

POSCO
Form 20-F
June 28, 2005

Table of Contents

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

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.**

**Form 20-F
ANNUAL REPORT PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004
Commission file number 1-13368**

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

The Republic of Korea
(Jurisdiction of incorporation or organization)

**Finance Division
POSCO Center
892 Daechi-4-dong
Gangnam-gu
Seoul, Korea**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Class	Name of each exchange on which registered
American Depositary Shares, each representing one-fourth of one share of common stock	New York Stock Exchange, Inc.
Common Stock, par value Won 5,000 per share	New York Stock Exchange, Inc.*

**Securities registered or to be registered pursuant to Section 12(g) of the Act.
None**

(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
\$300,000,000 7¹/₈% Notes due 2006**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

80,503,664 shares of common stock, par value Won 5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

**(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PAST FIVE YEARS)**

Edgar Filing: POSCO - Form 20-F

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

* Not for trading, but only in connection with the registration of the American Depositary Shares.

Table of Contents**TABLE OF CONTENTS**

	Page
<u>Glossary</u>	1
<u>PART I</u>	2
<u>Item 1.</u>	<u>Identity of Directors, Senior Managers and Advisors</u>
	2
	<u>Item 1A.</u> Directors and Senior Management
	2
	<u>Item 1B.</u> Advisers
	2
	<u>Item 1C.</u> Auditors
	2
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>
	2
<u>Item 3.</u>	<u>Key Information</u>
	2
	<u>Item 3A.</u> Selected Financial Data
	2
	<u>Item 3B.</u> Capitalization and Indebtedness
	5
	<u>Item 3C.</u> Reasons for Offer and Use of Proceeds
	5
	<u>Item 3D.</u> Risk Factors
	5
<u>Item 4.</u>	<u>Information on the Company</u>
	9
	<u>Item 4A.</u> History and Development of the Company
	9
	<u>Item 4B.</u> Business Overview
	9
	<u>Item 4C.</u> Organizational Structure
	22
	<u>Item 4D.</u> Property, Plants and Equipment
	22
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>
	23
	<u>Item 5A.</u> Operating Results
	24
	<u>Item 5B.</u> Liquidity and Capital Resources
	32
	<u>Item 5C.</u> Research and Development, Patents and Licenses, Etc.
	36
	<u>Item 5D.</u> Trend Information
	37
	<u>Item 5E.</u> Off-balance Sheet Arrangements
	37
	<u>Item 5F.</u> Tabular Disclosure of Contractual Obligations
	37
<u>Item 6.</u>	<u>Directors, Senior Management and Employee</u>
	37
	<u>Item 6A.</u> Directors and Senior Management
	37
	<u>Item 6B.</u> Compensation
	41
	<u>Item 6C.</u> Board Practices
	42
	<u>Item 6D.</u> Employees
	44
	<u>Item 6E.</u> Share Ownership
	45
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>
	47
	<u>Item 7A.</u> Major Shareholders
	47
	<u>Item 7B.</u> Related Party Transactions
	47
	<u>Item 7C.</u> Interests of Experts and Counsel
	48
<u>Item 8.</u>	<u>Financial Information</u>
	48
	<u>Item 8A.</u> Consolidated Statements and Other Financial Information
	48
	<u>Item 8B.</u> Significant Changes
	49

Table of Contents

	Page
<u>Item 9.</u>	<u>The Offer and Listing</u> 49
	<u>Item 9A.</u> Offer and Listing Details 49
	<u>Item 9B.</u> Plan of Distribution 52
	<u>Item 9C.</u> Markets 52
	<u>Item 9D.</u> Selling Shareholders 56
	<u>Item 9E.</u> Dilution 56
	<u>Item 9F.</u> Expenses of the Issuer 56
<u>Item 10.</u>	<u>Additional Information</u> 56
	<u>Item 10A.</u> Share Capital 56
	<u>Item 10B.</u> Memorandum and Articles of Association 56
	<u>Item 10C.</u> Material Contracts 61
	<u>Item 10D.</u> Exchange Controls 61
	<u>Item 10E.</u> Taxation 65
	<u>Item 10F.</u> Dividends and Paying Agents 71
	<u>Item 10G.</u> Statements by Experts 71
	<u>Item 10H.</u> Documents on Display 71
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 71
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u> 73
<u>PART II</u>	81
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u> 81
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u> 81
<u>Item 15.</u>	<u>Controls and Procedures</u> 81
	<u>Item 16A.</u> Audit Committee Financial Expert 81
	<u>Item 16B.</u> Code of Ethics 81
	<u>Item 16C.</u> Principal Accountant Fees and Services 82
	<u>Item 16D.</u> Exemptions from the Listing Standards for Audit Committees 82
	Purchases of Equity Securities by the Issuer and Affiliated
	<u>Item 16E.</u> Purchasers 83
<u>PART III</u>	84
<u>Item 17.</u>	<u>Financial Statements</u> 84
<u>Item 18.</u>	<u>Financial Statements</u> 84
<u>Item 19.</u>	<u>Exhibits</u> 84
<u>EX-8.1 LIST OF SUBSIDIARIES</u>	
<u>EX-12.1 CEO CERTIFICATION PURSUANT TO SECTION 302</u>	
<u>EX-12.2 CFO CERTIFICATION PURSUANT TO SECTION 302</u>	
<u>EX-13.1 CEO & CFO CERTIFICATION PURSUANT TO SECTION 906</u>	
<u>EX-15.1 CONSENT OF SAMIL PRICEWATERHOUSECOOPERS</u>	

Table of Contents

GLOSSARY

ADR	American Depositary Receipt evidencing ADSs.
ADR depositary	The Bank of New York.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
Australian Dollar or A\$	The currency of the Commonwealth of Australia.
common stock	Common stock, par value Won 5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of September 26, 1994, among POSCO, the ADR Depositary and all holders and beneficial owners from time to time of ADRs issued thereunder, as amended by amendment no. 1 thereto dated June 25, 1997.
Dollars, \$ or US\$	The currency of the United States of America.
Government	The government of the Republic of Korea.
Yen or JPY	The currency of Japan.
Korean GAAP	Generally accepted accounting principles in the Republic of Korea.
Gwangyang Works	Gwangyang Steel Works.
We	POSCO.
Pohang Works	Pohang Steel Works.
Republic	The Republic of Korea.
Securities Act	The United States Securities Act of 1933, as amended.
Securities Exchange Act	The United States Securities Exchange Act of 1934, as amended.
SEC	The United States Securities and Exchange Commission.
tons	Metric tons (1,000 kilograms), equal to 2,204.6 pounds.
U.S. GAAP	Generally accepted accounting principles in the United States.
Won or W	The currency of the Republic of Korea.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Table of Contents

PART I

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

Item 1A. *Directors and Senior Management*

Not applicable

Item 1B. *Advisers*

Not applicable

Item 1C. *Auditors*

Not applicable

Item 2. *Offer Statistics and Expected Timetable*

Not applicable

Item 3. *Key Information*

Item 3A. *Selected Financial Data*

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

Table of Contents**INCOME STATEMENT DATA**

For the Year Ended December 31,

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

BALANCE SHEET DATA

As of December 31,

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

Edgar Filing: POSCO - Form 20-F

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

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

3

Table of Contents

- (2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.
- (3) Includes donations to educational foundations supporting basic science and technology research. See Item 5. Operating and Financial Review and Prospects Item 5C. Research and Development, Patents and Licenses, Etc. and Note 24 of Notes to Consolidated Financial Statements.
- (4) See Note 26 of Notes to Consolidated Financial Statements for method of calculation.
- (5) A description of the material differences between Korean GAAP and U.S. GAAP as well as the reconciliation to U.S. GAAP are discussed in detail in Note 33 of Notes to Consolidated Financial Statements.
- (6) Working capital means current assets minus current liabilities.
- (7) Reflects revaluations of assets permitted under Korean law.
- (8) Net of current portion and discount on debentures issued.
- (9) For information regarding swap transactions entered into by us, see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Exchange Rate Fluctuations and Note 22 of Notes to Consolidated Financial Statements.
- (10) Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date and resulting translation gains and losses are recognized in current operations. See Notes 2 and 27 of Notes to Consolidated Financial Statements.
- (11) Translated into U.S. Dollars at the rate of Won 1,035.10 to US\$1.00, the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2004. This translation should not be construed as a representation that the Korean Won amounts represent, have been, or could be converted to U.S. Dollars at that rate or any other rate.

EXCHANGE RATE INFORMATION

The following table sets out information concerning the noon buying rate for the periods and dates indicated.

Period	At End of Period	Average Rate(1)	High	Low
		(per US\$1.00)		
2000	1,267.0	1,140.0	1,267.0	1,105.5
2001	1,313.5	1,293.4	1,369.0	1,234.0
2002	1,186.3	1,242.0	1,332.0	1,160.6
2003	1,192.0	1,183.0	1,262.0	1,146.0
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005 (through June 24)	1,013.5	1,009.8	1,058.0	997.0
January	1,026.9	1,038.0	1,058.0	1,024.0
February	1,000.9	1,023.1	1,044.0	1,000.9
March	1,015.4	1,007.8	1,023.9	997.5
April	997.0	1,010.1	1,019.0	997.0
May	1,005.0	1,001.8	1,009.0	997.0
June (through June 24)	1,013.5	1,009.6	1,016.0	1,003.0

Source: Federal Reserve Bank of New York.

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

4

Table of Contents

We have translated the Won amounts into Dollars in this prospectus solely for your convenience. We make no representation that the Won or Dollar amounts contained in this prospectus could have been or could be converted into Dollar or Won, as the case may be, at any particular rate or at all.

Item 3B. Capitalization and Indebtedness

Not applicable

Item 3C. Reasons for Offer and Use of Proceeds

Not applicable

Item 3D. Risk Factors

You should carefully consider the risks described below.

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

We are incorporated in Korea, and substantially all of our operations and assets are located in Korea. In addition, Korea is our most important market, accounting for 74.2% of our total sales volume of steel products in 2004. Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automobile, electrical appliances and downstream steel processors, and the Korean economy in general. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea.

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

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

financial problems relating to *chaebols*, or Korean conglomerates, and their suppliers;

failure or lack of progress in restructuring of *chaebols* and other large troubled companies or the financial sector, including credit card companies;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain *chaebols*;

a slowdown in consumer spending;

adverse changes or volatility in foreign currency reserve levels, commodity prices, exchange rates, interest rates or stock markets;

adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;

the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of manufacturing base from Korea to China);

Table of Contents

social and labor unrest;

a decrease in tax revenues and a substantial increase in the Korean government's expenditures for unemployment compensation and other social programs that, together, would lead to an increased government budget deficit;

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

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

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

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

hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil; and

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

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

Our export sales accounted for 25.8% of our total sales volume for steel products in 2004. Our export sales to Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 76.9% of our total export sales volume for steel products in 2004, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, especially companies in the construction, shipbuilding, automobile, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with addition of new steel production capacity, particularly in China and India, may also reduce export prices in Dollar terms of our principal products. We attempt to maintain and expand our export sales to generate foreign currency receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could increase our foreign exchange risks.

Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on the results of our operations and on the price of the ADSs.

Depreciation of the Won may materially affect the results of our operations because, among other things, it causes: an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 53.4% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2004;

an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated primarily in Dollars; and

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

Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations.

Table of Contents

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the Stock Market Division of the Korea Exchange (formerly the Korea Stock Exchange) and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the Dollar conversion by the depository for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

We are dependent on imported raw materials.

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. In 2004, we imported approximately 42 million tons of iron ore and 21 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations.

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

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

Consolidation in the global steel industry may increase competition.

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

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

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

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

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

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

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

If you surrender your ADRs to withdraw shares of our common stock, you may not be allowed to deposit the shares again to obtain ADRs.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary's custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (i) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Item 10. Additional Information Item 10D. Exchange Controls.

You may not be able to exercise preemptive rights for additional shares of common stock and may suffer dilution of your equity interest in us.

The Commercial Code of Korea and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the ADR depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The ADR depositary, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the Securities Act is in effect with respect to those shares; or

Table of Contents

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and may suffer dilution of your equity interest in us.

This annual report contains forward-looking statements that are subject to various risks and uncertainties.

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, project, should, and similar expressions. Our statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

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

We were established by the Government on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The Government owned more than 70% of our equity until 1988, when the Government reduced its ownership of our common stock to 35% through a public offering and listing our shares on the Stock Market Division of the Korea Exchange. In July 1998, the Government announced its intention to sell all of our common stock owned directly by it or indirectly through The Korea Development Bank. In December 1998, the Government sold all of our common stock it owned directly, and The Korea Development Bank completed the sale of our shares that it owned in September 2000. The Government no longer holds any direct interest in us, and our outstanding common stock is currently held by individuals and institutions. See Item 7. Major Shareholders and Related Party Transactions Item 7A. Major Stockholders.

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

Item 4B. Business Overview**The Company**

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

Table of Contents

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

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

Business Strategy

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

Continue to Seek Investment Opportunities Abroad and Establish Global Production Base

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

Develop Leading Technology to Increase Sales of Higher Margin, Higher Value-Added Products and Enhance Quality of Our Products

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

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

Table of Contents

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

Capitalize on e-commerce Opportunities to Enhance Profitability and Operating Efficiency

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

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

We recently completed the implementation of Six Sigma programs as part of our company-wide process for innovation and enhancing efficiency of operations and launched POSPIA, our integrated management program. We reoriented our business transaction processes, including purchase of raw materials and sale of goods, to focus on our customers and established a computerized resource management system. The company-wide inventory and product classification and data standardization system have substantially cut operational inefficiencies and enhanced our cost-effectiveness. Production scheduling lead time has fallen from 60 days to 15 days, allowing us to shorten our delivery time for hot rolled steel from 30 days to 14 days. In addition, by sharing inventory and cost information in real time, we have shortened the period required to prepare monthly financial accounting data from six days to one. We will continue to seek new opportunities to implement our company-wide process innovation and increase our efficiency and cost-effectiveness.

Continue to Expand Our Export Customer Base

Although supplying the Korean domestic market is our priority, we intend to continue to supply a significant amount of our products to customers in overseas markets. Our export and overseas sales represented 25.8% of our total sales volume in 2004, with 76.9% of our export and overseas sales volume to customers in nearby Asian markets in 2004. We intend to further strengthen our global market position by cultivating relationships with our existing overseas customers and assertively seeking out prospective new customers in the emerging markets for steel products. Our exports to China, in particular, have expanded in recent years and we expect our exports to China to continue to grow. Our export sales provide a foreign currency hedge by generating foreign currency that can be used to service our foreign currency debt and to purchase key raw materials, most of which we source from overseas. Maintaining strong relationships with major export customers also provides us with the flexibility to reallocate sales to foreign markets in periods when domestic demand is weak.

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

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

Table of Contents

Selectively Seek Opportunities in Growth Industries

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

Major Products

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

hot rolled products;

plates;

wire rods;

cold rolled products;

silicon steel sheets; and

stainless steel products.

Table of Contents

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

Year Ended December 31,

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

Year Ended December 31,

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

Others	1,578	5.5	1,455	4.8	1,518	5.0	1,100	3.5	1,926	6.1
Total	28,875	100.0	30,065	100.0	30,333	100.0	30,657	100.0	31,796	100.0

The sales revenues and sales volumes in the tables above represent the steel product sales of our consolidated entities which are steel-related companies but do not include the non-steel product sales of these entities. They include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products. The sales of steel products purchased from third parties amounted to approximately 1.4 million tons in 2000, 1.3 million tons in 2001, 1.2 million tons in 2002, 1.4 million tons in 2003 and 1.0 million tons in 2004, accounting for Won 644 billion in 2000, Won 657 billion in 2001, Won 511 billion in 2002, Won 679 billion in 2003 and Won 699 billion in 2004, respectively.

Hot Rolled Products

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

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

Table of Contents

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

Plates

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

Our deliveries of plates amounted to 3.4 million tons in 2004, representing 10.6% of our total steel sales volume. The Korean market accounted for 3.1 million tons or 91.3% of our plate sales in 2004, representing a domestic market share of approximately 39.9%. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

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

Wire Rods

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

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

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

Cold Rolled Products

Cold rolled coils and further refined galvanized cold rolled products are used mainly in the automobile industry to produce car body panels. Other users include the household goods, electrical appliances, engineering and metal goods industries.

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

Cold rolled products constitute our second product category in terms of sales volume and revenue. Sales of cold rolled products in recent years had experienced growth due to increasing demand for higher quality products in the automobile, electrical appliances and other industries. In 2004, our sales volume of cold rolled products increased by 4.8% compared to 2003 primarily due to an increase in demand from the automobile industry.

Silicon Steel Sheets

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

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

Table of Contents

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

Stainless Steel Products

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

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

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

Others

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

Markets

Korea is our most important market. Domestic sales represented 74.2% of our total steel sales volume in 2004. Exports and overseas sales by our overseas subsidiaries represented 25.8% of our total sales volume in 2004. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent, to expand our international market presence and to earn foreign exchange.

Domestic Market

The total Korean market for steel products amounted to 47.2 million tons in 2004. We sold a total of 23.6 million tons of steel products in Korea in 2004, maintaining an overall domestic market share of 50.0% for such period.

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

Year Ended December 31,

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

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

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

Table of Contents

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

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

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

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

We sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. Local distribution companies and sales affiliates sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors in each important product area.

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

Exports

Exports and sales of steel products by our overseas subsidiaries represented 25.8% of our total sales volume of steel products in 2004, 76.9% of which was generated in Asia. Our exports in terms of sales volume decreased by 14.0% to 8.2 million tons in 2004, primarily as a result of an increase in domestic demand. The tables below set out our exports and sales of steel products by our overseas subsidiaries in terms of sales volume by geographical market and by product for the periods indicated.

Year Ended December 31,

Region	2000		2001		2002		2003		2004	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
China	2,798	31.7	2,976	32.4	2,828	30.6	3,510	36.8	3,138	38.3
Asia (other than China and Japan)	1,994	22.6	1,965	21.4	2,414	26.1	2,259	23.7	1,502	18.3
Japan	2,136	24.2	2,040	22.2	1,780	19.3	1,719	18.0	1,661	20.3
North America	1,094	12.4	665	7.2	978	10.6	715	7.5	737	9.0
Europe	285	3.2	313	3.4	294	3.2	236	2.5	116	1.4

Edgar Filing: POSCO - Form 20-F

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

Table of Contents**Year Ended December 31,**

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

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

Year Ended December 31,

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

The above tables include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products.

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

Year Ended December 31,

1999	2000	2001	2002	2003
------	------	------	------	------

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

Source: International Iron and Steel Institute.

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

We distribute our export products mostly through Korean trading companies and our overseas sales subsidiaries. Our largest export market in 2004 was China, which accounted for 38.3% of our export volume of steel products, including sales by our overseas subsidiaries. The principal products exported to China are cold rolled products and stainless steel products. Our exports to China amounted to 2.8 million tons in 2002, 3.5 million tons in 2003, and 3.1 million tons in 2004. Exports to China increased by 24.1%

Table of Contents

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

To offset the slowdown in the economies of Asian countries in the late 1990s, we focused our efforts on increasing exports to the United States and Europe during that period. However, from 1999 to 2004, sales volume to these regions decreased and remained at low levels, primarily due to anti-dumping proceedings and our decision to export to Asian countries other than Japan that have higher profit margins. As a result, sales volume to the United States and Europe decreased to 853 thousand tons in 2004, representing only 10.4% of our export volume of steel products.

A significant part of our sales in North America are made to USS-POSCO Industries (UPI), a 50-50 joint venture between U.S. Steel Corporation and us. We sell hot rolled products to UPI, which uses such products to manufacture cold rolled and galvanized steel products for sale in the United States. Our sales to UPI were 686 thousand tons in 2002, 539 thousand tons in 2003 and 641 thousand tons in 2004, accounting for approximately 70% of our sales to North America in 2002, 75% in 2003 and 75% in 2004.

In the United States, a number of our products have been subject to anti-dumping and countervailing proceedings since 1992. As a result of these proceedings, our sales of corrosion resistant steel are subject to a countervailing duty of 1.15% and a dumping duty of 2.34%, our sales of stainless steel plates are subject to a dumping duty of 1.19% and our sales of stainless steel sheets are subject to a dumping duty of 0.92%.

In China, we are subject to a dumping duty of 11.0% on our sales of stainless cold rolled steel since December 2000. However, we entered into a suspension agreement in December 2000 with China and agreed to certain price undertakings. Since then, we have been exporting certain types of stainless cold rolled steel products to China that are exempt from such dumping duty.

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

Pricing Policy

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market. We charge domestic end-users and domestic manufacturers a uniform price for our products, although we offer discounts to domestic customers who buy large volumes of our steel products.

Our export prices can fluctuate considerably over time, depending on market conditions and other factors. The export prices of our higher value-added steel products in the largest markets must be competitive with the prices charged by our Japanese competitors. Export prices in Dollar terms increased in 2002 as the United States, China and the European Union announced their safeguard measures on key steel products to provide relief to their domestic steel manufacturers, demand for steel products increased in China and the prices of raw materials used in steel production generally increased in Dollar terms. Export prices in Dollar terms, after stabilizing in the first half of 2003, increased in the second half of

Table of Contents

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

Raw Materials***Steel Production***

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We import all of the coal and virtually all of the iron ore that we use. In 2004, we imported approximately 42 million tons of iron ore and 21 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia.

In 2004, we purchased most of our iron ore and coal imports pursuant to long-term contracts. We purchased approximately 12% of our iron ore and coal imports in 2004 from foreign mines in which we have made an investment. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. The long-term contracts require us to purchase a minimum amount of the relevant raw materials each year, and to date the minimum purchase amounts have been equivalent to about 10% to 20% of our total yearly purchases under these contracts. We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

The prices of coal and iron ore increased substantially in 2004. The average price of coal per ton (including transportation costs) increased from \$48.55 in 2002 to \$49.12 in 2003 and \$72.02 in 2004. The average price of iron ore per ton (including transportation costs) increased from \$24.15 in 2002 to \$26.10 in 2003 and \$31.96 in 2004. We currently do not depend on any single country or supplier for our coal or iron ore.

In April 2002, we entered into an agreement with BHP Billiton, Itochu Corporation and Mitsui Corporation and invested A\$16.3 million to establish the largest iron ore development project in Australia. We have a 20% interest in the project, while BHP Billiton, Itochu and Mitsui have 65%, 8% and 7% interests, respectively. We are obligated under the agreement to purchase 3.0 million tons of iron ore each year, representing approximately 8% of our total annual iron ore procurement amount, for twenty-five years starting in 2003. The purchase price will be determined based on the global market price at the time of purchase. We purchased 2.4 million tons of iron ore from this development project in 2004.

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

Stainless Steel Production

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

Table of Contents***Transportation***

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

The Steelmaking Process

Our major production facilities, Pohang Works and Gwangyang Works, produce steel by the basic oxygen steelmaking method. The stainless steel plant at Pohang Works produces stainless steel by the electric arc furnace method. Continuous casting improves product quality by imparting a homogenous structure to the steel. Pohang Works and Gwangyang Works produce all of their products through continuous casting.

Steel Basic Oxygen Steelmaking Method

First, molten pig iron is produced in a blast furnace from iron ore, which is the basic raw materials used in steelmaking. Molten pig iron is then refined into molten steel in converters by blowing pure oxygen at high pressure to remove impurities. At this stage, steel scrap may be added to increase the volume of molten steel produced. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, molten steel is made into semi-finished products such as slabs, blooms or billets at the continuous casting machine. Slabs, blooms and billets are produced at different standardized sizes and shapes. Slabs, blooms and billets are semi-finished lower margin products that we either use to produce our further processed products or sell to other steelmakers that produce further processed steel products.

Slabs are processed to produce hot rolled coils products at hot strip mills or to produce plates at plate mills. Hot rolled coils are an intermediate stage product that may either be sold to our customers as various finished products or be further processed by us or our customers into higher value-added products, such as cold rolled sheets and silicon steel sheets. Blooms and billets are processed into wire rods at wire rod mills.

Stainless Steel Electric Arc Furnace Method

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel slabs are produced at a continuous casting mill. The slabs are processed at hot rolling mills into stainless steel hot coil, which can be further processed at cold strip mills to produce stainless cold rolled steel products.

Competition***Domestic Market***

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

Table of Contents

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitor in Korea is INI Steel Company, an electric-furnace steel producer with annual crude steel production of 7.7 million tons in 2004. INI Steel was spun-off from Hyundai Group in August 2000. In October 2004, INI Steel acquired Hanbo Steel, which has an annual production capacity of 1.8 million tons of hot rolled products and 1.2 million tons of steel bars.

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

Export Markets

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

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

Joint Venture and Other Investments

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

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

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

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

Table of Contents

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

Diversification

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

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

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

Insurance

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

Item 4C. Organizational Structure

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

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

Table of Contents**Item 4D. Property, Plants and Equipment**

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

Pohang Works

Construction of Pohang Works began in 1970 and ended in 1983. Currently, Pohang Works has an annual crude steel and stainless steel production capacity of 13.3 million tons. Pohang Works produces a wide variety of steel products. Products produced at Pohang Works include hot rolled sheets, plates, wire rods and cold rolled sheets, as well as specialty steel products such as stainless steel sheets and silicon steel sheets. These products can also be customized to meet the specifications of our customers.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 43 plants and 46 supporting facilities, including iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating ships as large as 250,000 tons for unloading raw materials, storage areas for up to 45 days supply of raw materials and separate docking facilities for ships carrying products for export. Pohang Works is equipped with an up-to-date computerized production-management system allowing constant monitoring and control of the production process.

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

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

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

Gwangyang Works

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

Gwangyang Works is comprised of 36 plants and 43 supporting facilities, including iron-making plants, steelmaking plants, continuous casting plants, hot strip mills and thin-slab hot rolling plants. The site also features docking and unloading facilities for raw materials capable of accommodating ships of as large as 300,000 tons for unloading raw materials, storage areas for 44 days supply of raw materials and separate docking facilities.

We believe Gwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Gwangyang Works has a completely automated, linear production system that enables the whole production process, from iron-making to finished products, to take place without interruption. This advanced system reduces the production time for hot rolled products to only four hours. Like Pohang

Table of Contents

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

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

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

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

The Environment

We believe we are in compliance with all applicable environmental laws and regulations. Our levels of pollution control are higher than those mandated by Government standards. We continue to voluntarily reduce emissions from our operations by using less Peruvian iron ore, using lower sulphur content oil, and modernizing anti-pollution facilities. We spent approximately Won 98 billion on anti-pollution facilities in 2004.

Item 5. Operating and Financial Review and Prospects**Item 5A. Operating Results**

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

Overview**Sales Volume, Prices and Product Mix**

In recent years, our net sales have been affected by the following factors:

the demand for our products in the Korean market and our capacity to meet that demand;

our ability to compete for sales in the export market;

price levels; and

our ability to improve our product mix.

Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automobile, electrical appliances and downstream steel processors, and the Korean economy in general.

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

Table of Contents

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

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

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

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

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed products. See Item 4. Information on the Company Item 4B. Business Overview Major Products.

Costs and Production Efficiency

Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases.

The table below sets out a breakdown of our total costs and operating expenses as a percentage of our net sales for the periods indicated.

	Year Ended December 31,		
	2002	2003	2004
	(percentage of net sales)		
Cost of goods sold	79.0%	75.6%	72.4%
Selling and administrative expenses(1)	6.7	6.0	5.4

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

Table of Contents

(1) See Note 23 of Notes to Consolidated Financial Statements.

Our production efficiency in recent years has continued to benefit from operation near or in excess of stated capacity levels. Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. We expect to increase our production capacity in the future when we increase our production capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. See Item 4. Information on the Company Item 4D. Property, Plants and Equipment.

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

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

(1) Includes sales by our consolidated sales subsidiaries of steel products purchased by them from third parties, including trading companies to which we sell steel products. These sales amounted to approximately 1.4 million tons in 2000, 1.3 million tons in 2001, 1.2 million tons in 2002, 1.4 million tons in 2003 and 1.0 million tons in 2004.

(2) Does not include in the calculation employees of our subsidiaries or subcontractors.

Exchange Rate Fluctuations

Exchange rate fluctuations also have affected our results of operations and liquidity in recent years. Foreign exchange translation gains and losses arise as a result of fluctuations in the rates of exchange of Won to the foreign currencies in which some of our assets and liabilities are denominated (primarily Dollars and Yen). Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 53.4% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2004;

an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated in Dollars; and

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

Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations. In terms of the average noon buying rate, the Won appreciated against the Dollar from a high in 2002 of Won 1,332.0 to US\$1 to Won 1,035.1 to US\$1 as of December 31, 2004. See Item 3. Key Information Exchange Rate Information.

We attempt to minimize our exposure to currency fluctuations by attempting to maintain export sales, which result in foreign currency receipts, at a level that covers foreign currency obligations to the extent

Table of Contents

feasible. As a result, a decrease in our export sales could increase our foreign exchange risks. From time to time we also enter into cross currency swap agreements in the management of our interest rate and currency risks and currency forward contracts with financial institutions to reduce the fluctuation risk of future cash flows. As of December 31, 2004, we had entered into one currency swap contract and four currency forward contracts. The net valuation gain of the above contracts was approximately Won 6.9 billion and the net transaction gain was Won 6.8 billion in 2004. We may incur losses under our existing swap transactions or any swap or other derivative product transactions entered into in the future. See Note 22 of Notes to Consolidated Financial Statements.

Impairment Loss on the No. 2 Mini-mill at Gwangyang Works

We started the construction of the no. 2 mini-mill at Gwangyang Works in 1997. Our board of directors decided in May 1998 to temporarily suspend the construction of the mini-mill due to the unstable economic condition in Korea and the Asia Pacific Region. As a result of unfavorable market conditions in the steel industry, the management's operation committee decided in April 2002 to cease the construction on the no. 2 mini-mill and instead use the buildings for the Tailor Welded Blank (TWB) project to manufacture custom-made automobile body panels. In June 2003, we amended our plan and determined that only some of the buildings of the mini-mill will be used for the TWB project. With the approval of our Board of Directors, we also decided to sell the machinery of the mini-mill to a third party. Accordingly, we recognized aggregate impairment losses associated with the no. 2 mini-mill in the amount of Won 391 billion as of December 31, 2003. In 2004, we recognized an additional impairment loss of Won 79 billion on buildings on related machinery recorded as other investment assets based on the estimated net selling price of Won 54 billion as of December 31, 2004. See Critical Accounting Estimates Impairment of Long-lived Assets and Note 8 of Notes to Consolidated Financial Statements.

Inflation

Inflation in the Republic, which was 2.7% in 2002, 3.6% in 2003 and 3.6% in 2004, has not had a material impact on our results of operations in recent years.

Critical Accounting Estimates

Our financial statements are prepared in accordance with Korean GAAP and reconciled to U.S. GAAP. The preparation of these financial statements under Korean GAAP as well as the U.S. GAAP reconciliation requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have identified the following areas where we believe assumptions and estimates are particularly critical to the financial statements:

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for exposures in our receivable balances that represent our estimate of probable losses in our short-term and long-term receivable balances. Determining the allowance for doubtful accounts requires significant management judgment and estimates including, among others, the credit worthiness of our customers, experience of historical collection patterns, potential events and circumstances affecting future collections and the ongoing risk assessment of our customers' ability to pay. Unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to change the timing of and make additional allowances to our receivable balances.

