and Evaluation Committee has been separated into the Director Candidate Recommendation Committee and the Evaluation and Compensation Committee. An outside director heads each of the committees, with the exception of the Executive Management Committee, and all members in the Audit Committee, Evaluation and Compensation Committee, and Insider Trading Committee are outside directors. Furthermore, all members of the Audit Committee satisfy the independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act.

POSCO has held the seven BOD meetings in 2004 with the attendance rate of the 97%. Major agendas that had been discussed include the installation of the No.6 CGL in Gwangyang, enlargement of No.1 PCM capability, construction of LNG terminal in Gwangyang, establishment of POSCO Japan

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**Outside Director Appointment Process**

1. **Outside Director Selection Consulting Group**
   - Search and Recommendation of Candidates

2. **Director Candidate Recommendation Committee**
   - Review of Qualifications, and Candidate Recommendation

3. **Disclosure of Recommended Candidates**
   - Introduction

4. **Shareholders’ Meeting**
   - Appointment of Directors

---

**Composition of BOD Members**

<table>
<thead>
<tr>
<th></th>
<th>As of end of Dec. 2004, person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Korean</td>
<td>3</td>
</tr>
<tr>
<td>Standing</td>
<td>6(40%)</td>
</tr>
<tr>
<td>Outside</td>
<td>9(60%)</td>
</tr>
<tr>
<td>Total: 15</td>
<td></td>
</tr>
</tbody>
</table>

---
Profiles of Outside Directors Newly Appointed in 2004

Young-Ju Park
- Chairman of World Forest Association
- Representative Chairman of Yeekun Industry
- Vice Chairman of FKI

Kwang-Woo Jun
- Director of International Finance Center
- Professor of Business Administration at Michigan State Univ.
- Vice Chairman of Woori Finance Holdings

Wonsoon Park
- Director of People’s Power 21
- Lawyer at Sanha (a law firm)
- Standing Director of the Beautiful Foundation

Yoon-Suk Suh
- PhD. in Accounting from Texas Univ.
- Vice Chairman of KAIA
- Director Business Administration of Ewha Univ.

Jeffrey D. Jones
(Member of Audit)
- Lawyer of Kim & Chang (a law firm)
- Honorary Chairman of Amcham

Samuel F. Chevalier
(re-appointed)
- Vice Chairman of Bank of New York
- Director of Korea Economic Institute of America
- Director of Wing Hang Bank (Hong Kong)

Profiles of Outside Directors Newly Appointed in 2005

Wook Sun
- President of SDI
- Director of Samsung Educational Center
- Advisor to Samsung SDI

Charles Ahn
- Chairman of Ahn Lab, Inc.
- Vice Chairman of KOVA
- Chairman of Korea Information Security Industry Association

E. Han Kim (re-appointed)
- Chair Professor of Business Administration at Michigan Univ.
- Director of Finance Research Center of Michigan Univ.
- Advisory Member of U.S. Tax Office under DOF
Co., Ltd, and the construction of the 1st FINEX in Pohang Works. For more detail on the approved issues, please visit POSCO’s homepage.

The Executive Meeting reviews matters other than those to be referred to the BOD, such as management information regarding the economy, environment and society in general, related policies and other management activities, where standing directors and executives attend. Through the Executive Meeting, the CEO shares and discusses with the executives responsible for specific businesses all information on policy direction, information, and the risks involved in certain matters.

**Compensation of Directors and Executives**

We pay the wages and bonuses for our standing and outside directors within the ceiling amount of total remuneration as approved by shareholder resolutions. On March 2004, the shareholders’ meeting has approved the ceiling on the remuneration of directors at KRW 4 billion, and the actual amount of payment was KRW 3.6 billion. The shareholders’ meeting of February 2005 has approved the ceiling at KRW 4.5 billion.

The remuneration of executives is composed of the basic salary, performance salary and special incentives. The basic salary is determined for each rank by the BOD, and the rate of payment of the performance salary is determined in accordance with the evaluation criteria decided by the BOD. Finally, special incentives may be paid, if necessary, in accordance with the resolution of the BOD.

The performance compensation of the CEO is determined in accordance with the result of evaluation of the overall management performance, which combines the qualitative and quantitative evaluations. The quantitative evaluation is made in accordance with the degree of achievement of the management target decided by the BOD and the relative growth of the performance compared to the previous years, based on the Economic Value Added (EVA), the Earning Before Interest, Tax, Depreciation and Amortization (EBITDA), the sales revenue, and the rate of changes of the share prices. The qualitative evaluation is made in accordance with the efforts made to achieve each of the mid-term management strategies as determined by the Evaluation and Compensation Committee, exclusively composed of outside directors. In addition, the performance salary of standing directors and executive officers excluding the CEO is determined in accordance with the overall business performance of the company as well as performance evaluation by the CEO.

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### Roles and Constitution of the Special Committees

<table>
<thead>
<tr>
<th>Committee</th>
<th>Functions</th>
<th>Medical Directors</th>
<th>Outside Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director Candidate Recommendation Committee</td>
<td>Review of qualification of candidates and recommendations for outside director candidates</td>
<td>1 standing director</td>
<td>3 outside directors</td>
</tr>
<tr>
<td></td>
<td>Appointment of the representative director from among standing directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prior review of appointment of committee members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation and Compensation Committee</td>
<td>Prior review of matters on evaluation and compensation of executives</td>
<td></td>
<td>4 outside directors</td>
</tr>
<tr>
<td></td>
<td>Evaluation of management performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and Operation Committee</td>
<td>Prior review of major outside investment plans and amendment of Regulations on the operation of the BOD</td>
<td>2 standing directors</td>
<td>3 outside directors</td>
</tr>
<tr>
<td></td>
<td>Review of, and resolution on matters related to financing, and donation of more than KRW 100 million and less than 1 billion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Management Committee</td>
<td>Prior review, or review/resolution of major internal investment plans</td>
<td>6 standing directors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Important matters related to roles and ranks, human resources development, employment regulations and welfare</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Committee</td>
<td>Audit of business performance of directors, appointment of external auditors, and exercise of other statutory powers</td>
<td>4 outside directors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consent to appointment/dismissal of heads of internal audit departments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Performance of matters delegated by the BOD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insider Trading Committee</td>
<td>Prior review, or review/resolution on the insider trading under the Monopoly Regulation and Fair Trade Act</td>
<td>4 outside directors</td>
<td></td>
</tr>
</tbody>
</table>
Other details of the executive compensation including the stock option and severance payment are determined by the BOD, after review by the Evaluation and Compensation Committee.

Shareholders’ Meeting

The shareholders’ meeting is held once every year. The annual general meeting of shareholders approves the financial statements, appoints directors, amends the articles of incorporation, and resolves the payment of dividends. The notice of convocation of the shareholders’ meeting and its agenda is given in accordance with the Commercial Code and the Stock Exchange Act. The BOD reviews the agenda for the shareholders’ meeting, and minority shareholders may propose certain matters to be listed on the agenda. The agenda shall be presented at least six weeks before the convocation of the shareholders’ meeting, and shall be included in the notice of convocation of the shareholders’ meeting.

The 36th Shareholders’ Meeting, held on March 12, 2004, has reappointed Ku-Taek Lee as the Chairman and CEO and Chang-Oh Kang as the President, and has resolved the draft plan to improve corporate governance, which has been prepared after extensive outside research, public seminars and discussions by the BOD that have spanned one year. Also, the articles of incorporation have been amended to permit the cumulative voting and voting in writing beginning from the next shareholders’ meeting so as to enhance the protection of shareholders’ rights. Finally, the provision on the issuance of the convertible preferred shares has been removed, because it may be misled to be a means to protect the management rights.

It may be noted that 1,968 shareholders have exercised their voting rights through voting in writing, but the cumulative voting which allows minor shareholders to focus their votes on candidates they trust has not been adopted, because no shareholder had made a request.

Shareholder Constitution

Shares of POSCO are listed on the Korea Exchange (KRX:005490), the New York Stock Exchange (NYSE ADR: PKX), and the London Stock Exchange (LSE : 0549q.L). As of the end of 2004, the largest shareholder of POSCO is the National Pension Corporation, which holds 3,084,186 shares or 3.54% of the issued and outstanding shares. Top ten shareholders hold 23.4% of the issued and outstanding shares.

Foreign investors hold about 69.2% shares, and 29.1% of the shares are held through overseas stock exchanges in the form of Depositary Receipt. Furthermore, domestic investors hold about 23.1% shares, with the treasury stocks representing about 7.7% shares.

![Status of Shareholding Ratio](image)

**Ten Major Shareholders Constitution**

As of end of Dec. 2004

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Pension</td>
<td>61%</td>
<td>66%</td>
<td>69%</td>
</tr>
<tr>
<td>Nippon Steel</td>
<td>29%</td>
<td>25%</td>
<td>23%</td>
</tr>
<tr>
<td>SK Telecom</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Fidelity Management</td>
<td>6.54%</td>
<td>3.32%</td>
<td>3.24%</td>
</tr>
<tr>
<td>New perspective</td>
<td>2.04%</td>
<td>2.85%</td>
<td>2.84%</td>
</tr>
<tr>
<td>POSTECH</td>
<td>2.24%</td>
<td>3.54%</td>
<td>3.54%</td>
</tr>
<tr>
<td>Others (domestic)</td>
<td>6.54%</td>
<td>3.32%</td>
<td>3.24%</td>
</tr>
<tr>
<td>Others (foreign)</td>
<td>22%</td>
<td>25%</td>
<td>23%</td>
</tr>
</tbody>
</table>
BUSINESS ETHICS

"If, when you're doing business, the business ethics contradict the company's profit, the business ethics should take precedence... The ethical behavior of officers and employees ultimately guarantees the future for POSCO."

Ku-Taek Lee, Chairman & CEO

POSCO's ethical management philosophy, which emphasizes the basic principles of integrity and discipline, has been the foundation of our growth to be a world class competitive steel maker. Our Code of Conduct, newly revised in June 2003, defines the company responsibility to our stakeholders and the criteria for the conduct of employees and officers based on our traditional values. The company has been working hard to firmly establish the ethical practices in our business activities, and to make them a part of our corporate culture.

Since its establishment in 2003, the Corporate Ethics Department has prepared the intra-company networks through the appointment of ethics leaders for every department to provide on-the-job support activities on a departmental level, provided detailed guidelines for the practice of the ethical codes, and focused on the training and advertisements in order to enhance the awareness of the ethical codes by employees. In particular, we have provided a guideline on the offer and receipt of gifts in order to uproot the practice and possibility of bribery, and have strictly prohibited all employees from engaging in the traditional practice of giving and receiving gifts on national holidays. In short, we have proactively contributed to change the culture of the company as well as the society in general.

Ethics Management

In 2004, we have further heightened the ethics training, regularly writing essays on the company newspaper, and maintaining the automatic pop-up windows on the intranet. In addition, we require that all employees complete a mandatory online corporate ethics course. Furthermore, we have held case study sessions for the ethical decision making of high-ranking officers, contact points with customers and the ethics leaders.

In addition, we have held the ethical practice workshop for each department in order to enhance the ethical responses in actual situations. In this workshop, each department has tried to understand the "Danger Zones" for the department and the implications of the Code of Conduct and Rules of Conduct through surveys on the ethical code provisions, and has come up with ways to heighten the ethical practice in the department.

The Corporate Ethics Department and the Auditor’s Department provide counseling and receive reports related to the code of conduct through the internet, telephone and facsimile. Recognizing that the success of the reporting system is critical to the establishment of a culture in which the Code of Conduct is strictly complied with, we have introduced the compensation for the report of unethical practices in August 2004. At the same time, we have strengthened the internal audit activity and, as a result, the number of cases of sanctions of employees in violation of the Code of Conduct has increased from 10 in 2003 to 71 in 2004.

We also extend our efforts outside the walls of POSCO so as to ensure the compliance with the ethical codes not only by employees of POSCO, but also by our business partners. In August 2004, we have enacted and implemented the special provision for the ethical practices that impose sanctions to...
companies engaged in unethical behaviors such as provision of money, gifts or other meals and treatments in relation to a transaction. Through this approach, we demand that the code of conduct shall be strictly complied with not only by our employees and officers, but also by our business partners engaged in purchase, sale or supply of goods and services.

In addition, the Corporate Ethics Department provides corporate ethics presentation to those companies which have recently began transactions with POSCO, where officers and contact persons of the business partners can learn about the needs and contents of the code of conduct of POSCO, the special provision for the unethical practices, and the compensation for reporting of unethical practices. Please refer to 77 page – 78 page.

As for international partners, due to lack of laws and regulations applicable to the violation of the special provision for the ethical practices by them, POSCO shall specify the application only to domestic partners.

**Human Rights**

In accordance with the Labor Standard Act of Korea, POSCO prohibits forced labor and labor by a child under age 15. Korea is a member country of the International Labor Organization (ILO) since 1999, and has ratified the Convention on the Child Labor (Convention 138). Therefore POSCO observes the obligation to prevent forced labor and child labor in accordance with the Labor Standard Act and Convention on the child labor adopted by ILO.

POSCO is located around the manufacturing facility in Pohang and Gwangyang, and thus most of the employees are Korean. As of December 2004, the youngest employee at POSCO’s head office and works at Pohang and Gwangyang is 21 years old. We prohibit discriminations based on the hometown, gender, age and religion, and if any employees feel that they have been discriminated, they can consult with or make a report to the Corporate Ethics Department.

With respect to the sexual discrimination our employment rules specify that no discrimination based on sex shall be made in relation to the recruiting, promotion, salary, education and retirement of an employee. All employees are mandated to receive online training to prevent sexual harassment, and, if it happens, it is taken care of by the grievance procedures of the company.

**Internal Control**

Current laws on corporate accounting in Korea and abroad include provisions on the responsibility of the CEO for the reliability of the financial statements and internal control. Demands for the enhanced internal control from daily operation to governance are in the increase.

In order to enhance the accuracy of the financial information and realize the transparent management, POSCO has built and is operating an internal control evaluation system. We assess processes and procedures of departments to see if financially approved transactions are appropriately accounted for in accordance with the accounting standards. The internal control covers not only appropriate approval and recording of transactions, processing in accordance with regulations, protection of company assets, and prevention of illegal activities but also ethical standards of officers and employees, transparent operation of the board of directors and internal audit.

Also, we have built the system to certify the internal control of businesses and processes of heads of departments by providing procedures with which to certify the responsibility and effectiveness of the internal control inside our Enterprise Portal System, which evaluates 2,199 activities of 49 departments. The evaluation is made in three stages including the certification of responsibility by the person in charge, team leader and the head of office/department.

**Fair Trade**

Honoring the purpose and intention of the Fair Trade Act (FTA) of promoting fair and free competition among companies, facilitating creative business activities, protecting consumers and pursuing balanced development of the national economy, POSCO has introduced the Corporate Compliance Program (CCP) in 2002 to continue our practice of detailed
The declaration of compliance objective and policy of the CEO was clarified in Paragraph 1 of the Rules of Conduct, declared in June 2003. The same has been expressed during the management conference of subsidiaries and in the CEO’s letter to customers, suppliers and outside service partners sent in May and September 2004.

The role of the Compliance Officer who establishes and implements the CCP is performed by the executive officer in charge of the management planning in accordance with the resolution of the board of directors in April 2004. In the same month, we newly created the Fair Competition Support Team to support compliance to the FTA by each department.

The Fair Competition Support Team published and distributed in August and November the Fair Trade Compliance Manual on subcontracting and unfair practices covering the recent amendments of laws and regulations, decided cases and Q&A for reference and use by employees. Also, in 2004, 2,529 employees finished e-learning on the subject, and 466 employees received practice training by specialists from the Fair Trade Commission in five sessions. We have been performing continued education on the fair trade.

Through the department-based checklist, we perform the voluntary inspection, and confirm and prevent violations of the FTA so as to ensure the practical effectiveness of the CCP. It covers ten violations of the FTA, the Subcontracting Act, and the Act on the Standard Provision.

In December, we have launched the fair trade website to assist practitioners to perform voluntary inspections online. Also, we currently impose sanctions on those violating the law, and systematically manage related documents.

On the other hand, the Voluntary Advisory Committee composed of heads of 13 departments highly related to the fair trade provides advices to the Compliance Officer, and holds ordinary meetings every quarter to review matters important for the CCP. Each member of the committee performs the voluntary inspection of violations in the relevant department, and selects, manages and supervises fair trade practice leaders. The fair trade practice leaders are those who support the business of each committee member by inspecting each department in accordance with the checklist, develops improvements in relation to the CCP, and provides counseling and directions on the fair trade to each department.
POSCO values people. We cherish relationships. We know how to entertain in the community. We truly understand the joy of communication.

POSCO values the sweat of people. That is why we put the highest emphasis on providing a safe and comfortable working environment as well as welfare policies. We pursue mutual advancement with the community we are in. We know the value of partnership and service that lead to the growth of every member of the community. POSCO always ponders what customers want. We foster the spirit of mutual success through genuine partnership. We can understand the principle of nature just by looking at a small plant. Likewise, a company that is truly concerned about people will prosper as a global leading company. ‘Global POSCO’ is not a dream but a reality.
POSCO’s goal is globalization, and the aim of our human resource management is international competitiveness. In other words, we plan to reform our organizational structure in harmony with ‘Global POSCO,’ rationalize how we work, and maintain the optimal level of human resources. For this purpose, POSCO maintains a human resource system that takes capability and performance seriously, provides an advanced labor/welfare system, and gathers and nurtures core competency in our strategic areas.

Status of Human Resource Configuration
As of December 2004, we had 19,377 employees at the Pohang Works, Gwangyang Works, head office and other domestic and overseas offices. Total number of female employees is 312, and the number is increasing, especially in our head offices.

The issue of temporary workers has been a notable topic in Korean society recently, since those workers usually receive less payment and welfare benefits, work under inferior conditions, and have difficulty exercising their labor rights. With respect to this issue, POSCO is continuously reducing the number of temporary workers, including yearly contract-based workers. For example, our prior system where all new recruits enter into a yearly contract with the company and, after a year, classified as regular employees, has been changed in 2004. Now, all new recruits are employed as regular employees. As a result, the number of yearly contract positions has been radically reduced from 430 in 2003 to 34 in 2004.

We vigorously recruit human resources in strategic areas for our future growth, such as global corporate management, new businesses, and development of new steel technologies. Also, we emphasize the enhancement of the human resource competitiveness of existing employees through continuing education in Korea and overseas, and the dispatch of global/local specialists to foreign countries.
Communication with Employees

The Labor-Management Council is an organization whose purpose is to ensure that the voices of employees may be heard by the management. The Council is composed of 20 members: 10 employee members and 10 management members. Employee members are elected by employees through direct and secret anonymous voting, and serve for three years. Current employee members, elected in November 2003, will serve in their positions until November 2006. A regular meeting of the Labor-Management Council is held every quarter and, if additional consultation is needed or there are agenda items on which labor disagrees with the management, extraordinary meetings are held for consultation and negotiation. Also, personal grievances and questions are processed upon receipt through telephone, email, or internet homepage.