Table of Contents***Valuation of Investment Securities and Derivatives***

We invest in various financial instruments including debt and equity securities and derivatives. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our securities using quoted market prices when available, including quotes from dealers trading those securities. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics or discounted cash flows. The fair value of unlisted equity securities held for investment (excluding those of affiliates and subsidiaries) is based on the latest obtainable net asset value of the investees, which often reflects cost or other reference events. These fair values based on pricing and valuation models, discounted cash flow analysis, or net asset values are subject to various assumptions used which, if changed, could significantly affect the fair value of the investments.

When the fair value of a listed equity security or the net equity value of an unlisted equity security declines compared to acquisition cost and is not expected to recover (impaired investment security), the value of the equity security is adjusted to its fair value or net asset value, with the valuation loss charged to current operations. When the fair value of a held-to-maturity or an available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to its fair value with the resulting valuation loss charged to current operations.

As part of this impairment review, the investee's operating results, net asset value and future performance forecasts as well as general market conditions are taken into consideration. If we believe, based on this review, that the market value of an equity security or a debt security may realistically be expected to recover, the loss will continue to be classified as temporary. If economic or specific industry trends worsen beyond our estimates, valuation losses previously determined to be recoverable may need to be charged as a valuation loss in current operations.

Significant management judgment is involved in the evaluation of declines in value of individual investments. The estimates and assumptions used by our management to evaluate declines in value can be impacted by many factors, such as the financial condition, earnings capacity and near-term prospects of the company in which we have invested, the length of time and the extent to which fair value has been less than cost, and our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value. The evaluation of these investments is also subject to the overall condition of the economy and its impact on the capital markets. Any changes in these assumptions could significantly affect the valuation and timing of recognition of valuation losses classified as other than temporary.

Impairment of Long-lived Assets

The depreciable lives of long-lived assets are estimated and the assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. The recoverable amount is measured at the greater of net selling price or value in use. When the book value of long-lived asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a sharp decline in market value and the amount is material, the impairment of assets is recognized and the asset's carrying value is reduced to its recoverable value and the resulting impairment loss is charged to current operations. Such recoverable value is based on our estimates of the future use of assets which is subject to changes in market conditions.

Our estimates of the useful lives and recoverable values of long-lived assets are based on historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future cash flows are expected to be generated from continuing use of the assets that we review for impairment and cash outflows to prepare the assets for use

Table of Contents

that can be directly attributed or allocated on a reasonable and consistent basis. If applicable, estimates also include net cash flows to be received or paid for the disposal of the assets at the end of their useful lives. As a result of the impairment review, when the sum of the discounted future cash flows expected to be generated by the assets is less than the book value of the assets, we recognize impairment losses based on the recoverable value of those assets. We made a number of significant assumptions and estimates in the application of the discounted cash flow model to forecast cash flows, including business prospects, market conditions, selling prices and sales volume of products, costs of production and funding sources. Further impairment charges may be required if triggering events occur, such as adverse market conditions, suggesting deterioration in an asset's recoverability or fair value. Assessment of the timing of when such declines become other than temporary and/or the amount of such impairment is a matter of significant judgment. Results in actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets.

Operating Results*2004 Compared to 2003*

Our sales in 2004 increased by 34.8% to Won 23,973 billion from Won 17,789 billion in 2003, reflecting an increase of 30.5% in the average unit sales price per ton of our steel products and a 3.7% increase in the sales volume of our steel products.

Sales volume of stainless steel products, which accounted for 6.5% of total sales volume, showed the greatest increase among our major steel product categories in 2004 with an increase of 16.4%. Sales volume of plates, which accounted for 10.6% of total sales volume, increased by 11.1%. Sales volume of silicon steel sheets, which accounted for 2.2% of total sales volume, increased by 5.1%. In addition, sales volume of cold rolled products, which accounted for 32.2% of total sales volume, increased by 4.8%. On the other hand, sales volume of wire rods, which accounted for 7.9% of total sales volume, decreased by 9.9%, and sales volume of hot rolled plates, our largest product category in terms of sales volume which accounted for 34.5% of total sales volume, decreased by 4.8%. See Item 4. Information on the Company Item 4B. Business Overview Major Products.

Our domestic sales in 2004 increased by 38.3% in terms of total sales revenues and 11.7% in terms of sales volume of steel products compared to 2003. In 2004, our domestic sales accounted for approximately 74.2% of our total sales volume, compared to 68.9% in 2003. The increase in domestic sales revenues in 2004 compared to 2003 was attributable primarily to an increase in the price of steel products sold in Korea and, to a lesser extent, on an increase in domestic sales volume.

Our export sales in 2004 increased by 27.2% in terms of sales revenues and decreased by 14.0% in terms of sales volume compared to 2003. Exports as a percentage of total sales volume decreased to 25.8% of our total sales volume in 2004 compared to 31.1% in 2003. The increase in export sales in terms of sales revenues in 2004 compared to 2003 was primarily attributable to an increase in the price of steel products sold abroad, which outweighed the overall decrease in sales volume and the reduction in net sales in Won from export sales due to appreciation of the Won against the Dollar.

Gross profit in 2004 increased by 52.4% to Won 6,612 billion from Won 4,338 billion in 2003. Gross margin in 2004 increased to 27.6% from 24.4% in 2003, as the 34.8% increase in sales more than offset a 29.1% increase in cost of goods sold in 2004 to Won 17,361 billion from Won 13,451 billion in 2003. The increase in cost of goods sold was attributable primarily to increases in purchase of raw materials, as well as an increase in labor expenses resulting from higher performance bonuses. Raw materials costs in 2004 increased primarily as a result of a general increase in the unit costs of coal, iron ore, nickel and scrap metal, as well as an increase in our production of crude steel to 30.2 million tons in 2004 compared to 28.9 million tons in 2003. The average price of coal per ton (including all associated costs such as customs duties and transportation costs) increased from \$49.12 in 2003 to \$72.02 in 2004. The average price of iron ore per ton (including all associated costs such as customs duties and transportation costs) increased from \$26.10 in 2003 to \$31.96 in 2004.

Table of Contents

Operating income in 2004 increased by 63.0% to Won 5,319 billion compared to Won 3,263 billion in 2003. Operating margin increased to 22.2% in 2004 from 18.3% in 2003, as selling and administrative expenses increased by 20.2% in 2004 to Won 1,293 billion compared to Won 1,075 billion in 2003. The increase in selling and administrative expenses resulted principally from increases in transportation and storage expenses, provision for doubtful accounts and labor-related expenses. Our transportation and storage expenses in 2004 increased by 10.8% to Won 494 billion compared to Won 446 billion in 2003, primarily as a result of an increase in our transportation fees per ton, as well as an increase in the transportation volume. Our provision for doubtful accounts increased almost six-fold in 2004 to Won 54 billion from Won 9 billion in 2003 primarily as a result of a slowdown in the construction industry and an increase in reserve for doubtful receivables of POSCO Engineering & Construction Co., Ltd. Our labor-related expenses included in selling and administrative expenses, which consist of salaries, welfare expenses and provisions for severance benefits, increased by 16.1% to Won 278 billion in 2004 from Won 239 billion in 2003, primarily as a result of a Won 28 billion increase in welfare expenses, as well as higher wages and performance bonuses. Our welfare expenses increased in 2004 primarily as a result of our decision to sell 1,575,039 shares of treasury stock in 2004 to the employee stock ownership association, with the difference between the fair value and the proceeds being charged to welfare expenses.

Our net income in 2004 increased by 91.1% to Won 3,814 billion compared to Won 1,996 billion in 2003 as increases in operating income, net gain on foreign currency translation and gain on recovery of allowance for doubtful accounts and decreases in loss on impairment of property, plant and equipment and interest expense more than offset effects from increases in loss on impairment of investments and donations. We recorded net gain on foreign currency translation of Won 160 billion in 2004 compared to net loss on foreign currency translation of Won 112 billion in 2003 as the Korean Won appreciated in 2004 against the Dollar. Our gain on recovery of allowance for doubtful accounts in 2004 increased by almost ten-fold to Won 127 billion compared to Won 13 billion in 2003, primarily as a result of our recovery of Won 108 billion from settlement of liquidation dividends from POSVEN in 2004. Loss on impairment of property, plant and equipment decreased by 51.8% in 2004 to Won 73 billion from Won 151 billion in 2003, as impairment related to our no. 2 mini-mill in Gwangyang of Won 79 billion was treated as impairment of investments in 2004 whereas impairment related to the mini-mill of Won 151 billion in 2003 was treated as impairment of property, plant, and equipment, which effect more than offset recognition of impairment of property, plant and equipment of Won 63 billion on the building and land of our Japanese branch in 2004 compared to no such impairment in 2003. Our loss on impairment of investments in 2004 increased eight-fold to Won 95 billion from Won 12 billion in 2003, primarily as a result of impairment of investments of Won 79 billion in 2004 related to our decision to permanently cease construction of our mini-mill discussed above. Interest expense in 2004 decreased by 23.3% to Won 192 billion compared to Won 250 billion in 2003 due to our reduction in debt and a general decrease in interest rates. Our donations also increased by 64.3% in 2004 to Won 170 billion from Won 103 billion in 2003 as we contributed Won 58 billion in 2004 to employees' welfare fund.

Our effective tax rate in 2004 was 28.1% compared to 26.6% in 2003. The statutory income tax rate applicable to us, including resident tax surcharges, will decrease from 29.7% in 2003 and 2004 to 27.5% in 2005. See Note 25 of Notes to Consolidated Financial Statements.

2003 Compared to 2002

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

Sales volume of stainless steel products, which accounted for 5.8% of total sales volume, showed greatest increase among our major steel product categories in 2003 with 27.6%. Sales volume of silicon steel sheets, which accounted for 2.2% of total sales volume, increased by 13.9%. In addition, sales volume of cold rolled products and hot rolled products, our two largest product categories in terms of sales volume which accounted for an aggregate of 69.4% of total sales volume, increased by 2.8% and 0.5%, respectively. On the other hand, sales volume of other steel products, wire rods and plates, which accounted for an

Table of Contents

aggregate of 22.6% of total sales volume, decreased by 27.6%, 1.1% and 0.4%, respectively. See Item 4. Information on the Company Item 4B. Business Overview Major Products.

Our domestic sales in 2003 increased by 27.0% in terms of total sales revenues and 0.2% in terms of sales volume of steel products compared to 2002. In 2003, our domestic sales accounted for approximately 68.9% of our total sales volume compared to 69.5% in 2002. The increase in domestic sales revenues in 2003 compared to 2002 was attributable primarily to an increase in the price of steel products sold in Korea.

Our export sales in 2003 increased by 17.9% in terms of total sales revenues and 3.2% in terms of sales volume of steel products compared to 2002. Exports as a percentage of total sales volume increased to 31.1% in 2003 from 30.5% in 2002. The increase in export sales revenues in 2003 compared to 2002 was attributable primarily to an increase in the price of steel products sold abroad, as well as stronger demand for our products from China.

Gross profit in 2003 increased by 43.8% to Won 4,338 billion from Won 3,017 billion in 2002. Gross margin in 2003 increased to 24.4% from 21.0% in 2002, as the 23.9% increase in sales more than offset an 18.6% increase in cost of goods sold in 2003 to Won 13,451 billion from Won 11,338 billion in 2002. The increase in cost of goods sold was attributable primarily to increases in purchase of raw materials and depreciation, as well as an increase in labor expenses resulting from higher performance bonuses. Raw materials costs in 2003 increased primarily as a result of a general increase in the unit costs of nickel, scrap metal and iron ore, as well as an increase in our production of crude steel to 28.9 million tons in 2003 compared to 28.1 million tons in 2002. Including all associated costs such as customs duties and transportation costs, the average price of nickel per ton increased by 30.8% in 2003 and the average price of iron ore per ton increased by 2.1% in 2003. Effects from these increases more than offset results of a 2.8% decrease in the average price of coal per ton in 2003.

Operating income in 2003 increased by 59.2% to Won 3,263 billion compared to Won 2,050 billion in 2002. Operating margin increased to 18.3% in 2003 from 14.3% in 2002, as selling and administrative expenses increased by 11.2% in 2003 to Won 1,075 billion compared to Won 967 billion in 2002. The increase in selling and administrative expenses resulted principally from increases in transportation and storage expenses, labor-related expenses, research and development expenses and stock compensation expenses. Our transportation and storage expenses in 2003 increased by 10.1% to Won 446 billion compared to Won 405 billion in 2002, primarily as a result of an increase in our transportation fees per ton. Our labor-related expenses included in selling and administrative expenses, which consist of salaries, welfare expenses and provisions for severance benefits, increased by 14.9% to Won 239 billion in 2003 compared to Won 208 billion in 2002, primarily as a result of increases in wages and higher performance bonuses, as well as an increase in welfare expenses. In 2003, salaries increased by 9.3% to Won 142 billion compared to Won 130 billion in 2002 and welfare expenses increased by 22.1% to Won 76 billion compared to Won 62 billion in 2002. An increase of 39.9% in research and development expenses to Won 57 billion in 2003 from Won 41 billion in 2002 resulted primarily from our increased research activities on implementation of Six Sigma projects and commercialization of FINEX technology. Our stock compensation expenses in 2003 increased by 190.8% to Won 19 billion from Won 6 billion in 2002 primarily as a result of an increase in our share price in 2003.

Our net income in 2003 increased by 83.2% to Won 1,996 billion compared to Won 1,089 billion in 2002 as an increase in operating income and decreases in other bad debt expense, loss on valuation of equity method investments and interest expense more than offset decreases in gain on foreign currency translations and gain on foreign currency transactions, as well as an increase in donations. We did not recognize any other bad debt expense in 2003 compared to Won 178 billion in 2002 and our loss on valuation of equity method investments in 2003 decreased by 96.5% to Won 5 billion from Won 129 billion in 2002. In 2002, we recognized bad debt expense of Won 133 billion and valuation loss of Won 135 billion from the liquidation of POSVEN. Our interest expense in 2003 decreased by 24.6% to Won 250 billion from Won 332 billion in 2002 as the interest rate paid on interest-bearing liabilities generally decreased in 2003 compared to 2002. Gain on foreign currency translations in 2003 decreased by 95.0% to

Table of Contents

Won 6 billion from Won 129 billion in 2002 and gain on foreign currency transactions in 2003 decreased by 36.1% to Won 84 billion from Won 132 billion in 2002. Our donations in 2003 increased by 105.8% to Won 103 billion from Won 50 billion in 2002, primarily as a result of a donation of Won 51 billion to our employees' welfare fund in 2003.

Our effective tax rate in 2003 was 26.6% compared to 26.4% in 2002. See Note 25 of Notes to Consolidated Financial Statements.

Item 5B. Liquidity and Capital Resources

The following table sets forth the summary of our cash flows for the periods indicated:

	Year Ended December 31,		
	2002	2003	2004
	(in billions of Won)		
Net cash provided by operating activities	W 3,213	W 3,499	W 4,946
Net cash used in investing activities	2,146	2,135	3,380
Net cash used in financing activities	1,178	1,046	1,650
Cash and cash equivalents at beginning of period	407	268	594
Cash and cash equivalents at end of period	268	594	488
Net increase (decrease) in cash and cash equivalents	(139)	326	(106)

Capital Requirements

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets and payments of long-term debt. Net cash used for investing activities was Won 2,146 billion in 2002, Won 2,135 billion in 2003 and Won 3,380 billion in 2004. These amounts included purchases of property, plant and equipment of Won 1,689 billion in 2002, Won 1,299 billion in 2003 and Won 2,265 billion in 2004. We recorded net acquisition of trading securities of Won 603 billion in 2002, Won 81 billion in 2003 and Won 64 billion in 2004. We also recorded net acquisition of available-for-sale securities of Won 8 billion in 2002, Won 493 billion in 2003 and Won 167 billion in 2004. In our financing activities, we used cash of Won 1,578 billion in 2002, Won 1,317 billion in 2003 and Won 1,125 billion in 2004 for principal repayments of outstanding long-term debt. We used Won 91 billion in 2002, Won 263 billion in 2003 and Won 305 billion in 2004 for the repurchase of our shares from the market as treasury stock.

We anticipate that capital expenditures and repayments of outstanding debt will represent the most significant uses of funds for the next several years. From time to time, we may also require capital for investments involving acquisitions and strategic relationships. Our total capital expenditures were Won 2,265 billion in 2004 and, under current plans, are estimated to increase to approximately Won 4,100 billion in 2005 to maintain our competitive strengths and develop higher margin, higher value-added products. We retain the ability to reduce or suspend our planned capital expenditures. However, our failure to undertake planned expenditures on steel-producing facilities could adversely affect the modernization of our production facilities and our ability to produce more higher value-added products.

In addition to our funding requirements relating to our capital investment program, payments of the principal of and interest on indebtedness will require considerable resources. Principal repayment obligations with respect to long-term debt outstanding as of December 31, 2004 are Won 1,186 billion in 2006, Won 134 billion in 2007, Won 664 billion in 2008 and Won 27 billion in 2009. Long-term debt maturing after December 31, 2009 is Won 47 billion. In addition, as of December 31, 2004, we had short-term borrowings of Won 658 billion and current portion of long term debt of Won 1,046 billion. We expect to repay these obligations primarily through cash provided by operations and additional borrowings.

We paid dividends on common stock in the amount of Won 214 billion in 2002, Won 326 billion in 2003 and Won 525 billion in 2004.

Table of Contents

The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2004.

Contractual Obligations	Total	Payments due by Period			
		Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
(in billions of Won)					
Long-term debt obligations	3,104	1,046	1,984	74	
Capital lease obligations	5	2	3		
Operating leases obligations	18	13	5		
Purchase obligations	(a)	(a)	(a)	(a)	(a)
Other long-term liabilities					
Total	3,127	1,061	1,992	74	

- (a) Our purchase obligations include long-term contracts to purchase iron ore, coal, nickel, chrome, stainless steel scrap and liquefied natural gas. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2004, 147 million tons of iron ore and 112 million tons of coal remained to be purchased under long-term contracts.

Capital Resources

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

Our major sources of cash have been net earnings before depreciation and amortization and proceeds of long-term debt and other long-term liabilities, and we expect that these sources will continue to be our principal sources of cash in the future. Net income before depreciation and amortization were Won 2,543 billion in 2002, Won 3,564 billion in 2003 and Won 5,381 billion in 2004, and cash proceeds from long-term debt were Won 647 billion in 2002, Won 656 billion in 2003 and Won 280 billion in 2004. Cash proceeds in 2003 included Won 578 billion we raised through the disposition of 1,696,428 shares of SK Telecom to Zeus (Cayman), an exempted company formed with limited liability under the laws of the Cayman Islands. This disposition was effected in conjunction with Zeus (Cayman) s issuance of notes exchangeable into SK Telecom ADSs, whose notes are fully and unconditionally guaranteed by us. Total long-term debt, including current portion and excluding discount on debentures issued, was Won 4,537 billion as of December 31, 2002, Won 3,989 billion as of December 31, 2003 and Won 3,104 billion as of December 31, 2004.

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

Our total shareholders equity increased from Won 11,820 billion at December 31, 2002 to Won 16,386 billion at December 31, 2004. This growth is attributable primarily to growth in retained earnings.

Liquidity

Our liquidity is affected by exchange rate fluctuations. See [Overview](#) [Exchange Rate Fluctuations](#). Approximately 33.6% of our sales in 2002, 32.0% of our sales in 2003 and 30.2% of our sales in 2004 were denominated in foreign currencies, of which approximately two-thirds were denominated

Table of Contents

in Dollars and one-third in Yen and which were derived almost entirely from export sales. As of December 31, 2004, approximately 53.4% of our long-term debt (excluding discounts on debentures issued and including current portion) was denominated in foreign currencies, principally in Dollars and Yen. We have incurred foreign currency debt in the past principally due to the limited availability and cost of Won-denominated financing in the Republic, which had historically been higher than for Dollar or Yen-denominated financings.

Our liquidity is also affected by our construction expenditures and raw materials purchases. Cash used for purchases of property, plant and equipment was Won 1,689 billion in 2002, Won 1,299 billion in 2003 and Won 2,265 billion in 2004. We have entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. At December 31, 2004, 147 million tons of iron ore and 112 million tons of coal remained to be purchased under long-term contracts. We may face unanticipated increases in capital expenditures and raw materials purchases. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources which are sufficient for our unanticipated needs.

We had a working capital (current assets minus current liabilities) surplus of Won 1,695 billion as of December 31, 2002, Won 3,450 billion as of December 31, 2003 and Won 5,493 billion as of December 31, 2004. As of December 31, 2004, we had unused credit lines of approximately Won 1,331 billion out of total available credit lines of Won 632 billion. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

The following table sets forth the summary of our significant current assets for the periods indicated:

	As of December 31,		
	2002	2003	2004
	(in billions of Won)		
Cash and cash equivalents, net of government grants	W 267	W 593	W 486
Short-term financial instruments	258	695	641
Trading securities	1,192	1,321	2,690
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount	1,740	2,308	3,094
Inventories	1,671	2,068	3,066

Under Korean GAAP, bank deposits and all highly liquid temporary cash instruments within maturities of three months are considered as cash equivalents. Short-term financial instruments primarily consist of time and trust deposits with maturities between four to twelve months.

The following table sets forth the summary of our significant current liabilities for the periods indicated:

	As of December 31,		
	2002	2003	2004
	(in billions of Won)		
Trade accounts and notes payable	W 690	W 917	W 1,082
Short-term borrowings	588	732	658
Income tax payable	415	573	1,087
Current portion of long-term debt, net of discount on debentures issued	1,320	1,021	1,046

In January 2000, we reduced our period for payment of accounts receivable for all customers from a range of 70 days to 80 days to a range of 30 days to 60 days. We do not believe that these changes in the credit terms for our

customers has had or will have a material effect on our cash flows.

Table of Contents**Capital Expenditures and Capacity Expansion**

Our capital expenditures for 2002, 2003 and 2004 amounted to Won 1,689 billion, Won 1,299 billion and Won 2,265 billion, respectively.

Our current capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. Our total capital expenditures are estimated to be approximately Won 4,100 billion in 2005. The following table sets out the major items of our capital expenditures currently in progress:

Project	Expected Completion Date	Total Cost of Project	Estimated Remaining Cost of Completion as of December 31, 2004
(In billions of Won)			
Pohang Works:			
Construction of FINEX demonstration plant	December 2006	553	534
Extension of coke plant	September 2007	300	300
Rationalization of silicon steel mill (level 2)	March 2007	299	299
Second relining of no. 3 blast furnace	May 2006	264	264
Replacement of no. 2 hot rolled mill	June 2006	256	239
Replacement of no. 2 plate mill	November 2005	208	155
Installation of rolling equipment at no. 2 hot rolled mill	June 2006	154	154
Gwangyang Works:			
Construction of LNG terminal	June 2005	285	33
Installation of no. 5 continuous galvanizing line	October 2005	280	80
Installation of no. 6 continuous galvanizing line	June 2006	217	217
First relining of no. 2 blast furnace	May 2005	173	173
Installation of no. 3 and no. 4 coke dry quenching facility	August 2005	151	22

Significant Changes in Korean GAAP

In February 2004, the Korean Accounting Standards Boards issued Statements of Korean Financial Accounting Standards (SKFAS) No. 15, Equity Investment. This statement provides clarification that our proportionate unrealized profit arising from sales by us to equity method investees, sales by the equity method investees to us or sales between equity method investees should be eliminated. SKFAS No. 15 amends Interpretation No. 42-59 which prescribes that unrealized profit arising from sales by us to equity method investees should be fully eliminated. Under SKFAS No. 15, we also assess the potential impairment of investment securities in accordance with the accounting standards on impairment loss, when there is objective evidence. The provisions of this standard are effective prospectively for equity investments beginning on or after December 31, 2004. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

In June 2004, the Korea Accounting Standards Board issued SKFAS No. 16, Accountings for income taxes. SKFAS No. 16 provides clarification that deferred income tax on gain and losses on valuation of available-for-sale securities should be recognized. Under this statement, any changes in deferred income tax arising on initial classification of the equity component should be reflected in equity. SKFAS No. 16 amends SKFAS Interpretation No. 45-52 which does not require recognition of the aforementioned deferred income tax. In accordance with the nature of the equity component, accounting treatment should be provided based on the component's applicable guidance. The provisions of this standard are effective prospectively for available-for-sale securities beginning on or after December 31,

Table of Contents

2004. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

In October 2004, the Korea Accounting Standards Board issued SKFAS No. 17, Provision for Liabilities and Contingencies. SKFAS No. 17, which clarifies pre-KASB standard of Article 74, Contingencies, states that if the difference between nominal value and present value of provision for liabilities is considered material, expected expenses for performing duty should be valued at present value. Provision for liabilities should be used only for the intended purpose at initial recognition. The provisions of this standard are effective prospectively for liabilities beginning on or after December 31, 2004. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. For a discussion of the significant differences between Korean GAAP and U.S. GAAP, see Note 33 of Notes to Consolidated Financial Statements.

We recorded net income under U.S. GAAP of Won 3,460 billion in 2004 compared to net income of Won 1,997 billion in 2003 and Won 1,018 billion in 2002 primarily due to the factors discussed in Operating Results. Our net income under U.S. GAAP of Won 3,460 billion in 2004 is 9.3% lower than our net income under Korean GAAP of Won 3,814 billion. See Note 33(a) of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements in U.S. GAAP

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, Inventory Costs – an Amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 provides clarification that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. Additionally, this standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of this statement to have a material impact on our financial position or result of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets – an Amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 amends and clarifies accounting for exchanges of nonmonetary assets under Accounting Principles Board (APB) Opinion No. 29,

Accounting for Nonmonetary Transactions (APB 29). APB 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. We do not expect the adoption of this statement to have a material impact on our financial position or result of operations.

Item 5C. *Research and Development, Patents and Licenses, Etc.*

We maintain a research and development program to carry out basic research and applied technology development activities. Our technology development department works closely with the Pohang University of Science & Technology, Korea's first research-oriented college founded by us in 1986, and the Research Institute of Industrial Science and Technology, Korea's first private comprehensive research institute

Table of Contents

founded by us in 1987. At December 31, 2004, we employed a total of 169 researchers, including 126 with doctoral degrees.

In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. At December 31, 2004, the Technical Research Laboratory employed a total of 528 researchers, including 176 with doctoral degrees.

We recorded research and development expenses of Won 161 billion as cost of goods sold in 2002, Won 199 billion in 2003 and Won 206 billion in 2004, as well as research and development expenses of Won 41 billion as selling and administrative expenses in 2002, Won 57 billion in 2003 and Won 71 billion in 2004. In addition, we made donations to educational foundations supporting basic science and technology research, amounting to Won 38 billion in 2002, Won 39 billion in 2003 and Won 40 billion in 2004. We also donated Won 3 billion to Pohang University of Science & Technology, a university founded by us, in 2002 and an additional Won 2 billion in 2003 and Won 32 billion in 2004. See Note 24 of Notes to Consolidated Financial Statements.

Our research and development program has developed over two thousand patents and three thousand proprietary steel-related processes and technologies through December 31, 2004 and has successfully applied many of these to our manufacturing process.

Item 5D. *Trend Information*

These matters are discussed under Item 5A. and Item 5B. above where relevant.

Item 5E. *Off-balance Sheet Arrangements*

As of December 31, 2002, 2003 and 2004, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 5F. *Tabular Disclosure of Contractual Obligations*

These matters are discussed under Item 5B above where relevant.

Item 6. *Directors, Senior Management and Employees***Item 6A. *Directors and Senior Management*****Board of Directors**

Our board of directors has the ultimate responsibility for the management of our business affairs. Under our articles of incorporation, our board is to consist of six directors who are to also act as our executive officers (Standing Directors) and nine directors who are to be outside directors (Outside Directors). Our shareholders elect both the Standing Directors and Outside Directors at a general meeting of shareholders. Candidates for Standing Director are recommended to shareholders by the board of directors after the board reviews such candidates' qualifications and candidates for Outside Director are recommended to the shareholders by a separate board committee consisting of three Outside Directors and one Standing Director (the Director Candidate Recommendation Committee) after the committee reviews such candidates' qualifications. Any shareholder holding an aggregate of 0.5% or more of our outstanding shares with voting rights for at least six months may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

Our board of directors maintains the following six sub-committees:

the Director Candidate Recommendation Committee;

the Evaluation and Compensation Committee;

Table of Contents

the Finance and Operation Committee;

the Executive Management Committee;

the Audit Committee; and

the Insider Trading Committee.

Our board committees are described in greater detail below under Item 6C. Board Practices.

Our articles of incorporation require that the Standing Directors include one Chairman and one President, each of whom is to serve as a Representative Director. Under the Commercial Code and our articles of incorporation, each of Representative Director is authorized to represent us in activities relating to our business.

Standing Directors

Our current Standing Directors are:

Name	Position	Division	Years as director	Years with POSCO	Age	Expiration of term of office
Lee, Ku-Taek	Chairman and Representative Director		15	36	59	February 2007
Kang, Chang-Oh	President and Representative Director		10	34	62	February 2006
Ryoo, Kyeong-Ryul	Senior Executive Vice President	General Superintendent, Pohang Works	4	31	57	February 2006
Yoon, Seok-Man	Senior Executive Vice President	Marketing, Corporate Communications and Secretary	2	28	56	February 2007
Lee, Youn	Senior Executive Vice President	Stainless Steel Division Manager, Stainless Steel Raw Materials Procurement Department	1	31	57	February 2008
Chung, Joon-Yang	Executive Vice President	General Superintendent, Gwangyang Works	2	30	57	February 2007

All Standing Directors are engaged in our business on a full-time basis.

Table of Contents**Outside Directors**

Our current Outside Directors are set out in the table below. Each of our Outside Directors meets the applicable independence standards set forth under the rules of the Korean Securities and Exchange Act of 1962 (the Securities and Exchange Act).

Name	Position	Principal Occupation	Years as director	Age	Expiration of term of office
Chevalier, Samuel F	Director	Former Vice Chairman, The Bank of New York	9	71	February 2006
Kim, E. Han	Director	Professor, University of Michigan	3	58	February 2008
Park, Young-Ju	Director	Chairman, Eagon Industrial Co., Ltd.	2	64	February 2006
Jun, Kwang-Woo	Director	Vice Chairman, Deloitte Group; Former Vice Chairman, Woori Financial Group	2	55	February 2007
Jones, Jeffrey D	Director	Attorney, Kim & Chang	2	52	February 2007
Suh, Yoon-Suk	Director	Dean of Division of Business Administration, Ewha Woman s University	2	50	February 2006
Park, Won-Soon	Director	Executive Director, Beautiful Foundation	2	49	February 2007
Sun, Wook	Director	Former President & CEO, Samsung Human Resources Development Center	1	60	February 2008
Ahn, Charles	Director	Former President & CEO, AhnLab, Inc.	1	43	February 2008

Each director s term expires at the close of the ordinary general meeting of shareholders convened in respect of the fiscal year ending on or before the third anniversary of the commencement of such director s tenure.