In addition to the Labor-Management Council, which is organized company-wise, the Works Council and the Division Council are held quarterly, Department Council bi-monthly, and Plant Council monthly. These meetings each develop their own agenda to quickly resolve issues employees are concerned about so as to minimize inconveniences for employees and to heighten the reliability of employee representation.

The ordinary meeting of the Labor-Management Council for the fourth quarter of 2004 has organized the Division Council to enhance the gathering of employee opinions and negotiations, based on the employee member election districts. Various organizations such as the Works Council, Department Council, and Plant Council have been merged as a part of the Labor-Management Council to create a uniform organization.

Since its incorporation, POSCO has maintained a stable labor relationship without any labor disputes. We have a labor union separate from the Labor-Management Council, which has about 22 members as of 2004.

**Agenda of the Labor-Management Council Meetings during 2004**

<table>
<thead>
<tr>
<th>Regular meeting</th>
<th>Establishment of special committees of the Labor-Management Council, expansion of eligibility for the Green Life Program, introduction of the Lifetime Learning Program, Strengthening of the Grievance Committee, etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extraordinary meeting</td>
<td>Increase in ESOP offers, expansion of individual pension support, support of medical expenses, etc.</td>
</tr>
<tr>
<td>Others</td>
<td>Events for families of employees, change of the intranet home page of Labor-Management Council</td>
</tr>
</tbody>
</table>

*ESOP : Employee Stock Ownership Plan

Employee Engagement Survey The employee satisfaction survey that we have been doing regularly has been substituted by the employee engagement survey in 2003. The employee engagement survey goes beyond the survey of employee satisfaction and calibrates indices that are directly related to company performance. After the introduction of the employee engagement survey in 2003, the company has upheld the executive discussions to share the survey results and the department head workshop to discuss possible improvements, and individual interviews with short-service employees. These processes have been followed by various activities designed to improve the employee engagement survey results.

The 2004 survey has shown that the employee engagement level has improved from 61% of 2003 to 65%. Trend analysis for each class, department, and survey area has proven that the activities to improve employee engagement taken after the 2003 survey have worked, and has disclosed implications on how to heighten the international presence of POSCO in the future.

The Young Board The Young Board which is composed of competent mid-managers, reports to the management and has discussions twice a year on their suggestions regarding the improvement of the company. In 2004, it reported on the implementation of the Six Sigma initiative, seven cultural traits that POSCO has not let go, review of the social contributions of the company, and diagnosis and recommendations on innovation activities.

POSCO actively uses the company intranet to gather employee opinions. Employees can exchange their opinions on POS-B, our intranet site. Here, employees may discuss matters on the company anonymously, and upload grievances related to their work. Then, the relevant department monitors such postings, and answers questions or takes appropriate actions. Employees can even write letters to the CEO and the president through POS-B, so it is very useful as a communication channel between employees and the management. Our company enterprise portal (EP) has a space named ‘Stop-Doing Clinic’ where any employee may register any idea on the company business.

**POS-B**

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**POS-B, the intranet bulletin board of POSCO**
Employee Compensation

In 2000, POSCO has adopted a yearly-negotiated salary system where the payment of salary varies in part depending on the performance of employees of manager level or higher. In 2004, POSCO has designated Saturdays as holiday using the vacation period from June 2003, making sure that such a move does not result in a salary decrease. In other words, we have been implementing a five-day working week system before the amendment. Thus, after the amendment of the Labor Standard Act, we have implemented the 40-hour working week system without changing vacations, and there has been no decrease in the salary level.

Welfare

POSCO has been committed to the improvement of employee welfare since incorporation, considering that the workplace is located in a locality with insufficient social and cultural infrastructure, and so forth. Our philosophy on the welfare is as follows: First, we build a comfortable housing district and cultural facilities to help employees settle down and stabilize their lives more easily. Second, we build education facilities and offer scholarship to develop employee capability and help the education of their children. Third, we maintain a flexible welfare system to meet the enhancement of the level of life of employees and diversification of welfare needs. In accordance with such policy, we have prepared various housing, education, culture and physical facilities and, as the income level of employees increases, have expanded welfare support to enhance the quality of life.

The employee housing complex built on vast housing zones in Pohang and Gwangyang is capable of hosting 12,654 households, and we support the employee housing through housing loans and various benefits. We offer a general shopping complex and cutting-edge cultural facilities for our employees’ convenience, and have enhanced the welfare level of their families through educational and scholarship programs for their children. In the process, we

**Activities Designed to Improve Employee Engagement**

| Pohang Works | · Work motivation through self-driven OJT system
| · Balance of work and life through improvement of welfare such as leisure facility and convenience facility on the site
| · Improved employee service through support of job-related resources
| Gwangyang Works | · Grievance discovery and resolution through the meeting with manufacturing employees with low employment period
| · Resolution of insufficient understanding of the company system through explanatory sessions and distribution of handbook
| · Resolution of local inferiority through housing, welfare and convenience facility
| · Events to make the workplace an enjoyable one

*OJT: on-the-job training

**Employee Compensation**

In 2000, POSCO has adopted a yearly-negotiated salary system where the payment of salary varies in part depending on the performance of employees of manager level or higher. In 2004, we have expanded the scope of the system to all employees of assistant manager or higher. Also, we have expanded the degree of difference according to the evaluation, have offered early promotions to employees with impressive performance, and have otherwise strengthened the capability and performance centered human resource management policy. Further, profit sharing has been run where employees share a certain proportion of the company’s financial performance.

Following the amendment of the Labor Standard Act in July 2004, workplaces with 1,000 employees or more have to apply the 40-hour working week system. Even before such a change, POSCO had designated Saturdays as holiday using the vacation period from June 2003, making sure that such a move does not result in a salary decrease. In other words, we have been implementing a five-day working week system before the amendment. Thus, after the amendment of the Labor Standard Act, we have implemented the 40-hour working week system without changing vacations, and there has been no decrease in the salary level.

**Major Projects of Labor Welfare Fund**

| Cafeteria Benefit Plan | Within the ceiling of budget established for each individual, an employee can choose from various welfare benefits. Use of ‘POSCO Welfare Card’ (a credit card)
| Celebration/grievance payment | Support of certain amount upon celebration/grievance
| Condolence payment | Condolence payment to injured workers and those under leave for health reasons
| Love Donation | Support of employees’ donations to help poor colleagues at year ends
| Condolence payment on death unrelated to employment | Condolence payment to family of a deceased employee for reasons unrelated to the employment
| Children scholarship | All tuitions for high school and college for 2 children of an employee
| Medical expense support | For amounts in excess of KRW 100,000 per year, for the direct payment amount of health insurance fees of an support employee and his/her spouse, support of up to KRW 10 million
| Housing fund | Up to KRW 25 million upon purchase, or up to KRW 15 million upon lease (plus 5 million in Seoul), at an annual interest rate of 3%
| Life stabilization fund | Up to KRW 10 million, at an annual interest rate of 5%
| Loan for ESOP purchase | Loan by Labor Welfare Fund, at an annual interest rate of 5%
have greatly improved the level of education and culture of the community. We also offer various leisure and physical facilities to support employees.

To enhance the employees’ productivity and will to work, we have been operating the Labor Welfare Fund since April 1991. The Labor Welfare Fund is operated based on funds raised through the contribution of a part of the profits of the company in order to stabilize the support of employee welfare. We have amended the Rules of Fund Operation three times during 2004, such as the increase of payments for celebration/grievances in accordance with the resolution of the Labor-Management Council.

Employee Stock Ownership Plan (ESOP) is a program designed to enhance the ownership spirit of employees and share the increase in the company value with employees as shareholders, and is in operation for five years from 2002 to 2006. Under the program, if an employee buys a certain number of company shares, the company grants the employee the same number out of treasury shares. The limit for purchases was increased from KRW 2.4 million in 2003 to KRW 4 million in 2004. If an employee wants, the company may loan the purchase price of the employee’s stocks through the Labor Welfare Fund.

**Education and Career Management**

In an effort to implement the management strategy of growth and innovation, the Human Resource Development Center of POSCO has set the education target for 2004 as follows: first, strengthen education by focusing on the Six Sigma Initiative; second, expand education to establish advanced corporate ethics; third, nurture the early growth of global capability; and fourth tune the educational system to enhance management performance. All education is tuned to the purpose of nurturing talent to lead growth and innovation.

### Contributions to Labor Welfare Fund

<table>
<thead>
<tr>
<th>Year</th>
<th>Contributions</th>
<th>Balance</th>
<th>Accumulative Contributions</th>
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<tbody>
<tr>
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<td>1.8</td>
<td>179.5</td>
<td>227.8</td>
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<tr>
<td>2003</td>
<td>51.1</td>
<td>189.7</td>
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<tr>
<td>2004</td>
<td>58.0</td>
<td>201.3</td>
<td>336.9</td>
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</table>

* Contribution of KRW 1.8 billion in 2002 is the liquidation dividend of labor welfare fund of POSCO Energy

### Employee Stock Ownership Plan Shareholding Ratio

- 2002: 0.73%
- 2003: 1.69%
- 2004: 3.40%

### Goals for Education

- **Consolidate Six Sigma as a company culture**
  - Improve work performance based on Six Sigma
  - Cultivate leadership for the change management
  - Facilitate dynamic organizational atmosphere

- **Strengthen advanced business ethics**
  - Facilitation of practice of the Code of Conduct
  - Strengthen education related to the labor-management relationship
  - Expand education on business ethics

- **Build capability to be a global leading company**
  - Improve development of core talents in each arena
  - Expand education for earning certificates to improve work performance
  - Enhance business capability to prepare for the business in China

- **Provide education directly related to management performance improvement**
  - Develop & extend educational content focused on problem solving
  - Strengthen customized education fit for individual capacity
  - Establish self motivated learning atmosphere & environment
During 2004, the average training time for each employee was 322 hours, and total number of employees who received the training was 19,230, including the internal off-line training, e-learning and extra-company training. The introduction of the e-learning program has greatly contributed to the increase of the number of trainees and the training time.

The POSCO Human Resource Development Center has received the grade A for the employee delegated training institute (off-line) and the internet training institute (e-learning) during the education/training institution evaluation of 2004, held by the Ministry of Labor, and has been designated as the best training institute for the internet communication training.

Knowledge Management System

The Knowledge Management of POSCO is the activity to support for management innovation and to prepare for the future competitiveness, whereas Knowledge Management System (KMS), as a core infrastructure that supports tasks of employees, is focused to continuously devise ways to enhance its use by employees. The KMS integrates the patent, R&D and other management system, and POSCO Digital Library.

The KMS currently uses an incentive system which gives the Knowledge mileage for the search of knowledge or registration of quality knowledge. Also, company holds a weekly ‘knowledge searching contest’ where an answer to a question is sought from the registered knowledge to trigger interest in the use of the KMS and facilitate the acquisition of the company knowledge. Knowledge Experts who are responsible for the knowledge management activities of a department support the continued operation of KMS and facilitation of knowledge acquisition. On the other hand, we actively lead and support Community of Practice (CoP) of employees since 2004. Through such activities, the KMS of POSCO has been rooted among our employees in a short
period, and more of our employees are becoming the knowledge workers.

POSCO won the first prize, along with four other companies, for the corporate value innovation at the Maekyung-Booz Allen Knowledge Management Award held on December 14, 2004. The Maekyung-Booz Allen Knowledge Management Award is granted by Maekyung [an economic daily] and Booz, Allen & Hamilton [a consulting firm] to companies who have contributed to the national competitiveness of Korea through knowledge management since 1999.

**In-house Venture System**

To nurture talent with the spirit of challenge and creative corporate culture, the In-house Venture System was introduced in January 2001 with respect to businesses dealing with steel, energy and the environment with a potential toward profitability and growth. The in-house venture of POSCO is divided into the intra-company type and the independent-company type. The ina-company venture is highly related to the management strategy of POSCO, and is separated after about two years as a venture company, whereas the independent-company type is less relevant to management strategy, and is incorporated as a separate company after about six months’ preparation. All of them receive support for expenses and investment money during the intra-company period.

The company receives business plans of employees at any time. The plans are preliminarily reviewed by outside specialists and the venture secretarial office. Then, the Venture Review Committee, composed of specialists from the company and outside, grades them. If a plan receives an average of 80 points or higher, it is confirmed as an in-house venture after completion of report to the management. Beginning with the TFS venture team in February 2004, four venture teams had incorporated and separated from the company by December 2004. Currently, five venture teams are operated as of March 2005.

Opening ceremony of SCAFA Venture Team (2004.4.28)

<table>
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<tr>
<th></th>
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<th></th>
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<tbody>
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<td>Users per day</td>
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<td>7,923</td>
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<td>Registrations per day</td>
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<table>
<thead>
<tr>
<th>Status of Venture Teams</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposals</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Approvals</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Separations</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
</tbody>
</table>

Flow Chart of In-house Venture Management
Since its incorporation, POSCO has been actively engaged in the creation of a clean and safe working environment, thanks to the founder’s firm commitment and interest in safe working environments. In accordance with the Safety and Health Management Guidelines, all works in Pohang and Gwangyang have their own Safety and Health Policy, and the Industrial Safety and Health Committee of each works is held every quarter to review matters related to safety and health. The Industrial Safety and Health Committee is composed of seven members from each of labor and management, and is headed by the head of the Works. Also, the safety and health conference for each department of the works is held regularly. The Safety and Health Management Guidelines apply not only to employees of POSCO but also members of outside service partners inside the workplace.

In accordance with our Safety and Health Policy, various programs are actively undertaken to promote workplace safety. Particularly, the POSCO Safety Program provides the safety training to employees ranging from the new recruits to executives. The safety training is also provided through the e-learning program, and to employees of outside service partners.

Safety

The e-Safety System is a company intranet system which supports the injury statistics, near misses, defect detection and maintenance of dangerous machinery, risk analysis and other areas of safety management. It offers a real time analysis of the recent injury statistics for each department and near-miss cases.

Other safety-related activities include the Isolation & Locking System (ILS), Tool Box Meeting (TBM), Process Safety Management (PSM), the Cardinal Rules, and the autonomous safety management licensing system. Also, we have built support programs such as the safety and health training and safety diagnosis to support our outside service partners. Further, the Safety Coordinator system intermediates active communication between POSCO and the outside service partners, facilitating the information exchange and building common grounds.

Indices on the workplace safety include the injury rate and the lost-time injury frequency rate (LTIFR). Injury means an accident occurring as a result of an employee’s treatment of business-related artifacts, facility, raw materials, gas, steam or dust or other work-related functions, resulting in death, wound or disease. The LTIFR is the number of the injuries causing four days or more of work suspension for every million hours. The injury rate and the LTIFR of POSCO is one of the lowest, compared to the average of Korean steelmakers and other industries.

Health

The Health Care Center is equipped with facilities for diagnosis, medical examination and industrial hygiene, and operates the company healthcare management system that integrates and manages the health-related data of each employee to comprehensively manage the health condition of employees.

In order to quickly resolve health-related problems of employees, we have prepared the diagnosis facility, and offer treatments and consultation on general and chronic diseases, and physical treatment of muscular ailments free of charge.

Fully equipped with the comprehensive medical examination facility, we offer general medical examinations as well as special examinations related to the work environment. We also perform detailed ear examination for employees working at noisy workspace, lung examinations for employees working at dusty workplaces, and liver and blood examinations for employees exposed to chemical materials. Particularly, we focus on the prevention of deterioration of the health of employees suffering from disease.

In order to protect employees’ health from diseases caused by the workplace, we have prepared an industrial hygiene management process to evaluate the work environment and

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### Status of Ventures

<table>
<thead>
<tr>
<th>Category</th>
<th>Venture Business details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company venture teams</td>
<td></td>
</tr>
<tr>
<td>DCI</td>
<td>Prevent pollution through electric dust collection/processing</td>
</tr>
<tr>
<td>RCC</td>
<td>Consulting on greenhouse gas</td>
</tr>
<tr>
<td>SCAFA</td>
<td>Supply of, and consulting on, mini-cogeneration system</td>
</tr>
<tr>
<td>MTS</td>
<td>Supply of, and consulting on, steel electric facility optimization</td>
</tr>
<tr>
<td>TFS</td>
<td>Management of machinery and sale of process management system</td>
</tr>
</tbody>
</table>

*DCI: Dust Collector Innovation
*RCC: Response on Climate Change
*COGEN: Cogeneration
*SCAFA: Supervisory Control And Fault Acquisition
*MTS: Machine Tool Service

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Fitness Center inside POSCO Center
propose ways to improve the working environment. We also concentrate on the prevention of bone and muscle-related diseases through ergonomics, stretching, and introduction of correct posture.

Also, to prevent disease of employees and improve their health, POSCO is engaged in various non-smoking activities such as smoking quota, non-smoking school, non smoking acupuncture, distribution of non-smoking products, lectures to enhance the understanding of non-smoking, and provision of information on effects of smoking.

Other Healthcare-related Activities

- **Facilitation of stretching**: To prevent accidents and promote health of employees by eliminating work-related tiredness and enhancing muscular flexibility, we develop and distribute various stretching methods.

- **Physical treatment facility**: We maintain the physical treatment facility to support the medical treatment of employees suffering from symptoms with respect to muscles/bones.

- **Fitness center**: To treat and prevent chronic diseases and/or muscle/bone-related diseases through exercise, we operate the cutting-edge fitness center where participants can benefit from the exercise treatment and training.

- **Improvement of personal protection equipment**: To protect the health of employees from hazardous environment of workspace, we continuously develop and distribute quality protection equipment.

- **Medical volunteer activities**: We provide medical volunteer activities by doctors and nurses to residents of remote areas once every month, which greatly contribute to the enhancement of bonding with local society and the company’s image.
CUSTOMERS

Since privatization, as the importance of caring for customers’ perspectives increases, POSCO has implemented the Customer Relationship Management (CRM) system to build the integrated customer information system from November 2001 to July 2003. Through the system, we offer tailored services according to the customer needs, and customers can register, and resolve, demands for services, claims for products, and other inconveniences.

After introducing the e-Market in August 2000, where non-ordered products are sold through auctions, we have gotten rid of the existing practice of trading with existing customers to open the strike price to all customers, promoting fair and transparent transactions. Also, we provide on-line information on the whole process from product bidding to actual delivery to remove inefficiencies and enhance custom-tailored services.

POSCO surveys customer satisfaction on every aspect of the company’s customer-related activities every year to gauge the reaction to management activities. We perform the satisfaction survey through outside survey agencies, which performs general survey for customers in Korea and overseas and in-depth interviews with selected few customers. The survey encompasses 12 subject areas including price, sales volume, payment condition, order processing and order response capacity, each being graded on a scale of one to seven.

In 2004, we surveyed the satisfaction of 198 Korean and 88 overseas customers. The degree of satisfaction felt by customers increased without fail.

In order to enhance the customer satisfaction, we perform ‘Customer Care’ activities. This activity covers all activities to gather and resolve customer demands, including visitation of customers. Every month, each personnel in charge establishes and implements a customer visitation plan to listen to the voice of customer (VOC) and strengthen the relationship with customers. Customer demands and inconveniences thus gathered are registered into the VOC management system for regular check.

In addition to the customer visitation, we perform a web-based survey every quarter to understand customer demands and analyze the collected business information. Further, by establishing the sales and service policy for each customer, we pursue enhancing the level of customer satisfaction.

Cooperation with Customers (Example of Automotive Steel Sheet)

POSCO is committed to grow the automotive steel as a strategic product, and has been increasing its domestic market share. For this, we hold informal meetings with auto makers to discuss methods of efficient supply of automotive steel, etc.

In April 2004, we formed the Automotive Steel Sheet Task Force Team with Hyundai Auto, Kia Motors and HISCO. We have also made a plan to mutually consult on the support of smooth manufacturing process by supplying the automotive steel sheet to Hyundai Motor and Kia Motors, which have been suffering from difficulties of supply of raw materials.

In November, we entered into a technological partnership agreement with GM Daewoo Motors and formed a technological cooperation committee for the development of the automotive steel sheet. The two companies have agreed to resolve 14 tasks together, spanning from the development of new automobiles to the mass production of the vehicle. For this, we have agreed to exchange and train technical personnel, and jointly proceed with Six Sigma initiative, the corporate innovation drive of POSCO.

POSCO and GM Daewoo Motors have been performing the joint research and developments for new automotive steel sheet, and processing and application technologies for a while. Furthermore, ever since the establishment of the Automotive Steel Application Center in January 2002, we have expanded exchanges to tailor welded blank (TWB), hydro-forming and other auto parts development areas using new technology. POSCO is fully prepared to respond to the demands of auto makers for the new materials through technological partnership agreements. Therefore, we can develop and sell products applying new technologies more quickly, and GM Daewoo Motors can in turn be supplied with steel products fit for new auto models.

![Customer Satisfaction Index](image)

![Operation meeting of Task Force for automotive steel (2004.4.13)](image)
SUPPLIERS AND OUTSIDE SERVICE PARTNERS

The Supplier Relationship Management (SRM) system that we have been operating since April 2003 is a process pursuing mutual benefit of suppliers and POSCO through mutual cooperation. With this, we can establish the supplier analysis system and build plans to give preferential treatment to excellent suppliers. Also, we can build various supplier management strategies in the short and long term, so as to reduce costs for both POSCO and our suppliers. In addition, by strengthening cooperation with quality suppliers, we plan to reduce inefficiencies, and risks and lead times associated with procurement.

Outsourcing takes a great role in manufacturing, and is significant for our company’s competitiveness. POSCO is keenly aware that the joint growth with outside service partners is critical to our company’s growth. Therefore, we continue our efforts to change and expand various welfare facilities and otherwise improve the working environment and convenience for employees of the outside service partners. From 2003, we have permitted employees of outside service partners to jointly use various convenience facilities of the company, and invited them to join our hobby clubs and athletics competitions to strengthen our partnership.

The safety and health of outside service partners working with us in the workplace is also very important for us. POSCO’s Safety and Health Management Guidelines apply equally to employees of outside service partners, and they should receive safety training. Also, we hold informal meetings and information exchange sessions from time to time to listen to the opinions on working environments and treatment of persons in charge of each factory and employees of outside service partners.

Also, POSCO strongly expresses its commitment to the ethical practices through the CEO’s letters or explanation sessions, and demands participation of outside service partners. We have been practicing the report compensation system and the special provisions of ethical practices so that our suppliers and outside service partners can participate in our efforts to comply with the Code of Conduct. We solicit active participation in transparent management activities by limiting transactions with, or canceling contracts with companies in violation of our Code of Conduct.

Benefit Sharing

The Benefit Sharing that has been implemented since July 2004 is a program of carrying out tasks for improvements on the purchase process and other areas jointly with suppliers, and sharing the benefit of the results. With this, suppliers can realize the improvement of the corporate structure, and POSCO can benefit from the long-term reduction of costs and enhancement of quality, contributing greatly to the enhancement of the supply chain as a whole.

Before the implementation of Benefit Sharing, we have been thoroughly preparing for it through public hearings by responsible departments to establish the guidelines and frameworks and explain them to suppliers. First, we receive proposals for the reduction of costs and enhancement of qualities for strategic materials and services we frequently need from suppliers, then the Benefit Sharing Steering Committee selects the tasks with the suppliers. Then, we carry out the tasks through Six Sigma methods and, upon completion of the tasks, share the benefits through cash compensation, extension of contracts, or expansion of supply volumes based on the calculated benefits.

Meetings of the Benefit Sharing Steering Committee are organized by the representatives of suppliers, relevant departments, the procurement department and the department responsible for the implementation of Six Sigma, which selects tasks and discusses the current status of implementation and compensation for performances. During 2004, we convened three Committee meetings. The Steering Committee selects the improvement tasks, which is implemented as a black-belt project of the Six Sigma or a quick-win item. The employees of suppliers have agreed to be trained of the Six Sigma methodology in the same way as employees of POSCO. Currently, we are implementing 36 improvement projects with 12 suppliers as of the end of 2004, five of which have been already completed and their compensation will be made during the first half of 2005.

In November 2004, POSCO was designated as the project institution for the consortium for job training for small and medium sized enterprises. As a result, we offer customized training services to subsidiaries and outside service partners using our education infrastructures and know-how accumulated by the Human Resource Development Center. The Small and Medium Sized Enterprises (SMEs) Job Training Consortium, which had begun in 2001, is a consortium to support talent education of small and medium sized enterprises by big companies with better education infrastructures, with the costs being borne by the government.

POSCO has decided that the talent pools of subsidiaries and outside service partners should precede the global competitiveness. Therefore, we support the enhancement of their technological competency and human resource competitiveness through nurturing field technicians and the development of education programs. The SMEs Job Training Consortium Project of POSCO has been joined by 55 outside service partners and 26 other companies that are related to POSCO, totaling 81, and will begin the education in January 2005.
COMMUNITY

POSCO has always accompanied the history of economic development of Korea. We have greatly contributed to the economy of the local society by providing steel, the backbone of the industry and by creating economic value. The process has been far more than the steel industry can provide. We have been engaged in activities necessary for the community in consideration of balanced development with each locality.

When we were building the company, we have made great investments in building housing, educational, cultural and physical facilities for the community. After 1990s when our manufacturing and work had settled down, we shifted our focus to donations and sponsorship, advertisements, and volunteerism.

Particularly, each department of the company maintain ties with a village, school or other community associations to closely cooperate with the community. These programs encompass not only the community but also the volunteerism of our employees. As of the end of 2004, 220 villages, schools and associations have ties with each department of the company, covering about 60% of the entire population of Pohang and Gwangyang.

Through the sisterhood partnership activities, we provide volunteer activities such as helping farmers during busy seasons, repair of farming machinery, repair of village facilities, medical volunteerism at remote villages, sale of local products, and support of poor households. The continuing exchange between village residents and company employees through the sisterhood partnership activities greatly contributes to the enhancement of mutual understanding. In

POSCO Volunteers helping restoration of typhoon damages in a sister village

Social Contribution of POSCO

<table>
<thead>
<tr>
<th>Education &amp; Research</th>
<th>Culture &amp; Sports</th>
<th>Volunteer Activities</th>
<th>Local Cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- POSTECH</td>
<td>- Mecenat activities</td>
<td>- Infrastructure for volunteering</td>
<td>- Support local project</td>
</tr>
<tr>
<td>- POSCO Educational Foundation</td>
<td>- Support of professional soccer team</td>
<td>- Participation driven activities</td>
<td>- Support local cultural events</td>
</tr>
<tr>
<td>- POSCO Scholarship Foundation</td>
<td>- Collaborated research and technology transfer</td>
<td>- Launch various volunteer programs</td>
<td>- Sisterhood partnerships</td>
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Social Contribution Expenses

<table>
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<th>Year</th>
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<th>Culture &amp; Sports</th>
<th>Volunteer Activities</th>
<th>Local Cooperation</th>
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<td>2002</td>
<td>69.3 KRW billions</td>
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<td>139.5 KRW billions</td>
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Expenses for Social Contribution in 2004

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<td>Volunteering</td>
<td>6.7 KRW</td>
<td>4.8%</td>
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<tr>
<td>Social welfare</td>
<td>12.5 KRW</td>
<td>9.0%</td>
</tr>
<tr>
<td>Research &amp; education</td>
<td>3.2 KRW</td>
<td>2.3%</td>
</tr>
<tr>
<td>Foundations</td>
<td>81.1 KRW</td>
<td>58.7%</td>
</tr>
<tr>
<td>Physical promotion</td>
<td>31.0 KRW</td>
<td>22.2%</td>
</tr>
</tbody>
</table>

Total: 139.5 KRW billions
addition, these activities function as a communication channel to gather community opinions, and provide help for those in need, greatly contributing to the improvement of needy farming/fishing village environments.

Education and Scholarship

In an effort to realize the incorporation philosophy of ‘Strengthen Our Country through Steelmaking,’ POSCO has been heavily investing in education to nurture talents for the country for the last 30 years. Such education and scholarship programs have greatly contributed to the stabilization of employees’ lives and local community. That was one of the most critical events in the formation of social and educational infrastructure that is key to the development of the company.

Empowered by the full support of POSCO, POSCO Education Foundation has grown into a full blown private education foundation covering 14 schools from kindergarten to high school. Since incorporation, it has been doing its best to enhance the level of education by actively soliciting quality teachers, resolving private tutorship issues through public education facilities and thereby reducing the burden for parents. As a result, all schools operated by the foundation have developed into highly competitive education facilities with quality educational environments.

For the first time in Korea, POSCO has established a research-oriented university, Pohang University of Science & Technology (POSTECH). POSTECH opened in 1986, to foster superior talented individuals. POSTECH was selected as one of the best educational institutions for three consecutive years among the 123 universities in the country at the national university assessment organized by Joongang Daily. It has been greatly contributing to the Korean science and technology by building the latest research facility, the Pohang Light Source, developing the DNA vaccine for the AIDS for the first time in the world, and other excellent research results. On the other hand, it goes beyond academic research to develop itself along with the local society. It participates in various activities including advisory services for the development of local society and living environments, It also holds various science and technology lectures and cultural events for residents.

Cheongam Library, built on the basis of a KRW 50 billion contribution by POSCO, was completed in April 2003, and named after the founder of POSTECH, Mr. Tae-Jun Park. It has combined the traditional library function with the research information center and the multimedia education function, where a visitor can search data from about 4,000 libraries around the world around the clock. Chungam Library has received various awards, including the Construction Award of the Washington D.C. Division of the AIA on 2003, the Quality Award from the Virginia Division of the same association, the Design Award of the Japanese Design Association, and the Presidential Award of the ‘Knowledge Office Award’ organized by the Ministry of Government Administration, Ministry of Commerce, Industry and Energy and Maeil Economic Daily, and in November 2004 the Korean Construction Culture Award hosted by the Ministry of Construction and Transportation.

Support of Professor Woo-suk Hwang

In February 2004, Professor Woo-suk Hwang at Seoul National University successfully cloned embryo stem cells using body cells and an egg cell for the first time in history. POSCO has appointed Professor Hwang as POSCO professor, supporting his research expenses. In November 2004, we have contributed funds for the POSCO professorship in an amount of KRW 500 million, and delivered to the professor research funds in an amount of KRW 300 million. We will provide a research fund of KRW 300 million every year until 2008, plus the profit from the fund for the professorship. POSCO has appointed 12 professors other than Professor Hwang from 9 Korean colleges, working on steel, machinery, calibration control and civic engineering, to support their research activities and contribute to the development of science and industry in Korea.
Research Support

Behind POSCO’s success as a world-class competitive steelmaker, there has been never-ceasing research and investments for the technological developments. We gather best science brains from Korea and abroad, and invest more than 1.5% of the sales revenue for the R&D. POSTECH, established in 1986, Research Institute of Industrial Science and Technology (RIST), established in 1987, and POSCO’s Technology Research Laboratories, established in 1994, are organically combined to yield various research results.

POSCO pursues research on the steel product development technology and steel product application with customers contributing to the creation of demands for steel products. POSCO Technology Research Laboratories, POSTECH and RIST join the research projects along with POSCO and customer companies to support resolving technical issues of customer companies with insufficient R&D capabilities.

Also, for technologies in need of R&D for POSCO which could be commercialized by small and medium sized enterprises, we operate a joint R&D system and jointly funds the research expenses with them. Eligible areas include materials that POSCO needs, quality enhancements of raw materials/equipments/calibration machinery, and technology nationalization, environmental improvement, energy savings and recycling of byproducts.

For technologies in need of R&D but can be most efficiently researched and developed by outside specialists, we have adopted the delegated R&D system to delegate the R&D to engineering schools in Korea and overseas, special research institutes, and company-affiliated research institutes. With this approach, we use research resources outside the company, and enhance their R&D capabilities in steel areas.

The New Steel Technology Research Association has been built to jointly resolve common difficulties faced by steel and other related industries using steel or related cutting-edge technologies. Fifteen companies, including POSCO as well as RIST and POSTECH, participate in this association.

Culture and Arts

POSCO has built Hyoja Art Hall in Pohang and Baekwoon Art Hall in Gwangyang to hold musical concerts, plays, ballet, traditional music, operas, and movies for local residents to attend free of charge. POSCO Center in Seoul also holds various musical concerts every month. For tickets, employees and general citizens apply on the company web site, and then tickets are given randomly to them through a lottery system.

POSCO Gallery in Pohang head office holds one or two displays a month, mostly by the company hobby clubs. POSCO Art Gallery in Seoul POSCO Center displays various modern arts free of charge. It also holds the Monday Academy, a series of art lectures held twice a month for employees and citizens to spread the understanding and appreciation of fine arts.

Physical Promotion Activities

POSCO has established two professional soccer teams, Pohang Steelers in 1984 and Chunnam Dragons in 1994, for the development of Korean soccer. It also built the soccer fields for

On the first Pohang Citizens’ Day, POSCO organized ‘Fireworks and Lights Festival’, one of the largest in Korea, along with the City of Pohang, earning great support from the citizens and contributing to the vitalization of the local economy. The Pohang Fireworks and Lights Festival has been designed to create harmony among all citizens and advertised the City of Pohang widely. During the Festival, POSCO exhibited fantastic fireworks and light shows, music and other performances for more than 300,000 citizens who attended the festival.
the first time in Korea in Pohang and Gwangyang. Pohang Steelers and Chunnam Dragons operates ‘Children’s Soccer School’ to expand the basis for the soccer and nurture potential talents, and an overseas training program to Brazil. Also, we support various local athletic events such as national and provincial athletic competitions held in Pohang and Gwangyang.

Examples of other Social Contribution Activities

POSCO supports the project to build Pohang Techno Park, an industrial complex led by Pohang along with 24 organizations from business, academy, research and the public sector. In addition, we support funds or steel products necessary for the construction of facilities for local communities. Furthermore, we provide numerous donations for poor neighborhoods during the year-end, for those suffering from floods or fires. Also, we support or uphold various events as a part of activities aimed at the continuous exchange with local communities.

Since 1993, we have hosted the Children’s Steel Camp during summer vacation. It is provided for primary and secondary students in Pohang and Gwangyang areas for free. The camp teaches the importance of iron and steel in shaping the history and civilization of humankind, while inspiring a sense of community teamwork and broadening awareness about environmental protection. It offers various programs that fit students’ need, earning great accolades from local residents.

Since 1997, we organize the Lectures for Youths for high school students who have finished the college entrance exams. The lecture series helps students expecting to enter the college or society to create a desirable mind through lectures by various persons from various areas.

In order to promote interest in the Korean steel industry among college and post-graduate students, POSCO has established the Steel Thesis Contest in 1994 and holds the event every year. Essays can be on steel technology, corporate management or environmental protection. The name was changed to ‘POSCO Thesis Contest’ for the 10th convention in 2004, for which 260 essay proposals were submitted. After three reviews, 27 proposals were selected, to be completed within four months. The final essays were reviewed by the review committee of about 40 members consisting of the heads of departments, research members of POSCO Research Institute and outside professors. The final six essays competed with each other at the final presentation session.

1% Club

POSCO is a member of the ‘1% Club’ of the Federation of Korean Industries. The 1% Club is an association of companies and other organizations which desires to use at least 1% of ordinary income for social contribution, with participating members of 147 companies.

Support of Building Teenager Rehabilitation Facilities

POSCO built ‘Jeongmyeongjae’, a teenager’s facility to support their independency, was built using steel house construction method in March 2004. The facility is for the support of juvenile after coming out of the government retention center. It will be operated by the volunteers’ supporting works. POSCO constructed the facility with the advanced technology that consumed 28 tons of galvanized steel sheet and other costs. POSCO built the house with the hope that the teenagers once in trouble can have second opportunity to be sound minded grown-ups and go back to the society. Also we have been supporting a TV program called ‘Love House’ in which houses of the underprivileged are rebuilt or modified. Specifically we provided construction materials for steel house 49 times from August 2003 to Feb 2005. We spread the strengths of steel house through opportunity, contributing to the improvement of living conditions of the underprivileged.
POSCO Volunteers

POSCO Volunteers was organized in 2003 to systematically manage all volunteer activities performed by employees. We believe that the organization members’ participation in community activities facilitates not only social development and higher living quality but also the personal growth of each member.

Organized under the Charter of Volunteers, the organization is headed by the president, and the bureau supports and manages all volunteer activities. POSCO, in connection with various volunteer facilities in Pohang, Gwangyang and Seoul, supports various volunteer activities regularly. In addition, our Volunteer Service Intermediary Center receives applications on the website for the volunteer service from outside and connects them with employees so that the resources will be appropriately distributed.

In 2004, 249 volunteer groups have registered, and there were 22,914 active members, counting duplicate memberships, which reach to about 118% subscription ratio. During 2004, 73,783 members participated in various volunteer activities.

Systems to Facilitate Volunteering In order to facilitate active participation of employees, the POSCO Volunteers offers volunteer uniforms and bags to all employees, provides insurance for injuries caused during volunteer activities, and has introduced the volunteer mileage program. Now, the activities of volunteer groups, individuals and their family members are managed so that those who have achieved a certain amount of time are provided with a certificate and badge, and each volunteer group receives activity support money in proportion to their activity times.

The intranet system supporting volunteerism provides a real time review and management of the volunteer performances of individuals and groups, amount of company support, and the status of the beneficiaries.

We have introduced the ‘Matching Grant’ where, when the funds for support of poor neighborhoods are gathered, the company provides an amount equaling the amount of employees’ donation. Upon occurrence of the Tsunami disaster in Southeast Asia in December 2004, employees have donated KRW 100 million, and the company KRW 200 million.

Sharing Saturday Every third Saturday of each month is designated as the ‘Sharing Saturday’ when volunteerism is recommended and the company supports volunteer materials and lunch. Approximately 2,800 employees are actively providing volunteer services every month. They offer volunteer activities such as improving social welfare facilities, helping with baths, cleaning, walking, eating, etc., improving living environment of single elderly persons, delivery of foods, barber services, and environmental cleaning, etc.

The ‘Beautiful Saturday’ program is a part of events for product recycling and poor neighborhood support, where the company collects and sells used goods within the Beautiful Store. In 2004, we collected about 130,000 items, and provided support of KRW 90 million for poor neighborhoods.