Table of Contents**Senior Management**

In addition to the Standing Directors who are also our executive officers, we have the following executive officers:

Name	Position	Division	Years with POSCO	Age
Kim, Dong-Jin	Senior Executive Vice President	POSCO China President	31	58
Cho, Sung-Sik	Executive Vice President	Corporate Strategic Planning Dept., Investment Management Dept., India Project Dept., China Project Dept.	31	54
Choi, Jong-Tae	Executive Vice President	Human Resources Dept., Labor and Welfare Dept., MRO Procurement Dept., Plant and Equipment Procurement Dept., General Administration Dept., Outside Services Dept.	31	55
Kim, Sang-Ho	Executive Vice President	Legal Affairs	3	51
Choi, Jong-Doo	Executive Vice President	Cold Rolled Steel Sales Dept., Automotive Flat Panel Sales Dept., Coated Steel Sales Dept.	28	58
Hur, Nam-Suk	Executive Vice President	Technical Research Laboratories, FINEX Research and Development Project Dept., POSTRIP R&D Project Dept.	31	55
Kim, Chang-Ho	Senior Vice President	Education and Training Center	30	58
Oh, Chang-Kwan	Senior Vice President	Marketing Strategy Dept., Market Development Dept., Sales and Production Planning Dept.	28	52
Lee, Jeon-Young	Senior Vice President	Strategic Business Development Dept.	4	51
Kwon, Young-Tae	Senior Vice President	Coal Procurement Dept., Iron Ore Procurement Dept., Steel Raw Material Procurement Dept. Stainless Steel Raw Material Procurement Dept.	30	54
Chang, Hyun-Shik	Senior Vice President	LNG Project Dept.	5	54
Kwon, Oh-Joon	Senior Vice President	European Union Office	19	54
Chung, Dong-Hwa	Senior Vice President	Deputy General Superintendent, Gwangyang	29	53

Edgar Filing: POSCO - Form 20-F

Kim, Jin-Il	Senior Vice President	Works Innovation Strategy Planning Dept., Process Standardization Dept., Information System Dept.	30	52
Lee, Dong-Hee	Senior Vice President	Finance Dept., Finance Management Dept.	28	55
Lee, Sang-Young	Senior Vice President	Deputy General Superintendent, Gwangyang Works	27	55
Sung, Hyun-Uck	Senior Vice President	Deputy General Superintendent, Pohang Works	29	55
Park, Han-Yong	Senior Vice President	Corporate Ethics Dept., Audit Dept.	27	54
Chung, Keel-Sou	Senior Vice President	President of Zhangjiagang POSCO Stainless Steel	30	55

Table of Contents

Name	Position	Division	Years with POSCO	Age
Ha, Sang-Wook	Senior Vice President	Technology Development Dept., Knowledge Asset Dept., Environment & Energy Dept.	30	52
Kim, Sang-Young	Senior Vice President	Corporate Communication Dept.	19	53
Lee, Young-Suk	Senior Vice President	Stainless Steel Strategy Dept., Stainless Steel Sales Dept.	28	54
Kim, Sang-Myun	Senior Vice President	Deputy General Superintendent, Gwangyang Works	27	54
Lee, Kun-Soo	Senior Vice President	Deputy General Superintendent, Pohang Works	26	52
Park, Kee-Young	Senior Vice President	Wire Rod Sector Manager, Hot Rolled Steel Sales Dept., Plate and Wire Rod Sales Dept.	29	53
Lee, Kyu-Jeong	Senior Vice President	Hot Rolling Sector Manager, Production Order and Process Dept., Product Technology Dept., Small Lot Improvement Mega Y Project Dept.	27	53
Jang, Byung-Ki	Senior Vice President	MRO Procurement Dept., Plant and Equipment Procurement Dept.	27	54
Won, Jong-Hai	Vice President	President, Qingdao Pohang Stainless Steel Co., Ltd.	28	53
Kim, Tae-Man	Vice President	Human Resources Dept., Labor and Welfare Dept.	27	51
Cho, Jun-Gil	Vice President	Deputy General Superintendent, Pohang Works, Electrical Steel Sector Manager	28	53
Yoo, Kwang-Jae	Vice President	Stainless Steel Production and Technology	27	53
Yoon, Yong-Chul	Vice President	Deputy General Superintendent, Pohang Works	28	52
Cho, Noi-Ha	Vice President		28	52

		Deputy General Superintendent, Gwangyang Works, Cold Rolling Sector Manager, TWB Project Dept., Automotive Steel Mega Y Project Dept., Hydroforming Project Dept.		
Yoon, Yong-Won	Vice President	Iron and Steelmaking Facilities Investment Planning Dept., Rolling Facilities Investment Planning Dept.	27	53

Item 6B. Compensation

Compensation of Directors and Officers

We pay our Standing Directors salaries and bonuses as determined by shareholder resolutions. We may pay expenses incurred by our Outside Directors in the performance of their services. We may also pay our Outside Directors salaries if our shareholders resolve to do so. In addition, all executive officer compensation is approved by the Evaluation and Compensation Committee. The aggregate compensation (salaries, bonuses and allowances) paid and accrued to all Directors and executive officers was approximately Won 12.4 billion in 2004 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 2.7 billion in 2004.

Table of Contents

We have also granted stock options to our Directors and some of our executive officers. See Item 6E. Share Ownership for a list of stock options granted to our Directors and executive officers.

Item 6C. Board Practices**Director Candidate Recommendation Committee**

The Director Candidate Recommendation Committee comprises three Outside Directors, Kwang-Woo Jun (committee chair), Wook Sun and Charles Ahn, and one Standing Director, Seok-Man Yoon. The Director Candidate Recommendation Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. Any shareholder holding an aggregate of 0.5% or more of our outstanding shares with voting rights for at least six months may suggest candidates for Outside Directors to the committee.

Evaluation and Compensation Committee

The Evaluation and Compensation Committee comprises four Outside Directors, Yoon-Suk Suh (committee chair), Samuel F. Chevalier, Young-Ju Park and Won-Soon Park. The Evaluation and Compensation Committee's primary responsibilities include establishing evaluation procedures and incentive compensation for Directors and executive officers and executing such plans, as well as policies regarding our employee stock ownership plan.

Finance and Operation Committee

The Finance and Operation Committee is comprised of three Outside Directors, Young-Ju Park (committee chair), Kwang-Woo Jun and Charles Ahn, and two Standing Directors, Seok-Man Yoon and Youn Lee. This committee is an operational committee that oversees decisions with respect to finance and operational matters, including making assessments with respect to potential capital investments and evaluating prospective capital-raising activities.

Executive Management Committee

The Executive Management Committee comprises six Standing Directors: Ku-Taek Lee (committee chair), Chang-Oh Kang, Kyeong-Ryul Ryoo, Seok-Man Yoon, Youn Lee and Joon-Yang Chung. This committee oversees decisions with respect to our operational and management matters, including review of management's proposals of new strategic initiatives, as well as deliberation over critical internal matters related to organization structure and development of personnel.

Audit Committee

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. The Audit Committee may be composed of three or more directors; all members of the Audit Committee must be Outside Directors. Audit Committee members must also meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002. Members of the Audit Committee are elected by the shareholders at the ordinary general meeting of shareholders. We currently have an Audit Committee composed of four Outside Directors. Members of our Audit Committee are E. Han Kim (committee chair), Jeffrey D. Jones, Yoon-Suk Suh and Wook Sun.

The duties of the Audit Committee include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;
- reviewing annual financial statements;

Table of Contents

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of stockholders. Our internal and external auditors report directly to the Audit Committee. The committee holds regular meetings at least once each quarter, and more frequently as needed.

Insider Trading Committee

The Insider Trading Committee is comprised of four Outside Directors, E. Han Kim (committee chair), Jeffrey D. Jones, Yoon-Suk Suh and Wook Sun. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

Differences in Corporate Governance Practices

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences.

NYSE Corporate Governance Standards

POSCO's Corporate Governance Practice

Director Independence

Independent directors must comprise a majority of the board

Our articles of incorporation provide that our board of directors must comprise no less than a majority of Outside Directors. Our Outside Directors must meet the criteria for outside directorship set forth under the Securities and Exchange Act of Korea. The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), and 9 out of 15 directors are Outside Directors.

Nomination/ Corporate Governance Committee

Listed companies must have a nomination/ corporate governance committee composed entirely of independent directors

We have not established a separate nomination/ corporate governance committee. However, we maintain a Director Candidate Recommendation Committee composed of three Outside Directors and one Standing Director.

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors

We maintain an Evaluation and Compensation Committee composed of four Outside Directors.

Executive Session

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors

Our Outside Directors hold meetings solely attended by Outside Directors in accordance with operation guidelines of our board of directors.

Table of Contents

NYSE Corporate Governance Standards

Audit Committee

Listed companies must have an audit committee that is composed of more than three directors and satisfy the requirements of Rule 10A-3 under the Exchange Act

Shareholder Approval of Equity Compensation Plan

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines

Code of Business Conduct and Ethics

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers

Item 6D. Employees

At December 31, 2004, we had 27,919 employees, including 8,524 persons employed by our subsidiaries, almost all of whom were employed within Korea. Of the total number of employees, approximately 80% are technicians and skilled laborers and 20% are administrative staff. We use subcontractors for maintenance, cleaning and transport activities. We had 27,415 employees, including 8,042 persons employed by our subsidiaries, as of December 31, 2003 and 27,100 employees, including 7,931 persons employed by our subsidiaries, as of December 31, 2002. To improve operational efficiency and increase labor productivity, we plan to reduce the number of our employees in future years through natural attrition. However, we expect the number of persons employed by our subsidiaries in growth industries to increase in the future.

We consider our relations with our work force to be excellent. We have never experienced a work stoppage or strike. Wages of our employees are among the highest in Korea. In addition to a base monthly wage, employees receive periodic bonuses and allowances. Base wages are determined annually following consultation between the management and employee representatives, who are currently elected outside the framework of the POSCO labor union. A labor union was formed by our employees in June 1988. Union membership peaked at 19,026 employees at the beginning of 1991, but has steadily declined since then. At December 31, 2004, only 23 of our employees were members of the POSCO labor union.

POSCO's Corporate Governance Practice

We maintain an Audit Committee comprised of four Outside Directors who meet the applicable independence criteria set forth under Rule 10A-3 under the Exchange Act.

We currently have two equity compensation plans: one providing for the grant of stock options to officers and directors; and an Employee Stock Ownership Program. All material matters related to the granting stock options are provided in our articles of incorporation, and any amendments to the articles of incorporation are subject to shareholders' approval. Matters related to the Employee Stock Ownership Program are not subject to shareholders' approval under Korean law.

We have adopted a Corporate Governance Charter setting forth our practices with respect to relevant corporate governance matters. Our Corporate Governance Charter is in compliance with Korean law but does not meet all requirements established by the New York Stock Exchange for U.S. companies listed on the exchange. A copy of our Corporate Governance Charter is available on our website at www.posco.co.kr.

We have adopted a Code of Conduct for all directors, officers and employees. A copy of our Code of Conduct is available on our website at www.posco.co.kr.

Table of Contents

We maintain a retirement plan, as required by Korean labor law, pursuant to which employees terminating their employment after one year or more of service are entitled to receive a lump-sum payment based on the length of their service and their total compensation at the time of termination. We are required to transfer a portion of retirement and severance benefit amounts accrued by our employees to the National Pension Fund. The amounts so transferred reduce the retirement and severance benefit amounts payable to retiring employees by us at the time of their retirement. We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company-provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, and cultural and athletic facilities.

At December 31, 2004, our employees owned approximately 1.8% of our common stock through an employee stock ownership association.

Item 6E. Share Ownership**Common Stock**

The persons who are currently our Directors or executive officers held, as a group, 7,768 common shares as of December 31, 2004, the most recent date for which this information is available. The table below shows the ownership of our common shares by Directors and executive officers.

Shareholders	Number of common shares owned
Chang-Oh Kang	5,203
Chang-Kwan Oh	770
Keel-Sou Chung	708
E. Han Kim	400
Jin-Il Kim	190
Hyun-Shik Chang	107
Young-Suk Lee	105
Dong-Hwa Chung	53
Byung-Ki Jang	52
Sang-Wook Ha	40
Sang-Young Kim	40
Kun-Soo Lee	40
Oh-Joon Kwon	19
Kyung-Ryul Ryoo	17
Han-Yong Park	12
Youn Lee	2
Dong-Jin Kim	2
Jong-Doo Choi	2
Nam-Suk Hur	2
Chang-Ho Kim	2
Kee-Yeoung Park	2
Total	7,768

Table of Contents**Stock Options**

The following table sets forth information regarding the stock options we have granted to our Directors and executive officers, as well as those of our subsidiaries, as of December 31, 2004. With respect to all of the options granted, we may elect either to issue shares of common stock, distribute treasury stock or pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the date on which the options are granted and within seven years from the second anniversary of the issuance of such options. All of the stock options below relate to our common stock.

Directors	Grant Date	Exercise Period		Exercise Price	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
		From	To				
Ku-Taek Lee	July 23, 2001	7/24/2003	7/23/2008	98,900	45,184	0	45,184
	July 23, 2004	7/24/2006	7/23/2011	151,700	49,000	0	49,000
Chang-Oh Kang	July 23, 2001	7/24/2003	7/23/2008	98,900	18,074	0	18,074
	April 26, 2003	4/27/2005	4/26/2010	102,900	4,802	0	4,802
	July 23, 2004	7/24/2006	7/23/2011	151,700	24,500	0	24,500
Kyeong-Ryul Ryoo	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	3,000	6,037
	April 26, 2003	4/27/2005	4/26/2010	102,900	4,802	0	4,802
	July 23, 2004	7/24/2006	7/23/2011	151,700	4,900	0	4,900
Seok-Man Yoon	September 18, 2002	9/19/2004	9/18/2009	116,100	11,179	0	11,179
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Youn Lee	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	0	9,037
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	0	1,921
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Joon-Yang Chung	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	0	9,316
Samuel F. Chevalier	July 23, 2001	7/24/2003	7/23/2008	98,900	2,305	0	2,305
E. Han Kim	April 26, 2003	4/27/2005	4/26/2010	102,900	2,401	0	2,401
Young-Ju Park	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Kwang-Woo Jun	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Jeffrey D. Jones	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Yoon-Suk Suh	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862

Executive Officers	Grant Date	Exercise Period		Exercise Price	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
		From	To				
Dong-Jin Kim	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	0	9,037
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	0	1,921
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Sung-Sik Cho	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	0	9,037
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	0	1,921

Edgar Filing: POSCO - Form 20-F

Jong-Tae Choi	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	0	9,037
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	0	1,921
Jong-Doo Choi	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	0	9,316
Chang-Ho Kim	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	0	9,315
Nam-Suk Hur	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	0	9,316
Chang-Kwan Oh	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	0	9,316
Jeon-Young Lee	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	0	9,316
Young-Tae Kwon	September 18, 2002	9/19/2004	9/18/2009	116,100	9,316	0	9,316
Hyun-Shik Chang	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604
Oh-Joon Kwon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604

Table of Contents

Executive Officers	Grant Date	Exercise Period		Exercise Price	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
		From	To				
Dong-Hwa Chung	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604
Jin-Il Kim	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604
Dong-Hee Lee	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604
Sang-Young Lee	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604
Hyun-Uck Sung	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604
Han-Yong Park	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	0	9,604
Keel-Sou Chung	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Wook Ha	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Young Kim	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Young-Suk Lee	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Myun Kim	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Kun-Soo Lee	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Kee-Yeoung Park	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Kyu-Jeong Lee	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Byung-Ki Jang	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800

Item 7. Major Shareholders and Related Party Transactions**Item 7A. Major Shareholders**

The following table sets forth certain information relating to the shareholders of our common stock issued as of December 31, 2004.

Shareholders	Number of Shares Owned	Percentage
National Pension Corporation	3,084,186	3.54%
SK Telecom	2,481,310	2.85
Pohang University of Science and Technology	2,475,000	2.84
Directors and executive officers as a group	7,768	0.00
Public(1)	72,455,400	83.10
POSCO (held in the form of treasury stock)	5,771,161	6.62
POSCO (held through treasury stock fund)	912,010	1.05
Total issued shares of common stock	87,186,835	100.00%

(1) Includes 25,326,486 shares of common stock, representing 29.05% of the total issued shares of common stock, in the form of ADRs.

Item 7B. Related Party Transactions

We have issued guarantees of Won 403 billion as of December 31, 2002, Won 425 billion as of December 31, 2003 and Won 443 billion as of December 31, 2004, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. Please see Note 17 of Notes to

Consolidated Financial Statements.

As of December 31, 2002, 2003 and 2004, we had no loans outstanding to our executive officers and Directors.

Table of Contents**Item 7C. *Interests of Experts and Counsel*****Not Applicable****Item 8. *Financial Information*****Item 8A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-80.

Legal Proceedings***Claim against the Fair Trade Commission***

In December 2000, Hyundai HYSCO requested us to sell hot rolled coils which are necessary in manufacturing cold rolled coils used in the automobile industry to produce car body panels. In response to our refusal to sell hot rolled coils to Hyundai HYSCO, Hyundai Motors announced in January 2001 that it will reduce its purchase of cold rolled products from us. In addition, the Fair Trade Commission began an investigation into a potential anti-competitive action by us.

On April 12, 2001, the Fair Trade Commission determined that we were involved in anti-competitive action by refusing to sell our hot rolled coils to Hyundai HYSCO. In addition to issuing a suspension order, the Fair Trade Commission imposed on us a surcharge of Won 1.6 billion. We brought a claim against the Fair Trade Commission but the Seoul High Court rendered its decision against us in August 2002. We appealed to the Supreme Court of Korea in August 2002 and our petition for an injunction against the decision of the Fair Trade Commission was granted in October 2002 in our favor. We cannot predict the ultimate outcome of our appeal.

Anti-dumping and Countervailing Proceedings and Safeguard Measures

We have been subject to a number of anti-dumping and countervailing proceedings in the United States and China. The U.S. and China anti-dumping and countervailing proceedings have not had a material adverse effect on our business and operations. However, there can be no assurance that further increases in or new imposition of countervailing duties, dumping duties, quotas or tariffs on our sales in the United States or China may not have a material adverse effect on our exports to these regions in the future. See Item 4. Information on the Company Item 4B. Business Overview Markets Exports.

Except as described above, we are not involved in any pending or threatened legal or arbitration proceedings that may have, or have had during the last 12 months, a material adverse effect on our results of operations or financial position.

DIVIDENDS

The amount of dividends paid on our common stock is subject to approval at the annual general meeting of shareholders, which is typically held in February or March of the following year. In addition to our annual dividends, our board of directors is authorized to declare and distribute interim dividends once a year under our articles of incorporation. If we decide to pay interim dividends, our articles of incorporation authorize us to pay them in cash and to the shareholders of record as of June 30 of the relevant fiscal year. We may pay cash dividends out of retained earnings that have not been appropriated to statutory reserves.

Table of Contents

The table below sets out the dividends declared on our common stock to the holders of record at December 31 of the years indicated. A total of 87,186,835 shares of common stock were issued at the end of 2004. Of these shares, 80,503,664 shares were outstanding and 5,771,161 shares were held by us in treasury and 912,010 shares were held through our treasury stock fund. The dividends set out for each of the years below were paid in the immediately following year. The Dollar figures set out below are based on the exchange rates at each payment date.

Period

	Cash Dividends per Share of Common Stock	
2000	W 2,500	\$ 1.97
2001	2,500	1.90
2002	3,500	2.95
2003	6,000	5.10
2004	8,000	7.73

Owners of the ADSs are entitled to receive any dividends payable in respect of the underlying shares of common stock.

Historically, we have paid to holders of record of our common stock an annual dividend. However, we can give no assurance that we will continue to declare and pay any dividends in the future.

Item 8B. Significant Changes

Not Applicable

Item 9. The Offer and Listing**Item 9A. Offer and Listing Details****Market Price Information***Notes*

Our 7% notes due 2006 are traded in the over-the-counter market. Sales prices for the notes are not regularly reported on any exchange or other quotation service.

Common Stock

The principal trading market for our common stock is the Stock Market Division of the Korea Exchange. Our common stock, which is in registered form and has a par value of Won 5,000 per share, has been listed on the first section of the Stock Market Division of the Korea Exchange since June 1988 under the identifying code 005490. The table below shows the high and low trading prices and the average daily volume of trading activity on the Stock Market Division of the Korea Exchange for our common stock since January 1, 2000.

	Price		Average Daily Trading Volume
	High	Low	
	(in Won)		(number of shares)
2000			
First Quarter	149,500	99,800	517,296
Second Quarter	116,000	80,000	442,389

Edgar Filing: POSCO - Form 20-F

Third Quarter	93,500	75,100	307,953
Fourth Quarter	81,500	58,000	403,766

Table of Contents

	Price		Average Daily Trading Volume
	High	Low	
	(in Won)		(number of shares)
2001			
First Quarter	104,000	76,500	343,509
Second Quarter	118,000	85,000	240,070
Third Quarter	104,000	74,000	179,392
Fourth Quarter	81,500	127,000	259,027
2002			
First Quarter	117,500	160,000	303,579
Second Quarter	139,000	133,500	323,772
Third Quarter	130,000	309,501	106,500
Fourth Quarter	130,500	103,500	257,180
2003			
First Quarter	133,000	92,400	339,182
Second Quarter	127,000	97,500	300,224
Third Quarter	152,500	123,500	310,936
Fourth Quarter	163,000	345,274	131,500
2004			
First Quarter	181,000	156,000	312,764
Second Quarter	177,000	131,000	413,523
Third Quarter	184,000	145,000	241,698
Fourth Quarter	203,000	163,000	287,645
2005			
First Quarter	225,500	176,500	290,773
January	190,000	176,500	247,001
February	221,500	182,500	306,306
March	225,500	197,000	320,554
Second Quarter (through June 27)	203,000	174,508	300,722
April	203,000	179,500	313,528
May	188,000	174,580	316,581
June (through June 27)	187,000	178,000	320,281

ADSs

Our common stock is also listed on the New York Stock Exchange and the London Stock Exchange in the form of ADSs. The ADSs have been issued by The Bank of New York as ADR depository and are listed on the New York Stock Exchange under the symbol PKX. One ADS represents one-fourth of one share of common stock. As of December 31, 2004, 101,305,944 ADSs were outstanding, representing 25,326,486 shares of common stock. The outstanding ADSs, each of which represents one-fourth of one share of our common stock, are listed on the New York Stock Exchange and the London Stock Exchange.

Table of Contents

The table below shows the high and low trading prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs since January 1, 2000.

	Price		Average Daily Trading Volume
	High	Low	
	(in US\$)		(number of ADSs)
2000			
First Quarter	43.00	23.75	475,862
Second Quarter	26.25	19.19	509,135
Third Quarter	23.88	17.88	495,173
Fourth Quarter	18.19	14.06	578,037
2001			
First Quarter	22.39	17.75	384,677
Second Quarter	22.80	17.10	378,273
Third Quarter	18.83	13.60	260,559
Fourth Quarter	24.21	15.91	261,502
2002			
First Quarter	29.25	22.41	375,578
Second Quarter	30.64	23.50	354,997
Third Quarter	29.52	21.30	354,083
Fourth Quarter	27.40	21.20	268,748
2003			
First Quarter	28.66	18.46	324,841
Second Quarter	26.55	19.26	334,283
Third Quarter	32.49	26.08	262,191
Fourth Quarter	33.97	28.98	469,815
2004			
First Quarter	38.43	33.55	578,866
Second Quarter	39.50	27.26	1,013,306
Third Quarter	40.50	32.47	729,723
Fourth Quarter	48.49	35.99	764,192
2005			
First Quarter	55.65	41.16	866,448
January	45.60	41.46	823,705
February	55.08	44.43	785,057
March	55.65	47.06	975,595
Second Quarter (through June 27)	50.17	43.11	796,125
April	50.17	44.29	946,523
May	48.09	43.11	788,967
June (through June 27)	46.90	43.70	640,379

Table of Contents**Item 9B. Plan of Distribution****Not Applicable****Item 9C. Markets****The Korean Securities Market**

The Korea Stock Exchange began its operations in 1956. On January 27, 2005, the Korea Exchange was established pursuant to the Korea Exchange Act through the consolidation of the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc. (the KOSDAQ) and the KOSDAQ Committee within the Korea Securities Dealers Association, which was in charge of the management of the KOSDAQ. The Stock Market Division of the Korea Exchange (formerly the Korea Stock Exchange) has a single trading floor located in Seoul. The Korea Exchange is a limited liability company, the shares of which are held by (i) securities companies and futures companies that were the members of the Korea Stock Exchange or the Korea Futures Exchange and (ii) the stockholders of the KOSDAQ.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index (KOSPI) every thirty seconds, which is an index of all equity securities listed on the Stock Market Division of the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

	Opening	High	Low	Closing	Average Dividend Yield(1)(3)	Price Earnings Ratio(2)(3)
	(percent)					
1979	131.28	131.28	104.38	118.97	17.8	3.8
1980	100.00	119.36	100.00	106.87	20.9	2.6
1981	97.95	165.95	93.14	131.37	13.2	3.1
1982	123.60	134.49	106.00	127.31	10.5	3.4
1983	122.52	134.46	115.59	121.21	6.9	3.8
1984	116.73	142.46	114.37	142.46	5.1	4.5
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8

Table of Contents

	Opening	High	Low	Closing	Average Dividend Yield(1)(3)	Price Earnings Ratio(2)(3)
					(percent)	
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,013.57	1,016.77	847.09	882.94	1.2	16.4
1996	888.85	986.84	651.22	651.22	1.3	17.8
1997	653.79	792.29	350.68	376.31	1.5	17.0
1998	385.49	579.86	280.00	562.46	1.9	10.8
1999	587.57	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,059.04	1,059.04	500.60	504.62	1.6	18.6
2001	520.95	704.50	468.76	693.70	2.0	14.2
2002	724.95	937.61	584.04	627.55	1.4	17.8
2003	635.17	822.16	515.24	810.71	2.2	10.9
2004	821.26	936.06	719.59	895.92	2.1	15.8
2005 (through June 27)	896.00	1,023.34	866.17	999.11	2.5	

Source: The Stock Market Division of the Korea Exchange.

- (1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.
- (2) The price earnings ratio is based on figures for companies that record a profit in the preceding year.
- (3) Starting in April 2000, dividend yield and price earnings ratio of KOSPI 200, an index of 200 equity securities listed on the Stock Market Division of the Korea Exchange. Excludes classified companies, companies which did not submit annual reports to the Stock Market Division of the Korea Exchange, and companies which received disqualified opinions from external auditors.

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period; since the calendar year is the accounting period for the majority of companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Stock Market Division of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price (Won)	Rounded Down To (Won)
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50

50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared

Table of Contents

to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Stock Market Division of the Korea Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10. Additional Information Item 10E. Taxation Korean Taxation.

The number of companies listed on the Stock Market Division of the Korea Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(Millions of Won)	(Thousands of Dollars)(1)	Thousands of Shares	(Millions of Won)	(Thousands of Dollars)(1)
1979	355	2,609,414	5,391,351	5,382	4,579	4,641
1980	352	2,526,553	3,828,691	5,654	3,897	5,905
1981	343	2,959,057	4,224,207	10,565	8,708	12,433
1982	334	3,000,494	4,407,711	9,704	6,667	8,904
1983	328	3,489,654	4,386,743	9,325	5,941	7,468
1984	336	5,148,460	6,222,456	14,847	10,642	12,862
1985	342	6,570,404	7,380,818	18,925	12,315	13,834
1986	355	11,994,233	13,924,115	31,755	32,870	38,159
1987	389	26,172,174	33,033,162	20,353	70,185	88,584
1988	502	64,543,685	94,348,318	10,367	198,364	289,963
1989	626	95,476,774	140,489,660	11,757	280,967	414,431
1990	669	79,019,676	110,301,055	10,866	183,692	256,500
1991	686	73,117,833	96,182,364	14,022	214,263	281,850
1992	688	84,711,982	107,502,515	24,028	308,246	391,175
1993	693	112,665,260	139,419,948	35,130	574,048	676,954
1994	699	151,217,231	191,729,721	36,862	776,257	984,223
1995	721	141,151,399	182,201,367	26,130	487,762	629,614
1996	760	117,369,988	139,031,021	26,571	486,834	575,733
1997	776	70,988,897	50,161,742	41,525	555,759	392,707
1998	748	137,798,451	114,090,455	97,716	660,429	471,432
1999	725	349,503,966	305,137,040	278,551	3,481,620	3,039,654
2000	704	188,041,490	150,162,898	306,163	2,602,211	2,078,028
2001	689	255,850,070	194,784,979	473,241	1,997,420	1,506,685
2002	683	258,680,756	216,071,436	857,245	3,041,595	2,540,590
2003	684	355,362,626	298,123,294	385,852	2,026,774	1,700,314
2004	683	412,588,139	396,338,269	372,895	2,232,109	2,138,445
2005 (through June 27)	679	460,342,240	454,703,912	439,159	2,456,361	2,426,475

Source: The Stock Market Division of the Korea Exchange.

- (1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate as announced by the Seoul Money Brokerage Services Limited, as the case may be, at the end of the periods indicated.

Table of Contents

The Korean securities markets are principally regulated by the FSC and the Securities and Exchange Act. The Securities and Exchange Act was amended fundamentally numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the Securities and Exchange Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Stock Market Division of the Korea Exchange. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Stock Market Division of the Korea Exchange, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of all Korean companies which are not listed on the Stock Market Division of the Korea Exchange and in bonds which are not listed.

Protection of Customer's Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Korea Exchange and this securities company places a sell order with another securities company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company. Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

Table of Contents

Under the Securities and Exchange Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million per depositor per financial institution in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the Depositor Protection Act with the Korea Securities Finance Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

Item 9D. *Selling Shareholders***Not Applicable****Item 9E. *Dilution*****Not Applicable****Item 9F. *Expenses of the Issuer*****Not Applicable****Item 10. *Additional Information*****Item 10A. *Share Capital***

Currently, our authorized share capital is 200,000,000 shares, which consists of shares of common stock, par value Won 5,000 per share (Common Shares) and shares of non-voting stock, par value Won 5,000 per share (Non-Voting Shares). Common Shares and Non-Voting Shares together are referred to as Shares. Under our articles of incorporation, we are authorized to issue Non-Voting Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-half of our total issued and outstanding capital stock. As of December 31, 2004, 87,186,835 Common Shares were issued, of which 5,771,161 shares were held by us in treasury and an additional 912,010 shares were held by our treasury stock fund. We have never issued any Non-Voting Shares. All of the issued and outstanding Common Shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 3, 4, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Item 10B. *Memorandum and Articles of Association*

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the Korean Securities and Exchange Act, the Commercial Code and related laws of Korea, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the Securities and Exchange Act and the Commercial Code. We have filed copies of our articles of incorporation and these laws as exhibits to registration statements under the Securities Act or the Securities Exchange Act previously filed by us.

Table of Contents

Dividends

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The Common Shares represented by the ADSs have the same dividend rights as other outstanding Common Shares.

Holders of Non-Voting Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 9% of the par value of the Non-Voting Shares as determined by the board of directors at the time of their issuance. If the amount available for dividends is less than the aggregate amount of such minimum dividend, we do not have to declare dividends on the Non-Voting Shares.

We declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in Shares. However, a dividend of Shares must be distributed at par value. If the market price of the Shares is less than their par value, dividends in Shares may not exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, interim dividends pursuant to a board resolution once a fiscal year. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital and (2) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period. We may not pay an annual dividend unless we have set aside as legal reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. In addition, we are required under the Securities and Exchange Act and the relevant regulations to set aside as reserve a certain amount every fiscal year until our capital ratio is at least 30%. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to capital stock or use legal reserve to reduce an accumulated deficit.