Supporting Community Members In May 2004, we opened free food posts at Pohang and Gwangyang to offer lunch to local elderly and physically challenged people whom the welfare system cannot reach. The free food posts are managed directly by the company, which provides facilities, cooking and distribution, and about 303 employees’ families and 88 village housewives participate in the program as volunteers. During 2004, about 60,000 people used the free food posts, with a daily average of 390 people.

POSCO supports living expenses of poor neighborhoods. The local government selects applicants, and the company provides living support funds, which is managed by Community Chest of Korea. In 2004, we have selected 120 households in Pohang and 100 in Gwangyang to provide KRW 200,000-300,000 for each household for one year. We plan to support 240 households with a total amount of KRW 86.4 million.

Family Volunteers We promote healthy family culture through family activities. In 2004, about 60 volunteer families, totaling 213 employees and their family members, have joined the family volunteerism.

In addition, POSCO operates various other social volunteer activities. The mentoring activity offers emotional support through one-on-one connection of poor youths with our employees. In 2004, we made 98 ties. In the blood donation drive, performed with the Korean Red Cross, 3,912 people participated in 2004. The ‘Beautiful Office’ is a drive to practice environmental protection by collecting and recycling used printer toners and cartridges, with the sales profit donated for poor neighborhoods. During 2004, we have recycled about 1,000 printer toners and cartridges.

Status of Volunteer Organizations

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of volunteer groups</td>
<td>162</td>
<td>249</td>
</tr>
<tr>
<td>Number of volunteer participants</td>
<td>47,271</td>
<td>73,783</td>
</tr>
<tr>
<td>Number of volunteer subscriptions</td>
<td>n/a</td>
<td>22,914</td>
</tr>
<tr>
<td>Time of volunteerism per person</td>
<td>n/a</td>
<td>6.27 hours</td>
</tr>
</tbody>
</table>
2004 Highlight of POSCO Volunteers

POSCO Volunteers removing the greenhouse damaged by heavy snow

Donation to Metro TV of Indonesia for recovery from Tsunami

POSCO employees volunteering as clerks of the Beautiful Store

Free feeding facility offers lunch to the starving elderly and disabled

Internal campaign for blood donation held by POSCO and Korean Red Cross
POSCO has cherished a dream of building plants just like parks even when the society did not have much concern with the environment. One of the main values of POSCO is to take responsibility as a member of society. Environmental responsibility is nothing new to POSCO. The proactive approach has become another competitive point. Development of FINEX technology, an environmentally-friendly steelmaking process is representative of our emphasis on the environment. POSCO promises to you that we will stand out as a global leader that sets an example in environmental management spurred by its stringent internal standard and continuous improvement activities.
POSCO has considered environmental preservation as one of the core values in its management strategy. We believe that economic profitability can be achieved in parallel with environmental soundness. This concept of enhancing corporate value through environmental management is a fundamental strategy agenda we have been pursuing. In line with this strategic consideration, environmentally related activities of the company have been standardized to make sure that every business activity satisfies the requirements for environmental preservation. We are equipped with an environmental management system in which all manufacturing processes affecting the environment should continuously be improved.

Environmental Policy

POSCO had adopted and pursued an environmental policy for stimulating strenuous environmental improvement and pollution prevention activities with the belief that a respected global company should set an example and make efforts to contribute to environmental conservation initiatives in the global community. We practice our environmental responsibilities by harmonizing all corporate activities with the goals of protection of environment, the efficient use of resources and the well-being of our communities for sustainable growth. Our policy governs all activities being carried out at Head Office, Pohang Works and Gwangyang Works.

Environmental Objectives and Action Plans for the Year 2004

To ensure appropriate and continuous implementation of POSCO’s Environmental Policy, we update our environment objectives and action plans every year to reflect major environmental issues and the stakeholders’ opinions both at home and abroad.

The Pohang Works and Gwangyang Works have developed
detailed improvement plans on a department by department basis in accordance with the action plan, and such plans are revised annually. As a consequence, they have completed 642 environmental improvement plans in 2004.

By adhering to the detailed objectives and action plans, POSCO is devoting its efforts to environmental preservation not only at our steelworks and neighboring regions, but also throughout the world.

**Five-year Technology Development Plan**

Every year, POSCO formulates a five-year technology development plan based on domestic and international issues and the demands of our stakeholders. To prepare for possible risk factors, we study various issues in the environment and energy sectors and develop contingency plans.

The technology development plan devised in 2004 includes the following details:

- Response on the United Nations Framework Convention on Climate Change (UNFCCC)
- Reduction of pollutants and improvement of local environment
- Establishment of stable treatment system of byproducts preparing for the increase in the crude steel production
- Accomplishment of world best level of energy utilization efficiency
- Optimization of utility supply in response to 34 million ton crude steel production system

**Environmental Organization**

As the environmental-management inspection body, POSCO’s Environment & Energy Committee, consisting of executives and department managers in charge of environmental and energy concerns, is responsible for reviewing environmental and energy management diagnosis data, and supporting the top management’s decisions on significant issues. For the effective implementation of our environmental objectives and action plans, the Environment & Energy Committee is responsible for environmental facility management, environmental education and environmental accident prevention.

The Head Office, Pohang Works, and Gwangyang Works each has its own Environment and Energy Department. The Environment and Energy Department at the Head Office establishes the basic direction for environmental management, and attends international environmental conventions and regulations. The onsite Environment and Energy Departments at Pohang Works and Gwangyang Works formulate and carry out the action plans, and extend environmental management throughout all departments at the respective steelworks.

In addition, the Pohang Works and Gwangyang Works have introduced an environmental manager system for the systematic management of environmental facilities, where employees with extensive experience in on-the-site technology, facility management and environmental business are appointed as environmental managers.

We receive scientific and technological support, as well as support on environmental management policies and techniques from internal and external cooperatives: the Research Institute of Industrial Science & Technology (RIST), the Environment & Energy Research Center, POSCO Research Institute (POSRI), the Environment Management Research Team within Management Study Center, and the School of Environmental Science and Engineering at the Pohang University of Science and Technology (POSTECH).
Environmental Data Disclosure

POSCO established a digital environmental monitoring system with real-time feedback on pollutant levels and a forecast system of pollutant concentration in surrounding areas, breaking new ground in environmental management. The telemetry system was first introduced at the Gwangyang Works in 1986 and later at the Pohang Works in 1989.

The system monitors gas emissions for 41 stacks at Pohang Works and 65 stacks at Gwangyang Works. The data measured for exhaust gas and air quality are automatically relayed through transmission equipment, and stored and analyzed in computers.

Real-time data results are displayed to our community residents through electronic message boards installed within the cities and onsite operators and management through the POSCO Environmental Management system (POEMS). The data are also reported to governmental monitoring center every 30 minutes.

We encourage all citizens, environmental groups, students and business people to visit POSCO and present their feedback on our environmental improvement activities. By 2004, about 450,000 people had visited the Pohang Works, and 200,000 people the Gwangyang Works.

Also, the Environment Center of Pohang Works has as its logo the image of seagull — the symbol of the City of Pohang — flying high over the greens of Pohang Works and blue sea waves of Youngil bay, and has redressed its contour with the night lights. About 3,000 local residents and other people visit the Environment Center to see the environmental management system and learn about the company’s efforts to improve the environment.

Telemetering System Diagram

![Telemetering System Diagram](image)

Automatic Monitoring Facilities and Monitored Items

<table>
<thead>
<tr>
<th></th>
<th>Stack Emission</th>
<th>Atmospheric Concentration</th>
<th>Open-path Method</th>
<th>Wastewater Effluent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pohang Works</td>
<td>41</td>
<td>2</td>
<td>7 paths</td>
<td>3</td>
</tr>
<tr>
<td>Gwangyang Works</td>
<td>65</td>
<td>3</td>
<td>9 paths</td>
<td>-</td>
</tr>
<tr>
<td>Monitoring Items</td>
<td>Nine items</td>
<td>Nine items</td>
<td>Seven items</td>
<td>Four items</td>
</tr>
<tr>
<td></td>
<td>including Dust, SO₂, NOₓ</td>
<td>including PM₁₀, SO₂, NOₓ, O₃</td>
<td>including SO₂, NOₓ, O₃</td>
<td>including SS, COD</td>
</tr>
</tbody>
</table>
Environmental Education Program

POSCO operates various environmental education and training programs for employees responsible for environment-related roles, covering environmental issues, environmental management and environment-related technologies.

Employees exchange their opinions on recent environment-related issues, environmental management activities and technological trends through the environment and energy technology sessions on a quarterly basis. Also, the environment management course is open as a part of the intra-company online training program to assist employees to learn basic knowledge. By 2004, 2,300 employees had completed the environmental management course through the company training network, and we plan to maintain the environment management course continuously, and at the same time, to introduce training on the current status of the environment management to core engineers of the Works in 2005.

Environmental Management Diagnosis

POSCO regularly conducts environmental management system review and reports the results of such reviews to our executives in order to confirm and reinforce the feasibility and effectiveness of the environmental policies and objectives of the company. In such review, we analyze overall environmental problems, various policies and regulations, and study environmental policies and management structures to justify levels of procedures and feasibilities related to the changes in the surrounding conditions. Furthermore, a check on the status of improvement measures based on the recommendations made by the internal and external inspections are conducted to guide our environmental policies and objectives. All these activities clearly demonstrate our dedication to maintain effective environmental management system.

Environmental Management Audits

POSCO undergo periodic environmental inspection by both internal and external inspectors in accordance with ISO 14001 standards to monitor execution and maintenance of the plan compared with the initial plan for the environmental management.

For the internal inspection, employees satisfying the eligibility criteria under the Regulations on Eligibility for Internal Inspector are designated as inspectors. For the external review, we select certified institutions specialized in environmental management.

Environmental Audit Results of 2004

External Audit
- Pohang Works
  - Period: From May 10 to May 13, 2004
  - Inspected 11 departments, including the Ironmaking Department
- Gwangyang Works
  - Period: From October 18 to October 20, 2004
  - Inspected 7 departments, including the Ironmaking Department

Inspection Agency: Lloyd’s Register Quality Assurance Korea

Assessed as excellent cases in the audit results
- Implemented emergency response procedures, education and training
- Implemented improvement activities through the Balanced ScoreCard (BSC) and the Key Performance Indicator (KPI) on the importance environment aspects

Internal Inspection
- Pohang Works
  - Period: From March 15 to March 19, 2004
  - Inspected 16 departments including the Ironmaking Department
- Gwangyang Works
  - Period: From September 14 to September 17, 2004
  - Inspected 12 departments, including the Ironmaking Department

Inspection results
- Advised to be revised and supplemented checklists for internal inspection
- Assessed as sound care in conducting reading session of environmental facility work standards using shift time at work
POSCO Environmental Performance Index

Created in 2001, POSCO Environmental Performance Index (POSEPI) evaluates our environmental performance against objectives and targets on a company-wide basis. The indices are included in the Balanced Scorecard (BSC) and serve as another barometer for measuring the environmental performance of the Pohang Works and Gwangyang Works, as well as a tool for measuring the overall performance of managers.

POSEPI evaluates operational performance, management performance, and environmental conditions based on the average performance over the recent three years from 1997 to 1999 to arrive at a single index. The performance indices are computed relatively, on a scale of 100 points by placing weights of 60, 30, and 10 respectively on the operational performance, management performance and environmental conditions. It is an index to conduct comparative evaluation on the improvement degree of a specific year.

POSEPI allows for comprehensive environmental assessment and feedback, and supports rational decision making for management. The indices also provide environmental performance transparency to stakeholders.

Reduction of Pollutants

Air Quality  Major air pollutants generated from the steelmaking processes include dust, sulfur oxide (SOx) and nitrogen oxide (NOx). POSCO has continued to invest in technology development for reducing the amount and concentration of air pollutants. Installation of high performance electric precipitators and filtering dust collectors clearly shows POSCO’s efforts to reduce air pollutants.

Moreover, we installed flue gas cleansing system on the No.3, and 4 sinter plants of the Pohang Works in July 2004. The system, using activated carbon adsorbers, costs about KRW 74.4 billion to construct. From 2005 when the facility is operated at full capacity after the trial operation, it is expected that the emission level of dust, SOx, and NOx will be dramatically reduced. We also plan to build same facility at the Gwangyang Works at an investment of KRW 176 billion.

Water Usage and Quality  According to the European IPPC Bureau, integrated steelworks use anywhere between 5 tons/T-S and 100 tons/T-S (T-S means one ton crude steel production) of water for their operations, and sometimes less than 5 tons/T-S. POSCO’s water use is low compared to our peers in the industry.

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**POSEPI Performance Trends**

**POSEPI Factors**

<table>
<thead>
<tr>
<th>Operational Performance (60)</th>
<th>Management Performance (30)</th>
<th>Environmental Condition (10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource usage (10)</td>
<td>Energy, water supply</td>
<td>Air quality (5)</td>
</tr>
<tr>
<td>Specific chemical substances (5)</td>
<td>Usage of specific chemical substances</td>
<td>Air quality around the steelworks</td>
</tr>
<tr>
<td>Byproducts (15)</td>
<td>Byproduct generation and recycling rates</td>
<td>Ocean water quality near the steelworks</td>
</tr>
<tr>
<td>Effluents (30)</td>
<td>Total air and water pollutant emissions</td>
<td></td>
</tr>
</tbody>
</table>
as a result of scientific water management techniques, and our reuse of wastewater. In order to improve water recycling, we need to optimize the production process and increase the recycling ratio. Through the continued efforts to save water, we have reduced water resources supplied from Youngcheon Dam and Sua Dam to 110,000 tons in 2004 from 170,000 tons in 1993. The amount of supplied water accounts for 2% of the total required water in the steelmaking process. The remaining 98% of water resources are supplied either by recycling the used water or underground water and discharged water as well as rain water. In 2004, the Pohang Works used water, including purchased water, underground water and discharged water, at the rate of 3.96 tons/T-S, while the Gwangyang Works 3.64 tons/T-S.

At POSCO, water used at each stage of steelmaking process is initially treated in the wastewater treatment facility in each plant. More than 97% of the treated wastewater is reused in the operational process of each plant and the rest is sent to the final wastewater treatment plant. Most of the secondarily treated wastewater is used for road cleaning within the complex and raw material storage yards to prevent dust, and the remainder is discharged to the sea nearby.

The cokemaking wastewater treatment facilities of the Pohang Works and the final treatment facilities for discharged water at the Gwangyang Works have installed and operated high-performance activated carbon adsorption systems used for purifying tap water. POSCO strives to preserve Youngil bay and Gwangyang bay as clear sea areas.
High Value-added Byproducts and Safe Utilization

In 2004, byproducts generated at Pohang Works and Gwangyang Works totaled 18.4 million tons in the steelmaking processes. It consisted of 74% slag along with 14% sludge and 12% other byproducts. Among these slag, blast furnace slag and granulated slag account for 48% and 26% respectively.

Blast furnace slag is used for cement, fertilizer production, road construction materials and civil engineering aggregates. Granulated blast furnace slag is recycled as a mixture in the production process of cement, or as a substitute for cement clinker. We recycle other byproducts such as dust and sludge for raw material or sub raw materials in the steelmaking process and use them as the raw material for cement and fertilizer. POSCO recycles 18.2 million tons, 98.8% of total byproducts and the others are safely treated through landfill or incineration.

In 2004, POSCO produced the blast furnace slag including granulated slag which takes up 82% of all produced amount for high value-added utilization. We also expanded the use of composite slag for road construction due to supply shortage of air cooled blast furnace slag as a result of increased granulated slag production, and to maintain a stable supply of steelmaking slag.

We also use stainless steel smelting furnace-granulated slag generated from increased stainless steel production by developing new uses for slag as fertilizers and compounds. We use the unrecycled dust and sludge outside the company in making cement and fertilizer, and put them in the manufacturing process, minimizing the volume of landfills. We plan to enhance the value of the byproducts through the development of their diverse usage and the construction of stable utilization structures to better use them in order to prepare for increased production in the future.

Fugitive Dust

In collaboration with the Gyungbuk Regional Environmental Technology Development Center, Pohang Works measured air pollution level in Pohang city for a one year period. The results showed that particulate concentration has been reduced more than 50% compared to 1990. POSCO eliminated fugitive dust including the installation of a roof dust collection system at the steelmaking plants along with other dust prevention facilities. Spraying water and crusting agents on the raw material yard are major prevention activities.

Soil Contamination Facilities

POSCO adheres to the guidelines of 'Control & Management Standards for Soil Contamination of Pohang Works and Gwangyang Works' that was established in December 2001, aiming to prevent soil pollution accidents and to minimize damages of lives and the environment even in cases of accidents.

POSCO has 1,104 units of oil or toxic material storage facilities according to the Soil Preservation Act of Korea. We conduct soil contamination assessments at these facilities within our steelworks periodically. In 2004, an independent study revealed that there was no significant adverse impact from our operations with respect to soil contamination for both the Pohang Works and Gwangyang Works.
Reduction of Chemical Emission

POSCO has been making its utmost efforts to reduce chemical emissions generated during the steel making process. POSCO has agreed to voluntarily reduce emissions of chemicals in December 2004 with an environment related citizen’s group and the government. The 30/50 program, a program for businesses to voluntarily participate in a campaign for reducing emission of chemicals, targets to reduce 30% of the chemical emission within 3 years or by 2007 and 50% within 5 years or by 2009.

In relation to this, POSCO will actively utilize LDAR (Leak Detection and Repair) in order to reduce benzene and ammonia generated at the coke plant. We are also planning to minimize chemical emission by spreading odor neutralizer and extensively implementing non-steam granulated slag production system in the steelmaking process including the coke making and blast furnace processes.

POSCO will be an active player in the negotiation with the government, civil organization, and other related institutions to reduce pollutant materials.

Dioxin

Since 2000, POSCO has conducted continuous research activities to reduce dioxin emission generated at the sinter plants. One of them is a technology putting urea into the sintering furnace and the development of activated carbon injection technology. Along with that, we have launched various activities to improve the production process including performance improvement of dust collector installed at the sinter plants. In 2004, we developed a technology to reduce dioxins and sulfur oxide compounds through the application of sodium bicarbonate[NaHCO₃] at the production stage and applied the technology to all sinter plants of the Gwangyang Works from Dec. 2004 and to the No. 1 and 2 sinter plants of the Pohang Works from Jan. 2005.

Furthermore, we set the goal to reduce dioxin emission levels to less than 0.1ng-TEQ/Nm³, which is substantially lower than that of Japan, which has a 1.0ng TEQ/Nm³ limit. To that end, we have installed activated carbon adsorption systems at the No.3 and 4 sinter plants of the Pohang Works at an investment of KRW 74.4 billion. The facility started operation from July 2004. The quality and performance of the facility have been proved through over 8 months of trial operation by showing a decrease of dioxin emission concentration lower than 0.1ng-TEQ/Nm³.

Based on these results, we plan to install these facilities into all sinter plants of the Gwangyang Works at an investment of KRW 176 billion by the end of the first half of 2007.

Meanwhile, the activated carbon adsorption technology that enables to decrease the dioxin emission to as low as 0.1ng-TEQ/Nm³ is evaluated as more efficient technology compared to the Fine Wet Scrubbing System that treats the level up to 0.2 to 0.4 ng TEQ/Nm³ and Textile Filtration and Activated Carbon Filtering Technology that treats the level up to 0.1 to 0.5 TEQ/Nm³.

In 2007 when we complete the installation of the activated carbon adsorption system in the sinter plants, we believe that the dioxin emission levels of the Pohang Works and Gwangyang Works will reach the level of 0.1ng-TEQ/Nm³, which levels will be an improvement of more than 90% compared to that of 2002.

Ozone Layer Destruction Chemical

TCE and CFCs are major culprits for the destruction of the ozone layer defined by the Montreal Protocol. POSCO stopped using CFCs and TCE and has substituted them with alternative materials.

Compliance

We impose stricter standards than the government on pollutant emissions and waste disposal to improve the environmental soundness of our products and to establish a thorough clean production structure. In this context, we conduct regular measurement and maintenance of the emission levels and the improvement track records therefor.

POSCO has received 20 administrative inspection decrees in relation to the environment. With respect to three notice cases such as improper management of wastes, we have immediately taken steps to change these practices.
Environmental Investment and Expenses

To go one step further from the past way of reducing pollutants after the production thereof, POSCO’s environmental investments focus on future methods to control pollutants before production.

Since our founding in 1968, we have invested a total of KRW 2,631.8 billion in environmental improvement projects, representing 9.1% of our total facilities investments at the end of 2004. The investments in environment-related facilities in 2004 reached about KRW 145.5 billion — an increase of KRW 52 billion from the previous year.

In order to maintain and operate the environmental facilities, we have spent about KWR 559 billion in 2004. The operational expenses of air pollutant treatment facilities represents about 44% of the total operational expenses, with the wastewater treatment and byproducts treatment representing 24% and 32%, respectively.

Environmental Impact Assessments

We conduct periodic environmental surveys on water quality, air quality, and the ecosystem as well as pollutants or any changes of the topography in sea or soil in the surrounding areas of Pohang Works and Gwangyang Works in our efforts to preserve the environment of neighboring regions.

We also monitor our environmental impact in neighboring regions by conducting periodic third-party environmental impact evaluations on ocean water quality, ecosystem, and topography for surrounding sea areas of waste-landfill grounds used by the Pohang Works and Gwangyang Works. The results are reported to the government.

Furthermore, we constantly measure the air quality of the surrounding areas of steelworks with our environmental mobile monitoring vehicles. In particular, upon the request of community citizens, we provide the measurement results directly to them onsite to help improve their understanding.

Formation of Green Area

POSCO takes the lead in the expansion of green areas: it transformed parking lots into parks. We have made various efforts to provide environmentally-friendly working area for the employees. As of 2004, the green area within the Pohang Works was 2.2 million m², 25% of the total land area, and the green area within the Gwangyang Works was 2.6 million m² or 29% of the total land area.

New Ecosystem

POSCO has formed forests with the size of 10,000 m² in the landfill at the Pohang Works and the Gwangyang Works. We have planted various trees including black pine trees, spindle trees, and so on. Many wild plants have been transplanted in the area since the time of foundation. Among the plant varieties are dandelion, milkweed, artemisia and more. Currently we can see diverse plants including tilia miqueliana, vitex rotunditolia, calystegia soldanella and so on.

In addition to these plants, the area provides shelters for wildlife such as chipmunks, rabbits, raccoons as well as migratory birds.

POSCO also uses this ecosystem as a research area to study the scientific impact of the steelmaking process on the land ecosystem.

Environmental Facility Investment in 2004

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air</td>
<td>Installation of SOx and NOx emission prevention facilities at No. 3 and 4 sinter plants</td>
<td>107.2</td>
</tr>
<tr>
<td>Water</td>
<td>Installation of effluent reuse system at final wastewater treatment facilities</td>
<td>23.3</td>
</tr>
<tr>
<td>Recycling</td>
<td>Upgrading of granulated slag treatment plant at No. 4 blast furnace</td>
<td>15.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>145.5</td>
</tr>
</tbody>
</table>

Environmental Cost Breakdown

<table>
<thead>
<tr>
<th>Classification</th>
<th>Details</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Facility Operation Costs</td>
<td>Electricity, maintenance cost, operator wages</td>
<td>258.3</td>
<td>296.6</td>
<td>264.9</td>
</tr>
<tr>
<td>Recycling Costs</td>
<td>Cost of byproduct processing, transporting, incinerating, landfill, outsourced treatment</td>
<td>133.6</td>
<td>134.2</td>
<td>146.4</td>
</tr>
<tr>
<td>Depreciation Costs</td>
<td>Depreciation cost of environmental facilities</td>
<td>114.3</td>
<td>119.9</td>
<td>126.3</td>
</tr>
<tr>
<td>General and Administration Costs</td>
<td>Wages of environmental departments, water usage dues</td>
<td>11.9</td>
<td>20.5</td>
<td>21.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>518.1</td>
<td>571.2</td>
<td>558.6</td>
</tr>
</tbody>
</table>
POSCO recognizes that corporations should take the most important role in resolving environmental problems, not only because they have created such environmental problems, but because they have the capabilities to solve them. As a responsible corporation, we practice environmentally-friendly manufacturing from raw material management and production process with a focus on environmental preservation.

Environmental Accounting System

At the end of 2003, POSCO completed the design for a system that automatically measures our environmental costs in detail and concluded the development and test thereof. The Activity Based Management (ABM) started operation in January 2005.

The ABM system currently defines environmental management activities conducted throughout POSCO into 757 standard activities, and classifies early prevention and management activities into 53 categories. The system will allow POSCO’s environmental accounting system to aggregate environmental costs by activities and categories.

The system is designed to analyze environmental costs and benefits generated from energy recovery and byproduct recycling. The value-added information from the environmental accounting system will better support management decisions, such as environmental facilities investment, while allowing for rational execution and reduction of environmental costs by departments.

Linking Six Sigma Activities to Environmental Management for Optimal Performance

We introduced the Six Sigma system to use data-driven quality measures for optimal performance in our environmental activities. The POSCO Environmental Management System (POEMS), which was established as a result of the first phase of process innovation (PI), aims for strong foundation for prompt and transparent management, among other goals. In 2004, we completed 5 projects at the Head Office, 34 projects at the Pohang Works and 33 projects at the Gwangyang Works.

| Major Six Sigma Activities in the Environment and Energy Sector |
|-------------------------|--------------------------------------------------|
| Head Office             | - Improvement of greenhouse gas emission measurement process  |
|                         | - High value-added use of stainless steel crushing slag  |
|                         | - Development of hourly energy supply and demand forecast model  |
|                         | - Improvement of energy efficiency control  |
| Pohang Works            | - Improvement of value-added byproducts utilizing serpentinite crushing facilities  |
|                         | - Reduction of NOx emissions at boiler  |
|                         | - Improvement of LDG (Linz-Donawitz Converter Gas) recovery  |
| Gwangyang Works         | - Liquefied Natural Gas (LNG) power generation output increase  |
|                         | - Improvement of byproduct gas supply and demand imbalance  |
|                         | - Reduction of cold rolled sludge treatment costs  |

Composition of POSCO’s Environmental Accounting System

- ABM
- Environment Management System
- Purchasing Order / Inventory
- Research Management System
- Purchasing Order
- Manual Input by Responsible Department
- Environment Activity Cost
- Electricity Cost
- Sub Material Cost
- R&D Cost
- Landfill Cost
- Sum of Activity Cost
- Sum of Electricity Consumption per Each Environment-related Activity
- Sum of Sub Material Cost per Each Recycling Activity
- Sum of R&D Cost per Each Activity
- Sum of Landfill Cost
- Environment-related Fines & Other Complaints Cost

Environmental accounting system
Green Purchases

POSCO adopted a guideline for ‘Green Purchases’ in July 2002. Since then we have kept the guideline for the consolidation of environmentally-friendly purchasing patterns when we select suppliers and purchase raw materials.

Green purchase activities aim at reducing environmentally hazardous materials and the waste treatment costs arising afterwards. Its major focus is to prioritize purchasing of environmentally-friendly material such as materials that contain relatively lower hazardous chemicals, materials that enable energy saving and materials that can be reused.

Preferable items for green purchases cover products that have earned environment related certificates in accordance with the Environment Technology Development and Support Act, products that have earned energy saving related certificates in accordance with the Energy Use Rationalization Act and products that have earned recycling related certificates in accordance with the Resource Saving and Recycling Act.

We held a workshop in October 2004 to facilitate green purchases. Responsible parties in the purchasing and environment and energy sections of the Steel Works were gathered at the workshop. Based on the discussion at the workshop, we continue to take a systematic approach by restructuring the green purchase guidelines and quantifying purchasing cases.

The Expansion of the Purchase of Environmentally-friendly Fuels and Raw Materials

The total production of crude steel has grown to 30.2 million tons in 2004, an increase of 1.3 million tons from the previous year. The purchasing amount of iron ore and coal reached 43 million tons and 21 million tons, respectively. Among the fuels for the steel making processes, purchase of heavy oil and light oil has been steadily decreasing every year, while our purchase of more environmentally-friendly fuels, such as Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG), has actually increased.

We have recycled internally generated scrap from the process of steel making as well as imported scraps in the amount of 5,735,000 tons, which was an increase of 26 % from the 4,558,000 tons recycled in 2003. Active purchases of compressed waste cans have greatly contributed to environmental preservation and resource conservation. The defect ratio of waste cans has been improved, enhancing the possibility of recycling.

Supply Chain Environmental Management

POSCO’s Supply Chain Environmental Management (SCEM) started when we gladly participated in a major government program to encourage small-and-medium sized suppliers within a supply network of conglomerates to adopt clean production and environmental management systems. From July 2003 to June 2004, we collaborated with 11 small-and-medium sized suppliers to conduct various environment-related activities. From July 2004 to June 2005, in the second year of the implementation, we proactively encouraged our suppliers to establish management systems by selecting 13 suppliers to transfer and spread our knowledge and experience in terms of clean technology development and systematic establishment of environment strategies etc.

At the same time, POSCO actively demands small and medium sized enterprises to conduct environmentally friendly management including certificate qualification ISO 14001. We have helped our suppliers to achieve ISO 14001 certificate, publish environmental reports and adopt environmental accounting procedures.

<table>
<thead>
<tr>
<th>SCEM Participating Companies</th>
<th>Number of Employees</th>
<th>Number of Companies</th>
<th>Major Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10</td>
<td>3</td>
<td>3</td>
<td>Basalt, Chemicals, Engineering</td>
</tr>
<tr>
<td>Below 50</td>
<td>3</td>
<td>3</td>
<td>Roll, Cement mortar, Wire</td>
</tr>
<tr>
<td>Below 300</td>
<td>7</td>
<td>7</td>
<td>Rubber products, Byproduct reuse, Casting, Briquette, Measuring equipment</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Amount of Fuels and Raw Materials Purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Production</td>
</tr>
<tr>
<td>Crude Steel (thousand tons)</td>
</tr>
<tr>
<td>Product Production (thousand tons)</td>
</tr>
<tr>
<td>Fuel &amp; Raw Material Purchases</td>
</tr>
<tr>
<td>Iron Ore (thousand tons)</td>
</tr>
<tr>
<td>Coal (thousand tons)</td>
</tr>
<tr>
<td>Electricity (GWh)</td>
</tr>
<tr>
<td>Fuel Oil (million liter)</td>
</tr>
<tr>
<td>LPG, LNG, Light Oil (Tcal)</td>
</tr>
<tr>
<td>Industrial Water (thousand tons)</td>
</tr>
</tbody>
</table>
Build Eco-Industrial Parks at Pohang

In cooperation with RIST, POSCO has conducted fundamental research project to build Eco-Industrial Parks (EIP) since August 2004. The major purpose of the project is to seek ways of recycling byproducts as well as wastes, eventually creating zero-emission of pollutants. We believe that our initiative in the environmental soundness greatly contributes to the government’s strategy that targets the formation of Eco-Industrial Parks.

POSCO will cooperate with other industries operating in the Pohang Industrial Complex to facilitate recycling of wastes and byproducts and develop a food chain relationship. Furthermore, we will devote ourselves to minimizing emission of pollutants through close cooperation and exchange of byproducts with each other within the Pohang Industrial Complex.

Life Cycle Assessment

The Life Cycle Assessment (LCA) technique quantifies inputs for steel making process, such as energy and raw material, against output, such as final product and pollutants at every production stage. The major focus of this activity is to reveal the correlation between input and output. The assessment also studies environmental issues including global warming and atmospheric pollution to assess the environmental impact based on the raw material and production methods.

POSCO has actively participated in the 'Steel product LCA project’ conducted by IISI since 1995. The project objective is to conduct thorough analysis of raw material, energy consumption level and pollutant emission by each steel making process as well as each plant to develop systematic improvements for effective environmental preservation.

POSCO developed LCA Software for steelmaking to analyze the environmental impact throughout all manufacturing processes covering raw material selection, transportation and production. In 2001, we established an LCA automatic entry structure that can be linked to Enterprise Resource Planning (ERP) system. This development makes it possible to compare environmental soundness based on competitive materials and recycling probabilities. It is also used to improve the environment and the develop environmentally-friendly products.

With the operation of the LCA computer system, as many as 900 types of inputs and outputs are identified per each product group and entered into the system to build a database. All possible influences of production on the environment can be understood accurately. Through this system, we can identify the most appropriate raw material and production processes that minimize the generation of environmentally hazardous materials.

<table>
<thead>
<tr>
<th>Major LCA Applications</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve environmental-friendliness of automobile steel sheets and develop evaluation technology</td>
<td>Conduct LCA on the 4 types of automobile steel sheet and compare its environment friendliness with aluminum products of other competitors</td>
</tr>
<tr>
<td>Research on the environmentally-friendly new city development project</td>
<td>Analyze sustainability of steel structure by LCA</td>
</tr>
<tr>
<td>Quantify environmental credit of blast furnace slag</td>
<td>Conduct LCA on the recycling processes of blast furnace slag and cement making as a benchmarking process</td>
</tr>
<tr>
<td>Research on the environmental friendliness of metal furniture</td>
<td>Conduct LCA considering recycling possibility of steel material and compare environmental friendliness with wood furniture</td>
</tr>
<tr>
<td>LCA analyzing technology for steel structured building</td>
<td>Introduce LCA analyzing technique on the steel structured building and evaluate environmental friendliness</td>
</tr>
<tr>
<td>Research on the assessment method of CO2 credit for high function steel products</td>
<td>Apply LCA technique and assess the reduction of CO2 emission generated from POSCO’s steel making process</td>
</tr>
</tbody>
</table>
ENVIRONMENTALLY-FRIENDLY PRODUCTS AND PROCESSES

POSCO defines its basic management direction as the proactive and aggressive acceptance of global environmental concepts. In line with it, we put much importance on the reduction of pollutants in the production process, saving of energy consumption, minimization of impact on humans as well as the environment, and facilitation of recycling at the disposal stage. In this context, we are doing our best in the development of advanced new products and production processes.

The Expansion of Environmentally-friendly Product Development

POSCO has been concentrating on the development of environmentally-friendly products such as Chrome-Free (Cr-Free) steel sheet for household utility, high tensile steel sheet used for automobile, surface treated sheet for higher decay-proof in an effort to proactively meet with strengthened environment related regulations as well as environmental preservation initiative, chemical management, energy reduction, and the development and recycling of longer life cycled steel. We will take the lead to promptly adopt the manufacturing technology for environmentally-friendly products to enhance the sustainable competitiveness.

POSCO developed 14 new types of environmentally-friendly steel products in 2000 and as of 2004, we had introduced 97 different kinds of environmentally-friendly products into the market. These products have positive environmental effects in terms of environmental preservation, energy saving and recycling improvement. The ratio of environmentally-friendly product development to total product development increased by 74%, same with that of the previous year, while orders demand remarkably increased to 584,167 tons.

Redouble Effort in the Development of Environmentally-friendly and High Functioned Products In 2003, POSCO developed Bio-Wave steel sheet that blocks hazardous electronic waves and is selling it through Pohang Coated Steel Co., Ltd as a 'well-being' product, which means beneficial to human and the environment. We are expanding investment on environmentally-friendly technologies and facilities. With the expansion of the investment in the production of Cr-Free steel sheet, resin coating and drier, Task Force for Cr-Free steel sheet production was formed in May 2004. We plan to transform all existing products into Cr-Free products by the late half of 2006. Roadmaps and action plans for each sector will be established and implemented.

Currently, POSCO is developing products whose surface are made through Cr-Free treatment, to secure its steel making leadership in the global market and to realize environmental management. By using this method, we can make environmentally-friendly plating steel sheet, which maintain the same plating quality without putting chromium into the plating steel sheet production.

Also, POSCO pursues the development of new products with advanced functions such as anti-bacteria and heat-resistant steel products. For the first time in the world, it has successfully completed the supply of 17 products whose surfaces have been processed in an environmentally-friendly way such as Continuous Galvanized Iron (CGI), Electrolytic Galvanized Iron (EGI), and Hot Rolled Galvanized Iron (HGI) on January 2005. Currently we sell POS-G-GREEN (CGII, POS-E-GREEN EGI) with our brand name. POSCO will make efforts to take the lead in markets for environmentally-friendly products, specifically Cr-Free products by continuing development of state-of-the-art technology.

POSCO has developed various products that have longer product life cycles, such as high decay proof sheet used for car mufflers to contribute to the reduction of waste volume and the enhancement of recycling. The company has shown strong initiative in the development of clean and energy efficient products such as electric steel sheet that prohibits the energy loss within the core of the power converter as well as motor and

Environmental-friendly Products Year 2000~2004

<table>
<thead>
<tr>
<th>Environmental Preservation</th>
<th>Year 2000~2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-containment of environmental hazardous substances, isolation of substances harmful to the body, reduction of noise and quakes, improvement of exhaust gas purification performance, improvement of collision and safety properties</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Energy Saving</th>
<th>Year 2000~2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light-weight automobiles, process/treatment free products Improvement of energy efficiency, improvement of process methods</td>
<td>72</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recycling Improvement</th>
<th>Year 2000~2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement of corrosion-resistance and life span, improvement of durability</td>
<td>18</td>
</tr>
</tbody>
</table>

Environmentally-friendly Product Development Ratio (%):
- Environmentally-friendly Product Development Ratio (%): Ratio of environmentally-friendly products out of the total number of products

Environmentally-friendly Product Development Ratio (%) 2000~2004

- Environmentally-friendly Product Development Ratio (%): Ratio of environmentally-friendly products out of the total number of products

Development of Environmentally-friendly Products

- Number of Environmentally-friendly Products
- Environmentally-friendly Product Development Ratio (%)
- Orders (Tons)

* Environmentally-friendly Product Development Ratio (%): Ratio of environmentally-friendly products out of the total number of products
High tensile steel sheet used for automobile, the demand for which is expected to increase due to strengthened environmental regulations. This development will lead to energy conservation and the reduction of greenhouse gas emissions.