Distribution of Free Shares

In addition to paying dividends in Shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Commercial Code, on the terms our board of directors may determine. All our shareholders are generally entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. We must offer new Shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' register as of the relevant record date. Under the Commercial Code, we may vary, without shareholders' approval, the terms of these preemptive rights for different classes of shares. We must give public notice of the preemptive rights regarding new Shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute Shares for which preemptive rights have not been exercised or where fractions of Shares occur.

Under our articles of incorporation, we may issue new Shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new Shares are:

publicly offered pursuant to the Securities and Exchange Act;

issued to members of our employee stock ownership association;

Table of Contents

represented by depositary receipts;

issued through offering to public investors, the amount of which is no more than 10% of the outstanding Shares;

issued to our creditors pursuant to a debt-equity swap;

issued to domestic or foreign corporations pursuant to a joint venture agreement or technology inducement agreement;

issued to domestic or foreign financial institutions when necessary for raising funds in emergency cases; or

issued upon exercise of stock options.

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 1,000 billion, to persons other than existing shareholders.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the Shares publicly offered pursuant to the Securities and Exchange Act. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2004, approximately 3.4% of the outstanding Shares were held by members of our employee stock ownership association.

General Meeting of Shareholders

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3% or more of our outstanding Shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Shares for at least six months; or

at the request of our audit committee.

Holders of Non-Voting Shares may request a general meeting of shareholders only after the Non-Voting Shares or Convertible Shares become entitled to vote or enfranchised, as described under Voting Rights below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of 1% or less of the total number of issued and outstanding voting Shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. Currently, we use *The Seoul Shinmun* published in Seoul, *The Maeil Shinmun* published in Taegu and *The Kwangju Ilbo* published in Kwangju for this purpose. Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of Non-Voting Shares or Convertible Shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders, but may attend such meetings.

Our general meetings of shareholders are held either in Pohang or Seoul.

Voting Rights

Holders of our Common Shares are entitled to one vote for each Common Share, except that voting rights of Common Shares held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. A recent amendment to the Commercial Code

Table of Contents

permitted cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting Shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting Shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting Shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting Shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

effecting our acquisition of all of the business of any other company; or

issuing any new Shares at a price lower than their par value.

In general, holders of Non-Voting Shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases which affect the rights or interests of the Non-Voting Shares, approval of the holders of Non-Voting Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Shares present or represented at a class meeting of the holders of Non-Voting Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Shares. In addition, if we are unable to pay dividends on Non-Voting Shares as provided in our articles of incorporation, the holders of Non-Voting Shares will become enfranchised and will be entitled to exercise voting rights until the dividends are paid. The holders of enfranchised Non-Voting Shares have the same rights as holders of Common Shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that the Government may give proxies to a designated public official and a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying Common Shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote the Common Shares underlying their ADSs.

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their Shares. To exercise this right, shareholders, including holders of Non-Voting Shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their Shares. We are obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily Share prices on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily Share price on the Korea Exchange for the one month period before the date of the adoption of the relevant resolution

Table of Contents

and (3) the weighted average of the daily Share price on the Korea Exchange for the one week period before such date of the adoption of the relevant resolution. However, the FSC may adjust this price if we or holders of 30% or more of the Shares we are obligated to purchase do not accept the purchase price. Holders of ADSs will not be able to exercise dissenters rights unless they have withdrawn the underlying common stock and become our direct shareholders.

Register of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders on presentation of the Share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 31 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the Shares, we may, on at least two weeks public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of Shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Securities and Exchange Act, we must file with the FSC and the Korea Exchange (1) an annual securities report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

Transfer of Shares

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates. However, to assert shareholders rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, Korean securities companies and banks, including licensed branches of non-Korean securities companies and banks, asset management companies, futures trading companies and internationally recognized foreign custodians and the Korea Securities Depository may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See Item 10. Additional Information Item 10D. Exchange Controls.

Our transfer agent is Kookmin Bank, located at 24-3, Yoido-dong, Youngdungpo-gu, Seoul, Korea.

Acquisition of Shares by Us

We may not acquire our own Shares except in limited circumstances, such as a reduction in capital. In addition, we may acquire Shares through purchases on the Korea Exchange or through a tender-offer. In addition, we may acquire interests in our own Shares through agreements with trust companies and

Table of Contents

asset management companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends, subject to certain procedural requirements.

Under the Commercial Code, except in the case of a reduction in capital, we must resell or transfer any Shares acquired by us from a third party within a reasonable time. In general, corporate entities in which we own more than 50% equity interest may not acquire our Shares. Under the Securities and Exchange Act, we are subject to certain selling restrictions for the Shares acquired by us. In the case of a reduction in capital, we must immediately cancel the Shares acquired by us.

Liquidation Rights

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of Non-Voting Shares and Convertible Shares have no preference in liquidation.

Item 10C. *Material Contracts*

None.

Item 10D. *Exchange Controls***Notes**

Korean law does not limit the right of non-Koreans to hold notes outside Korea. In order for us to issue the notes outside Korea, we are required to submit a report to the MOFE or our designated foreign exchange bank (depending on the aggregate issuance amount) with respect to the issuance of the notes. Furthermore, in order for us to make payments of principal of or interest on the notes and other amounts as provided in the indenture and the notes, each actual payment should be reviewed by a foreign exchange bank at the time of such actual payment. The purpose of this review is to ensure that the actual remittance amount is consistent with the amounts payable under the notes.

Under Korean law, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates, or exchange rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as suspending or restricting transactions involving foreign exchange or cross border payments (including payments of principal of an interest on the notes), requiring prior approval from the Minister of Finance and Economy for any such transactions or obligating a certain portion of the foreign investor's holdings to be deposited in Korea.

Shares and ADSs

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively the Foreign Exchange Transaction Laws) regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities only to the extent specifically allowed by these laws. The FSC has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Under the Foreign Exchange Transaction Laws, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as requiring foreign investors to obtain prior approval from the MOFE or obligating a certain portion of the foreign investors' holdings to be deposited in Korea.

Table of Contents**Government Review of Issuance of ADRs**

In order for us to issue shares represented by ADSs, we are required to file a prior report of the issuance with our designated foreign exchange bank or the MOFE, depending on the issuance amount. No further Korean governmental approval is necessary for the initial offering and issuance of the ADSs.

Under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We can give no assurance that we would grant our consent, if our consent is required.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of shares, whether in the form of shares or ADSs, certificates representing the rights to subscribe for Shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, the Equity Securities) together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status and the purpose (whether or not to exert an influence on management control over the issuer) of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the purpose of holding such ownership interest or a change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the FSC may issue an order to dispose of non-reported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company's shares accounts for 10% or more of the total issued and outstanding shares (a major stockholder) must report the status of his or her shareholding to the Korea Securities Futures Commission and the Korea Exchange within ten days after he or she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities and Futures Commission and the Korea Exchange within the 10th day of the month following the month in which the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service (the FSS) as described below. The acquisition of the shares by a foreigner must be immediately reported by the foreigner or his standing proxy in Korea to the Governor of the FSS (the Governor).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

Table of Contents**Restrictions Applicable to Shares**

Under the Foreign Exchange Transaction Laws and FSC regulations (together, the Investment Rules), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division of the Korea Exchange only through the Stock Market Division of the Korea Exchange, except in limited circumstances, including, among others:

odd-lot trading of shares;

acquisition of shares (Converted Shares) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends; and

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded with certain exceptions.

For over-the-counter transactions of shares between foreigners outside the Korea Exchange with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Exchange (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the MOFE. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; *provided, however*, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the securities company engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies, asset management companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters

Table of Contents

related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies, the Korea Securities Depository, asset management companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. We set this ceiling at 3% until the discontinuation of our designation as a public corporation on September 28, 2000. As a result, we currently do not have any ceiling on the acquisition of shares by a single person. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Korean banks authorized by the Foreign Investment Promotion Law. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened in the name of a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on Shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or his Won Account. Funds in the investor's Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Securities companies and investment trust companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these securities companies and investment trust companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, as a counterparty to foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Table of Contents**Item 10E. Taxation**

The following summary is based upon tax laws of the United States and the Republic of Korea as in effect on the date of this annual report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in the notes, shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:
a resident of Korea;

a corporation organized under Korean law; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Note*Taxation of Interest*

Under current Korean tax laws, when we make payments of interest to you on the notes, no amount will be withheld from such payments for, or on account of, any income taxes of any kind imposed, levied, withheld or assessed by Korea or any political subdivision or taxing authority thereof or therein.

Taxation of Capital Gains

Under specific exemptions granted under Korean tax law, you will not be subject to any Korean income or withholding taxes in connection with the capital gains from sale, exchange or other disposition of a note if (i) you transfer the note to another non-resident (other than to such transferee's permanent establishment in Korea) or (ii) you transfer the note to a resident or a non-resident of Korea (regardless of whether the transferees have a permanent establishment in Korea) by virtue of the Special Tax Treatment Control Law of Korea (the "STTCL"), provided that the issuance of the note outside Korea is deemed to be an overseas issuance under the STTCL. If you sell or otherwise dispose of a note through other ways than those mentioned above, any gain realized on the transaction will be taxable at ordinary Korean withholding tax rates (the lesser of, subject to the production of satisfactory evidence of the acquisition cost of, and certain direct transaction costs attributable to the disposal of, the relevant notes, 27.5% of the net gain or 11% of the gross sale proceeds), unless an exemption is available under an applicable income tax treaty. See the discussion under "Tax Treaties" below for an additional explanation on treaty benefits.

Inheritance Tax and Gift Tax

If you die while you are the holder of a note, the subsequent transfer of the notes by way of succession will be subject to Korean inheritance tax. Similarly, if you transfer a note as a gift, the donee will be subject to Korean gift tax and you may be required to pay the gift tax if the donee fails to do so.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Shares or ADSs*Dividends on the Shares of Common Stock or ADSs*

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced

Table of Contents

rate of Korean withholding tax. See the discussion under **Tax Treaties** below for an additional explanation on treaty benefits.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence may be submitted to us through the ADR depository. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be subject to Korean tax.

Taxation of Capital Gains

As a general rule, capital gains earned by non-residents upon the transfer of the common shares or ADSs would be subject to Korean withholding tax at a rate equal to the lesser of (i) 11% of the gross proceeds realized or (ii) 27.5% of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such common shares or ADSs), unless such non-resident is exempt from Korean income taxation under an applicable Korean tax treaty into which Korea has entered with the non-resident's country of tax residence. See the discussion under **Tax Treaties** below for an additional explanation on treaty benefits. Even if you do not qualify for any exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify for the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

With respect to shares of our common stock, you will not be subject to Korean income taxation on capital gains realized upon the transfer of such shares through the Korea Exchange if you (i) have no permanent establishment in Korea and (ii) did not own or have not owned (together with any shares owned by any entity with which you have a certain special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

With respect to ADSs, there are uncertainties as to whether ADSs should be viewed as securities separate from the shares of common stock underlying such ADSs or as the underlying shares themselves for capital gains tax purposes, as discussed in more detail in the following paragraph. However, in either case, you will be eligible for exemptions for capital gains available under Korean domestic tax law (in addition to the exemption afforded under income tax treaties) if certain conditions discussed below are satisfied.

Under a tax ruling issued by the Korean tax authority in 1995 (the 1995 tax ruling), ADSs are treated as securities separate from the underlying shares represented by such ADSs and, based on such ruling, (i) capital gains earned by you from the transfer of ADSs to another non-resident (other than to such transferee's permanent establishment in Korea) will not be subject to Korean income taxation and (ii) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea will be exempt from Korean income taxation by virtue of the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL. However, according to a recent tax ruling issued in 2004 by the Korean tax authority regarding the securities transaction tax (the 2004 tax ruling), depository receipts constitute share certificates, the transfer of which is subject to the securities transaction tax. Even though the 2004 tax ruling addresses the securities transaction tax and not the income tax on capital gains, it raises the question of whether depository shares (such as ADSs) should be viewed as underlying shares for capital gains tax purposes. If so, exemptions afforded under Korean domestic tax law to capital gains from transfer of ADSs based on the treatment of ADSs as securities separate from the underlying shares would no longer apply (including those referred to in the 1995 tax ruling), but, instead, exemptions for capital gains from transfer of the underlying shares would apply. Under an applicable exemption, capital gains from transfer of ADSs would be exempt from Korean income tax under the STTCL if (i) the ADSs are listed on the securities market overseas that is similar to the Stock Market Division of the Korea Exchange and (ii) the transfer of ADSs

Table of Contents

is made through such securities market. We believe that New York Stock Exchange would satisfy the condition (i) above.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11% (including resident surtax) of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the shares of common stock or the ADSs. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the ADR depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under Tax Treaties below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, shares of our common stock or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (respectively, including resident surtax, depending on your shareholding ratio) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment of Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the securities company, as applicable, a certificate as to his or her tax residence. In the absence of sufficient proof, we, the purchaser or the securities company, as applicable, must withhold tax at the normal rates. In addition, effective starting July 1, 2002, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority's interpretation of treating depository receipts as the underlying share certificates under the 2004 tax ruling applies in the context of inheritance and gift taxes as well, you may be treated as the

Table of Contents

owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%; provided that the value of the ADSs or shares of common stock is greater than a specified amount.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer shares of common stock on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

With respect to transfer of ADRs, the 2004 tax ruling has been issued by the Korean tax authority to the effect that depositary receipts (which the ADRs fall under) constitute share certificates subject to the securities transaction tax; provided that, under the Securities Transaction Tax Law, the transfer of depositary receipts listed on the New York Stock Exchange or the Nasdaq National Market is exempt from the securities transaction tax. Based on the 2004 tax ruling and the relevant provisions of the Securities Transaction Tax Law, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax. According to tax rulings issued by the Korean tax authorities in 2000 and 2002, foreign stockholders are not subject to securities transaction tax upon the deposit of underlying stock and receipt of depositary shares or upon the surrender of depositary shares and withdrawal of the originally deposited underlying stock, but there remained uncertainties as to whether holders of ADRs other than initial holders will not be subject to securities transaction tax when they withdraw shares of common stock upon surrendering the ADRs. However, the holding of the 2004 tax ruling referred to above seems to view the ADRs as the underlying shares of common stock at least for the purpose of the securities transaction tax and, though not specifically stated, could be read to imply that the securities transaction tax should not apply to the deposit of shares of common stock in exchange of ADRs or withdrawal of shares of common stock upon surrender of the ADRs regardless of whether the holder is the initial holder because the transfer of ADRs by the initial holder to the subsequent holder would have already been subject to securities transaction tax under such tax ruling.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or rights. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a securities company only, such securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax.

United States Taxation

This summary describes the material U.S. federal income tax consequences for a U.S. holder (as defined below) of owning our notes, shares of common stock or ADSs. This summary applies to you only if you hold notes, shares of common stock or ADSs as capital assets for tax purposes and, in the case of

Table of Contents

the notes, only if you purchased such notes in the applicable initial offering at their issue price. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;

a bank;

a life insurance company;

a tax-exempt organization;

a person that holds notes, shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds notes, shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of notes, shares of common stock or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of a note, share of common stock or ADS that is:

a citizen or resident of the United States;

a U.S. domestic corporation; or

subject to U.S. federal income tax on a net income basis with respect to income from the note, share of common stock or ADS.

Notes

Interest

Interest on the notes will be includible in your income at the time the interest is accrued or received, in accordance with your method of tax accounting.

Sale, Exchange or Retirement

Upon the sale, exchange or retirement of a note, you generally will recognize gain or loss equal to the difference between the amount realized (less any accrued interest, which will be taxable as interest income) and your tax basis in such note. Such gain or loss generally will be long-term capital gain or loss if you held the note for more than one year at the time of disposition. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates of tax.

Shares of Common Stock and ADSs

In general, if you hold ADSs, you will be treated as the holder of the shares of common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the shares of common stock represented by that ADS.

Table of Contents*Dividends*

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depository's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2009 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, (a) a passive foreign investment company (PFIC) or (b) for dividends paid prior to the 2005 tax year, a foreign personal holding company (FPHC) or foreign investment company (FIC). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on the Company's audited financial statements and relevant market and shareholder data, the Company believes that it was not treated as a PFIC, FPHC or FIC for U.S. federal income tax purposes with respect to its 2003 or 2004 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2005 taxable year.

Distributions of additional shares in respect of shares of common stock or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Sales and Other Dispositions

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of shares of common stock or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the shares of common stock or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a reduced rate.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on shares of common stock or ADSs, so long as you have owned the shares of common stock or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax will be treated for U.S. federal income tax purposes as imposed on general limitation income. Such treatment may affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special tax that you pay will not be creditable for foreign tax credit purposes.

Table of Contents

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

U.S. Information Reporting and Backup Withholding Rules

Payments in respect of the notes, shares of common stock or ADSs that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Item 10F. *Dividends and Paying Agents*

See Item 8A. Consolidated Statements and Other Financial Information *Dividends* above for information concerning our dividend policies and our payment of dividends. See Item 10B. Memorandum and Articles of Association *Dividends* for a discussion of the process by which dividends are paid on shares of our common stock. See Item 12. Description of Securities Other than Equity Securities *Dividends, Other Distributions and Rights* for a discussion of the process by which dividends are paid on our ADSs. The paying agent for payment of our dividends on ADSs in the United States is Bank of New York.

Item 10G. *Statements by Experts*

Not applicable

Item 10H. *Documents on Display*

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20459. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

Item 11. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities, and to changes in the commodity prices of principal raw materials and the market value of our equity investments. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage the related risk exposures. These contracts are entered into with major financial institutions, which minimizes the risk of credit loss. The activities of our finance division are subject to policies approved by our senior management. These policies address the use of derivative financial instruments, including the approval of counterparties, setting of limits and investment of excess liquidity. Our general policy is to hold or issue derivative financial instruments for hedging purposes. From time to time, we may also enter into derivative financial contracts for trading purposes.

Table of Contents**Exchange Rate Risk**

Korea is our most important market and, therefore, a substantial portion of our cash flow is denominated in Won. Most of our exports are denominated in Dollars. Japan is also an important market for us, and we derive significant cash flow denominated in Yen. We are exposed to foreign exchange risk related to foreign currency denominated liabilities and anticipated foreign exchange payments. Anticipated foreign exchange payments, which represent a substantial sum and are mostly denominated in Dollars, relate primarily to imported raw material costs and freight costs. Foreign currency denominated liabilities relate primarily to foreign currency denominated debt. We use, to a limited extent, cross-currency interest rate swaps to reduce our exchange rate exposure with respect to foreign currency denominated debt. Under cross-currency interest rate swaps, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in one currency with a fixed amount denominated in another currency. Until the maturity date, we agree to exchange interest payments, at specified intervals, calculated based on different interest rates for each currency. We also use, to a limited extent, currency forward contracts to purchase Dollars to reduce our exchange rate exposure. Under currency forward contracts, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in Dollars with an amount denominated in Yen or Won at fixed exchange rate.

As of December 31, 2004, we had entered into one currency swap contract and four currency forward contracts. Our aggregate net valuation gain of above contracts was approximately Won 6.9 billion and net transaction gain was Won 6.8 billion in 2004. We may incur losses under our existing swap transactions or any swap or other derivative product transactions entered into in the future. See Note 22 of Notes to Consolidated Financial Statements.

Interest Rate Risk

We are also subject to market risk exposure arising from changing interest rates. A reduction of interest rates increases the fair value of our debt portfolio, which is primarily of a fixed interest nature. From time to time, we use, to a limited extent, interest rate swaps to reduce interest rate volatility on some of our debt and manage our interest expense by achieving a balanced mixture of floating and fixed rate debt. As of December 31, 2004, we did not have any outstanding interest rate swap contract.

Table of Contents

The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2004 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities						December 31, 2004		December 31, 2003	
	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value	Total	Fair Value
(In millions of Won except rates)										
Local currency:										
Fixed rate	898,894	519,358	73,120	72,675	2,099	2,003	1,568,148	1,613,304	1,972,944	2,014,015
Average weighted rate(1)	6.16%	6.54%	6.21%	5.81%	3.86%	3.95%	6.27%		5.82%	
Variable rate										
Average weighted rate(1)										
Sub-total	898,894	519,358	73,120	72,675	2,099	2,003	1,568,148	1,613,304	1,972,944	2,014,015
Foreign currency, principally dollars and Yen:										
Fixed rate	768,906	657,063	51,564	582,366	15,893	40,714	2,116,505	2,152,279	2,506,588	2,576,839
Average weighted rate(1)	3.42%	4.01%	2.95%	0.25%	2.94%	2.66%	2.70%		3.06%	
Variable rate	35,666	9,172	9,172	9,172	9,172	4,586	76,941	76,941	245,275	245,275
Average weighted rate(1)	3.71%	3.59%	3.59%	3.59%	3.59%	3.59%	3.65%		2.82%	
Sub-total	804,572	666,235	60,736	591,538	25,065	45,300	2,193,447	2,229,221	2,751,863	2,822,114
Total	1,703,466	1,185,593	133,857	664,213	27,164	47,302	3,761,595	3,842,525	4,724,807	4,836,129

(1) Weighted average rates of the portfolio at the period end.

Commodity Price Risk

We are exposed to market risk of price fluctuations related to the purchase of raw materials, especially iron ore and coal. To ensure adequate supply of raw materials, we enter into long-term supply contracts to purchase iron ore, coal, nickel, chrome, stainless steel scrap and liquefied natural gas. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2004, 147 million tons of iron ore and 112 million tons of coal remained to be purchased under long-term supply contracts. We generally do not use commodity derivatives to manage our commodity price risks. As of December 31, 2004, we had entered into one nickel forward contract, which recorded net transaction loss of Won 3 billion in 2004.

Equity Price Risk

We are exposed to equity price risk primarily from changes in the stock price of SK Telecom and Nippon Steel Corporation. We currently hold a 4.98% interest in SK Telecom (excluding shares placed as collateral for exchangeable bonds issued in August 2003) and a 2.2% interest in Nippon Steel Corporation. We have not entered into any derivative instruments or any other arrangements to manage our equity price risks.

Item 12. *Description of Securities Other than Equity Securities*

The following is a summary of the deposit agreement, dated as of September 26, 1994, among us, The Bank of New York as ADR depositary and all holders and beneficial owners of ADRs, as amended by

Table of Contents

amendment no. 1 dated as of June 25, 1997. The deposit agreement is governed by the laws of the State of New York. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the ADR. The deposit agreement has been filed as an exhibit to the registration statement of which this prospectus forms a part. Additional copies of the deposit agreement are available for inspection at the Corporate Trust Office of the ADR depository, located at 101 Barclay Street, New York, New York 10286. The principal executive office of the ADR depository is located at One Wall Street, New York, New York 10286.

American Depository Receipts

The ADR depository will execute and deliver the ADRs evidencing the ADSs. Each ADS will represent one-fourth of one share of our common stock or the right to receive one-fourth of one share of our common stock. All shares of our common stock deposited or deemed deposited under the deposit agreement and any other securities, cash or other property held under the deposit agreement shall be referred to as Deposited Securities. We will deposit Deposited Securities with Korea Securities Depository in Seoul, Korea (the Custodian), an agent of the ADR depository. An ADR may represent any number of ADSs. You may hold ADRs either directly or indirectly through your broker or other financial institution. If you hold ADRs directly, you are an ADR holder. This description assumes you hold your ADRs directly. If you hold the ADRs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, you will not be treated as one of our shareholders and you will not have shareholder rights, which are governed by Korean law. The ADR depository will be the holder of the shares underlying your ADSs. You will have the rights of an ADR holder. Your rights as the ADR holder and the obligations of the ADR depository are set out in the deposit agreement. As an ADR holder, you will not be able to exercise dissenters' rights unless you have withdrawn the underlying common stock and become a direct shareholder.

Deposit and Withdrawal of Deposited Securities

Notwithstanding the provisions described below, under current Korean laws and regulations, the ADR depository is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the ADR depository at the time of such proposed deposit.

The shares of common stock underlying the ADRs will be held in scripless form. Accordingly, no share certificates will be issued for them, and the ADR depository will hold the shares through the book-entry settlement system of the Custodian. The delivery of shares of common stock pursuant to the deposit agreement will take place through the facilities of the Custodian in accordance with its applicable settlement procedures. The ADR depository will execute and deliver ADRs if you or your broker deposit shares or evidence of rights to receive shares of common stock with the Custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the ADR depository will register the appropriate number of ADSs in the names you designate and will deliver an ADR or ADRs for those ADSs at its Corporate Trust Office to the persons you designate. The ADR depository and the Custodian will refuse to accept shares of common stock for deposit whenever we restrict transfers of shares to comply with ownership restrictions under applicable law or our articles of incorporation, whenever the deposit would result in any violation of our articles of incorporation or applicable law, or whenever the deposit would cause the total number of shares of common stock deposited to exceed a level we determine from time to time. See Item 10. Additional Information Item 10D. Exchange Controls Restrictions Applicable to Common Stock.

Table of Contents

You may surrender your ADRs at the Corporate Trust Office of the ADR depository to withdraw the underlying shares of our common stock. Upon payment of the fees and any governmental charges and taxes provided in the deposit agreement, and subject to applicable laws and regulations of Korea and our articles of incorporation, the ADR depository will deliver, at the principal office of the Custodian in Seoul, Korea, the amount of Deposited Securities underlying the surrendered ADRs. The ADR depository may also deliver the amount of Deposited Securities then underlying the surrendered ADRs at its Corporate Trust Office. At your request, risk and expense, we will forward share certificates and other proper documents of title to the Corporate Trust Office of the ADR depository for delivery to you. If you surrender an ADR evidencing a number of ADSs not evenly divisible by four, the ADR depository will deliver the appropriate whole number of shares of common stock and other Deposited Securities represented by the surrendered ADSs, and will execute and deliver to you a new ADR evidencing ADSs representing any remaining fractional shares of common stock.

Neither the ADR depository nor the Custodian will deliver shares of common stock in any manner or otherwise permit the shares to be withdrawn from the facility created by the deposit agreement, except upon the receipt and cancellation of ADRs. However, in certain circumstances, subject to the provisions of the deposit agreement, the ADR depository may execute and deliver ADRs before deposit of the underlying shares of common stock. This is called a pre-release of the ADR. The ADR depository may also deliver shares of common stock upon cancellation of pre-released ADRs (even if the cancellation occurs before the termination of the pre-release) or upon receipt of other ADRs. The ADR depository may pre-release ADRs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the ADR depository in writing that it or its customer owns the shares of common stock or ADRs to be deposited; (2) the pre-release must be fully collateralized with cash or U.S. government securities; (3) the ADR depository must be able to terminate the pre-release on not more than five business days' notice; and (4) the pre-release is subject to further indemnities and credit regulations as the ADR depository deems appropriate. In addition, the ADR depository will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the ADR depository may disregard the limit from time to time if it thinks it is appropriate to do so.

Dividends, Other Distributions and Rights

The ADR depository has agreed to pay to you the cash dividends or other distributions it or the Custodian receives on Deposited Securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADRs represent.

The ADR depository will convert any cash dividend or other cash distribution paid in Won on the shares of common stock into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from the Korean Government is required and cannot be promptly obtained, the deposit agreement allows the ADR depository to distribute the Won to ADR holders who have requested the distribution in writing and hold the remainder of the non-convertible Won for the account of those ADR holders who have not been paid. It will not invest the Won it holds and will not be liable for any interest.

Before making a distribution, the ADR depository will deduct any withholding taxes that must be paid. See

Item 10. Additional Information Item 10E. Taxation Korean Taxation. *If the exchange rates fluctuate during a time when the ADR depository cannot convert the Won, you may lose some or all of the value of the distribution.*

The ADR depository may distribute new ADRs representing any shares we distribute as a dividend or free distribution. The ADR depository will only distribute whole ADSs. It will sell shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the ADR depository does not distribute additional ADRs, then each outstanding ADS will also represent the new shares so distributed.

Table of Contents

If we offer holders of our securities any rights to subscribe for additional shares of common stock or any other rights, the ADR depositary may make these rights available to you. The ADR depositary must first determine whether it is lawful and feasible to do so. If the ADR depositary determines that it is not lawful or feasible to make these rights available to you, then at our request, the ADR depositary will use its best efforts to sell the rights and distribute the proceeds in the same way as it would do with cash. The ADR depositary may allow the rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by the rights, the ADR depositary will not offer such rights to you if you have an address in the United States (as defined in Regulation S under the Securities Act) unless and until such a registration statement is in effect, or unless the offering and sale of such securities and such rights to you are exempt from the registration requirements of the Securities Act. The ADR depositary will not be responsible for any failure to determine that it may be lawful or feasible to make the rights available to you.

We may decide not to register under the Securities Act securities to which the rights relate where registration under the Securities Act may be required. In this case, you would not be permitted to purchase the securities or otherwise exercise the rights and the ADR depositary would, to the extent possible, dispose of the rights for your account. Such a disposal of rights may reduce your equity interest in us.

If the ADR depositary determines that any distribution of property other than cash, shares of common stock or rights to subscribe for them cannot be made proportionally, or if for any other reason the ADR depositary deems the distribution not to be feasible, the ADR depositary may, after consultation with us, dispose of all or a portion of the property in such amounts and in such manner, including by public or private sale, as the ADR depositary deems equitable and practicable. The ADR depositary will distribute to you the net proceeds of any such sale, or the balance of any such property, after deduction of the fees of the ADR depositary.

In the case of a change in the par value, or a split-up, consolidation or any other reclassification of shares of our common stock or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting us, any securities received by the ADR depositary or the Custodian in exchange for, in conversion of or in respect of Deposited Securities will be treated as new Deposited Securities under the deposit agreement. In that case, ADSs will, subject to the terms of the deposit agreement and applicable laws and regulations, including any registration requirements under the Securities Act, represent the right to receive the new Deposited Securities, unless additional ADRs are issued, as in the case of a stock dividend, or unless the ADR depositary calls for the surrender of outstanding ADRs to be exchanged for new ADRs.

Record Dates

The ADR depositary will fix a record date in each of the following situations:

any cash dividend or other cash distribution becomes payable;

any distribution other than cash is made;

rights are issued with respect to Deposited Securities;

the ADR depositary receives notice of any shareholder meeting; and

the ADR depositary causes a change in the number of shares of common stock that are represented by each ADS.

The record date will, to the extent practicable, either be the same date as the record date fixed by us, or if different from the record date fixed by us, be fixed after consultation with us. The record date will determine (1) the ADR holders who are entitled to receive the dividend, distribution or rights, or the net

Table of Contents

proceeds of the sale of the rights; (2) the ADR holders who are entitled to give instruction for the exercise of voting rights at a shareholders meeting or to attend (without voting at or speaking to) the meeting; or (3) the date on which each ADS will represent a changed number of shares of common stock.

Voting of the Underlying Deposited Securities

As soon as practicable after it receives our notice of any meeting or solicitation of shareholder proxies, and upon our written request, the ADR depository will mail to you a notice that will contain the following:

the information contained in our notice to the ADR depository, or, if requested by us, a summary of the information provided by us;

a statement that the ADR holders as of the close of business on a specified record date will be entitled to instruct the ADR depository as to how to exercise their voting rights for the number of shares of common stock or other Deposited Securities represented by their ADSs, subject to the provisions of applicable Korean law and our articles of incorporation, which provisions, if any, will be summarized in the notice to the extent that they are material; and

a statement as to the manner in which the ADR holders may give their instructions.