**FINEX**, a more Environmentally-friendly Iron Making Process

Iron making technology without coking and sintering process has been a long-wishing subject to realize in the global steel industry for decades. POSCO has remained firmly committed to the technological innovation, undertaking a R&D activity since 1992 to develop the FINEX process — an innovative iron making process to use untreated fine ore and non-coking coal without preprocessing.

The fundamental process research was done with the 15 tons/day bench scale model plant in 1996 followed by the test operations with 150 tons/day pilot plant in 1999. The FINEX Demonstration Plant of 0.6 million tons in annual production is being operated at Pohang Works since start-up in May 2003. The operational results successfully demonstrated the process feasibility, satisfying the technical targets for developing materials such as hot metal production without coking and sintering processes, use of low grade and low cost raw materials and environmental friendliness.

FINEX is expected to have high efficiency in energy utilization by eliminating of sinter and coke processes of blast furnace iron making. The specific coal consumption is evaluated to be 750 kgs similar to that of large blast furnace with PCI. FINEX also possesses a strong future competency as the environmentally friendly process. The emission amounts of SOx, NOx, and dust from FINEX are merely 8%, 4%, and 21% of those under the blast furnace process, demonstrating that the FINEX process contains the effective capability to cope with the strict environmental concerns and legal regulations. Furthermore, attributed by simplified process and use of low cost raw materials, both capital investment and production cost of FINEX are much lower than the blast furnace of equivalent capacity. In case of 1.5 million tons/year capacity, FINEX is assessed at about 85% of the blast furnace for both costs.

Consequently, the 1.5 million tons/year FINEX plant project started in September 2004, targeting the blow-in at the end of 2006. FINEX technology will be advanced further by enhancing plant availability and productivity as well as energy efficiency to establish its competitive edge over the blast furnace ironmaking.
ENERGY MANAGEMENT AND CLIMATE CHANGE

Energy Management

In 2004, POSCO utilized 649 million GJ, an increase of 18 million GJ from the consumption volume of the previous year. However, thanks to continuous energy conservation efforts, the specific energy consumption per crude steel production has decreased by 1.5% to maintain 21.50GJ/T-S compared to the previous year.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Consumption (million GJ)</td>
<td>612.7</td>
<td>631.0</td>
<td>649.4</td>
</tr>
<tr>
<td>Energy Basic Unit (GJ/T-S)</td>
<td>21.83</td>
<td>21.83</td>
<td>21.50</td>
</tr>
</tbody>
</table>

* Excludes energy consumed by POSCO Center.

Approximately 85% of Electricity is Supplied through In-house Generation

Total electricity consumed by Pohang Head Office, Pohang Works, and Gwangyang Works in 2004 was 18,461 GWh. Approximately 15,650 GWh, or 85% of electricity used, was supplied through either in-house generation using byproduct gases created from the production process or electricity power recovery from Coke Dry Quenching (CDQ) and Top Gas Pressure Recovery Turbines (TRT) energy recovery facilities. The remaining 2,811 GWh, or 15% was purchased externally. In addition, most of the fuel needed in our operation was supplied by byproduct gases, such as Coke Oven Gas (COG), Blast Furnace Gas (BFG), Linz-Donawitz Converter Gas (LDG), and COREX Furnace Gas (CFG) generated during the process.

Second Round of Voluntary Agreements for Energy Reduction

Target of 6.9% by 2008 to Become the World Best was Achieved

In a joint effort with the government, POSCO was the first to implement the Voluntary Agreement (VA) in 1998 to reduce energy consumption. We agreed to reduce energy consumption by 5.9% over five years from 1999 to 2003, using 1997 as a base year. Fortunately, in 2003 we were able to outperform this requirement by reducing energy consumption by 9.4% or 52.5 million GJ against that of 1997.

Increased production of high quality steel products and facilities for environmental improvement were expected to dramatically increase the specific energy consumption per crude steel production. On the contrary, however, strenuous efforts to reduce energy consumption have resulted in the drastic decrease of the consumption level. Specifically, the Pohang Works have successfully realized as many as 199 saving projects including improved steam recollection through the installation of waste heat recovery boiler and the Gwangyang Works 124 projects including 2 cokes CDQ facility installation, resulting in energy conservation of 21.8 million GJ and 30.7 million GJ respectively. The outcome outperformed the initial target, making it possible to contribute to environmental preservation.

Gwangyang Works successfully improved electricity efficiency by changing operation method of ventilation facilities and heat efficiency for energy saving facilities of each factory. As a result, it could save as much as 5.5 million GJ of energy in 2003 compared to the base year of 1997. POSCO was named among ‘Businesses that Exemplarily Fulfilled their Voluntary Agreements’ in 2003 by the Ministry of Commerce, Industry and Energy for the advance achievement of our targets.

POSCO, however, is not satisfied with such performance. We have entered into the 2nd VA for the period of 2004 until 2008 to become the world best, by which the energy consumption would be reduced by 6.9% compared to that of 2003.

In order to reduce the energy consumption, POSCO will enhance the efficiency of energy generating facilities and expand the number of high efficiency machinery, and will try hard to improve the methods of production and the steelmaking process, substitute facilities and expand waste heat recovery. During the agreement period, we plan to invest in about 153 energy reduction projects. In addition, we will complete the construction of a strip casting facility with a yearly yield volume of 600,000 tons, which skips heat compression processing and produces steel skins directly onto the molten iron, thereby reducing the energy consumption by over 80 percent against conventional processing on a yearly basis. We have already achieved the reduction of 9.6 million GJ in 2004.

We will do our best to share the energy saving and other new technologies with other Korean steel makers. And, we are fully prepared to contribute to the reduction of the domestic energy consumption by participating in the Energy Saving through Partnership (ESP) project managed by the Korea Energy Management Corporation to share the technology and know-how that POSCO has actively developed with other steel producers.

Various Activities for Reduction of Energy Consumption

POSCO is fully committed to energy reduction by building high-efficiency, low-cost manufacturing facilities and preparing plans to enhance energy savings in 3 steps throughout the company.

From April of 2004, as a first step, POSCO has been strengthening its advertisements for energy savings in an effort to spread a mindset of effective use of energy in the working
environment along with realization of energy saving. More specifically, we take measures to enhance utilization efficiency in electricity, steam and fuels. In May 2004, as a second step, we have directed stepwise but continuous energy savings through strengthened energy consumption facility monitoring, increased and prompt investment in projects that have greater potential for energy savings and accelerated efforts to recover waste heat, to name a few. For the effective implementation of these activities, we formed a small task force by category in accordance with 6 major agendas.

Also, since August 2004, we have been launching proactive and thorough energy conservation policies by actively monitoring standard work procedure, developing best practices and setting the standard as the third step.

In particular, we actively embrace the Six Sigma Initiative for efficient energy use when implementing energy saving tasks at sites. By optimizing the boiler entrance temperature, the pressures and other working conditions of the CDQ facilities, by preventing leakage of steam around each shaft inside the turbine within CDQ, and by installing facilities to reduce steam consumption by seven to eight tons per year in the nitrogen cooling circular lines of the CDQ, we have successfully increased the consumption of electricity and steam by 2.5% and 3.7 %, respectively, compared to the corresponding period in 2003.

The Gwangyang Works, in addition to reducing the pitch time, required time from one steel plate comes into strip rolling facility to the next steel plates arrives, have improved the process to reduce the transportation time of the steel making pressure facility, thereby greatly increasing the productivity of the local factory, and reducing energy consumption by 0.2 million GJ.

POSCO has been utilizing waste heat generated in the production process as an energy source for heating in community. The Pohang Works invested KRW 27.7 billion to build 23 km of piping where industrial waste heat is used for source energy to provide either 240°C of steam or over 90°C of hot water through a hot water-heat exchanger and boiler. From 2001, we have provided heat to the neighboring community including houses in the Hyoja-dong area, shopping center, welfare facilities, and education institutions such as POSTECH, POSCO middle and high school, and the RIST.

Since May 1987, the Gwangyang Works have been providing housing complex for the employees with hot water by using waste water generated in the cooling process of hot rolling heat furnaces.

The activities to use waste heat have created an energy saving effect of 0.6 million GJ and 0.3 million GJ at the Pohang Works and Gwangyang Works, respectively.

Climate Change

POSCO has been actively participating in global efforts to prevent global warming and in the reduction of greenhouse gases in order to fully live up to its responsibilities to society and environment.

POSCO is preparing for the Kyoto Protocol of the UNFCCC, as the convention took effect on Feb. 16, 2005. We have made long-term and systematic preparations including continued investments in economic energy facilities and reinforcement of energy-consumption reduction activities.

At the same time, we proactively participated in the Greenhouse Gas Registry System carried out by government, and the IISI-led CO2 Breakthrough Program, a joint development program carried out by global steelmakers for carbon dioxide reduction technologies.

In addition, POSCO is in the process of calculating the greenhouse gas emissions to fit the international standards. In order to dramatically reduce the emission of greenhouse gases, we are considering measures by which potential capability for further reduction of greenhouse gases will be assessed in accordance with international standards.

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![CO2 Emissions Graph](image.png)

- Excludes CO2 emission by POSCO Center
- Includes directly emission and indirectly emission by purchased electricity
- The calculation is based on the GHG Protocol by WBCSD and WRI.
Business

POSCO has a clear vision to be a globally leading company through growth and innovation based on its capabilities which have been accumulated through the last 30 years of experience. To that end, we have made strenuous efforts to share our vision and objectives with all stakeholders. We believe that our vision will be realized by our determination to make a company that has higher investment value, guarantees opportunities for self development and fair compensation, maintains win-win attitude with our business partners, and is a company to be proud of. We have come closer to the accomplishing our goal to ‘Global POSCO’.

POSCO is the very company that pursues economic profitability and social & environmental responsibility. It is the company that has stronger competitiveness and values than it is known to.
The business performance of a company is a critical interest to all stakeholders. That of POSCO can be validated by its Income Statement, Balance Sheet and Cash Flow Statement. Furthermore, diverse financial indicators covering profitability, growth and stability have been used as a credible parameter to capture past performance in comparison with competitors both in same industry and in different industries.

These performance indicators are the collective outcome of various managerial activities such as production, sales, research & development, cost saving drives, and investment. They can be wisely utilized to enhance competitive advantages of the day and to judge the growth potential of the company.

Each item of the financial indicators demonstrates the economic effect and benefit of every stakeholder of the company. Transparent disclosure of the financial information of a company can be considered as a fundamental responsibility of a company. POSCO observes its responsibility to make public quarterly, semi-annual and annual business performance to the stakeholders by holding regular CEO forums, operating performance meetings, and by publishing company introductions, disclosures, business reports, the Annual Report, the Fact Book and releasing company data and information on our homepage.

Financial Performance
POSCO has marked the highest net income since incorporation for two consecutive years, due to the expansion of production capacity for stainless steel and other high value-added products in the backdrop of booming international steel market, the stabilized procurement of iron ore and pellets from raw material-related joint companies such as POSMAC and KOBIRASCO, the long-term procurement agreement for iron ore of 25 million tons per year for the next ten years with an iron ore supplier in Australia, and successful management innovation activities such as the Six Sigma.

Customers
Sales
The total sales of POSCO reached KRW 19,792.5 billion in 2004, which was an increase of 37.8% from KRW 14,359.3 billion in 2003. Through improvements in productivity, we have achieved an increase in crude steel production from 28.9 million tons in 2003 to 30.2 million tons in 2004, an increase of 1.3 million tons, and in production of finished products from 28.3 million tons in 2003 to 29.4 million tons in 2004, an increase of 1.1 million tons.

A solid increase in demand in the world steel market, price increases, sales increases and improvement of sales mix and in particular sales growth in eight strategic products can be cited as the main contributing factors in the highest sales growth since the inception of the company.

Sales of hot rolled steel decreased by 369 thousand tons compared to the corresponding period in 2003, whereas sales...
of cold rolled steel, electrical steel, and stainless steel have increased by 563 thousand tons, 45 thousand tons and 366 thousand tons respectively, clearly showing that changes in sales mix of the products plays a pivotal role in strong revenue growth. In addition, sales of eight strategic product including Cr-Free coated steel and automotive steel have jumped by 42.3% from 3,851 thousand tons in 2003 to 5,480 thousand tons in 2004.

Sales by Region Since after STS Plant III started operation, overseas sales have increased by 467 thousand tons from 6,845 thousand tons in 2003, to 7,312 thousand tons in 2004 thanks to increased exports to China. The proportion of total exports grew to 25.0% from 24.3% in 2003.

POSCO exported its products to about 60 countries in 2004. Among them, China ranked the top with 38.6%, which was an increase of 1.9% compared to that of 2003, followed by Japan with 21.1% and Southeast Asian Countries comprising 16.0%.

Employee Compensation Economic reward for employees at large is divided into two categories: salary and various benefits. Total labor costs in 2004 were KRW 1,276.6 billion. Among this figure, salary not including accrued severance benefits were KRW 1,119.3 billion, increased by KRW 108.9 billion compared to that of 2003.

The company froze its salary in 2004 through an agreement with employees. Giving serious consideration to the sluggish domestic economy that had produced stagnant consumption and higher unemployment, particularly among young people, we decided to show our dedication to increase jobs and at the same time reduce the gap in the compensation between employees of POSCO and those of other small and medium sized enterprises as well as temporary employees.

Despite this contraction in salary cost, total labor cost has increased because larger amounts were paid in the form of business performance bonuses, a policy to share positive business results with the employees. Operating income increased this year thanks to cost reductions generated by the active introduction of Six Sigma, as well as a sale price raise.

Pension There are two kinds of pensions: mandatory national pension covering all employees based on the National Pension Law and private pension covering persons who purchase a pension with the support of the company.

Total premiums for the national pension is calculated by the generation of standard monthly income based on the total income of the previous year and deduction of the amount corresponding to the premium ratio from the pension holder's salary. The company additionally pays the same amount that the employee pays. The collective amount is paid to the National Pension Fund. The company's liability for the pension in 2004 has reached KRW 36.3 billion, which was an increase of

<table>
<thead>
<tr>
<th>Pension</th>
<th>Unit: KRW in billions</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Pension</td>
<td></td>
<td>32.0</td>
<td>34.5</td>
<td>36.3</td>
</tr>
<tr>
<td>Private Pension</td>
<td></td>
<td>12.1</td>
<td>12.1</td>
<td>10.8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>44.1</td>
<td>46.6</td>
<td>47.1</td>
</tr>
<tr>
<td>Beneficiaries of PP</td>
<td></td>
<td>18,315</td>
<td>18,154</td>
<td>13,959</td>
</tr>
</tbody>
</table>
KRW 1.8 billion from 2003.

Support for private pensions has been provided for employees who pay more than KRW 110 thousand every month with a payment period of longer than ten years. The company’s financial support for individual pensions is KRW 55 thousand each month and altogether 13,959 employees, or 72% of our total employees, have received such benefit. Financial aid for individual pensions paid in 2004 decreased by KRW 1.3 billion compared to the amount in 2003, since the ten year payment period for the pension plan for employees who have entered the company before 1980 had matured.

Suppliers

The company spent KRW 10,735.3 billion to purchase raw materials and other services in 2004, which accounts for 54.2% of total sales. Raw material costs increased by 61.7% over the corresponding period of the previous year to KRW 8,196.6 billion due to increased demand and abrupt price hikes. Other material costs reached KRW 1,467.0 billion, which was an increase of 18.4%. Outsourcing costs registered a 19.7% increase to KRW 1,071.7 billion due to cost increases including salary increase of the outside service partner companies. In accordance with the regulation on fair subcontract trading in Korea, purchases of items including products and services should be paid within 60 days. POSCO has maintained its policy on payments based on the following table. In particular, since Dec. 13, 2004, in order to resolve financial crunch of small and medium size enterprises, all payments for them have been cleared within three business days in cash after the tax slip is issued.

The Auditing Department pays greater attention to payment practices and check its status on a random basis in the light of internal control procedures and handles the payment issue to protect the interests of suppliers.

The increase in the value of assets this year including tangible assets such as buildings and equipment as well as intangible assets reached KRW 5,744.9 billion in 2004, an increase of 32.7%. Major investments include the construction of a FINEX plant with a capacity of 1,500 thousand tons and the Gwangyang No. 5, 6 CGL and Gwangyang LNG terminal projects. Also, investment was made in the development of systems including MES that started operation in Jan. 2005.

Shareholders and Investors

Interest Expense

The interest expense for liabilities was reduced by KRW 71.4 billion, from KRW 215.2 billion to KRW 143.8 billion, mostly due to the reduction of interest-bearing liabilities. Net interest expense, total interest expense minus interest income, was KRW 63.9 billion, which was KRW 89.5 billion less than that of the prior year.

Dividends

The company maintains a dividend policy which maintains a long-term stable level of dividends, rather than a
fluctuating one depending on the size of profit and loss.

The retained earnings as of the end of 2004 reached KRW 12,864.1 billion, an increase of KRW 2,996.7 billion from the previous year, mostly due to higher profit for that term. The dividend paid for each share was KRW 8,000 per share, 160% of the per value of a stock. Thus, the dividend paid for each share was KRW 8,000 per share, 160% of the per value, which includes the interim dividend for the previous year. The dividend amount increased by 33% from the previous year. In addition, the company has reserved KRW 193.3 billion, 30% of the dividend amount, as appropriated retained earnings to support stable dividend payments in the future.

Treasury Shares  Through the resolution of the board of directors, in 2004 POSCO sold 1,575,039 treasury shares to the employee stock ownership association in accordance with the Framework Act on Employee Welfare, and on October 19 retired 1,779,320 treasury shares. As of the end of 2004 the company currently holds 6,683,171 treasury shares whose votes are restricted in accordance with the Korean Commercial Code. Therefore, the total number of issued and outstanding shares of the company amounts to 87,186,835, and the number of shares to which dividends can be made is 80,503,664.

As of April 2005, the company has purchased 1,743,730 shares — about 2% of the issued and outstanding shares — and it will use the treasury shares for the enhancement of shareholder value.

taxes to Pohang City increased by 48.5%, to KRW 50.2 billion, which is about 31% of the tax revenue of Pohang City, and to Gwangyang City by 42.8%, to KRW 43.4 billion, which is about 59% of the tax revenue of Gwangyang City.

The expenses on the income statement, including the amount of income taxes under the accounting standards, were KRW 1,407.9 billion, a 106% increase from the previous year.

POSCO has not received any not-for-value support from the central or local governments in relation to the transaction of goods and services during 2004, or financial support, such as a special tax reduction exclusively for POSCO, excluding tax deductions as defined under the tax laws.

Donations  POSCO manages the donation according to the regulations of organizations. The Board of Directors makes decisions with regards to donations over KRW 1 billion. The Finance and Operation Committee makes decisions with regards to donations for amounts from KRW 0.1 billion to KRW 1 billion, and reviews donations that are over KRW 1 billion before the decision of the Board of Directors. Donations from KRW 10 million to KRW 0.1 billion are decided by the CEO. Donations for education, scholarship, Company Employee Welfare Funds, local community and civil organizations were KRW 154.1 billion, which was an increase of by KRW 56.7 billion from 2003.

<table>
<thead>
<tr>
<th>Retirement of Treasury Share</th>
<th>Unit : thousand shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>Issued Shares</td>
<td>90,782</td>
</tr>
<tr>
<td>Retired Shares (% of total)</td>
<td>2,808</td>
</tr>
<tr>
<td>(% of total)</td>
<td>3%</td>
</tr>
</tbody>
</table>

Public Sectors  
Taxes  The actual amount of tax payment for 2004 was KRW 765.7 billion in national taxes, KRW 101.4 billion in local taxes and KRW 43.9 billion in customs duty, totaling KRW 911.0 billion, which is about 37.5% increase from the previous year. Local
Living Together with Small and Medium Enterprises (SMEs)

The cash payment of transaction price would help revitalize the national economy.

Dong-Hee Lee, Senior Vice President, CFO

Why did you prepare the system of paying all transaction prices to SMEs in cash?

Most SMEs suffer heavily from the sluggish domestic economy and, as a result, reduced sales and worsening profit. This measure is an expression of our CEO’s management philosophy that a company should take the social responsibility seriously, and big companies should seek to live together with SMEs. I believe that this policy would help not only those SMEs that get direct benefits, but also those SMEs that do transactions with those that directly interact with POSCO, and ultimately this will revitalize the national economy.

What practical impact this policy will have on SMEs?

Our prior payment policy, called the purchase card system, helped SMEs with low credit and asset volume, because they could get financing based on the credit of POSCO. However, even if the SMB goes to the bank for a credit line, it should pay interest thereon. This measure eliminates any need for additional financing and accompanying financing costs when trading with POSCO. Also, the SMEs will have a better cash flow, so that they can stabilize their management and substantially reduce the need for borrowing.

What was most difficult implementing this policy?

While maintaining prompt cash payment policy as a whole, we are given the payment receivables with 60~120 days of grace period depending on the type of product. Due to this measure POSCO was forced to bear additional financing costs. However, we swallowed it and implemented nevertheless in the belief that it will help SMEs that support and buttress the development of POSCO in the long run, and will positively impact the industrial topology in Korea.

What is your future plan?

POSCO has been in the process of improving the inflow/outflow of cash through PI and Six Sigma. We promise to continue developing systems that enhance customer convenience, actively adopting new financial systems and assisting corporate activities of our customers.
To the readers of the POSCO Sustainability Report 2004

Introduction
We have been engaged by POSCO to review specified information in the POSCO Sustainability Report 2004 (further referred to as The Report). The Report is the responsibility of the company's management. Our responsibility is to issue an assurance report on specified information in relation to the scope described below.

Context and scope
In The Report POSCO describes its efforts and progress in relation to sustainability and reporting. Our engagement was designed to provide the readers of The Report with:

reasonable assurance on whether
• the data on financial performance, as specified in the section 'Work undertaken and conclusions' are properly derived from the 2004 Non-Consolidated Financial Statements of POSCO;

limited assurance on whether:
• the data on the POSCO total energy consumption and lost-time injury frequency rate are reliable;
• the information in the following sections of The Report is fairly stated:
  - POSCO's Sustainability (pages 17 to 18);
  - Safety & Health (pages 34 to 35);
  - Environmental Data Disclosure (pages 48);
  - Energy Management and Climate Change (pages 60 to 61).

'Fairly stated' means that the report properly reflects the information contained in the underlying sources such that it is consistent with the source information. Reasonable assurance is a higher level of assurance than limited assurance, which is reflected in the nature and depth of the work performed.

Standards and criteria
We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. Amongst others this standard requires that:
• the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in The Report, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence;
• when providing limited assurance, which is a lower level than reasonable assurance, a negative form of conclusion is used.

There are no generally accepted standards for reporting sustainability performance. POSCO applies its own internal sustainability performance reporting criteria, derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative.

Considerations and limitations
Environmental, health, safety and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

To obtain a thorough understanding of the financial results and financial position of POSCO, the reader should consult the POSCO audited Non-Consolidated Financial Statements for the year ended 31 December 2004.

Work undertaken and conclusions
Total energy consumption and lost-time injury frequency rate
For the reliability of the data on the POSCO total energy consumption and lost-time injury frequency rate for the year 2004 we conducted:
• visits to Pohang Works, Gwangyang Works and POSCO Center;
• reviews of:
  - the data reported by the sites;
  - the systems used to generate, aggregate and report these data;
Based on the above, the data on the POSCO total energy consumption and lost-time injury frequency rate for the year 2004 do not appear to be unreliable.

Financial data
We have reconciled the data on financial performance for the year 2004 listed below, with the audited 2004 Non-Consolidated Financial Statements of POSCO.

- Sales, Operating profit, Net income, Assets, Liabilities and Shareholder’s equity on page 8;
- Interest expense, Interest income and Net interest expense on page 66;
- Earning per share and Income taxes on page 67.

Based on the above, the data on financial performance, as specified above are properly derived from the 2004 Non-Consolidated Financial Statements of POSCO, for which the independent auditors issued an unqualified audit opinion dated January 19, 2005.

Specific sections
For the information in the sections of The Report, as specified in the section 'Context and scope' we conducted:

- a review of the systems and processes used to generate this information;
- a review of internal documentation and intranet sources;
- interviews with staff responsible for the information.

Following our review we discussed changes to the draft Report with POSCO, and reviewed the final version of The Report to ensure that it reflected our findings.

Based on the above, the information in the sections: POSCO’s Sustainability, Safety & Health, Environmental Data Disclosure, and Energy Management and Climate Change in the Report does not appear to be unfairly stated.

Commentary
Without affecting the conclusions presented above, we would like to draw readers’ attention to the following:

The main focus of The Report is the operations in Korea. As POSCO’s operations include consolidated activities in joint-ventures outside Korea we recommend POSCO to extend the scope of its sustainability report to those consolidated activities where POSCO owns a majority share.

POSCO asked us to conduct our assurance engagement in a way that would provide a learning experience for the POSCO professionals involved. We have discussed our observations regarding the reporting process outside the scope of our assignment with POSCO management. We found them receptive to our comments regarding the report and the reporting process.

Seoul, 29 July 2005

KPMG Samjong Accounting Corporation
KPMG Sustainability B.V.

Lee, Chang-Soo, CPA
Prof. Dr. George C. Molenkamp
POS CO Corporate Governance Charter

Introduction

POSCO is pushing forward to become a strong, global blue chip company in order to realize the mission of contributing to customers and human society, by providing valuable goods and services which form the fundamentals of a society.

With a firm belief that the establishment of a healthy corporate governance structure will be the stepping stone in gaining the trust of stakeholders, faithfully fulfilling management activities, and as a means to realize the goal of becoming a global blue chip company, the company is enacting the Corporate Governance Charter.

According to the Charter, POSCO is looking to achieve transparent, sound and responsible professional management under the eye of an independent Board of Directors. By doing so, the company aims to realize a balanced enhancement of stakeholder interests such as that of shareholders, customers, and employees.

I. General Provisions

1. POSCO’s business goal is to enhance long-term shareholder value. This is carried out by employees with the CEO at the center of the Management Team. The BOD decides the corporation’s key management policy, and checks and supervises the effort-making process to enhance the value of the management to shareholders.

2. In order to enhance shareholder value and to protect shareholder interest, POSCO will establish and develop the Global Professional Management (GPM) System that harmonizes the checks and balance between the Board (centering on independent Outside Directors) and the management.

3. POSCO shall disclose key provisions related to management and financial statements quickly and accurately to shareholders and stakeholders, and review the accuracy of the financial information through independent and professional audit systems.

II. Shareholders

2-1 Shareholder Rights

1. Shareholders, as owners of POSCO, possess the following basic rights including the following guaranteed rights under relevant laws such as the Commercial Code of Korea.

- A right both to vote and attend the General Shareholders’ Meeting; and
- A right to provide objectives of the General Shareholders’ Meetings, such as review of the candidates for Director.
- A right to obtain relevant corporation information in a timely and regular manner

2. To protect utmost the rights of shareholders, the following matters such as mergers, amendments to the articles of incorporation and capital reduction and others which cause fundamental changes on the corporation and shareholder rights shall be decided at the General Shareholders’ Meetings.

3. The exercise of shareholder rights should be based on the shareholder’s free will. In order to ease the process of exercising this right, POSCO can provide sufficient information on the meeting’s agenda and can allow written voting.

2-2 Equitable Treatment of Shareholders

1. According to the type and amount of shares possessed, shareholders shall be treated equally. There shall be no infringement on shareholder rights according to the number of shares held.

2. In regard to business relations, POSCO shall not provide special treatment for the reason of being a shareholder and shall not take unfair action for the reason of not being a shareholder.

3. As the law stipulates, the exercise of minority shareholder rights shall be guaranteed within a boundary that does not disadvantage the rights of all other shareholders. POSCO shall make efforts to protect minority shareholder rights, such as the adoption of the Cumulative Voting Policy.

2-3 Responsibility of Shareholders

1. Shareholders, understanding the exercise of their voting rights has bearing on the corporate management, shall make every effort to exercise their voting rights for POSCO’s development and interest.

2. Controlling shareholders shall act in the best interests of the company and all its shareholders. For any action running counter to such principle, the controlling shareholders shall bear all corresponding responsibility.

III. Board of Directors

3-1 Function of the Board

1. The Board of Directors (hereafter the ”Board”), hold comprehensive power over corporate management as
stated in related laws, and shall make the company’s key management policy decisions and shall supervise the activities of the management in the best interests of the corporation and its shareholders.

2 The Board shall perform the following functions:
- Setting business goals and core business strategies;
- Approving the appointment and dismissal, supervision, evaluation, and compensation policy of the management;
- Regular monitoring of the management’s accomplishments; and
- Approving important investment projects, large-sum loans, yearly business plans and budgets
- Overseeing provisions stated in other laws, statutes and the Operational Regulations for the Board.

3-2 Board Composition

1 The Board shall be composed of 10~15 Directors so as to allow active discussion on diverse issues and effective decision-making.

2 The Board shall include Outside Directors capable of performing their duties independently from management, controlling shareholders and the company.

3-3 Qualification of Directors

1 Directors shall possess an exemplary set of ethics, business sense and integrity, the ability to enhance long-term value of all shareholders and equally represent the interest of all stakeholders.

2 Standing Directors, as high-level managers of the corporation, shall have sufficient experience and knowledge related to the corporation’s business, and shall have rational decision-making ability and drive.

3 Outside Directors shall have sufficient knowledge and experience in the industrial, financial, academic, law, and accounting sector or in the public sector, and shall not have a major stakeholder interest with POSCO and shall be able to make decisions independently from the management and shareholders.

3-4 Appointment of Directors

1 Directors shall be appointed at the General Shareholders’ Meetings by recommendation from the Board of Directors or the Director Candidate Recommendation Committee.

2 The candidates for Standing Director are recommended to the General Shareholder Meetings by the Board, after the evaluation of their qualifications by the Director Candidate Recommendation Committee, which is composed of three Outside Directors and one Standing Director.

3 The candidates for Outside Director are recommended to the General Shareholder Meetings by the Director Candidate Recommendation Committee, which is composed of three Outside Directors and one Standing Director. The Director Candidate Recommendation Committee shall be composed of Directors who have more than a year left in one’s term of office and can receive consultation from outside experts in order to transparently and objectively select the candidates for Outside Director.

4 By resolution of the Board of Directors, the Company shall appoint the Chairman and Representative Director, the President and Representative Director among the appointed Standing Directors at the General Shareholder’s Meetings. The Chairman and Representative Director jointly holds the position of CEO and the Board Chair.

3-5 Role of Outside Directors

1 Through the Board activities, Outside Directors participate in the company’s key decision-making process. As a member of the Board, Outside Director supervises and supports management through constructive consultation.

2 An Outside Director may request information necessary to perform his/her duties. Also, if needed, the Outside Director can receive consultation from sources outside the corporation through proper procedures, for which POSCO shall cover any reasonable expense.

3 Outside Directors shall allot sufficient time towards performing their duties and shall review all related materials before attending a Board meeting.

4 To hear opinions on Board agendas, a regular meeting attended only by Outside Directors is recommended. When all the Outside Directors deem it necessary, the Board Chair, the Standing Directors or the Executive Officers may attend such Outside Directors-only meetings.

3-6 Responsibility of Directors

1 Directors shall do their utmost in performing their duties with prudence and faithfulness for the interest of the company and its shareholders. Directors, in accordance with performing their duties, shall not divulge or use any corporate secret obtained for their own or third parties’ benefit.

2 Directors, as members of the company, shall abide by POSCO’s Code of Conduct. The Board oversees the ratification of behavioral procedures stated in the Code of Conduct.
When a Director has violated the law or the articles of incorporation of the company, or has neglected his duties, he may be liable for damages to the corporation or a third party. But managerial decisions by a Director that are based on proper procedures, and also faithful and rational decision-making, shall be respected.

To ensure effectiveness of holding Directors accountable and to attract competent persons as Directors, the corporation may purchase Director Liability Insurance coverage.

If conflicting issues between POSCO and the Director are not resolved, such Director, if in office that year, should resign. No Director shall engage in discussions or decision-making processes that can have an effect on one’s personal or business interest.

3-7 Steering of the Board

In order to make the best management decision for the interest of POSCO and shareholders, the Board should be operated in an efficient and rational manner.

In order to carry out efficient management and professional roles, the Director Candidate Recommendation Committee, the Evaluation and Compensation Committee, the Finance and Operation Committee, the Executive Management Committee, the Audit Committee, and the Insider Trading Committee should be established within the Board. The Chair of each Committee (with the exception of the Executive Management Committee) should be elected among Outside Directors. The Evaluation and Compensation Committee, the Audit Committee and the Insider Trading Committee should be entirely comprised of Outside Directors.

In principle, Board Meetings should be held six times on a yearly basis. If there is an emergency agenda that needs to be discussed, an interim meeting of the Board may be held. In order to smoothly manage the Board, the Operational Regulations for Board of Directors should be enacted and implemented which states in detail the Board’s authority, responsibility and management procedure.

3-8 Evaluation and Compensation of the Management Team

The Board should design and implement the Evaluation and Compensation System of the Management Team that can contribute to enhancing long-term value to shareholders. The business activity of the Management Team should be fairly evaluated and the results should be rationally and appropriately linked to the compensation and reappointment.

The Evaluation and Compensation Committee within the Board and composed of Outside Directors should regularly evaluate the content of business activities of the Management Team, according to the evaluation standards and business goals set at the Board Meeting.

II. Audit Systems

4-1 Audit Committee

The Audit Committee shall be comprised of more than three Outside Directors and more than two experts who specialize in accounting or financing.

The Audit Committee shall perform the following functions:

- Audit the appropriateness of the manager’s execution of operations;
- Review the soundness and reasonableness of POSCO’s financial activities and the accuracy of the financial report;
- Review the adequacy of major accounting standards and changes in accounting estimates; and
- Review provisions stated in other laws, statutes and the Audit Committee Operating Regulations.

The meeting of the Audit Committee shall be held more than once in each quarterly period. If needed, the attendance of the Director, the Executive Officer or related employees can be requested.

4-2 External Auditors

External Auditors shall perform fair audits independently from the corporation, its management and controlling shareholders.

External Auditors shall be appointed by the Audit Committee and shall report key provisions of External Auditing activities to the Audit Committee.

External Auditors shall attend the Annual General Shareholders’ Meeting and answer any shareholders’ questions on audit reports.

III. Stakeholder

POSCO shall work to achieve corporate stewardship which is to efficiently resolve issues related to stakeholders (employees, customers, creditors, suppliers and local communities), with the belief that it can contribute to the enhancement of shareholders’ long-term values.

POSCO shall faithfully protect the rights of stakeholders according to applicable law and contract obligations. POSCO shall make every effort to faithfully observe labor-related laws such as the Labor Standard Act, and
1. Our fundamental responsibilities
- We aim to be an internationally respected and trusted company. The uncompromising commitment to integrity and discipline embodied in our ‘Right Path’ management philosophy provides the foundation for this.
- We aim to develop and grow with each of our stakeholders as we pursue continuous innovation and sustainable growth that will enhance our corporate value as well as foster an ethical corporate culture. Our goal is to be a company customers want to do business with, a company investors want to invest in, and a company people want to work for.

2. Our commitment to our customers, business partners, and competitors
- We will make customer value our number-one priority, delivering the best products and service.
- We will develop win-win relationships with our suppliers, guaranteeing impartial treatment as well as reasonable terms and conditions.
- We will compete in good faith and respect the principles of fair trade.

3. Our commitment to our stockholders and investors
- We will achieve solid profitability through transparent decision-making and effective management.
- We will increase corporate value through continuous innovation and sustainable growth.
- We will respect the rights of stockholders and investors and their expectation to profit from their investments. We will provide timely and full disclosure so they may be able to make informed investment decisions.

4. Our commitment to our employees
- We will respect the creativity of each individual and provide equal work opportunities to create an environment where they can achieve their full potential.
- We will not discriminate on the basis of alma mater, birthplace, gender, age, religion, or any other criteria unrelated to job qualifications.
- We will foster a win-win corporate culture built on mutual trust and understanding.

5. Our commitment to local, national, and global communities
- We will abide by all national laws and regulations as a socially responsible corporate citizen.
- We will respect the traditions and culture of local communities as we work to prosper and grow with them.
- We will comply with international conventions on human rights, the environment, culture, and trade as well as local laws and accounting standards in every country we operate in.

June 2, 2003
Rules of Conduct

1. Follow sound and fair trading principles
   - Treat all business contacts with respect, ensuring that all dealings are performed fairly and equitably.
   - Refrain from using your position of power to seek undue concessions.
   - Avoid doing business with companies that have been convicted of tax evasion, accounting fraud, or willful environmental pollution.

2. Avoid conflicts of interest
   - Refrain from peddling or misusing influence as well as borrowing from or lending to business contacts.
   - Refuse to give or accept money or valuable gifts. The only exceptions are for souvenirs and small gifts exchanged under generally accepted social practices.
   - Refuse requests for or offers of dining, entertainment, or other business courtesies beyond generally accepted social practices. In all cases, the policy and standards of the recipient's organization must be fully respected.
   - Avoid notifying business contacts in situations where congratulation or condolence money would customarily be expected. The recommended guideline for these customary payments is KRW 50,000 or less, and payments should not exceed KRW 100,000 under any circumstance.

3. Avoid misuse of company assets or information
   - Refrain from using or sharing internal information for personal gain.
   - Administer company funds responsibly and effectively.
   - Avoid using company supplies and facilities for non-business purposes.

4. Protect confidential information
   - Scrupulously protect confidential knowledge and information.
   - Immediately forward important knowledge and information to appropriate personnel.
   - Refrain from distorting facts or disseminating false information.

5. Create a culture of mutual trust and respect
   - Avoid offensive verbal, physical or visual behavior.
   - Respect individual privacy and avoid assaults on character.
   - Break down organizational barriers and create an atmosphere that fosters cooperation.