Upon your written request received on or before the date set by the ADR depository for this purpose, the ADR depository will endeavor, in so far as practicable, to vote or cause to be voted the shares of common stock or other Deposited Securities underlying your ADRs in accordance with the instructions set forth in your written request. The ADR depository may not itself exercise any voting discretion over any Deposited Securities. You may only exercise the voting rights in respect of four ADSs or multiples of four ADSs.

Disclosure of Beneficial Ownership; Ownership Restrictions

We may from time to time request you to provide information as to the capacity in which you hold or held ADRs, the identity of any other persons then or previously interested in ADRs and the nature of the interest, and various other matters. You will agree in the deposit agreement to provide any such information reasonably requested by us or the ADR depository whether or not you are still an ADR holder or beneficial owner at the time of the request.

We may restrict transfers of the shares of common stock where the transfer might result in ownership of shares of common stock exceeding the limits under our articles of incorporation and applicable law. See Item 10. Additional Information Item 10D. Exchange Controls Restrictions Applicable to Common Stock. We may also restrict transfers of the ADSs where the transfer may cause the total number of shares of common stock represented by the ADSs beneficially owned by a single ADR holder or beneficial owner of ADRs, taken together with all other shares of common stock beneficially owned by the ADR holder or beneficial owner, including shares of common stock beneficially owned by affiliated owners, to any limit under our articles of incorporation and applicable law with respect to which we may, from time to time, notify the ADR depository. We may instruct the ADR depository to take action with respect to the beneficial ownership of any ADR holder or beneficial owner of ADRs or common stock represented by the ADSs held by such ADR holder or beneficial owner in excess of the limitations, if and to the extent the disposition is permitted by applicable law. See Item 10. Additional Information Item 10D. Exchange Controls Restrictions Applicable to ADSs.

Reports and Notices

We will furnish to the ADR depository English language versions of any reports, notices and other communications that we generally transmit to holders of our common stock or other Deposited Securities, including our annual reports, with annual audited consolidated financial statements prepared in conformity with Korean GAAP and, if prepared pursuant to the Exchange Act, a reconciliation of net earnings for the year and stockholders equity to U.S. GAAP, and unaudited non-consolidated semiannual financial statements prepared in conformity with Korean GAAP. The ADR depository will arrange for the prompt

Table of Contents

mailing of copies of these documents, or, if we request, a summary of any such notice provided by us to you or, at our request, make notices, reports (other than the annual reports and semiannual financial statements) and other communications available to you on a basis similar to that for the holders of our common stock or other Deposited Securities or on such other basis as we may advise the ADR depository according to any applicable law, regulation or stock exchange requirement.

Notices to you under the deposit agreement will be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission, confirmed by letter, addressed to you at your address as it appears on the transfer books of the ADR depository or at such other address as you have notified the ADR depository.

In addition, the ADR depository will make available for your inspection at its Corporate Trust Office any reports, notices and other communications received by it, the Custodian or a nominee of either as a holder of Deposited Securities and which we generally transmit to the holders of Deposited Securities.

Amendment and Termination of the Deposit Agreement

We may agree with the ADR depository to amend the deposit agreement and the ADRs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the ADR depository, or prejudices a substantial right of ADR holders, it will only become effective 30 days after the ADR depository notifies you of the amendment. *If you continue to hold your ADRs at the time an amendment becomes effective, you will be considered to have agreed to the amendment and to be bound by the deposit agreement as amended.* Except as otherwise required by any mandatory provisions of applicable law, no amendment may impair your right to surrender your ADRs and to receive the underlying Deposited Securities.

The ADR depository will terminate the deposit agreement if we ask it to do so. The ADR depository may also terminate the deposit agreement if the ADR depository has notified us that it would like to resign and we have not appointed a new depository within 90 days. In both cases, the ADR depository must notify you at least 30 days before the termination date.

If any ADRs remain outstanding after the date of termination, the ADR depository will stop performing any further acts under the deposit agreement, except:

to collect dividends and other distributions pertaining to the Deposited Securities and any other property represented by the outstanding ADRs;

to sell rights as provided in the deposit agreement; and

to deliver Deposited Securities, together with any dividends or other distributions received with respect to the Deposited Securities and the net proceeds of the sale of any rights or other property represented by those ADRs in exchange for surrendered ADRs after payment of fees and other charges of the ADR depository.

On and after the date of termination, you will be entitled to receive the amount of Deposited Securities underlying an ADR upon (1) surrender of the ADR at the Corporate Trust Office of the ADR depository, (2) payment of the fees of the ADR depository for the surrender of the ADR and (3) payment of any applicable taxes or governmental charges.

At any time after the expiration of one year from the date of termination, the ADR depository may sell any remaining Deposited Securities and hold uninvested the net proceeds in an unsegregated account, together with any other cash or property then held, without liability for interest, for the pro rata benefit of the holders of ADRs that have not been surrendered by then. After making the sale, the ADR depository will be discharged from all obligations under the deposit agreement, except for some indemnification obligations and the obligation to account for the net proceeds of the sale and other cash or property (after deducting, in each case, the fee of the ADR depository for surrendered ADRs, any expenses for the account of the holder of the ADRs in accordance with the terms and conditions of the deposit agreement, and any applicable taxes or governmental charges). Upon the termination of the deposit agreement, we

Table of Contents

will also be discharged from all obligations under deposit agreement except for some obligations to the ADR depository.

Charges of the ADR Depository

We will pay the fees and expenses of the ADR depository as agreed between us and the ADR depository.

You will not pay any fees in connection with the issuance of ADRs in the global offering. If you deposit or withdraw shares of common stock, or surrender ADRs, or receive newly issued ADRs, including issuance of ADRs pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or Deposited Securities or a distribution of ADRs pursuant to the deposit agreement, you will incur the following charges, whichever applicable:

taxes and other governmental charges;

registration fees applicable to transfers of shares of common stock on our shareholders' register, or that of any entity acting as registrar for the shares, to the name of the ADR depository or its nominee, or the Custodian or its nominee, when making deposits or withdrawals under the deposit agreement;

cable, telex and facsimile transmission expenses that are expressly provided in the deposit agreement;

expenses incurred by the ADR depository in the conversion of foreign currency under the deposit agreement;

a fee of \$5.00 or less per 100 ADSs, or portion thereof, for the execution and delivery of ADRs and the surrender of ADRs under the deposit agreement; and

a fee for the distribution of proceeds of sales of securities or rights under the deposit agreement, the fee equaling the lesser of the proceeds of the sale and the fee for the execution and delivery of ADRs which would have been charged as a result of the deposit of the securities or shares received in exercise of rights but which securities or rights are instead sold and the proceeds distributed.

Liability of Holders for Taxes or Other Charges

You are liable for payment to the ADR depository of any tax or other governmental charges or expenses payable by the Custodian, the ADR depository or its nominee as the registered holder of any Deposited Securities represented by your ADSs. The ADR depository may refuse to effect any transfer or split-up or combination of your ADRs or any withdrawal of Deposited Securities underlying your ADRs until the payment is made. The ADR depository may withhold any dividends or other distributions or sell any part or all of the Deposited Securities underlying your ADRs and apply the dividends or distributions or the proceeds of the sale to the payment of any tax or other governmental charges or expenses. You will remain liable for any deficiency.

Regardless of any provision in the deposit agreement, before making any distribution or other payment on any Deposited Securities, we will make deductions (if any) that we are required to make under Korean law in respect of any income tax, capital gains tax or other taxes, and we may also deduct the amount of any tax or governmental charges payable by us in respect of a distribution or other payment or any document signed in connection with such a distribution or payment. In making deductions, we will have no obligation to you to apply a rate under any treaty or other arrangement between Korea and the country in which you are resident unless you have timely provided to us evidence of your residency that is satisfactory to the relevant tax authorities of Korea.

Table of Contents

Limitations on Execution, Transfer and Surrender of ADRs

The ADRs are transferable on the books of the ADR depository. However, the ADR depository may close the transfer books at any time it deems expedient in the performance of its duties or at our request. The ADR depository may suspend or refuse the execution and delivery or transfer of ADRs during any period when the transfer books of the ADR depository are closed, or at any time we or the ADR depository consider the action necessary or advisable.

Before the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR, the delivery of any distribution on the ADR, or withdrawal of Deposited Securities represented by the ADR, we, the ADR depository, the Custodian or any registrar of ADRs may require the person presenting the ADR or depositing the shares of common stock to pay a sum sufficient to reimburse us or them for any tax or other governmental charges, any stock transfer or registration fee and other applicable fees payable by the ADR holder.

The ADR depository will refuse to register any transfer of ADSs if the transfer would cause the total number of shares of common stock represented by the ADSs beneficially owned by you, when aggregated with all other shares of common stock beneficially owned by you and certain of your affiliates, to exceed any limit under our articles of incorporation or applicable law of which we may, from time to time, notify the ADR depository. The ADR depository may also refuse to deliver ADRs, register the transfer of any ADR or make any distribution of Deposited Securities until it has received such proof of citizenship, residence, exchange control approval, payment of applicable taxes or other governmental charges, legal or beneficial ownership or other information as it may reasonably deem necessary or proper or as we may require.

Regardless of any provision in the deposit agreement or the ADRs, the surrender of outstanding ADRs and withdrawal of shares of common stock may not be suspended except when required in connection with: (1) temporary delays caused by closing the transfer books of the ADR depository or us or the deposit of shares of common stock in connection with voting at a meeting of shareholders or payment of dividends, (2) the payment of fees, taxes and similar charges, or (3) compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or the withdrawal of shares of common stock.

ADR holders may inspect the transfer books of the ADR depository at any reasonable time. However, the inspection may not be for the purpose of communicating with other ADR holders in the interest of a business or object other than our business, including any matter related to the deposit agreement or the ADRs.

General

Neither we nor the ADR depository will be liable to you if prevented from or delayed in performing our or their obligations under the deposit agreement by the law of any country, by any governmental authority or stock exchange, by any provision of our articles of incorporation or by any circumstances beyond our or their control. Our obligations and the obligations of the ADR depository to the holders and beneficial owners of ADRs are expressly limited to performing our and their respective duties specified in the deposit agreement without negligence or bad faith.

So long as any ADRs or ADSs evidenced by ADRs are listed on one or more stock exchanges, the ADR depository will act as registrar or, with our approval, appoint a registrar or one or more co-registrars, for registration of the ADRs in accordance with any requirements of these stock exchanges.

Table of Contents

PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

Not Applicable

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

Not Applicable

Item 15. *Controls and Procedures*

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures as of December 31, 2004, were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as and when required.

There has been no change in our internal control over financial reporting during 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. *Audit Committee Financial Expert*

At our annual general meeting of shareholders in March 2005, our shareholders elected the following four members of the audit committee: E. Han Kim (committee chair), Jeffrey D. Jones, Yoon-Suk Suh and Wook Sun. In addition, they determined and designated that Yoon-Suk Suh is an audit committee financial expert within the meaning of this Item 16A. The board of directors have approved this newly elected audit committee, and reaffirmed the determination by our shareholders that Yoon-Suk Suh is an audit committee financial expert and further determined that he is independent within the meaning of applicable SEC rules.

Item 16B. *Code of Ethics*

We have adopted a code of business conduct and ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of business conduct and ethics, called Code of Conduct, applies to our chief executive officer and chief financial officer, as well as to our directors, other officers and employees. Our Code of Conduct is available on our web site at www.posco.co.kr. If we amend the provisions of our Code of Conduct that apply to our chief executive officer or chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at the same address.

Table of Contents**Item 16C. *Principal Accountant Fees and Services*
Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditors, Samil PricewaterhouseCoopers, during the fiscal years ended December 31, 2003 and 2004:

	Year Ended December 31,	
	2003	2004
	(In millions of Won)	
Audit fees	W2,116	W1,006
Audit-related fees	137	46
Tax fees	62	72
Other fees	68	
Total fees	W2,383	W1,124

Audit fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers, in connection with the audit of our annual financial statements and the annual financial statements of POSCO Canada Ltd. and review of interim financial statements. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Audit-related fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers for due diligence service related to an acquisition project, accounting advisory service on consolidation and general consultation on financial accounting and reporting standards.

Tax fees in the above table are fees billed by Samil PricewaterhouseCoopers for our tax compliance and tax planning, as well as tax planning and preparation of Canadian tax returns for POSCO Canada Ltd.

Other fees in the above table are fees billed by Samil PricewaterhouseCoopers primarily related to review of financial information on potential investment projects.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or us.

Item 16D. *Exemptions from the Listing Standards for Audit Committees*

Not Applicable

Table of Contents**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth the repurchases of common shares by us or any affiliated purchasers during the fiscal year ended December 31, 2004:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (in Won)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1 to January 31				
February 1 to February 29				
March 1 to March 31				
April 1 to April 30				
May 1 to May 31				
June 1 to June 30				
July 1 to July 31				
August 1 to August 31	581,320	₩160,393	581,320	1,198,000
September 1 to September 30	940,420	175,377	940,420	257,580
October 1 to October 31	257,580	180,696	257,580	
November 1 to November 30				
December 1 to December 31				
Total	1,779,320	₩171,252	1,779,320	

Table of Contents**PART III****Item 17. Financial Statements****Not Applicable****Item 18. Financial Statements**

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2003 and 2004	F-2
Consolidated Statements of Income for the Years Ended December 31, 2002, 2003 and 2004	F-4
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2003 and 2004	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2003 and 2004	F-7
Notes to Consolidated Financial Statements	F-9

Item 19. Exhibits

1.1	Articles of incorporation of POSCO (English translation) (incorporated by reference to Exhibit 1.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003)*
2.1	Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement No. 33-81554)*
2.2	Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)*
2.3	Letter from ADR Depository to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)*
8.1	List of subsidiaries of POSCO
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers

* Filed previously

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of POSCO

We have audited the accompanying consolidated balance sheets of POSCO and its subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 33 to the consolidated financial statements.

Samil PricewaterhouseCoopers

Seoul, Republic of Korea

March 5, 2005

Samil PricewaterhouseCoopers is the Korean member firm of PricewaterhouseCoopers. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Table of Contents

**POSCO and Subsidiaries
Consolidated Balance Sheets
December 31, 2004 and 2003**

(Note 2)

	2004	2003	2004
	(in millions of Korean Won and thousands of US Dollar)		
ASSETS			
Current assets			
Cash and cash equivalents, net of government grants (Notes 3 and 27)	W 486,370	W 592,602	\$ 469,877
Short-term financial instruments (Notes 3 and 27)	640,988	695,169	619,253
Trading securities (Note 4)	2,689,593	1,321,301	2,598,390
Current portion of held-to-maturity securities (Note 7)	13,769	250,481	13,302
Current portion of available-for-sales securities (Note 7)	141,573		136,773
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 13, 27 and 28)	3,093,511	2,308,445	2,988,611
Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 28)	163,118	95,564	157,587
Inventories (Notes 6 and 29)	3,065,521	2,068,371	2,961,570
Other current assets, net of allowance for doubtful accounts (Note 11)	193,373	289,665	186,813
Total current assets	10,487,816	7,621,598	10,132,176
Property, plant and equipment, net (Notes 8, 13, 14 and 29)	10,440,291	9,845,777	10,086,263
Investment securities (Notes 7, 27 and 29)	2,345,076	2,318,830	2,265,556
Intangible assets, net (Notes 9 and 29)	496,315	474,496	479,485
Long-term loans, net of allowance for doubtful accounts and present value discount (Notes 5, 27, 28 and 29)	81,496	82,877	78,732
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 29)	36,094	43,665	34,870
Deferred income tax assets (Notes 25 and 29)	54,157	43,324	52,320
Guarantee deposits (Notes 27 and 29)	41,424	31,067	40,019
Long-term financial instruments (Notes 3, 27 and 29)	1,706	18,002	1,648
Other long-term assets, net of allowance for doubtful accounts and present value discount (Notes 11 and 29)	144,585	288,913	139,683

Total assets	₩	24,128,960	₩	20,768,549	\$	23,310,752
--------------	---	------------	---	------------	----	------------

F-2

Table of Contents

POSCO and Subsidiaries
Consolidated Balance Sheets (Continued)
December 31, 2004 and 2003

	2004	2003	2004
			(Note 2)
	(In millions of Korean Won and thousands of US Dollar)		
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Trade accounts and notes payable (Notes 27 and 28)	W 1,082,299	W 917,495	\$ 1,045,598
Short-term borrowings (Notes 12, 27 and 28)	657,541	731,781	635,244
Current portion of long-term debt, net of discount on debentures issued (Notes 12, 13 and 27)	1,046,699	1,020,865	1,011,205
Accrued expenses (Note 27)	391,900	346,186	378,611
Other accounts and notes payable (Notes 27 and 28)	225,680	190,115	218,027
Withholdings (Note 27)	94,285	82,770	91,088
Income tax payable	1,086,971	572,860	1,050,112
Other current liabilities (Note 16)	409,643	309,846	395,754
Total current liabilities	4,995,018	4,171,918	4,825,639
Long-term debt, net of current portion and discount on debentures issued (Notes 13, 27 and 28)			
	2,050,801	2,952,384	1,981,259
Accrued severance benefits, net (Note 15)	230,367	162,662	222,555
Deferred income tax liabilities (Note 25)	270,641	119,979	261,463
Other long-term liabilities (Note 16)	196,077	112,039	189,428
Total liabilities	7,742,904	7,518,982	7,480,344
Commitments and contingencies (Note 17)			
Shareholders' equity			
Common stock, W5,000 par value, authorized 200 million shares: issued and outstanding 87,186,835 shares in 2004 and 88,966,155 shares in 2003 (Note 1)	482,403	482,403	466,045
Capital surplus (Note 18)	3,895,378	3,828,773	3,763,286
Retained earnings (Note 19) (Net income: W3,814,225 million in 2004 and W1,995,983 million in 2003 and W1,089,288 million in 2002)	12,851,118	9,875,080	12,415,339
Losses in excess of minority interest: W13,205 million in 2004 and W3,163 million in 2003 and W2,495 million in 2002)			

Edgar Filing: POSCO - Form 20-F

Capital adjustments, net (Note 20)	(1,150,734)	(1,229,988)	(1,111,713)
	16,078,165	12,956,268	15,532,957
Minority interest			
Common stock	147,917	142,678	142,901
Capital surplus and retained earnings	159,974	150,621	154,550
	307,891	293,299	297,451
Total shareholders equity	16,386,056	13,249,567	15,830,408
Total liabilities and shareholders equity	W 24,128,960	W 20,768,549	\$ 23,310,752

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

Table of Contents

POSCO and Subsidiaries
Consolidated Statements of Income
Year Ended December 31, 2004, 2003 and 2002

	(Note 2)			
	2004	2003	2002	2004
	(in millions of Korean Won and thousands of US Dollar, except per share amounts)			
Sales (Notes 28 and 29)	W 23,973,053	W 17,789,237	W 14,354,918	\$ 23,160,133
Cost of goods sold (Note 28)	17,360,706	13,450,786	11,338,260	16,772,008
Gross profit	6,612,347	4,338,451	3,016,658	6,388,125
Selling and administrative expenses (Note 23)	1,292,927	1,075,470	966,791	1,249,086
Operating income	5,319,420	3,262,981	2,049,867	5,139,039
Non-operating income				
Interest and dividend income (Note 28)	141,054	97,233	72,792	136,271
Gain on foreign currency transactions	130,915	84,459	132,276	126,476
Gain on foreign currency translation	177,889	6,415	128,844	171,857
Gain on valuation of trading securities	22,497	6,387	6,366	21,734
Gain on disposal of trading securities	43,012	35,993	49,938	41,553
Gain on valuation of equity method investments (Note 7)	3,505			3,386
Gain on disposal of property, plant and equipment	13,769	8,061	22,361	13,302
Gain on derivatives transaction (Note 22)	12,452	2,481	13,160	12,030
Gain on valuation of derivatives (Note 22)	9,594	2,849	569	9,269
Gain on recovery of allowance for doubtful accounts	126,861	12,798		122,559
Gain on disposal of investments	7,304	11,099	6,454	7,057
Others	139,967	91,602	110,684	135,220
	828,819	359,377	543,444	800,714
Non-operating expenses				
Interest expense (Note 28)	192,030	250,319	331,776	185,518
Other bad debt expense	16,229		178,476	15,679
Loss on foreign currency transactions	112,343	77,979	96,976	108,533

Edgar Filing: POSCO - Form 20-F

Loss on foreign currency translation	17,407	118,231	28,768	16,817
Loss on valuation of equity method investments (Note 7)		4,523	128,769	
Donations (Note 24)	169,546	103,191	50,147	163,797
Loss on disposal of property, plant and equipment	29,086	43,217	38,215	28,100
Loss on derivatives transaction (Note 22)	9,332	1,660	3,376	9,015
Loss on valuation of derivatives (Note 22)	2,646	30,781	11,775	2,556
Loss on impairment of investments (Note 7)	94,824	11,516	30,379	91,609
Loss on impairment of property, plant and equipment (Note 8)	72,692	150,750	139,833	70,227
Loss on valuation of inventories		4,580	1,178	
Others	92,581	78,341	46,206	89,442
	808,716	875,088	1,085,874	781,293
Extraordinary income	3,387			3,273
Net income before income tax expense and minority interest	5,342,910	2,747,270	1,507,437	5,161,733
Income tax expense (Note 25)	1,501,646	730,270	398,305	1,450,726
Net income before minority interest	3,841,264	2,017,000	1,109,132	3,711,007
Minority interest in income of consolidated subsidiaries	27,039	21,017	19,844	26,122
Net income (Note 26)	W 3,814,225	W 1,995,983	W 1,089,288	\$ 3,684,885
Per Share Data (Note 26) (in Korean won and US dollar)				
Basic and diluted ordinary income per share	W 47,155	W 24,496	W 13,295	\$ 45.56
Basic and diluted earnings per share	47,185	24,496	13,295	45.58

F-4

Table of Contents

POSCO AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity
Year Ended December 31, 2004, 2003 and 2002

	Common Stock		Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
	Shares	Amount					
(In millions of Korean Won)							
Balance as of January 1, 2002	93,589,485	W 482,403	W 3,859,029	W 7,129,436	W (1,125,004)	W 168,171	W 10,514,035
Net income for 2002				1,089,288			1,089,288
Cumulative effect of accounting policy change				717,510			717,510
Effect of change in percentage of ownership of investees			(70,419)	13,572		106,833	49,986
Dividends				(204,089)		(13,751)	(217,840)
Change in losses in excess of minority interest				(458)		458	
Retirement of treasury stock	(2,807,690)			(281,698)	281,698		
Change in treasury stock					(12,289)		(12,289)
Overseas operations translation adjustment					(40,952)	(999)	(41,951)
Valuation loss on investment securities					(307,175)	(612)	(307,787)
Minority interest in income of consolidated subsidiaries						19,844	19,844
Others			9,127	1,154	(652)	(779)	8,850
Balance as of December 31, 2002	90,781,795	W 482,403	W 3,797,737	W 8,464,715	W (1,204,374)	W 279,165	W 11,819,646

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

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

Table of Contents

POSCO and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (Continued)
Year Ended December 31, 2004, 2003 and 2002

	Common Stock		Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
	Stock	Amount					
(In millions of Korean Won and thousands of US Dollar)							
Balance as of January 1, 2004	88,966,155	W 482,403	W 3,828,773	W 9,875,080	W (1,229,988)	W 293,299	W 13,249,567
Net income for 2004				3,814,225			3,814,225
Effect of change in percentage of ownership of investees			1,527	1,167		(3,316)	(622)
Dividends				(524,602)		(7,107)	(531,709)
Change in losses in excess of minority interest				(10,042)		10,042	
Retirement of treasury stock	(1,779,320)			(304,711)			(304,711)
Change in treasury stock			63,695		158,025		221,720
Overseas operations translation adjustment					(126,552)	(11,905)	(138,457)
Valuation gain on investment securities					51,933	97	52,030
Minority interest in income consolidated subsidiaries						27,039	27,039
Others			1,383	1	(4,152)	(258)	(3,026)
Balance as of December 31, 2004	87,186,835	W 482,403	W 3,895,378	W 12,851,118	W (1,150,734)	W 307,891	W 16,386,056
	88,966,155	\$ 466,045	\$ 3,698,940	\$ 9,540,219	\$ (1,188,279)	\$ 283,353	\$ 12,800,278

Balance as of January 1, 2004							
Net income for 2004				3,684,885			3,684,885
Effect of change in percentage of ownership of investees	1,476		1,127		(3,204)		(601)
Dividends			(506,813)		(6,866)		(513,679)
Change in losses in excess of minority interest			(9,701)		9,701		
Retirement of treasury stock	(1,779,320)		(294,379)				(294,379)
Change in treasury stock	61,535			152,667			214,202
Overseas operations translation adjustment				(122,260)	(11,501)		(133,761)
Valuation gain on investment securities				50,172	93		50,265
Minority interest in income consolidated subsidiaries					26,122		26,122
Others	1,335		1	(4,013)	(247)		(2,924)
Balance as of December 31, 2004	87,186,835	\$ 466,045	\$ 3,763,286	\$ 12,415,339	\$ (1,111,713)	\$ 297,451	\$ 15,830,408

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

Table of Contents

POSCO and Subsidiaries
Consolidated Statements of Cash Flows
Year Ended December 31, 2004, 2003 and 2002

(Note 2)

	2004	2003	2002	2004
(In millions of Korean Won and thousands of US Dollar)				
Cash flows from operating activities				
Net income	W 3,814,225	W 1,995,983	W 1,089,288	\$ 3,684,885
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	1,567,032	1,568,057	1,453,253	1,513,894
Accrual of severance benefits	192,648	165,018	119,091	186,115
Provision (reversal of allowance) for doubtful accounts	(56,961)	(3,843)	184,887	(55,029)
Unrealized foreign exchange loss (gain)	(165,136)	111,736	(105,716)	(159,536)
Loss (gain) on valuation of trading securities	(22,497)	(5,756)	(6,366)	(21,734)
Loss (gain) on valuation of derivatives, net	(6,948)	27,932	11,206	(6,713)
Loss (gain) on derivatives transaction, net	(3,120)	(821)	(9,784)	(3,015)
Gain on disposal of trading securities and investments, net	(41,594)	(39,738)	(52,713)	(40,184)
Loss on disposal of property, plant and equipment, net	15,317	35,156	15,854	14,798
Loss on valuation of inventories		4,580	1,178	
Loss on impairment of investment securities and property, plant and equipment	72,692	150,750	166,874	70,227
Loss on impairment of assets held for sale	94,824	11,516	3,338	91,609
Loss (gain) on valuation of equity method investments, net	(3,505)	4,523	128,769	(3,386)
Minority interest in income of consolidated subsidiaries	27,039	21,017	19,844	26,122
Stock compensation expense	24,785	18,894	6,497	23,945
Loss on contribution of treasury stock to the association of employee stock ownership	159,897	74,687		154,475
Others	27,610	15,862	(2,666)	26,676
	1,882,083	2,159,570	1,933,546	1,818,264

Changes in operating assets and liabilities

Increase in trade accounts and notes receivable	(869,353)	(502,944)	(151,351)	(839,874)
Decrease (increase) in inventories	(903,532)	(392,255)	69,950	(872,894)
Increase in trade accounts and notes payable	317,983	89,220	151,699	307,200
Decrease (increase) in other accounts and notes receivable	(63,329)	(23,233)	28,938	(61,181)
Increase in other accounts and notes payable	73,813	83,506	11,588	71,310
Increase (decrease) in accrued expenses	52,874	120,087	(61,507)	51,081
Increase in income tax payable	486,198	149,376	271,347	469,711
Deferred income tax, net	137,986	(2,164)	(137,771)	133,307
Payment of severance benefits	(28,346)	(25,045)	(14,469)	(27,385)
Others	45,292	(153,504)	22,081	43,754
	(750,414)	(656,956)	190,505	(724,971)
Net cash provided by operating activities	4,945,894	3,498,597	3,213,339	4,778,178

F-7

Table of Contents

POSCO and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Year Ended December 31, 2004, 2003 and 2002

	2004	2003	2002	2004
	(Note 2)			
	(In millions of Korean Won and thousands of US Dollar)			
Cash flows from investing activities				
Disposal of trading securities	W 10,482,755	W 10,800,373	W 11,547,221	\$ 10,127,287
Acquisition of trading securities	(10,546,422)	(10,881,694)	(12,150,384)	(10,188,795)
Disposal of short-term financial instruments	1,416,087	1,940,605	1,317,099	1,368,067
Acquisition of short-term financial instruments	(1,348,102)	(2,365,200)	(1,140,400)	(1,302,388)
Acquisition of property, plant and equipment	(2,265,074)	(1,298,848)	(1,688,840)	(2,188,265)
Disposal of property, plant and equipment	74,041	69,886	91,238	71,530
Acquisition of available-for-sales securities	(194,344)	(726,766)	(117,790)	(187,754)
Disposal of available-for-sales securities	27,558	234,038	109,523	26,624
Acquisition of other investments	(1,083,445)	(50,986)	(15,051)	(1,046,705)
Proceeds from short-term loans	100,983	45,512	147,650	97,559
Short-term loans provided	(39,864)	(52,401)	(56,910)	(38,512)
Long-term loans provided	(4,665)	(30,192)	(46,162)	(4,507)
Acquisition of intangible assets	(89,739)	(103,828)	(96,676)	(86,696)
Others	90,329	284,232	(46,082)	87,265
Net cash used in investing activities	(3,379,902)	(2,135,269)	(2,145,564)	(3,265,290)
Cash flows from financing activities				
Payment of cash dividends	(524,570)	(325,961)	(214,277)	(506,782)
Proceeds from (payment of) short-term borrowings	(13,938)	102,131	(85,565)	(13,464)
Proceeds from long-term debt	280,038	656,071	646,848	270,543
Repayment of current portion of long-term debt	(1,018,064)	(1,314,762)	(1,299,970)	(983,542)
Repayment of long-term debt	(106,558)	(2,129)	(278,086)	(102,944)
Proceeds from sale of minority interest	8,948	4,033	54,107	8,644
Acquisition of treasury stock	(304,712)	(263,351)	(91,143)	(294,379)
Disposal of treasury stock	81,724	43,885	95,187	78,953
Others	(52,589)	53,919	(5,351)	(50,807)

Net cash used in financing activities	(1,649,721)	(1,046,164)	(1,178,250)	(1,593,778)
Effect of exchange rate changes on cash and cash equivalents	(22,267)	9,107	(12,862)	(21,512)
Net decrease in cash and cash equivalents from changes in consolidated subsidiaries	381		(16,097)	368
Net increase (decrease) in cash and cash equivalents	(105,615)	326,271	(139,434)	(102,034)
Cash and cash equivalents at the beginning of the year	593,946	267,675	407,109	573,806
Cash and cash equivalents at the end of the year	W 488,331	W 593,946	W 267,675	\$ 471,772
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	W 214,845	W 255,762	W 327,575	\$ 207,560
Cash paid during the year for income tax	W 854,899	W 589,052	W 264,729	\$ 825,910

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2004 and 2003

1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (the Company), including POSCO Engineering & Construction Co., Ltd. (POSCO E & C) and thirteen other domestic subsidiaries and twenty-three overseas subsidiaries, whose accounts are included in the consolidated financial statements, and sixteen equity method investees, which are excluded from the consolidation, are as follows:

The Controlling Company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. Annual production capacity is 30,000 thousand tons; 13,300 thousand tons at the Pohang mill and 16,700 thousand tons at the Gwangyang mill. The shares of POSCO have been listed on the Korea Stock Exchange since 1988. POSCO operates two plants and one office in Korea, and seven liaison offices overseas. The principal market for POSCO's products is the domestic market in Korea, while export and overseas sales are concentrated in Japan, China and other countries in the Asia Pacific region.

Under its Articles of Incorporation, the Company is authorized to issue 200 million shares of common stock with a par value of W5,000 per share. The Company retired 2,891,140; 2,807,690; and 1,815,640 shares of treasury stock with the approval of the Board of Directors on August 25, 2001, November 20, 2002 and July 22, 2003, respectively. In addition, the Company retired 1,779,320 shares of treasury stock on October 19, 2004 in accordance with the resolution of the Board of Directors on July 23, 2004. Accordingly, total issued shares were reduced to 87,186,835 from 88,966,155 as of December 31, 2004.

As of December 31, 2004, POSCO's shareholders are as follows:

	Number of Shares	Percentage of Shares (%)
National Pension Corporation	3,084,186	3.54
SK Telecom Co., Ltd.	2,481,310	2.85
Pohang University of Science and Technology	2,475,000	2.84
Others	79,146,339	90.77
	87,186,835	100.00

As of December 31, 2004 and 2003, the shares of POSCO are listed on the Korea Stock Exchange, and its depository receipts are listed on the New York and London Stock Exchanges.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Consolidated Subsidiaries

The consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. The following table sets forth certain information with regard to consolidated subsidiaries as of December 31, 2004.

Subsidiaries	Primary Business	Capital (In millions of Korean Won)	Number of Outstanding (1) Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage Ownership Subsidiaries
				POSCO	Subsidiaries	Total			
POSCO E & S (SEC)	Engineering and construction	W 788,126	30,000,000	27,281,080		27,281,080	90.94	Pohang	
POSCO Steel Co., Ltd.	Steel sales and service	274,282	18,000,000	17,155,000		17,155,000	95.31	Pohang	
POSCO CON Ltd.	Electronic control devices manufacturing	83,228	3,519,740	3,098,610		3,098,610	88.04	Pohang	
POSCO Eng Ltd.	Coated steel manufacturing	280,599	6,000,000	4,000,000		4,000,000	66.67	Pohang	
POSCO Machinery & Engineering Ltd.	Steel work maintenance	34,632	1,700,000	1,700,000		1,700,000	100.00	Pohang	
POSCO DATA Ltd.	Computer hardware and software distribution	111,806	6,155,160	4,000,000		4,000,000	64.99	Sungnam	
POSCO Research Institute	Economic research and consulting	22,645	3,800,000	3,800,000		3,800,000	100.00	Seoul	
POSCO Gwang Ltd.	Athletic facilities operation	42,529	4,145,000	2,737,000	1,208,000	3,945,000	95.17	Suncheon	POSCO E&S (29.14)
POSCO FAC Co., Ltd.	Architecture and consulting	10,187	130,000	130,000		130,000	100.00	Seoul	
POSCO Gwang Specialty Co., Ltd.	Specialty steel manufacturing	388,899	30,000,000	26,000,000	4,000,000	30,000,000	100.00	Changwon	Posteel (6.6) POSCON (6.6)
POSCO Machinery Ltd.	Machinery installation	27,131	1,000,000	1,000,000		1,000,000	100.00	Gwangyang	
		34,433	6,000,000	5,700,000		5,700,000	95.00	Pohang	

TECH ure tal Co.,	Investment in venture companies								
CO actories									
ronment (REC)	Manufacturing	98,439	5,907,000	3,544,200		3,544,200	60.00	Pohang	
EUN elopment	Real estate, rental and construction	(17,386)	30,000					(2)Busan	
ign: CO rica . (SAM)	Steel trading	136,073	308,610	306,855	1,755	308,610	100.00	U.S.A.	POSCAN (0

F-10

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Subsidiaries	Primary Business	Capital (In millions of Korean Won)	Number of Outstanding (1) Shares	Number of Shares			Percentage of Ownership		Location	Percentage Ownership Subsidiaries
				POSCO	Subsidiaries	Total	(%)			
POSCO Australia Ltd. (POSA)	Steel trading	W 43,629	761,775	761,775		761,775	100.00	Australia		
POSCO Canada (POSCAN)	Coal trading	45,736	1,099,885		1,099,885	1,099,885	100.00	Canada	Posteel (100.00)	
POSCO Asia Co., Ltd. (POA)	Steel trading	17,788	9,360,000	9,360,000		9,360,000	100.00	Hongkong		
POSCO Steel Corporation (VPS)	Steel manufacturing	15,229	N/A	N/A	N/A	N/A	40.00	Vietnam	Posteel (50.00)	
SHANGHAI POSCO I Coated Steel Ltd.	Coated steel manufacturing	33,203	N/A	N/A	N/A	N/A	55.00	China	Posteel (15.00)	
POSCO Tianjin Coil Processing Co., Ltd.	Steel service center	12,471	N/A	N/A	N/A	N/A	70.00	China	Posteel (60.00)	
POSCO METAL Co., Ltd.	Steel service center	7,282	6,000		3,000	3,000	50.00	Japan	Posteel (50.00)	
Shanghai Real Estate Development Co., Ltd.	Real estate rental	66,743	N/A	N/A	N/A	N/A	100.00	China	POSCO E & S (100.00)	
POSCO Vietnam Corporation	Real estate rental	15,677	N/A	N/A	N/A	N/A	60.00	Vietnam	POSCO E & S (60.00)	
POSCO LILAMA Steel Structure Ltd.	Steel structure fabrication and sales	(6,895)	N/A	N/A	N/A	N/A	70.00	Vietnam	POSCO E & S (60.00), Posteel (10.00)	
POSCO Gyeonggiang Stainless Steel Co., Ltd.	Stainless steel manufacturing	262,468	N/A	N/A	N/A	N/A	87.08	China	POSCO-China Holding Co. (13.79)	
POSCO VINDE Pohang Coated Steel Co., Ltd.	Coated steel manufacturing	32,428	N/A	N/A	N/A	N/A	93.80	China	POSCO-China Holding Co. (10.00)	
POSCO THAI Steel Processing Co., Ltd.	Steel service center	8,209	4,091,570	477,288	2,136,208	2,613,496	63.87	Thailand	Posteel (52.00)	
POSCO Shandong Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	60,581	N/A	N/A	N/A	N/A	80.00	China	POSCO-China Holding Co. (10.00)(3)	
POSCO Myanmar-POSCO Ltd.	Steel manufacturing	6,216	19,200	13,440		13,440	70.00	Myanmar		

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Subsidiaries	Primary Business	Capital (In millions of Korean Won)	Number of Outstanding (1) Shares	Number of Shares			Percentage of Ownership		Location	Percentage Ownership Subsidiaries
				POSCO	Subsidiaries	Total	(%)			
Zhangjiagang HA Steel Co., Ltd.	Depot service	W 9,938	N/ A	N/ A	N/ A	N/ A	90.00	China	POSCO E & (25.00), Zhangjiaga Pohang Stair Steel (65.00)	
SEO Investment Co.,	Finance	34,415	2,000,000	2,000,000		2,000,000	100.00	Hongkong		
SEO (ZHOU) Automotive Pressing Co., Ltd.	Steel service center	20,778	N/ A	N/ A	N/ A	N/ A	100.00	China	POSCO-Ch Holding Corp.(10.00)	
SEO Qingdao Center Co.,	Steel service center	8,871	N/ A	N/ A	N/ A	N/ A	69.08	China	Posteel (69.00)	
SEO-China Investing Corp.	Investment	53,675	N/ A	N/ A	N/ A	N/ A	100.00	China	(3)	
SEO AUSTRALIA PtY.	Soft coal	20,953	17,500,001		17,500,001	17,500,001	100.00	Australia	POSA (100.00)(3)	
SEO-JAPAN Ltd.	Steel trading	49,212	88,038	88,038		88,038	100.00	Japan	(4)	

- (1) Capital of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.
- (2) The Company does not have any equity interest in SEO MUEUN Development Inc. However, in accordance with the contract terms, the Company has the power to control or to direct the operations and management. In addition, all the members of SEO MUEUN Development Inc.'s Board of Directors are composed of employees of POSCO E & C.
- (3) No shares have been issued in accordance with the local laws and regulations.
- (4) During the year ended December 31, 2004, the Company incorporated POSCO-Japan Co., Ltd. by contributing building and a piece of land with a total book value of W44,808 million and additional cash amounting to W1,058 million after closing down the Japanese branch.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Equity Method Investees

The following table sets forth certain information with regard to equity method investees as of December 31, 2004.

Investees	Primary Business	Capital (In millions of Korean Won)(1)	Number of Shares			Percentage of Ownership		Location	Percentage of Ownership of Subsidiaries (%)
			POSCO	Subsidiaries	Total	(%)			
Domestic:									
POSCO Information Technologies Co., Ltd.	E-business	W 17,393	560,000	180,000	740,000	23.13	Seoul	POSDATA and others (5.00)	
POSCO Engineering Co., Ltd.	Engineering	10,211		866,190	866,190	25.92	Seoul	POSCO E & C (25.00)	
POSCO Development Co., Ltd.	Real estate rental	(44,800)		78,338	78,338	29.90	Seoul	POSCO E & C (29.90)	
POSCO Railway 9 Co., Ltd.	Railway management	7,322		430,534	430,534	29.40	Seoul	POSCON (14.70) PODATA (14.70)	
Foreign:									
POSCO Brazil Co., Ltd.	Pellet	26,481	2,010,719,185		2,010,719,185	50.00	Brazil		
POSCO Japan Co., Ltd.	Warehousing	2,201		600	600	30.00	Japan	PIO (30.00)	
POSCO USA Co., Ltd.	Material processing	179,248	N/A	N/A	N/A	50.00	U.S.A.	POSAM (50.00)(2)	
POSCO China Co., Ltd.	Coloring	11,465	N/A	N/A	N/A	30.00	China	Posteel (30.00)(3)	
POSCO Africa Co., Ltd.	Fe-Cr	31,762	21,675		21,675	25.00	Republic of South Africa		
POSCO China Co., Ltd.	Metal processing	14,901	N/A	N/A	N/A	21.00	China	Posteel (10.50)(3)	
POSCO India Co., Ltd.	Metal processing	7,715	2,345,558	4,573,838	6,919,396	29.50	India	Posteel (19.50)(3)	
POSCO USA Co., Ltd.	Investment in companies in the bio-tech industry	33,221	N/A	N/A	N/A	100.00	U.S.A.	POSAM (80.00)(3)	

OSMI PT Indonesia (MI)	Steel service center	3,504	743	2,229	2,972	36.69	Indonesia	Posteel (27.52)
Posmit Steel Pte SDN	Steel service center	10,559	4,200,000		4,200,000	30.00	Malaysia	
POSVINA Co., (VINA Co.,)	Steel manufacturing	6,954	N/A	N/A	N/A	50.00	Vietnam	
POSVEN	Steel manufacturing		4,480	2,240	6,720	60.00	Venezuela	POSCO E & (10.00) POSTEEL (10.00)

- (1) Capital of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.
- (2) The Company owns over 30% of equity interest in KOBRASCO, UPI, PT POSMI STEEL Indonesia and POSVINA Co., Ltd. However, the Company is not the major shareholder of these companies. Therefore, these companies were excluded from consolidation. As of December 31, 2004, POSVEN is in the process of liquidation and is accordingly excluded from consolidation.
- (3) No shares have been issued in accordance with the local laws and regulations.
- (4) The Company owns 100% of equity interest in POSCO Bioventures LP. However, due to an agreement with POSCO Bioventures LP., which prohibits the Company to engage in management activities, POSCO Bioventures LP. was excluded from consolidation.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Subsidiaries Excluded from the Consolidated Financial Statements

		Shareholders		Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)
		Equity (In millions of Korean Won)(1)	Number of shares Subsidiaries Total			
Domestic:						
POSCO Terminal Co., Ltd.	Distribution and warehousing	W 14,738	51,000	51.00	Kwangyang	(2)
Metapolis Co., Ltd.	Construction	2,063	320,400	320,400	Hwasung	POSCO E & C (40.05)(2)
Foreign:						
PT. POSNESIA Stainless Steel Industry	STS/CR		29,610,000	29,610,000	Indonesia	(3)
POSEC-HAWAII Inc.	Construction	5,343	18,100	18,100	U.S.A.	POSCO E & C (100.00)(4)
POSCO E&C (ZHANGJIAGANG) Engineering & Consulting Co., Ltd.	Facilities manufacturing	(229)	N/A	N/A	China	POSCO E & C (100.00)(2)
Dalian Poscondongbang Automatic Co., LTd	Electronic use facilities manufacturing	1,177	100,000	100,000	China	POSCON (70.00)(2)
Qingdao Posco Steel Processing Co., Ltd	Steel service center	4,175	N/A	N/A	China	POA (100.00)(2)
POSCO-FOSHAN Steel Processing Center Co., Ltd	Steel service center	887	N/A	N/A	China	POA (40.00) POSCO-CHINA (60.00)(2)

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

(2) Capital investment was less than W7,000 million as of December 31, 2004.

(3) As of December 31, 2004, the company is in the process of the liquidation.

(4) As of December 31, 2004, the company's operations have been suspended for more than one year.

Change in Scope of Consolidation

The consolidated financial statements include the accounts of POS-ORE Pty. Ltd., which was excluded from consolidation as of December 31, 2003, due to the increase in its total assets to exceed W7,000 million as of December 31, 2004. Also, the consolidated financial statements include the accounts of SEO MUEUN Development

Inc., POSCO-China Holding Corp. and POSCO-Japan Co., Ltd., which were newly incorporated, since POSCO has obtained a controlling financial interest in such companies. POSCO does not have any equity interest in SEO MUEUN Development Inc., however, in accordance with the contract terms, POSCO has the power to control or to direct its operations and management. In addition, all the members of SEO MUEUN Development Inc.'s Board of Directors are composed of employees of POSCO E & C, which is a controlled subsidiary of POSCO. POSCO International Osaka, Inc. was excluded from consolidation as of December 31, 2004 since POSCO International Osaka, Inc. was acquired by POSCO-Japan Co., Ltd. As a result of such change in scope of consolidation, the total assets, sales, net income and the shareholders' equity of the consolidated financial statements as of and for the year ended December 31, 2004 increased by W482,413 million, W165,354 million, W350 million and W102,943 million, respectively.

F-14

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its consolidated financial statements are summarized below:

Basis of Consolidated Financial Statements Presentation

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

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board (KASB) has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards, established by the Korean Financial Supervisory Commission. As SKFAS No. 2 through No. 9 became applicable to the Company on January 1, 2003, the Company adopted these standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these statements in its financial statements, as of and for the year ended December 31, 2004.

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Principles of Consolidation

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

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

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Cash, Cash Equivalent and Financial Instruments

Cash and cash equivalents include cash on hand, cash in banks, and highly liquid temporary cash investments with original maturities of three months or less. Investments which are readily convertible into cash within four months or more of purchase are classified in the balance sheet as financial instruments. The carrying amount of short-term financial instruments is approximate fair value.

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Inventories

The quantity of inventory on hand is verified using the perpetual inventory system, which continuously updates the quantity of the inventory during the period, and by physical count as of the balance sheet date. Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit, which are stated at actual cost using the specific identification method. If the net realizable (replacement cost for raw materials) value of inventories is lower than its cost, the carrying amount is reduced to the net realizable value (replacement cost for raw materials) and the difference between the cost and revalued amount is charged to current operations. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

For certain other subsidiaries, inventories are stated at the lower of cost or market, with cost being determined using the gross average method or FIFO method. Individual accounting policies on inventories of POSCO and each subsidiary are enumerated on page 25 and 26.

Investments in Securities

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, *Investments in Securities*. This statement requires investments in equity and debt securities to be classified into one of three categories: trading, available-for-sale and held-to-maturity.

Securities that are bought and held principally for sale in the near-term to generate profits from short-term price differences are classified into Trading. Trading generally involves active and frequent buying and selling. Debt securities that have fixed or determinable payments and fixed maturity shall be classified as held-to-maturity only if the reporting entity has both the positive intent and ability to hold those securities

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

to maturity. Securities that are not classified as either held-to-maturity securities or trading securities are classified into available-for-sale.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method or moving-average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses of available-for-sale and held-to-maturity securities are recognized in the statement of income when the recoverable amounts are less than the acquisition costs of securities or adjusted costs of debt securities for the amortization of discounts or premiums.

Investments in Affiliates

Investments in equity securities of companies, over which the Company exercises significant influence are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses equals the cost of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over five years using the straight-line method.

Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated.

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Individual depreciation methods for property, plant and equipment of POSCO and each subsidiary are enumerated on

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

page 25 and 26. Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

	Estimated Useful Lives
Buildings and structures	5 - 60 years
Machinery and equipment	3 - 25 years
Tools	4 - 20 years
Vehicles	4 - 10 years
Furniture and fixtures	3 - 20 years

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

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

Intangible Assets

Intangible assets are stated at acquisition cost, including incidental expenses, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives as described below.

	Estimated Useful Lives
Goodwill	5 - 10 years
Negative goodwill	5 years
Intellectual property rights	5 - 50 years
Port facilities usage rights	2 - 33 years(2)
Land usage rights	25 - 50 years(2)
Deferred development expenses	(1)
Other intangible assets	2 - 50 years

- (1) The costs incurred in relation to the development of new products and new technologies, including the development cost of internally used software and related costs, are recognized and recorded as development costs only if it is probable that future economic benefits that are attributable to the asset will flow into the entity and the cost of the asset can be measured reliably. The useful life of development costs is based on its estimated useful life, not to exceed 20 years from the date when the asset is available for use.
- (2) Port facilities usage rights and land usage rights, which represent right to use certain port facilities and land, are amortized over the term of exclusive rights.

Port facilities usage rights are related to the quay and inventory yard donated by POSCO since April 1987 to the local bureaus of the Maritime Affairs and Fisheries in Kwangyang, Pohang, Pyoungtaek and Masan. The related amortization expense amounted to W22,602 million for the year ended December 31, 2004.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Impairment of Assets

The Company assesses the potential impairment of assets which are not recorded at fair value when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of accumulated depreciation or amortization, if any, before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Discounts on Debentures

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

Government Grants

POSCO and domestic subsidiaries accounted for the government grants intended to be used for the acquisition of certain assets as deduction from the cost of the acquired assets. Before the acquisition of the assets specified by the grant, the amounts are recognized as a deduction from the account under which the asset to be acquired is to be recorded, or from the other assets acquired as a temporary investment of the grant received.

The government grants, contributed to compensate for specific expenses, are offset against the related expenses. Other government grants, for which the use or purpose is not specified, are recorded as gains from assets contributed, and are recognized in current operations.

Valuation of Assets and Liabilities at Present Value

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

Income Taxes

Income taxes are accounted for under the asset and liability method. In accordance with the applicable tax laws, POSCO and POSCO E & C and 13 other domestic subsidiaries, and POSA and four other overseas subsidiaries, recognize the temporary differences between the amount reported for financial reporting and income tax purposes as deferred income tax assets and liabilities. POSAM and 17 other overseas subsidiaries record taxes payable as income tax expense in accordance with the applicable tax laws.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date. In addition, in accordance with the applicable laws and regulations, POSAM and 22 other overseas

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

subsidiaries recorded the amount, which would be payable to employees at the time of termination, as accrued severance benefits.

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

The Company made deposits to the National Pension Fund in accordance with the National Pension Act of the Republic of Korea. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Derivative Instruments

The Company enters into derivative transactions to hedge against financial risks. Derivatives are required to be recorded on the balance sheets at fair value and classified into: cash flow hedges, fair market value hedges and transactions entered into for nontrading purposes that do not qualify for hedge accounting treatment or otherwise hedge accounting treatment is not applied. When derivatives qualify for cash flow hedges, unrealized holding gains and losses of the derivatives are recorded as capital adjustments in the balance sheet and recognized in the statement of earnings when the hedged item affects earnings. When derivatives qualify for fair market value hedge, unrealized holding gains and losses of the derivatives as well as the changes in the fair value of the hedged items are recorded in the statement of earnings. If the contract expires, the gains and losses from fair value hedge transactions are charged to earnings and the gains and losses from cash flow hedged are offset against the purchasing price of inventories.

Lease Transactions

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

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the current rates in effect at the balance sheet date, and resulting translation gains and losses are recognized in current operations.

Translation of Foreign Operations

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

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

operations translation amounting to W29,538 million from the Japanese branch was reclassified as extraordinary income amounting to W3,387 million and gain on valuation of equity method investments amounting to W26,151 million.

Stock Appreciation Rights

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

Capitalization of Financing Expenses

Financing expense on borrowing associated with certain qualifying assets during the construction period that meet certain criteria for capitalization can be either capitalized or expensed as incurred. The Company has chosen to expense as a financing expense the cost of manufacturing, acquisition, and construction of property, plant, and equipment that require more than one year from the initial date of manufacture, acquisition, and construction to the date of the estimated completion of the manufacture, acquisition and construction.

Basic and Diluted Earnings Per Share and Basic and Diluted Ordinary Income Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock as adjusted by extraordinary gains or losses and net of related income taxes, by the weighted average number of common shares outstanding during the year.

Cash Flow Statement

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

United States Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1:W1,035.10, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2004. The U.S. dollar amounts are unaudited and are not presented in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Accounting Policies on Inventories and Depreciation of property, plant and equipment of POSCO and its Controlled Subsidiaries are as follows:

Company	Inventories(1)	Depreciation of property, plant and equipment
POSCO	Moving-average method	Straight-line method
POSCO E & C	Moving-average method	Straight-line method
Posteel Co., Ltd.	Moving-average method	Straight-line method
POSCON Co., Ltd.	Moving-average method	Straight-line method, Declining-balance method
Pohang Coated Steel Co., Ltd.	Gross average method	Straight-line method
POSCO Machinery & Engineering Co., Ltd.	Moving-average method	Straight-line method
POSDATA Co., Ltd.	Moving-average method	Straight-line method
POSCO Research Institute	N/ A	Straight-line method
Seung Kwang Co., Ltd.	Gross average method	Straight-line method, Declining-balance method
POS-AC Co., Ltd.	N/ A	Straight-line method, Declining-balance method
Changwon Specialty Steel Co., Ltd.	Moving-average method	Straight-line method
POSCO Machinery Co., Ltd.	Moving-average method	Straight-line method
POSTECH Venture Capital Co., Ltd.	N/ A	Declining-balance method
POSCO Refractories & Environment (POSREC)	First-in, First-out Method; Moving-average method	Straight-line method, Declining-balance method
SEO MUEUN Development Inc.	Specific identification method	Straight-line method
POSCO America Corp. (POSAM)	Moving-average method	Straight-line method
POSCO Australia Pty. Ltd. (POSA)	Gross average method	Straight-line method
POSCO Canada Ltd. (POSCAN)	Gross average method	Straight-line method, unit of production method
POSCO Asia Co., Ltd. (POA)	N/ A	Declining-balance method
VSC POSCO Steel Corporation (VPS)	Moving-average method	Straight-line method
DALIAN POSCO CFM Coated Steel Co., Ltd.	Moving-average method	Straight-line method
POS-Tianjin Coil Center Co., Ltd.	Moving-average method	Straight-line method

Edgar Filing: POSCO - Form 20-F

POSMETAL Co., Ltd.	Moving-average method	Straight-line method
Shanghai Real Estate Development Co., Ltd.	N/ A	Straight-line method
IBC Corporation	Specific identification method	Straight-line method
POSLILAMA Steel Structure Co., Ltd.	Moving-average method	Straight-line method
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Moving-average method	Straight-line method
SHUNDE Pohang Coated Steel Co., Ltd.	Moving-average method	Straight-line method
POS-THAI Service Steel Center Co., Ltd.	Moving-average method	Straight-line method
Qingdao Pohang Stainless Steel Co., Ltd.	Moving-average method	Straight-line method

F-22

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Company	Inventories(1)	Depreciation of property, plant and equipment
Myanmar-POSCO Co., Ltd.	Moving-average method	Straight-line method
Zhangjiagang POSHA Steel Port Co., Ltd.	Moving-average method	Straight-line method
POSCO Investment Co., Ltd.	N/ A	Straight-line method
POSCO (SUZHOU) Automotive Processing Center Co., Ltd.	Moving-average method	Straight-line method
POS-Qingdao Coil Center Co., Ltd.	Moving-average method	Straight-line method
POSCO-China Holding Corp.	N/ A	Straight-line method
POS-ORE Pty. Ltd.	N/ A	Straight-line method
POSCO-Japan Co., Ltd.	Gross-average method	Straight-line method

(1) Specific identification method is used for materials-in-transit.

F-23

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

3. Cash and Cash Equivalents and Financial Instruments

Cash and cash equivalents and short-term and long-term financial instruments as of December 31, 2004 and 2003 consist of the following:

	Annual interest rates (%) as of December 31, 2004		2004		2003
(in millions of Korean Won)					
Cash and cash equivalents					
Cash on hand and bank deposits	0.00 - 3.00	W	16,106	W	9,732
Corporate bank deposits	0.10 - 5.00		20,655		37,874
Checking accounts			2,927		4,704
Time deposits in foreign currency and others	0.00 - 2.00		246,891		351,430
Maintained by overseas affiliates	1.00 - 5.00		201,752		190,206
			488,331		593,946
Government grants			(1,961)		(1,344)
		W	486,370	W	592,602
Short-term financial instruments					
Time deposits	3.00 - 6.00	W	113,000	W	285,850
Installment accounts	4.00		656		77,276
Time deposits in foreign currency					2,463
Money in trust			2,140		2,121
Negotiable certificates of deposit	4.00 - 5.00		185,000		259,000
Commercial Paper	3.50 - 5.00		43,893		42,109
Trust type savings accounts	3.70 - 4.80		270,000		
Others	3.00		9,909		10,322
Maintained by overseas affiliates	2.50 - 3.31		16,390		16,028
		W	640,988	W	695,169
Long-term financial instruments					
Installment accounts	1.00 - 5.00	W	1,307	W	498
Guarantee deposits for opening accounts			108		113
Time deposits in foreign currency and others	0.00 - 4.00		291		17,391
		W	1,706	W	18,002

As of December 31, 2004, the Company's financial assets amounting to W7,649 million are pledged as collateral and, accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collateral include short-term financial instruments and long-term financial instruments amounting to W7,000 million and W541 million, respectively, in relation to performance guarantee deposits, and long-term financial instruments amounting to W108 million in relation to collateral deposits for opening checking accounts and others (Note 13).

F-24

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

As of December 31, 2003, the Company's financial assets amounting to W8,255 million are pledged as collateral and, accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collateral include short-term financial instruments and long-term financial instruments amounting to W8,000 million and W142 million, respectively, in relation to performance guarantee deposits, and long-term financial instruments amounting to W113 million in relation to collateral deposits for opening checking accounts and others (Note 13).

4. Trading Securities

Trading securities as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	(in millions of Korean Won)			
Beneficiary certificates(1)	W	2,658,756	W	1,147,219
Mutual funds		30,837		174,082
	W	2,689,593	W	1,321,301

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

5. Accounts and Notes Receivable and Others

Accounts and notes receivable and their allowance for doubtful accounts and others as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	(in millions of Korean Won)			
Trade accounts and notes receivable	W	3,163,644	W	2,332,737
Less: Allowance for doubtful accounts		(69,509)		(23,327)
Present value discount		(624)		(965)
	W	3,093,511	W	2,308,445
Other accounts and notes receivable	W	226,236	W	152,053
Less: Allowance for doubtful accounts		(63,032)		(56,489)
Present value discount		(86)		
	W	163,118	W	95,564
Long-term trade accounts and notes receivable	W	50,266	W	61,734
Less: Allowance for doubtful accounts		(2,081)		(2,090)
Present value discount		(12,091)		(15,979)
	W	36,094	W	43,665
Long-term loans	W	82,296	W	83,346

Edgar Filing: POSCO - Form 20-F

Less: Allowance for doubtful accounts	(746)	(384)
Present value discount	(54)	(85)
	W 81,496	W 82,877

F-25

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Accounts stated at present value under rescheduled payment and long-term deferred payment included as part of accounts and notes receivable and others are as follows:

Accounts	Company	Face value	Present value discount	Book value	Maturity (year)	Discount rate (%)
(in millions of Korean Won)						
Long-term deferred payment:						
Long-term loans	Employees	W 159	W 19	W 140	2017	7.54
	Others	260	35	225	2006	7.54
		419	54	365		
Other long-term assets	Cointop Software Corp.	201	38	163	2008	6.50
	Softpark Corp.	198	46	152	2009	6.32
		399	84	315		
		818	138	680		
Rescheduled payment:						
Long-term trade accounts and notes receivable	BNG Steel Co., Ltd.	W 53,259	W 12,212	W 41,047	2005 2009	8.00 8.62
	Hanbo Iron and Steel Co., Ltd. and Others	2,114	503	1,611	2010 2014	4.97 7.54
		55,373	12,715	42,658		
Less: Current portion		(8,569)	(624)	(7,945)		
		46,804	12,091	34,713		
Other long-term assets	Dong Sung Construction Co., Ltd. and Others	16,157	375	15,782	2005 2018	5.09 8.00
Less: Current portion		(3,504)	(86)	(3,418)		

W 59,457 W 12,380 W 47,077

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

F-26

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Valuation and qualifying accounts for allowance for doubtful accounts for the years ended December 31, 2004, 2003 and 2002 are as follows:

Description	Balance at beginning of period	Additions		Deductions(1)	Balance at the end of period
		Charged to costs and expenses	Charged to other accounts(2)		
(in millions of Korean Won)					
Year ended December 31, 2004:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	W 325,187	W (56,961)	W	W 121,444	W 146,782
Year ended December 31, 2003:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	321,534	(3,843)		(7,496)	325,187
Year ended December 31, 2002:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	44,047	184,886	103,954	11,353	321,534

(1) Deduction for allowance for doubtful accounts includes amount written off as uncollectible and others.

(2) Includes W104 billion related to the consolidation adjustment resulting from the change in scope of consolidation.