6. Respect social norms and reputations.
   - Set the example for volunteer service in local communities.
   - Avoid any conduct that might damage the good name and reputation of the company or fellow employees.
   - Refrain from using your position to benefit a particular political party or non-profit organization.

7. Establish a culture of ethical excellence
   - Adopt the Code of Conduct as your personal value and conduct standard.
   - Immediately report violations of the Code of Conduct by yourself or others to your supervisor or the Corporate Ethics Team.
   - Witnesses of ethical violations will remain confidential and be fully protected from possible retaliatory action.
   - Code of Conduct standards may be clarified or added when necessary to address emerging issues.

June 2, 2003

Special Procurement Provision for Ethical Practice

Article 1. Purpose.
This special provision aims to clearly state the matters of ethical practice to be applied to all transactions or contracts between POSCO (the 'Company') and the transaction counterparty (the 'Counterparty') and to be obeyed by all parties in order to promote the sound and fair transaction order and establish ethical corporate culture.

Article 2. Application.
This special provision shall apply to all transactions or contracts between the Company and the Counterparty unless the parties have clearly agreed to exclude this special provision from application.

Article 3. Duty of compliance.
(1) In order to maintain the fair transaction order in all transactions with Counterparties to which this special provision apply,
all officers and employees of the Company shall comply with this special provision, and shall provide the Counterparty with this special provision upon execution of a contract or initiation of a transaction and shall obtain the confirmation of the Counterparty that it fully understands this special provision. 

[2] The Counterparty shall appreciate the Company’s commitment to ethical management, fully cooperate with the ethical practices under this special provision, and shall provide the confirmation under Clause 1 above upon execution of a contract or initiation of a transaction.

**Article 4. Types of violations; sanctions upon violation.**

(1) The Counterparty shall not, with respect to a transaction or a contract, be engaged in any of the following conduct toward officers or employees of the Company in violation of the ethical practice:

1. Provision of money or other goods except for the usual souvenirs and gifts;
2. Provision of foods, drinks or entertainments or any other treats in excess of the usually accepted level;
3. Provision of transportation, lodging, tourism, support of events or other conveniences in excess of the usually accepted level;
4. Transaction involving money or real estate, such as loans, loan guarantees or real estate transactions or leases that interfere with the fair discharge of duties; or
5. Other conduct equivalent to those enumerated in Items 1 through 4 above that interferes with the fair discharge of duties by an officer or employee of the Company.

(2) The ‘usually accepted level’ in Items 1 through 3 of Clause 1 shall mean the level generally and universally acknowledged as reasonable when viewed in light of the sound common sense of society that does not burden the beneficiary so as to interfere with the fair discharge of such beneficiary’s duties.

(3) If a Counterparty commits any of the conducts under each Item of Clause 1 above, the Company may take any of the following measures depending on the degree of violation:

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<td>1. If the money or other pecuniary benefit acquired by an officer or employee as a result of a conduct under Clause 1 is less than KRW 500,000</td>
<td>Restriction of transaction volume or size, or termination or rescission of the transaction or contract related to the conduct under Clause 1</td>
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<td>2. If the money or other pecuniary benefit acquired by an officer or employee as a result of a conduct under Clause 1 falls between KRW 500,000 and KRW 1,000,000</td>
<td>Termination or rescission of the transaction or contract related to the conduct under Clause 1, and the termination or rescission of the transactions or contracts similar to the transaction or contract related to the conduct under Clause 1</td>
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<td>Restriction on participation in various transactions or biddings by the Company</td>
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(4) The ‘similar’ transactions or contracts in Item 2 of Clause 3 shall mean the transactions or contracts with identical subject matter and class (material purchase, facility purchase, construction, outsourcing, transportation service, raw material purchase or sale) with the transaction or contract related to the conduct under Clause 1, and with identical contracting department of the Company.

(5) The value under Clause 3 of the entertainment, treats, conveniences, loans or loan guarantees under Items 2 through 4 of Clause 1 shall be determined as the monetary value of the degree of pecuniary benefit received by the officer or employee.

(6) For the application of Clause 3, the ‘value of the pecuniary benefit’ shall be calculated based on the total amount of such provision regardless of times, periods, providers or the beneficiaries.

(7) If the Company intends to impose a sanction under Clause 3, the Company shall, unless unavoidable, provide the Counterparty with the opportunity to explain its opinion or make a statement beforehand.
Environmental Policy

We recognize that our environment is a vital factor in corporate management strategy. We fulfill our environmental responsibilities by harmonizing all corporate activities with the protection of the environment, the efficient use of resources, and the well-being of our communities for sustainable growth.

- We have developed a company-wide integrated system of cooperation and harmony to stimulate sustainable management.
- We strictly adhere to environment-related laws and regulations, and endeavor to reduce our environmental impact on worksites and local communities.
- We always seek ways to improve our environmental friendliness, prevent environmental pollution, use energy more efficiently, and increase the value of recycling.
- We strengthen the environmental friendliness of the steel industry by establishing and implementing production and product development processes that have less environmental impact.
- We ensure an eco-friendly work environment for the benefit of each employee’s health and safety.
- We establish effective communication channels with all major parties concerned, and provide appropriate training to all employees so that they can fully participate in our proactive sustainable development activities.
- We fortify inter-company cooperation and strive to develop an eco-friendly supply network in order to promote sustainable development in companies that work alongside POSCO.
- We operate a transparent monitoring system to routinely review, evaluate and release our sustainable development management targets, policies and results.

January, 2004

Safety and Health Management Principles of Pohang Works

POSCO does its best to ensure a safe working environment in order to preserve the health and happiness of all employees; and each worker exerts every effort to protect the safety of his or her colleagues on the basis of the respect for human life.

To this end

1. Put priority on safety and health in management
2. Strictly comply with the laws, regulations and corporate regulations related to safety and health.
3. Cultivate safety awareness and practice abilities through education.
4. Managers are responsible for the safety and health of relevant divisions.
5. All employees must participate in safety and health activities.
6. Check and improve performance according to general standards.
7. Maintain an integrated safety management system with outside service partners.

January, 1998
### Safety and Health Management Principles of the Gwangyang Works

The Gwangyang Works pursues the improvement of health and quality of life of employees and prevention of accidents by creating a safe and comfortable working environment. To this end, the Gwangyang Works sets safety and health principles for all activities related to the Works and operates a safety and health management system to realize these principles.

- Safety and health is one of the major elements in the management of the Works and is harmonized with other management activities.
- Continuously improve safety and health performance by identifying all in advance and pushing ahead with appropriate preventative and improvement activities.
- The safety and health regulations shall be basically complied with. More intensified regulations of the Works are set and executed to secure safety related to the installation, operation and maintenance of facilities, machinery and equipment.
- Safety and health activities are the major responsibility of all executives and employees. Execute appropriate education and training to enable them to perform these responsibilities and roles.
- For effective realization of safety and health principles, set and execute goals and activity plans, and operate an internal assessment to regularly assess performance.
- Set an internal communication system for active participation of all executives and employees and induce the participation of all companies related to the Works in safety and health activities.

October, 1997

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### Charter of POSCO Volunteers

**Premise**
POSOC places utmost importance on the social contribution activities of the Company by vigorously deploying volunteer service activities in cooperation with the communities, ensuring its contribution activities are suitable for the main businesses of the Company, and by utilizing to the fullest the personnel and material resources possessed by the Company.

**Basic Spirit**
- POSCO Volunteers is confident that its volunteer services will create a ‘society of caring and sharing and a harmonious world’.
- POSCO Volunteers recognizes that volunteer services promote a ‘corporate citizenship’ culture and practices volunteerism with that in mind.
- POSCO Volunteers strives for self development and to develop the potential of others through its volunteer services.
- POSCO Volunteers is confident that the volunteer services it provides promote individual growth, social development and quality of life.
- POSCO Volunteers cooperates with all stakeholders including shareholders, customers, executives and employees, and communities, in improving quality of life and solving social problems.

**Code of Conduct (Pledge of Volunteers)**
- We voluntarily participate in volunteer service activities with pleasure where we gain the wisdom to get along and help others.
- We never discriminate against those who face physical, mental, economic and/or social disabilities as the objective for volunteer services is based on compassion for others.
- We make every effort to create a society filled with affection and mutual reliability through our volunteer service activities in recognition of the fact that we are a part of the community.
- We are sincere and faithful in all service activities and endeavor to live by our volunteer service spirit as a part of ordinary life.
- We, as members of POSCO, practice the ‘POSCO Vision’ with pride through the expansion of volunteer service culture and furthermore contribute to the development of communities.

May 29, 2003
## Vision and strategy

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(b) Not aggregated
(c) Steel products are recyclable regardless of the number of using time
(d) It is a main medical checkup item but there are no precautional policy and program
(e) Not responded
& Sigma
A management strategy implemented company-wide in order to evaluate all quality levels quantitatively. It aims to create a culture of efficiency and quality by training employees for problem solving processes and professionalism to achieve the quality innovation and customer satisfaction.

Beautiful Store
A charity store that sells donated items at cheap prices. Other volunteer campaigns include promotion of recycling/sharing culture and fair trade. Profits are used for public welfare and charity activities.

Chemical oxygen demand (COD)
Amount of oxygen, in mg/l or ppm, equivalent to the amount of oxidizing agent necessary for oxidizing pollutants in water. It is used as measurement to identify degree of pollution in water.

Cogeneration system
A system that produces electricity and heat from the same source, thereby providing 80-95% economic efficiency. It is also called the combined heat and power (CHP) system. It is used for a locality, community energy system (CES), hospital, hotels and factories.

Cumulative voting
A system of voting that grants per share the number of votes equaling the number of directors to be elected. For example, if three directors are to be elected, each share has three votes, which a shareholder can cast to a certain candidate or a group of candidates at his option. It enhances participation of small shareholders. It is applied automatically in the absence of a provision prohibiting the cumulative voting in the articles of incorporation of a company.

Dioxin
A very stable chemical product generated as a result of an incomplete combustion of chlorine-based chemical compound during various combustions at waste-burning incinerators, paper mills, steelmaking, electricity generation, heating and transportation. It bio-accumulates along the food chain. It is known that a man intakes about 97-99% of dioxin through food, and the remaining 1-3% through respiration.

Dust
A general name for minute solid particles and for finely divided matter. Airborne dust is considered as an aerosol and can have a strong, local radiative forcing on the atmosphere and significant effects on the climate and human body. Some dust particle entering into the lungs or other respiratory organs may cause damage. It also has negative impacts on plants by blocking sunlight and eventually do harm to animals that eat them through food chain.

Ecological industrial complex
An industrial complex that links companies and develops and manages the overall complex as a clean production system from the perspective of the industrial ecology, which applies the natural ecology to the industry.

Energy efficiency
Ratio of energy production and energy input in the conversion process, or energy production ratio of a system.

Ergonomics
A branch of science that researches from the perspectives of medical science, psychology, physics, engineering and other scientific areas to design machinery that fits physiological and psychological nature of a human being.

Fugitive dust
Dust particle that is produced when matter is mechanically processed. It also means dust that spreads in the air without being treated by certain discharging equipment at transportation, storage, and plant facilities.

Global Reporting Initiative (GRI)
An international organization for developing and spreading globally applicable sustainability reporting guidelines. Various stakeholders covering business, research institute, non-government organizations, and financial institutions participate. It was established in 1997 by Coalition for Environmentally Responsible Economies (CERES), and later became independent in 2002. GRI is an official collaborating center of United Nations Environmental Programme and has a partnership with Global Compact.

Greenhouse gas
Greenhouse gases are gaseous components in the atmosphere that contribute to the greenhouse effect. According to Kyoto Protocol, carbon dioxide, nitrogen dioxide, methane, SF₆, HFCs and PFCs are defined as greenhouse gases.

Hydro-forming
Newly developed technology for making complicate auto parts. Steel is made in the tube shape and then it is formed to a part shape by strong water pressure, rather than welded after processed with various forms of press.

Kyoto Protocol
A protocol adopted at the Third Conference of Parties of the UN Framework Convention on Climate Change held in Kyoto in 1997. It includes legally binding obligations in addition to the matters of implementation included in the Framework Convention on Climate Change. The Kyoto Protocol went into force on February 16, 2005. It sets the targets for reduction of greenhouse gas emissions from industrial countries, and stipulates that the volume of collective emission by industrial nations shall be reduced by 5.2% of that of 1990 between 2008 and 2012.

Light Source
The equipment that accelerates the particle that generates the light. When the electronic beam accelerated to the speed almost approaching that of the light changes direction, it creates a very strong light of narrow spread.

Matching grant
A system where, if employees donate money to help poor neighborhood, the company additionally provides an equivalent amount.

Montreal Protocol
The Montreal Protocol on Substances that Deplete the Ozone Layer was adopted in Montreal in 1987, and later amended in London [1990], Copenhagen [1992], Vienna [1995], Montreal (1997) and Beijing [1999]. The protocol regulates the manufacture and consumption of CFCs, methyl chloroform, carbon tetrachloride and other various chlorine and brome compound that destroy the ozone layer.
Near miss
A situation where an occupational injury almost occurred. Originally it is a terminology describing an unusual approach of airplanes short of collision.

Nitrogen oxides
Compounds of nitrogen and oxygen, including NO$_2$, NO, N$_2$O, and N$_2$O$_3$. Usually exist as gas. They are produced in manufacturing using nitric acid and from exaust gas of vehicles. Nitrogen oxides and hydrocarbon play important roles, through photochemical reaction with the ultraviolet rays, in ozone formation. They cause bronchitis and asthma, with symptoms of cough, tears, phlegm and dyspnoea.

Ozone (O$_3$)
Gas in dim blue color with fishy smell. It is formed from O$_2$ by electrical discharges in the atmosphere, and by radiation from the Sun in the stratosphere. The concentration level is around 0.01-0.05 ppm in the atmosphere. Nine out of ten persons can smell as much as 0.02 ppm of ozone. If exposed for longer hours in 3 ppm, lung hemorrhage and pulmonary edema could occur. It gets attention as a main culprit of photochemical smog. With its strong oxidation, it is possible to purify water, to eliminate color and taste, and to conduct deodorization. It is harmful in the concentration of 0.1-0.3 ppm, though small amount is not harmful.

PM-10 (particle dust)
Dust or particle dust whose largest diameter is less than 10$\mu$m. There are natural and artificial causes for the dust. Major natural causes are soil and rock erosion, and biological source such as pollen. Artificial causes are exhaust fumes from diesel engine vehicles and gasoline cars, industrial boiler, coal fuelled power generator, wood combustion and mining / construction activities.

Slag
By-product formed in smelting metals or ores, and other metallurgical or combustion processes. In steelmaking process, it floats on top of a molten pool of iron, minimizing re-oxidation on the surface. There are blast furnace slag and steel slag. Slag can be used in cement, concrete, as road base material and fertilizer.

Sulfur oxides (SO$_X$)
Toxic gas with no color. It is generated when sulfur contained in fuels is combined with the oxygen in the air, and is one of the main air pollutant. Main culprits of it are the gases generated from metal refinery, thermoelectric power plants that use heavy oil, heating and air-conditioning facilities, and other plants/buildings that use petroleum, coal, and natural gas combustion. It is a main culprit of air pollution and also responsible for acid rain.

Supply chain environmental management
An approach through which companies work with their suppliers to improve the environmental performance of products or manufacturing processes of the suppliers. It transfers the know-how of a company to the supply chain, thus facilitating environmental management of suppliers.

Suspended solids (SS)
Matter that is not dissolved in water, with diameter less than 2 mm.

Tailor welded blank (TWB)
A series of technologies for making parts by cutting and welding steel of various thickness and quality to be pressing molded. Compared to the conventional method by which vehicle parts are made by cutting sheets first, being molded and then being put together using spot welding, TWB technology is a method in which the vehicle parts are made by welding cut board and then molding as a unit.

Toxicity equivalent quantity (TEQ)
Emission of each factor multiplied by toxicity factors equivalent to 2378-TCDD (toxicity equivalence factor; TEF).

United Nations Framework Convention on Climate Change (UNFCCC)
A convention adopted in New York on May 9, 1992, and ratified by more than 150 sovereigns and the European Union at the Earth Summit held in Rio de Janeiro in 1992. The purpose of the convention is to stabilize the concentration of the greenhouse gases in the atmosphere to the level preventing dangerous human interference with the climate system.

Voluntary Agreement (VA)
An agreement aimed at achieving the target energy saving level and reduction of the greenhouse gas, executed between corporations that produce, supply and consume energy and the government, based on mutual trust. Under the scheme, a company sets and performs realistic targets, and the government provides tax support and other incentives to assist the achievement of the target. It is a non-regulatory system that provides active support for the corporate efforts to achieve the targets.

Votes in writing
A system of voting that permits shareholders to exercise their voting rights in writing. Considering that shareholders of a large company are widely distributed, so that they feel difficulty to exercise the voting rights by attending the shareholder meetings, or to appoint an agent with the proxy, the system was introduced in December 1999 in order to more accurately reflect the intention of shareholders.

Workplace wastes
Generic terms for waste materials related to industrial and business activities including ash, sludge, waste oil, waste acid, waste alkali and waste plastic. Industrial wastes include general waste that is similar in the shape to household waste, and specified waste that contains toxic material such as heavy chemical waste.
Communication Sheet of Sustainability Report 2004

POSCO cares about your opinion regarding this sustainability report. Please state your feelings and opinions with regards to the report and send it to us, so that we can improve the sustainability report in the future.

Please fax this form to +82-2-3457-1998 after answering the following questionnaires. Optionally, you can answer the same questionnaire on the internet (www.posco.co.kr).

1. Were you able to find what you were looking for in this report? If not, please write down what you wanted in this report.

2. Which part of the report was the most useful for you?

3. If you have anything that you wish to be included in a future edition, please tell us.

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Forward-looking Statements

The POSCO Sustainability Report 2004 contains forward-looking statements to provide value-added account of our sustainability activities. These forward-looking statements reflect our current views with respect to future events and performance, and are generally identified by the use of forward-looking terminology such as ‘will’, ‘anticipate’, ‘believe’, ‘intend’, ‘should’, ‘plan’, and other similar expressions. Such statements are included in the discussion of our business strategies and operations, performance goals and targets, and research and development projects, among other things. In addition to the foregoing factors, detailed description of certain risks and uncertainties, which can cause actual results to differ materially, can be found in the section captioned ‘Risk Factors’ in our annual Form 20-F filed with the US Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s current analysis of future events. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Contact

CSM Team is responsible for overall sustainability activities: establishing strategy and plan, publishing sustainability reports, conducting internal and external communication and monitoring ongoing sustainability activities. This report has been developed with the cooperation of Business Management Department, Environment & Energy Department, Corporate Ethics Department, Finance Department, Finance Management Department, Human Resources Department, and Labor & Welfare Department. As we gain and apply our growing knowledge of sustainability structure and function, we expect to continuously improve our systematic approach to organizational process and reporting. We look forward to opinions and recommendations from readers.

We welcome any comments or inquiries.

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For a hardcopy of our Sustainability Report, please visit our website www.posco.co.kr, where you can get more information on Sustainability Report, Annual Report, and Fact Book.

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