6. Inventories

Inventories as of December 31, 2004 and 2003 consist of the following:

2004	2003
(in millions of Korean Won)	

Finished goods	W	448,659	W	340,814
By-products		2,842		3,226
Semi-finished goods		640,672		457,954
Raw materials		1,215,136		699,970
Materials in-transit		563,470		513,645
Others		194,742		52,762
	W	3,065,521	W	2,068,371

7. Investment Securities

Investment securities as of December 31, 2004 and 2003 consist of the following:

		2004		2003
		(in millions of Korean Won)		
Available-for-sale securities	W	2,164,129	W	2,147,013
Held-to-maturity securities		38,741		17,481
Equity method investments		142,206		154,336
	W	2,345,076	W	2,318,830

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Available-For-Sale Securities

	2004		2003	
	(in millions of Korean Won)			
Current portion of debt security investments	W	141,573	W	
Marketable equity securities		1,682,772		1,647,038
Non-marketable equity securities		321,000		226,793
Debt security investments		145,640		243,691
Other investments		14,717		29,491
		2,164,129		2,147,013
	W	2,305,702	W	2,147,013

Investments in marketable equity securities as of December 31, 2004 and 2003 are as follows:

		Percentage of ownership (%) as of December 31, 2004	2004		2003			
			Acquisition cost	Book value(1)	Book value			
Number of shares								
(in millions of Korean Won)								
Hanil Iron Steel Co., Ltd.	206,798	10.14	W	2,412	W	3,102	W	2,337
HISTEEL Co., Ltd.	123,052	9.95		1,608		1,747		1,053
MunBae Steel Co., Ltd.	1,849,380	9.02		3,588		2,367		1,840
Chohung Bank								529
Hana Bank	4,617,600	2.34		29,998		119,134		101,587
Korea Investment Corporation	588,000	0.76		588		135		185
SK Telecom Co., Ltd.(2)	5,834,296	7.09		1,665,249		1,170,222		1,153,190
Samjung P&A Co., Ltd.	270,000	9.00		2,714		1,944		1,866
DongYang Steel Pipe Co., Ltd.	1,564,250	2.46		3,911		501		508
Nippon Steel Corporation	147,876,000	2.17		285,103		375,649		380,794

Korea Line Corporation	217,373	2.17	8,067	7,695	
Others			266	276	3,149
			W 2,003,504	W 1,682,772	W 1,647,038

- (1) Marketable equity securities are stated at fair market value and the difference between the acquisition cost and the fair market value is accounted for in the capital adjustments account.
- (2) 1,735,799 SK Telecom Co., Ltd. shares classified as available-for-sale securities have been placed as a collateral for exchangeable bonds (Note 13).

F-28

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Investments in non-marketable equity securities as of December 31, 2004 and 2003 are as follows:

	Number of shares	Percentage of ownership (%) as of December 31, 2004	2004		2003	
			Acquisition cost	Net asset value(1)	Book value	Book value
(in millions of Korean Won)						
Dae Kyeong Special Steel Co., Ltd.	1,786,000	19.00	W 8,930	W 5,365	W 8,930	W 8,930
Kihyup Corporation	600,000	10.34	3,000	3,425	3,000	3,000
Keo Yang Shipping Co., Ltd.	150,000	0.88	780	1,555	780	780
Korea Economic Daily	57,456	0.46	309	169	309	308
Daewoo Commercial Vehicle Co., Ltd.						51
The Siam United Steel	9,000,000	10.00	26,640	13,486	26,640	26,640
PT-POSNESIA Stainless Steel Industry(2)	29,610,000	70.00	9,474	1,567	1,567	2,537
Global Unity Ltd.	70,649	10.00	710	1,141	710	710
Seoul Daily News	1,614,000	19.40	17,317	6,926	9,551	9,551
POSCO Terminal Co., Ltd.(2)	1,183,200	51.00	5,916	7,517	5,916	1,020
Incheon Airport Train Co., Ltd.	14,865,988	12.00	74,330	74,330	74,330	44,892
POS-Ore Pty Ltd.(3)						15,697
POSEC-HAWAII Inc.(2)	18,100	100.00	10,132	5,343	5,343	8,260
BX Steel Posco Cold Rolled Sheet Co., Ltd.		10.00	26,803	26,803	26,803	
Powercomm	7,500,000	5.00	246,000	76,125	76,125	68,407
Others			101,251	69,256	80,996	36,010
			W 531,592	W 293,008	W 321,000	W 226,793

- (1) The net asset value of the non-marketable equity securities is determined based on the investee companies' most recent available December 31, 2004 financial information, which has not been reviewed or audited. However, the net asset value of Keo Yang Shipping Co., Ltd. and Seoul Daily News are based on their unaudited financial

statements as of September 30, 2004. And the net asset value of POSCO Terminal is based on its audited financial statements as of December 31, 2004. The net asset value of Incheon Airport Train Co., Ltd. and BX Steel Posco Cold Rolled Sheet Co., Ltd are not available, therefore, book value is estimated based on acquisition costs. In addition, Powercomm shares were valued based on the discounted cash flow method, and the difference between the acquisition cost and the value based on the discounted cash flow was accounted for as a capital adjustment amounting to W169,875 million. Except for Powercomm, shares without an objective market value were based on acquisition costs.

- (2) As of December 31, 2004, PT-POSNESIA Stainless Steel Industry is in the process of liquidation and the operation of POSEC-HAWAII Inc. has been suspended for more than a year. Accordingly, they were no longer included as part of equity method investments. POSCO Terminal Co., Ltd.,

F-29

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

having total assets of less than W7,000 million since December 31, 2003, was not included as part of equity method investments.

- (3) As of December 31, 2004, due to the increase in its total assets exceeding W7,000 million, POS-ORE Pty. Ltd., was included in the consolidation.

Available-for-sale debt security investments as of December 31, 2004 and 2003 are as follows:

	Maturity (year)	2004		2003		
		Acquisition cost	Book value	Book value	Book value	
(in millions of Korean Won)						
Government and municipal bonds	Within one year	W 130,467	W 132,478	W		
	1 - 5	89,734	92,807			211,503
	5 - 10	8	8			124
Other bonds	1 - 5	62,855	61,920			32,064
		283,064	287,213			243,691
Less: Current portion		(139,467)	(141,573)			
		W 143,597	W 145,640	W		243,691

Other investments as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Acquisition cost	Book value(1)	Book value	Book value
(in millions of Korean Won)				
Investments in capital				
Stock Market Stabilization Fund	W	W	W	3,542
Contractor Financial Fund	12,589	12,589		12,167
Software Financial Fund and Others	2,128	2,128		13,782
	W 14,717	W 14,717	W	29,491

(1) As of December 31, 2004, other investments with no readily determinable fair value are carried at cost.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Details of valuation gains and losses on available-for-sale securities for the year ended December 31, 2004 are as follows:

	Beginning balance	Increase (decrease)	Ending balance
(in millions of Korean Won)			
Marketable equity securities:			
Hanil Iron & Steel Co., Ltd.	W (75)	W 764	W 689
HISTEEL Co., Ltd.	(555)	694	139
MunBae Steel Co., Ltd.	(1,748)	527	(1,221)
Chohung Bank	(3,228)	3,228	
Hana Bank	71,589	17,547	89,136
Korea Investment Corporation	(403)	(50)	(453)
SK Telecom Co., Ltd.	(504,158)	9,131	(495,027)
Samjung P&A Co., Ltd.	(848)	78	(770)
DongYang Steel Pipe Co., Ltd.	(3,403)	(7)	(3,410)
Nippon Steel Corporation	95,692	(5,145)	90,547
Daehan Line Corporation		(372)	(372)
Others	364	(354)	10
	(346,773)	26,041	(320,732)
Non-marketable equity securities:			
Powercomm	(177,593)	7,718	(169,875)
Others	(5,411)	13,513	8,102
	(183,004)	21,231	(161,773)
Total	W (529,777)	W 47,272	W (482,505)

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

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

	Beginning balance		Increase (decrease)		Ending balance	
(in millions of Korean won)						
Marketable equity securities:						
Hanil Iron & Steel Co., Ltd.	W	(197)	W	122	W	(75)
HISTEEL Co., Ltd.		(131)		(424)		(555)
MunBae Steel Co., Ltd.		(2,369)		621		(1,748)
Chohung Bank		(3,202)		(26)		(3,228)
Hana Bank		45,269		26,320		71,589
Korea Investment Corporation		(461)		58		(403)
SK Telecom Co., Ltd.		(330,311)		(173,847)		(504,158)
Samjung P&A Co., Ltd.		(419)		(429)		(848)
DongYang Steel Pipe Co., Ltd.		(3,332)		(71)		(3,403)
Nippon Steel Corporation		(76,909)		172,601		95,692
Others		129		235		364
		(371,933)		25,160		(346,773)
Non-marketable equity securities:						
Powercomm				(177,593)		(177,593)
Others		(2)		(5,409)		(5,411)
		(371,935)		(183,002)		(183,004)
Total	W	(371,935)	W	(157,842)	W	(529,777)

Details of gross unrealized gains and losses on available-for-sale securities for the years ended December 31, 2004 and 2003 are as follows:

	2004				2003											
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value								
		W	W	W		W	W	W	W							
(in millions of Korean Won)																
Government and municipal bonds	W	220,150	W	5,146	W	3	W	225,293	W	210,509	W	1,120	W	2	W	211,627
Other bonds		61,034		886		61,920		32,064		32,064						32,064

Edgar Filing: POSCO - Form 20-F

	281,184	6,032	3	287,213	242,573	1,120	2	243,691
Marketable equity securities	1,659,684	28,747	5,659	1,682,772	1,621,878	199,957	174,797	1,647,038
Non-marketable equity securities	304,621	16,379		321,000	410,913		184,120	226,793
	W 2,245,489	W 51,158	W 5,662	W 2,290,985	W 2,275,364	W 201,077	W 358,919	W 2,117,522

F-32

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

For the years ended December 31, 2004, 2003 and 2002, proceeds from sales of available-for-sale securities amounted to W27,558 million, W234,038 million and W109,523 million, respectively. Gross realized gains and losses amounted to W1,730 million and W3,506 million, respectively, for the year ended December 31, 2004.

Held-To-Maturity Securities

Held-to-maturity securities as of December 31, 2004 and 2003 are as follows:

	Maturity (year)	2004		2003	
		Acquisition cost	Book value	Book value	
(in millions of Korean Won)					
Current portion of held-to-maturity securities:					
Government and municipal bonds	Within one year	W 12,721	W 12,721	W	239,129
Corporate bond denominated in US\$		1,321	1,048		11,352
		W 14,042	13,769		250,481
Government and municipal bonds	1 - 5	W 6,814	W 6,814	W	15,232
Corporate bond denominated in US\$	1 - 5				1,207
Government and municipal bonds	5 - 10	W 31,870	31,927		1,042
		W 38,684	38,741		17,481
		W 52,726	W 52,510	W	267,962

The Company provided national treasury bonds, amounting to W29,460 million, and certain government and municipal bonds, amounting to W1,688 million, to the Gyeongsangbuk-do provincial office as a performance guarantee in relation to the development of a waste disposal area (Note 13).

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Equity Method Investments

Details of equity method investees as of December 31, 2004 and 2003 are as follows:

	Number of shares	Percentage of ownership (%) as of December 31, 2004	Acquisition cost	2004		2003	
				Net asset value(1)	Book value	Net asset value(1)	Book value
(in millions of Korean Won)							
KOBRASCO	2,010,719,185	50.00	W 32,950	W 13,240	W 11,203	W 562	
Fujiura Butsuryu Center Co., Ltd.	600	30.00	632	660	648	538	
USS-POSCO Industries(2)		50.00	234,293	89,624	65,084	98,653	
Suzhou Dongshin Color Metal Sheet Co., Ltd.(2)		30.00	2,547	3,439	3,361	4,066	
POSCHROME	21,675	25.00	4,859	7,941	7,000	6,711	
Shunde Xingpu Steel Center Co., Ltd.(2)		21.00	1,852	3,129	3,094	3,291	
POS-HYUNDAI STEEL	6,919,396	29.50	3,136	2,276	2,276	1,883	
eNtoB Corporation	740,000	23.13	3,700	4,023	3,762	3,295	
POSVINA Co., Ltd.(2)		50.00	1,527	3,477	3,145	3,970	
POS-MMIT	4,200,000	30.00	2,308	3,168	3,015	2,625	
PT POSMI STEEL Indonesia	2,972	36.69	1,467	1,286	1,599	1,572	
MIDUS Information Technologies Co., Ltd.	866,190	25.92	433	2,647	2,646	2,281	
POSCO Bioventures LP.(2)		100.00	38,157	33,221	33,221	24,889	
POSVEN(3)	6,720	60.00	66,876				
SONGDO New City Development Inc.(3)	78,338	29.90	404				
Seoul Subway Metro Railway 9	430,534	29.40	2,152	2,152	2,152		
			W 397,293	W 170,283	W 142,206	W 154,336	

- (1) Due to the delay in the closing of December 31, 2004 accounts and the settlement of closing differences, the equity method of accounting is applied based on the most recent available December 31, 2004 financial information, which has not been audited or reviewed.
- (2) No shares have been issued in accordance with the local laws and regulations. Percentage of ownership has been calculated using proportionate ownership and rights based on initial investments and contracts.
- (3) The application of the equity method has been suspended due to its negative book value.

F-34

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Details of equity method valuation for the years ended December 31, 2004 and 2003 are as follows:

	2003	Valuation	Other	2003	Valuation	Other	2004
	Beginning	gain or	increase	Ending	gain or	increase	Ending
	balance	loss	or	balance	loss	or	balance
		using	decrease(1)		using	decrease(1)	
		equity			equity		
		method			method		
(in millions of Korean Won)							
KOBRASCO	W	W 21,447	W (20,885)	W 562	W 10,539	W 102	W 11,203
Fujiura Butsuryu Center Co., Ltd.	553	(102)	87	538	207	(97)	648
USS-POSCO Industries	119,979	(28,350)	7,024	98,653	(8,011)	(25,558)	65,084
Suzhou Dongshin Color Metal Sheet Co., Ltd.	3,606	413	47	4,066	86	(791)	3,361
POSCHROME	4,379	695	1,637	6,711	766	(477)	7,000
Shunde Xingpu Steel Center Co., Ltd.	2,992	137	162	3,291	248	(445)	3,094
POS-HYUNDAI STEEL	1,379	377	127	1,883	746	(353)	2,276
eNtoB Corporation	2,579	812	(96)	3,295	467		3,762
POSVINA Co.,Ltd.		2,263	1,707	3,970	485	(1,310)	3,145
POS-MMIT	2,308	322	(5)	2,625	808	(418)	3,015
PT POSMI STEEL Indonesia	1,467	817	(712)	1,572	191	(164)	1,599
MIDUS Information Technologies Co., Ltd.		1,706	575	2,281	433	(68)	2,646
POSCO Bioventures LP.	10,020	(2,186)	17,055	24,889	(3,056)	11,388	33,221
SONGDO New City Development Inc.					(404)	404	
Seoul Subway Metro Railway 9 Seoul Shinmun Co., Ltd.(2)	13,750	(2,874)	(10,876)			2,152	2,152
Total	W 163,012	W (4,523)	W (4,153)	W 154,336	W 3,505	W (15,635)	W 142,206

- (1) Other increase or decrease represents the fluctuation of investment securities due to acquisitions (disposals) in the current period, dividends received, valuation gain or loss on investment securities, changes in retained earnings and others.
- (2) In November 2003, the Company donated 3% of its Seoul Shinmun Co., Ltd. holdings to Kumho Culture Center, resulting in the loss of its significant influence over The Seoul Shinmun Co., Ltd. As a result, this investment was accounted as part of available-for-sale securities.

F-35

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Details on the elimination of unrealized gain or loss for the years ended December 31, 2004 and 2003 are as follows:

	2004			2003		
	Current assets	Property, plant, equipment and intangible assets	Total	Current assets	Property, plant, equipment and intangible assets	Total
(in millions of Korean Won)						
KOBRASCO	W 1,358	W	W 1,358	W 655	W	W 655
Fujiura Butsuryu Center Co., Ltd.	12		12			
USS-POSCO Industries	18,303		18,303	6,237		6,237
Suzhou Dongshin Color Metal Sheet Co., Ltd.	79		79			
POSCHROME	908		908			
Shunde Xingpu Steel Center Co., Ltd.	39		39			
eNtoB Corporation	213	22	235	10	15	25
POSVINA Co., Ltd.	332		332			
POS-MMIT	211		211			
PT POSMI STEEL Indonesia	182		182			
	W 21,637	W 22	W 21,659	W 6,902	W 15	W 6,917

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

8. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2004 and 2003 consist of the following:

	2004	2003
	(in millions of Korean Won)	
Buildings and structures	W 5,096,042	W 5,040,909
Machinery and equipment	19,544,990	18,995,021
Tools	380,744	347,664
Vehicles	173,847	166,062
Furniture and fixtures	207,288	195,602
	25,402,911	24,745,258
Less: Accumulated depreciation	(18,268,530)	(17,147,340)
Less: Accumulated impairment	(2,786)	(2,786)
	7,131,595	7,595,132
Land	1,109,382	1,212,850
Less: Accumulated impairment	(565)	(566)
	1,108,817	1,212,284
Construction in-progress	2,283,496	1,121,978
Less: Accumulated impairment	(83,617)	(83,617)
	2,199,879	1,038,361
	W 10,440,291	W 9,845,777

The value of land based on the posted price issued by the Korean tax authority amounted to W2,860,565 million as of December 31, 2004 (2003: W2,796,338 million).

As of December 31, 2004, property, plant and equipment are insured against fire and other casualty losses up to W4,755,080 million (2003: W4,568,357 million). In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

Construction-in-progress includes capital investments in Gwangyang No. 2 Minimill. By a resolution of the Board of Directors in May 1998, the construction on the Minimill has been temporarily suspended due to the economic situation in the Republic of Korea and the Asia Pacific region. The continuing unstable economic condition and related decrease in the selling price of products, resulting in the deterioration in profitability, drove the management's operation committee's decision in April 2002 to cease the construction on the No. 2 Minimill, and instead use the buildings for the Tailor Welded Blank (TWB) project designed to manufacture custom-made automobile body panels. The Company previously recognized impairment losses on the construction-in-progress in Gwangyang No. 2 Minimill amounting to W390,764 million and reclassified related machinery held to be disposed in the future as other investment assets as of December 31, 2003. In addition, the Company has recognized an additional impairment loss

amounting to W78,817 million on related machinery recorded as other investment assets based on the estimated net selling price which amounted to W54,309 million as of December 31, 2004.

Due to the decrease of fair value, the Company recognized impairment losses on the building and land of the Japanese branch for the year ended December 31, 2004 amounting to W11,875 million and W50,680 million, respectively.

F-37

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

The changes in the carrying value of property, plant and equipment for the year ended December 31, 2004 are as follows:

	As of December 31, 2003	Acquisition	Disposal	Depreciation	Others(1)	Elimination of intercompany transactions	As of December 31, 2004
(in millions of Korean won)							
Land	W 1,212,284	W 7,723	W 73,091	W	W (38,044)	W (55)	W 1,108,817
Buildings	2,314,058	91,189	29,597	152,276	106,106	(130,172)	2,199,308
Structures	913,564	58,499	4,401	78,759	53,107	(52,573)	889,437
Machinery and equipment	4,178,717	894,562	22,435	1,209,030	265,772	(255,717)	3,851,869
Vehicles	33,867	15,194	865	12,098	(137)	(337)	35,624
Tools	101,172	49,483	868	51,317	67	(243)	98,294
Furniture and equipment	53,754	25,928	2,491	20,921	4,808	(4,015)	57,063
Construction-in-progress	1,038,361	2,206,870	145,758		(777,172)	(122,422)	2,199,879
	W 9,845,777	W 3,349,448	W 279,506	W 1,524,401	W (385,493)	W (565,534)	W 10,440,291

(1) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation.

9. Intangible Assets

Intangible assets, net of accumulated amortization, as of December 31, 2004 and 2003 consist of the following:

	2004	2003
(in millions of Korean Won)		
Goodwill	W	W 234
Negative goodwill	(457)	(914)
Intellectual property rights	485	523
Port facilities usage rights	146,396	129,698
Development costs	22,060	18,272
Internally used software	230,758	233,000
Land usage rights	32,416	12,750
Others	64,657	80,933
	W 496,315	W 474,496

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

amortization expense amounted to W22,602 million for the year ended December 31, 2004.

As of December 31, 2004, accumulated amortization of intangible assets amounted to W557,933 million (2003: W433,138 million).

F-38

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

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

	(in millions of Korean Won)	
2005	W	117,278
2006		87,300
2007		64,951
2008		49,006
2009		13,766
	W	332,301

10. Research and Development Costs and Others

The changes in the carrying value of development costs, internally used software and other intangible assets for the years ended December 31, 2004 and 2003 are as follows:

	2004		2003	
	(in millions of Korean Won)			
Beginning balance	W	332,205	W	294,395
Increase		95,211		125,069
Decrease(1)		101,256		78,087
Foreign exchange		(8,685)		(9,172)
Ending balance	W	317,475	W	332,205

(1) Decrease consists of amortization and dispositions.

The Company expensed research and development costs amounting to W277,149 million and for the year ended December 31, 2004 (2003: W255,696 million). For the year ended December 31, 2004, the Company charged research and development costs to cost of goods sold amounting to W206,200 million (2003: W198,871 million) and selling and administrative expenses amounting to W70,949 million (2003: W56,825 million).

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

11. Other Assets

Other assets as of December 31, 2004 and 2003 consist of the following:

	2004	2003
	(in millions of Korean Won)	
Other current assets Short-term loans (Notes 27 and 28)	W23,622	W85,027
Accrued income	25,032	60,440
Advance payments	120,374	125,754
Prepaid expenses	15,121	10,498
Others	19,903	13,059
Less: Allowance for doubtful accounts	(10,679)	(5,113)
	W193,373	W289,665
Other long-term assets		
Other investment assets (Notes 5, 8, 17 and 29)	W145,691	W526,784
Less: Allowance for doubtful accounts	(733)	(237,782)
Present value discount	(373)	(89)
	W144,585	W288,913

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

Short-term borrowings as of December 31, 2004 and 2003 consist of the following:

Financial institutions	Annual interest rate (%) as of December 31,	2004	2004	2003
	2004			
(in millions of Korean Won)				
Won currency borrowings:				
Korea Development Bank and others	4.00		W 121,374	W 164,931
Foreign currency borrowings:				
Bank of America and others	1.00 - 3.00		29,575	10,221
	1.00 - 3.80		506,592	556,629
Chohung Bank and others	LIBOR + 1.80		536,167	566,850
			W 657,541	W 731,781

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Current portion of long-term debt as of December 31, 2004 and 2003 consist of the following:

Financial institutions	Annual interest rate (%) as of December 31, 2004		2004		2003
(in millions of Korean Won)					
Debtures:					
Domestic and foreign debtures	6.00 - 8.00	W	961,607	W	789,405
Less: Discount on debtures issued			(1,347)		(1,958)
			960,260		787,447
Won currency borrowings:					
Korea Development Bank and others	3.00		31,511		1,618
Foreign currency borrowings:					
Development Bank of Japan and others	1.00 - 8.30		52,808		230,493
			84,319		232,111
Lease obligations:					
HP Financial Services	5.00		2,103		1,307
Unearned revenue:					
Unearned revenue			17		
		W	1,046,699	W	1,020,865

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

13. Long-Term Debt

Long-term borrowings as of December 31, 2004 and 2003 are as follows:

Financial institutions	Annual interest rate (%) as of December 31, 2004	2004	2003
(in millions of Korean Won)			
Won currency borrowings:			
Korea Development Bank and others	1.0 - 6.00	W 170,715	W 11,953
Less: Current portion		(31,511)	(1,618)
		139,204	10,335
Foreign currency borrowings:			
Development bank of Japan and others	1.00 - 5.00 LIBOR + 0.8	349,269	504,863
Less: Current portion		(52,808)	(230,493)
		296,461	274,370
Debentures:			
Domestic debentures	4.00 - 8.00	1,276,060	1,796,060
Foreign bonds(1)	0.00 - 7.40	1,308,010	1,676,291
		2,584,070	3,472,351
Less: Current portion		(961,607)	(789,405)
Discount on debentures issued	6.00 - 8.00	(7,327)	(15,267)
		1,615,136	2,667,679
		W 2,050,801	W 2,952,384

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

(1) POSCO issued exchangeable bonds on August 20, 2003. It is exchangeable with 15,267,837 SK Telecom Co., Ltd. American Depository Shares (ADSs).

Details of exchangeable bonds as of December 31, 2004 are as follows:

Issuance date: August 20, 2003

Maturity date: August 20, 2008 (full amount of principal is repaid if not exercised)

Rate:	Interest rate of zero percent
Face value:	JPY 51,622,000,000
Issuance price:	JPY 51,880,110,000
Exchangeable price:	JPY 3,304/ADR
Exercise call period:	Commencing ten business days following the issuance date until ten business days prior to maturity date

F-42

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Exercise put period: Exactly three years following the payment date

On August 20, 2003, POSCO sold its 15,267,837 SK Telecom Co., Ltd. ADRs to Zeus (Cayman), a tax-exempted subsidiary formed under the laws of Cayman Islands. Zeus then issued zero-coupon, guaranteed and exchangeable bonds amounting to JPY51,622 million which are due in 2008, and are fully and unconditionally guaranteed by POSCO. POSCO may elect to pay the holder cash in lieu of delivering SK Telecom Co., Ltd. ADSs (the Cash Settlement Option). The number of ADSs such holder is entitled to receive will be calculated by dividing the aggregate principal amount of the Notes to be exchanged by the exchangeable price. Under the Cash Settlement Option, such holder is entitled to receive the cash equivalent of the market value of ADSs upon the exercise. These bonds are non-interest bearing and are exchangeable with SK Telecom Co., Ltd. ADRs at the option of the bondholder. The transactions between the POSCO and Zeus is deemed a borrowing transaction under the Korean generally accepted accounting principles. In 2004, in compliance with the terms of the exchangeable bonds, the dividends earned by Zeus from the SK Telecom Co., Ltd. ADRs were used to purchase additional 354,350 ADRs which brought down the exchangeable bond price to JPY3,304/ ADR.

Contractual maturities of long-term debt outstanding as of December 31, 2004 are as follows:

Year	Debentures	Local currency borrowings	Foreign currency borrowings	Total
(in millions of Korean Won)				
2006	W 1,040,012	W 49,308	W 96,273	W 1,185,593
2007	30,000	43,120	60,737	133,857
2008	552,451	42,675	69,087	664,213
2009		2,099	25,065	27,164
Thereafter		2,002	45,299	47,301
	W 1,622,463	W 139,204	W 296,461	W 2,058,128

Details of assets pledged as collateral for short-term borrowings and long-term debt as of December 31, 2004 and 2003 are as follows:

Financial institutions		2004	2003
(in millions of Korean Won)			
Land	Shinhan Bank and others	W 35,541	W 52,851
Buildings and structures	Kookmin Bank and others	55,120	46,540
Machinery and equipment	Industrial and Commercial Bank of China and others	54,918	8,583
Cash and cash equivalents	Kyongnam Bank and others	6,555	8,142
Trade accounts and notes receivable	Comerica Bank and others	62,900	70,574
Available-for-sale securities	Exchangeable Bond Creditor	362,818	337,589
Others(1)	Pusan municipal government and others	32,000	36,050

- (1) The Company provided certain national treasury bonds and government municipal bonds, amounting to W31,148 million, to the Gyeongsangbuk-do provincial office as a performance guarantee in relation to the development of a waste disposal area (Note 7).

F-43

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Details of loans from foreign financial institutions covered by guarantees provided by financial institutions as of December 31, 2004 and 2003 are as follows:

Financial institution	2004		2003	
	Foreign currency	Won equivalent	Foreign currency	Won equivalent
(in millions of Korean Won and in foreign currencies)				
Korea Development Bank	EUR7,255,009	W10,324	EUR7,900,852	W11,872

14. Capital Lease and Operating Lease Agreement***Capital Lease***

As of December 31, 2004, the Company acquired certain tools and vehicles under capital lease agreements, with acquisition cost amounting to W6,324 million. The assets and liabilities under the capital leases are recognized at the present value of the minimum lease payments over the lease terms. The Company's depreciation expense, with respect to the above lease agreements, for the year ended December 31, 2004 amounted to W1,347 million.

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

	Principal	Interest	Total
(in millions of Korean Won)			
2005	W2,103	W165	W2,268
2006	1,949	62	2,011
2007	331	4	335
	W4,383	W231	W4,614

Operating Lease

As of December 31, 2004, the Company acquired certain tools and equipment under operating lease agreements from Macquarie Capital Korea Co., Ltd. The Company's rent expenses, with respect to the above lease agreements, amounted to W17,521 million for the year ended December 31, 2004. Future lease payments under the above lease agreements are as follows:

(in millions of Korean Won)	
2005	W13,193
2006	3,550
2007	1,212
2008	205
2009	17
	W18,177

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

15. Accrued Severance Benefits

The changes in the carrying value of accrued severance benefits for the year ended December 31, 2004 are as follows:

	Accrued severance benefits	National Pension Fund	Group severance insurance deposits	Total
(in millions of Korean Won)				
Beginning balance	W397,430	W(1,989)	W(232,779)	W162,662
Increase	196,853	(99)	(110,970)	85,784
Decrease	32,247	(263)	(13,961)	18,023
Foreign currency adjustment and others	(56)			(56)
Ending balance	W561,980	W(1,825)	W(329,788)	W230,367

The Company expects to pay the following future benefits to its employees upon their normal retirement age:

	(in millions of Korean Won)
2005	W 3,771
2006	6,928
2007	9,107
2008	13,799
2009	15,199
2010-2014	85,928
	W 134,732

The above amounts were determined based on the employee current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

16. Other Liabilities

Other liabilities as of December 31, 2004 and 2003 consist of the following:

		2004		2003
(in millions of Korean Won)				
Other current liabilities				
Advances received	W	316,778	W	215,489
Unearned revenue		2,397		2,082
Others		90,468		92,275
	W	409,643	W	309,846
Other long-term liabilities				
Reserve for allowance	W	10,667	W	16,553
Others		185,410		95,486
	W	196,077	W	112,039

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

17. Commitments and Contingencies

As of December 31, 2004, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

Grantors	Entity being guaranteed	Financial institutions	Amount guaranteed(1)	Won equivalent (in millions of Korean Won)
POSCO	POSAM	Bank of America	US\$ 13,600,000	W 14,196
	VPS	Credit Lyonnais	821,052	857
	POS-HYUNDAI STEEL	Infrastructure Leasing and Financial Services Limited	11,463	12
	POSCO Investment Co., Ltd.	Industrial & Commercial Bank of China and others	122,845,411	128,226
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China	76,660,000	80,018
	PT POSMI STEEL Indonesia	Korea Exchange Bank	1,800,000	1,879
POSCO E & C	IBC Corporation	The Export-Import Bank of Korea and others	61,780,000	64,486
		Korea Exchange Bank Shanghai branch and others	29,500,000	30,792
	POSLILAMA Steel Structure Co., Ltd.	The Export-Import Bank of Korea and others	15,000,000	15,657
Posteel Co., Ltd.	POS-THAI Service Steel Center Co., Ltd.	Sumitomo Bank and others	6,554,000	6,841
	POS-Qingdao Coil Center Co., Ltd.	Industrial Bank of Korea and others	4,000,000	4,175
	POS-Tianjin Coil Center Co., Ltd.	Shinhan Bank	3,300,000	3,445
	PT POSMI STEEL Indonesia	Korea Exchange Bank	5,400,000	5,637
	POS-HYUNDAI STEEL	Infrastructure Leasing and Financial Services Limited	22,353	23
POSCO Investment Co., Ltd.	Qingdao Pohang Stainless Steel Co., Ltd.	Bank of Tokyo-Mitsubishi	56,000,000	58,453
			15,000,000	15,657

Edgar Filing: POSCO - Form 20-F

	SHUNDE Pohang Coated Steel Co., Ltd	Bank of Tokyo-Mitsubishi		
	POSVINA Co., Ltd.	Shinhan Bank	1,500,000	1,566
POSCO-Japan Co., Ltd.	Fujiura Butsuryu Center Co., Ltd.	Korea Exchange Bank	JPY 500,000,000	5,060
	Fujiura Butsuryu Center Co., Ltd.	POSINVEST	610,000,000	6,174
			US\$ 413,794,279	W 443,154
			JPY1,110,000,000	

(1) Currencies other than US\$ or JPY are translated into US\$ amount.

F-47

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

As of December 31, 2003, contingent liabilities for outstanding guarantees provided for the payment of loans of affiliated companies amount to W425,317 million.

As of December 31, 2004, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

Grantors	Entity being guaranteed	Financial institutions	Amount guaranteed	Won equivalent
(in millions of Korean Won)				
POSCO	Dae Kyeong Special Steel Co., Ltd.	Korea Development Bank	W 3,454	W 3,454
			US\$ 2,598,400	2,712
	DC Chemical Co., Ltd. The Siam United Steel	E1 Corporation J-BIC	W 1,601	1,601
			US\$ 8,006,478	8,357
	Zeus (Cayman)	Related creditors	JPY 51,622,000,000	522,451
POSCO E & C	Zenith	Woori Bank	W 107,429	107,429
	Humanrex	Woori Bank	49,232	49,232
	Others	Others	25,125	25,125
			W 186,841	W 720,361
			US\$ 10,604,878	
			JPY 51,622,000,000	

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

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

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

The Company entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of three to ten years and provide for periodic price adjustments to the market price. As of December 31, 2004, 147 million tons of iron ore and 112 million tons of coal remained to be purchased under such long-term contracts.

The Company paid US\$159,600,000 on behalf of POSVEN on June 21, 2002, an affiliate which is 60.00% owned by the Company. On July 20, 2001, an additional payment of US\$53,200,000 was due, representing a long-term debt guaranteed by Raytheon Company (Raytheon), a shareholder of POSVEN and a joint venture partner with the Company in the construction of a facility in Venezuela. Both companies agreed that each would pay half of the amount. The Company, therefore, made a payment of US\$26,600,000. As of December 31, 2003, the payment amounting to W236,858 million made on behalf of POSVEN, recorded as other investment assets was fully provided with an allowance for doubtful accounts of the same amount.

During the year ended December 31, 2004, due to the settlement of liquidation dividends from POSVEN, the Company recorded recovery of allowance for doubtful accounts amounting to W108 billion and expecting liquidation dividend receivables amounting to W15.8 billion as other investment assets and other account receivables (Note 5).

POSCO entered into a contract on the usage of bulk carriers with Keo Yang Shipping Co., Ltd. in order to ensure the transportation of raw materials through 2011.

On July 1, 2004, the Company updated its August 14, 2003 agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years commencing in 2005.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

As of December 31, 2004, POSCO has a bank overdraft agreement with Woori Bank and other six banks amounting to W200,000 million as of December 31, 2004. In addition, POSCO entered into a credit purchase loan agreement with Industrial bank of Korea and other nine banks for credit lines up to W300,000 million. POSCO has 46 promissory notes, including a blank promissory note, with the Korea Development Bank, as collaterals for loans from foreign financial institutions. POSCO has entered into an agreement with Woori Bank amounting to US\$700 million for opening letter of credit and document against acceptance and document against payment transactions in relation to trade as of December 31, 2004.

POSCO E & C has a bank overdraft agreement with Woori Bank and other banks amounting to W35,000 million as of December 31, 2004. POSCO E & C has provided nine blank promissory notes and 21 other notes, with amounts equivalent to approximately W437,013 million, to other financial institutions as collateral for agreements and outstanding loans. In addition, POSCO E&C has provided five blank check and other checks, with amounts equivalent to approximately W2,500 million as collateral for agreements and outstanding loans. POSCO E & C has provided performance guarantee to Samsung Corporation amounting to W1,209,310 million.

As of December 31, 2004, Posteel Co., Ltd. has an unsettled document against acceptance and JPY629 million and US\$59 million. In addition, an unsettled document against payment balances in relation to exports amounting to JPY48 million and US\$164 thousand. Posteel Co., Ltd. has entered into local credit agreements, up to W421,247 million with Hana Bank of which W280,744 million remains unused as of December 31, 2004.

As of December 31, 2004, POSCON Co., Ltd. has a credit purchase loan agreement with Shinhan Bank and other banks for credit line up to W6,000 million. POSCON Co., Ltd. has entered into an agreement with Shinhan Bank and other banks amounting to US\$15 million for opening letter of credit in relation to trade.

As of December 31, 2004, Pohang Coated Steel Co., Ltd. has provided a blank promissory note to Korea Zinc Company Ltd. as a guarantee for the repayment of loan, and has an outstanding balance of discounted notes amounting to W7,893 million.

As of December 31, 2004, POSCO Machinery & Engineering Co., Ltd. has entered into an agreement with Shinhan Bank amounting to US\$3 million for opening letter of credit in relation to trade.

POSDATA Co., Ltd. has an outstanding balance of discounted notes amounting to W362 million and two outstanding balance of endorsed notes amounting to W822 million as of December 31, 2004. In addition, POSDATA Co., Ltd. has provided one note to Hewlett-Packard Korea for an outstanding lease agreement. POSDATA Co., Ltd. entered into a credit purchase loan agreement with Woori Bank for credit lines up to W30,000 million.

As of December 31, 2004, Changwon Specialty Steel Co., Ltd. has entered into loan agreement, secured by trade accounts receivables, with Woori Bank amounting to W30,000 million. Changwon Sepcialty Steel Co., Ltd. has entered into an agreement with Korea First Bank and four other banks amounting to US\$55 million and W10,000 million for opening letter of credit, and W10,000 million in relation to trade as of December 31, 2004.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

18. Capital Surplus

Capital surplus as of December 31, 2004 and 2003 consist of the following:

	2004		2003	
	(in millions of Korean Won)			
Additional paid-in capital	W	463,825	W	463,825
Revaluation surplus		3,213,414		3,213,414
Others		218,139		151,534
	W	3,895,378	W	3,828,773

19. Retained Earnings

Retained earnings as of December 31, 2004 and 2003 consist of the following:

	2004		2003	
	(in millions of Korean Won)			
Appropriated				
Legal reserve	W	241,201	W	241,201
Appropriated retained earnings for business stabilization		918,300		918,300
Other legal reserve		880,000		746,667
Voluntary reserve		7,341,899		6,263,545
Unappropriated		3,469,718		1,705,367
	W	12,851,118	W	9,875,080

Legal Reserve

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

Other Legal Reserve

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

Voluntary Reserve

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

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Additional Losses of Minority Interest

Accumulated deficit of SEO MUEUN Development Inc. and POSLILAMA Steel Structure Co., Ltd., an affiliates included in the consolidated financial statements, resulted in losses in excess of minority interest amounting to W13,205 million for the year ended December 31, 2004 (2003: W3,164 million). The additional losses are deducted from the consolidated retained earnings to be charged to the controlling company. The Company plans to add any profits resulting from SEO MUEUN Development Inc. and POSLILAMA Steel Structure Co., Ltd. to the controlling company's equity until they recover the amount of losses in excess of minority interest.

Dividends

The Company declared interim dividends, which were approved through a resolution of the Board of Directors on July 23, 2004. Details of interim and year-end dividends for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004		2003		2002	
	(in millions of Korean Won)					
Interim cash dividends:						
Number of shares		80,707,945		81,648,519		81,683,875
Dividend ratio		30%		20%		10%
Dividend amount	W	121,062	W	81,649	W	40,842

	2004		2003		2002	
	(in millions of Korean Won)					
Year-end cash dividends:						
Number of shares		80,503,664		80,707,945		81,738,519
Dividend ratio		130%		100%		60%
Dividend amount	W	523,274	W	403,540	W	245,216

Details of the dividend payout ratio and dividend yield ratio for the years ended December 31, 2004 and 2003 are as follows:

	2004		2003		2002	
	Dividend payout ratio	Dividend yield ratio	Dividend payout ratio	Dividend yield ratio	Dividend payout ratio	Dividend yield ratio
Common shares	16.89%	4.28%	24.31%	3.68%	26.26%	2.85%

20. Capital Adjustments

Capital adjustments as of December 31, 2004 and 2003 consist of the following:

	2004		2003	
	(in millions of Korean Won)			
Treasury stock	W	(680,144)	W	(838,169)
Valuation loss on investment securities		(486,502)		(538,435)
Cumulative foreign currency translation adjustment		15,912		142,463
Others				4,153
	W	(1,150,734)	W	(1,229,988)

F-52

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

For the stabilization of the stock price, retirement of stock and completion of privatization, POSCO repurchased 5,771,161 shares of its own common stock amounting to W579,030 million and 912,010 shares of specified money in trust amounting to W101,114 million as of December 31, 2004. The treasury stock is carried at acquisition cost.

POSCO restricts the voting rights of treasury stock in accordance with the Korean Commercial Code. In addition, in accordance with the law on welfare for the laborers, POSCO decided to contribute 1,557,211 and 17,828 shares of its treasury stock to the association of employee stock ownership on July 26, 2004 and December 21, 2004 according to the resolution of the Board of Directors on July 23, 2004 and December 17, 2004, respectively, with the differences between the fair value and the proceeds being charged to welfare expenses.

Details of treasury stock for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004		2003		2002	
	Shares	Amount	Shares	Amount	Shares	Amount
(in millions of Korean Won and thousands of share)						
Beginning balance	8,258	W 838,169	9,043	W 915,995	11,966	W 1,185,404
Decrease, net	(1,575)	(158,025)	(785)	(77,826)	(2,923)	(269,409)
Ending balance	6,683	W 680,144	8,258	W 838,169	9,043	W 915,995

21. Stock Appreciation Rights

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

	1st Grant	2nd Grant	3rd Grant	4th Grant	5th Grant
Before the modifications(1):					
Number of shares	498,000 shares	60,000 shares	22,000 shares	141,500 shares	218,600 shares
Exercise price	W98,400 per share	W135,800 per share	W115,600 per share	W102,900 per share	W151,700 per share
After the modifications(1):					
Grant date	July 23, 2001	April 27, 2002	September 18, 2002	April 26, 2003	July 23, 2004
Exercise price	W98,900 per share	W136,400 per share	W116,100 per share	W102,900 per share	W151,700 per share
Number of shares granted	453,576 shares	55,896 shares	20,495 shares	135,897 shares	214,228 shares
Number of shares cancelled	19,409 shares				
Number of shares	138,676 shares				

exercised					
Number of shares outstanding	295,491 shares	55,896 shares	20,495 shares	135,897 shares	214,228 shares
Exercise period	July 24, 2003 - July 23, 2008	April 28, 2004 - April 27, 2009	Sept. 19, 2004 - Sept. 18, 2009	April 27, 2005 - April 26, 2010	July 24, 2006 - July 23, 2011
Settlement method	Cash or stock compensation for the difference between the exercise price and fair market value of the option				

- (1) The company changed the number of shares granted and the exercise price as presented above, in accordance with the resolution of the Board of Directors on April 26, 2003, October 17, 2003 and October 22, 2004.

F-53

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

POSCO applied the intrinsic value method to calculate the compensation cost related to the stock appreciation rights, and such compensation costs are accounted as other long-term liabilities and amortized over the vesting period of the stock grants.

The compensation costs for stock appreciation rights granted to employees and executives recognized for the year ended December 31, 2004 and for the future periods are as follows:

	1st Grant	2nd Grant	3rd Grant	4th Grant	5th Grant	Total
	(in millions of Korean Won)					
Prior periods	W 13,428	W 770	W 489	W 2,349	W	W 17,036
Current period	12,723	2,080	973	7,314	1,695	24,785
Future periods				1,820	5,953	7,773
	W 26,151	W 2,850	W 1,462	W 11,483	W 7,648	W 49,594

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

	2004		2003	
	Number of stock appreciation rights	Weighted-average exercise price per share	Number of stock appreciation rights	Weighted-average exercise price per share
	(in Korean Won)			
Beginning of year	638,598	W 103,681	570,000	W 103,001
Granted	218,600	151,700	141,500	102,900
Exercised	(119,888)	98,900	(18,788)	98,900
Canceled			(9,221)	98,900
Forfeited	(15,303)	117,973	(44,893)	95,565
Stock appreciation rights outstanding, end of year	722,007	W 118,711	638,598	W 103,681
Exercisable at the year end	456,885	W 104,865	421,979	W 98,900
Weighted-average fair value at grant date		W 110,179		W 95,641

The following table summarizes information about stock appreciation rights outstanding at December 31, 2004:

Appreciation rights outstanding

Exercise prices	Shares	Weighted-average remaining contractual Life	Weighted-average exercise price per share	(in Korean Won)
98,900	295,491	3.56 years	W	98,900
136,400	55,896	4.32 years		136,400
116,100	20,495	4.72 years		116,100
102,900	135,897	5.32 years		102,900
151,700	214,228	6.56 years		151,700
	722,007	4.87 years	W	118,711

F-54

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

22. Derivatives

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to economically hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2004 and related contracts outstanding as of December 31, 2004 are as follows:

Company	Type of transaction	Purpose of transaction	Financial institutions	Valuation		Transaction	
				gains	losses	gains	losses
(in millions of Korean Won)							
POSCO	Currency swap	Trading	Citibank and others	W	W	W	W
	Nickel forward	Trading	Sempra Metals., Ltd.			2,800	5,980
	Future exchange	Trading	CALYON	6		597	1,092
POSCO E & C	Currency forward	Trading	Citibank and others	9,588	2,646	4,900	1,499
Posteel Co., Ltd.	Currency forward	Trading	KorAm Bank			328	694
Pohang Coated Steel Co., Ltd.	Currency forward	Trading	Shinhan Bank			3,106	67
Changwon Specialty Steel Co., Ltd.	Currency forward	Trading	Korea First Bank			38	
				W 9,594	W 2,646	W 12,452	W 9,332

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

Company	Type of transaction	Purpose of transaction	Financial institutions	Valuation		Transaction	
				gains	losses	gains	losses
(in millions of Korean Won)							
POSCO	Currency swap	Fair market value hedge(1)	Citibank and others	W	W	W	W
POSCO	Currency forward	Trading	The Bank of New York			451	
POSCO	Nickel forward	Cash flow hedge	Sempra Metal., Ltd.	4,153			
POSCO E & C	Currency forward	Fair market value hedge(1)	Citibank and others	2,646	1,066	936	124
Posteel Co., Ltd.	Currency forward	Trading	Hana Bank	12	22	305	329

Pohang Coated Steel Co., Ltd.	Currency forward	Trading	Shinhan Bank	189	789	1,180
Changwon Specialty Steel Co., Ltd.	Currency forward	Fair market value hedge(1)	Korea First Bank	2		27
				W 7,002	W 30,781	W 2,481 W 1,660

(1) Accounted for as trading, since the criteria for hedge accounting are not met.

F-55

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

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

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

(1) Accounted for as trading, since the criteria for hedge accounting are not met.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

23. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2004, 2003 and 2002 consist of the following:

	2004		2003		2002
	(in millions of Korean Won)				
Transportation and storage	W 493,790	W	445,723	W	404,771
Salaries	149,153		142,400		130,226
Welfare	103,637		75,730		62,002
Depreciation and amortization	68,145		65,384		72,049
Research and development expenses (Note 10)	70,949		56,825		40,627
Fees and charges	76,710		54,662		53,417
Advertising	49,381		40,681		36,886
Severance benefits	25,051		21,217		16,058
Stock compensation expense (Note 21)	24,785		18,894		6,497
Sales commissions	18,286		18,759		18,324
Travel	18,530		16,075		14,822
Rent	17,287		12,554		12,430
Training	11,765		11,835		10,919
Taxes and public dues	13,661		11,534		8,072
Repairs	20,047		9,159		8,149
Provision for doubtful accounts	53,671		8,955		6,410
Sales promotions	6,474		6,333		5,769
Vehicle expenses	6,509		5,983		5,828
Entertainment	6,444		5,796		6,595
Office supplies	8,103		5,660		6,819
Membership fees	5,391		5,294		5,590
Communications	3,420		3,823		3,767
Subscriptions and printing	4,051		3,757		3,072
Insurance	4,883		2,572		1,844
Utilities	1,860		1,864		1,733
Others	30,944		24,001		24,115
	W 1,292,927	W	1,075,470	W	966,791

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

24. Donations

Donations contributed by the Company for the years ended December 31, 2004, 2003 and 2002 consist of the following:

	2004	2003	2002
	(in millions of Korean Won)		
POSCO Educational Foundation	W 39,500	W 38,800	W 37,800
Pohang University of Science and Technology	32,479	2,267	3,000
POSCO welfare Fund	58,000		
Support for local community and others	39,567	62,124	9,347
	W 169,546	W 103,191	W 50,147

25. Income Taxes

The statutory income tax rate applicable to the Company, including resident tax surcharges, was approximately 29.7% in 2004, 2003 and 2002, and amended to 27.5% effective for the fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003.

Income tax expense for the years ended December 31, 2004, 2003 and 2002 consists of the following:

	2004	2003	2002
	(in millions of Korean Won)		
Current income tax	W 1,542,480	W 746,482	W 527,381
Deferred income tax	(40,834)	(16,212)	(129,076)
	W 1,501,646	W 730,270	W 398,305

POSAM and 16 other overseas subsidiaries recorded taxes payable for the year ended December 31, 2004 as income tax expense in accordance with the applicable tax laws.

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

	2004	2003	2002
	(in millions of Korean Won)		
Net income before income tax expense	W 5,342,910	W 2,747,270	W 1,507,437
Statutory tax rate (%)	29.70	29.70	29.70
Income tax expense computed at statutory rate	1,586,844	815,939	447,709
Tax credit of POSCO	(161,939)	(99,109)	(87,628)
Others, net	76,741	13,440	38,224

Edgar Filing: POSCO - Form 20-F

Income tax expense	W	1,501,646	W	730,270	W	398,305
Effective rate (%)		28.11		26.58		26.42

F-58

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

26. Basic and Diluted Earnings Per Share and Basic and Diluted Ordinary Income Per Share

Basic earnings and ordinary income per share are computed by dividing net income allocated to common stock, by the weighted-average number of common shares outstanding during the period.

Period	Number of shares issued	Number of days outstanding	Weighted number of shares
Beginning(1)	80,707,945	366	29,539,107,870
Acquisition and disposal of treasury stock, net	204,281	(2)	46,754,748
			29,585,862,618

(1) Beginning number of common shares excludes 8,258,210 treasury shares.

(2) The Company retired 204,281 treasury shares during the year ended December 31, 2004 and for the computation of weighted average number of common shares outstanding, the number of treasury shares was included.

Period 2004	Weighted-average number of common shares 29,585,862,618 ÷ 366 = 80,835,690
Period 2003	Weighted-average number of common shares 29,741,526,418 ÷ 365 = 81,483,634
Period 2002	Weighted-average number of common shares 29,905,210,535 ÷ 365 = 81,932,084

Ordinary income per share for the years ended December 31, 2004, 2003 and 2002 are calculated as follows:

	2004	2003	2002
	(in millions of Korean Won except for per share amount)		
Ordinary income	W 3,811,843	W 1,995,983	W 1,089,288
Weighted-average number of shares of common stock	80,835,690	81,483,634	81,932,084
Ordinary income per share	W 47,155	W 24,496	W 13,295

Earnings per share for the years ended December 31, 2004, 2003 and 2002 are calculated as follows:

	2004	2003	2002
	(in millions of Korean Won except for per share amount)		
Net income	W 3,814,225	W 1,995,983	W 1,089,288
Weighted-average number of shares of common stock	80,835,690	81,483,634	81,932,084
Earnings per share	W 47,185	W 24,496	W 13,295

Diluted Earnings Per Share

Diluted earnings per share for the years ended December 31, 2004, 2003 and 2002 are the same as basic earnings per share, since there is no dilutive effect resulting from the stock option plan as of December 31, 2004, 2003 and 2002.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

27. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003 are as follows:

	2004		2003		
	Foreign currency(3)	Won equivalent	Foreign currency(3)	Won equivalent	
(in millions of Korean Won, except for foreign currencies)					
Assets:					
Cash and cash equivalents(1)	US\$	37,006,990	W 38,628	80,818,103	W 96,804
	JPY	842,262	9	17,130,996,104	191,799
	EUR			19,659	30
	Overseas subsidiaries	208,988,625	218,143	172,176,896	206,234
Trade accounts and notes receivable	US\$	316,354,184	330,210	205,789,975	246,495
	JPY	4,187,608,143	42,382	1,998,415,701	22,374
	EUR	656,582	934	3,322,846	4,993
	Overseas subsidiaries	303,790,888	317,097	200,952,723	240,701
Other accounts and notes receivable	US\$	263,248,710	274,779	30,522,047	36,559
	JPY	10,284,822	104	4,608,464	52
	Overseas subsidiaries	7,989,116	8,339	2,916,498	3,493
Short-term & Long-term loans	US\$			1,900,000	2,276
	Overseas subsidiaries	69,420,557	72,461	97,664,714	116,982
Long-term trade accounts and notes receivable	Overseas subsidiaries	70,513	74	70,513	84
Investment securities(2)	US\$	1,000,000	1,044	10,482,213	12,556
	Overseas subsidiaries	24,079,162	25,134	29,374,172	35,184
Guarantee deposits	US\$	442,769	462	535,696	642
	Overseas subsidiaries	1,262,109	1,317	1,571,166	1,882

Edgar Filing: POSCO - Form 20-F

US\$	1,233,653,623	W	1,331,117	834,774,716	W	1,219,140
JPY	4,198,735,227			19,134,020,269		
EUR	656,582			3,342,505		

F-60

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

		2004		2003	
	Foreign currency(3)		Won equivalent	Foreign currency(3)	Won equivalent
(in millions of Korean Won, except for foreign currencies)					
Liabilities:					
Trade accounts and note payable	US\$	263,248,710	W	274,779	163,706,585
	JPY	529,399,734		5,358	2,222,139,387
	EUR	5,133,029		7,304	130,245,785
	Overseas subsidiaries	105,708,151		110,338	108,186,414
Other accounts and notes payable	US\$	7,276,448		7,595	820,897
	JPY	274,651,006		2,780	37,853,352
	EUR	356,769		508	
	Overseas subsidiaries	413,973		432	16,965,921
Accrued expenses	US\$	216,422,509		225,902	111,607,366
	Overseas subsidiaries	10,280,795		10,731	10,764,620
Short-term borrowings	US\$	15,208,564		15,875	500,918
	Overseas subsidiaries	498,460,078		520,292	472,741,791
Withholdings	US\$	5,110,728		5,335	2,171,835
	JPY	36,654,000		371	2,601
	EUR	4,788,294		6,814	2,144,806
	Overseas subsidiaries	538,686		562	1,074,512
Long-term debt(2,4)	US\$	461,715,000		481,938	640,605,000
	JPY	81,622,000,000		826,072	81,187,477,671
Foreign currency loans(4)	JPY	3,183,662,414		32,221	5,500,535,906
	Overseas subsidiaries	245,645,137		256,404	141,410,774
Loans from foreign financial institutions(4)	US\$	23,443,359		24,470	183,032,109
	JPY				942,165,425
	EUR	25,401,970		36,146	29,357,589
	Overseas subsidiaries	26,278		28	44,113

US\$	1,853,498,416	W	2,852,255	1,853,588,742	W	3,469,680
JPY	85,646,367,154			89,890,171,741		
EUR	35,680,062			161,748,180		

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

(2) Represented at face value, except for marketable available-for-sale securities.

F-61

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

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

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

Losses on foreign currency translation of other monetary assets and liabilities for the years ended December 31, 2004, 2003 and 2002 are W17,407 million, W118,231 million and W28,768 million, respectively. Gains on foreign currency translation of other monetary assets and liabilities for the years ended December 31, 2004, 2003 and 2002 are W177,889 million, W6,415 million, W128,844 million, respectively.

28. Related Party Transactions

Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2004, 2003 and 2002, and the related account balances as of December 31, 2004 and 2003, are as follows:

Company	Sales and others(1)			Purchases and others(1)		
	2004	2003	2002	2004	2003	2002
	(in millions of Korean Won)					
POSCO E & C	W 9,317	W 4,834	W 3,089	W 891,474	W 314,456	W 863,525
Posteel Co., Ltd.	919,618	870,792	1,431,012	67,193	35,681	2,969
POSCON Co., Ltd.	139	72	40	194,847	167,642	146,872
Pohang Coated Steel Co., Ltd.	303,425	251,137	233,474	271	1,576	1,279
POSCO Machinery & Engineering Co., Ltd.	5,001	65	67	116,424	102,099	87,852
POSDATA Co., Ltd.	989	857	753	209,839	206,562	167,782
POSCO Research Institute				13,203	11,694	10,232
Seung Kwang Co., Ltd.				35	60	4
POS-AC Co., Ltd.	517	450	408	20,980	9,150	14,054
Changwon Specialty Steel Co., Ltd.	31	77	417	75,984	57,557	62,141
POSCO Machinery Co., Ltd.	116	126	40	95,892	80,908	72,194
POSAM	33,446				107	473
POSA	1,115			41,673	157,641	72,714
POSCAN				56,143	39,664	41,932
POA	573,772	367,998	149,590	146,016	111,889	68,047
POSCO-Japan Co., Ltd.(3)	409,845	226,276	114,561	30,846	10,922	7,066
Zhangjiagang Pohang Stainless Steel Co., Ltd.	714,832	349,723	29			
	59	54	50			10

POSTECH Venture
 Capital Co., Ltd.
 POSCO Refractories

& Environment	137	122	36	173,917	154,404	149,185
Others	86,821	33,110	916			1,211
	W 3,059,180	W 2,105,693	W 1,934,482	W 2,134,737	W 1,462,012	W 1,769,542

F-62

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Company	Receivables(2)		Payables(2)	
	2004	2003	2004	2003
	(in millions of Korean Won)			
POSCO E & C	W 82,889	W 247	W 237,283	W 29,888
Posteel Co., Ltd.	122,260	46,543	1,876	5
POSCON Co., Ltd.	15,172	3	43,050	20,297
Pohang Coated Steel Co., Ltd.	43,021	23,613	1	169
POSCO Machinery & Engineering Co., Ltd.	2,270	6	27,879	13,858
POSDATA Co., Ltd.	442	1	30,782	28,370
POSCO Research Institute			7,224	4,006
Seung Kwang Co., Ltd.	2,038	477		1
POS-AC Co., Ltd.			663	330
Changwon Specialty Steel Co., Ltd.	1	65	6,692	7,580
POSCO Machinery Co., Ltd.	4,300	2	19,767	10,477
POSA	24	17		4,618
POSCAN	16	17		4,074
POA	29,866	6,492	4,730	5,605
POSCO-Japan Co., Ltd.	18,751	5,153	1,722	111
Zhangjiagang Pohang Stainless Steel Co., Ltd.	16,486	10,770		
POSTECH Venture Capital Co., Ltd.				
POSCO Refractories & Environment	19	5	23,526	17,263
Others	11	91		
	W 337,566	W 93,502	W 405,195	W 146,652

- (1) Sales and others include sales and non-operating income; purchases and others include purchases and overhead expenses.
- (2) Receivables include trade accounts receivable and other accounts receivable; payables include trade accounts payable and other accounts payable.
- (3) Includes transaction with PIO, which was merged into POSCO-Japan Co., Ltd. during the year ended December 31, 2004.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2004, 2003 and 2002, and related account balances as of December 31, 2004 and 2003, are as follows:

Company	Sales and others(1)			Purchases and others(1)		
	2004	2003	2002	2004	2003	2002
(in millions of Korean Won)						
KOBRASCO	W	W	W	W 104,848	W 99,498	W 94,038
UPI	365,362	239,294	291,528		16	
POSCHROME				51,820	33,267	22,937
Shunde Xingpu Steel Center Co., Ltd		219				
eNtoB Corporation				131,377	69,072	15,383
POSVINA Co., Ltd.	12,599	7,281				
POSMIT	7,655	480				
MIDUS Information Technologies Co., Ltd.				15	99	
PT POSMI STEEL Indonesia (POSMI)	5					
	W 385,621	W 247,274	W 291,528	W 288,060	W 201,952	W 132,358

Company	Receivables(2)		Payables(2)	
	2004	2003	2004	2003
(in millions of Korean Won)				
KOBRASCO	W	W	W 2,584	W 6,145
eNtoB Corporation			3,286	3,029
POSVINA Co., Ltd.		4		
	W	W 4	W 5,870	W 9,174

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

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

Eliminations of inter-company revenues and expenses for the year ended December 31, 2004 are as follows:

Revenues	Millions of Korean Won	Expenses	Millions of Korean Won
Sales	W 5,982,359	Cost of goods sold	W 5,849,925
Interest income	2,242	Interest expense	2,272
Rental income	727	Selling and administrative expenses	120,428
Others	3,693	Others	16,396
	W 5,989,021		W 5,989,021

F-64

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

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

Revenues	Millions of Korean Won	Expenses	Millions of Korean Won
Sales	W 4,115,235	Cost of goods sold	W 4,007,975
Interest income	485	Interest expense	495
Rental income	612	Selling and administrative expenses	109,011
Others	3,023	Others	1,874
	W 4,119,355		W 4,119,355

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

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

Eliminations of significant inter-company receivables and payables for the years ended December 31, 2004 and 2003 are as follows:

	2004	2003		2004	2003
	(in millions of Korean Won)			(in millions of Korean Won)	
Trade accounts and notes payable	W 412,421	W 213,137	Trade accounts and notes receivable	W 676,744	W 361,569
Short-term borrowings	19,959	38,434	Short-term loans	20,628	1,198
Other accounts and notes payable	265,881	101,846	Other accounts and notes receivable	296	12,658
Long-term debt	50,435	26,927	Long-term loans	51,032	34,353
Other liabilities	114,934	100,202	Other assets	114,930	70,768
	W 863,630	W 480,546		W 863,630	W 480,546

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

29. Segment and Regional Information

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2004:

	Steel	Trading	Others	Reconciling adjustments	Consolidated
(in millions of Korean Won)					
Statement of income:					
External customers	W 22,624,977	W 2,986,345	W 4,344,090	W (5,982,359)	W 23,973,053
Less: Inter-segment	(3,322,773)	(626,579)	(2,033,007)	5,982,359	
	W 19,302,204	W 2,359,766	W 2,311,083	W	W 23,973,053
Balance sheet:					
Inventories	W 2,534,497	W 72,463	W 515,567	W (57,006)	W 3,065,521
Investments	4,087,223	282,491	633,453	(2,298,629)	2,704,538
Property, plant and equipment	10,189,473	230,082	586,270	(565,534)	10,440,291
Intangible assets	410,170	1,515	97,100	(12,470)	496,315

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2003:

	Steel	Trading	Others	Reconciling adjustments	Consolidated
(in millions of Korean Won)					
Statement of income:					
External customers	W 16,503,386	W 2,384,952	W 3,016,135	W (4,115,236)	W 17,789,237
Less: Inter-segment	(2,241,755)	(599,615)	(1,273,866)	4,115,236	
	W 14,261,631	W 1,785,337	W 1,742,269	W	W 17,789,237
Balance sheet:					
Inventories	W 1,867,743	W 51,638	W 160,389	W (11,399)	W 2,068,371
Investments	4,056,692	308,349	501,454	(2,039,817)	2,826,678
Property, plant and equipment	9,549,746	206,416	612,625	(523,010)	9,845,777
Intangible assets	402,439	2,351	79,593	(9,887)	474,496

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

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

	Steel	Trading	Others	Reconciling adjustments	Consolidated
(in millions of Korean Won)					
Statement of income:					
External customers	W 13,593,010	W 2,584,532	W 2,787,428	W (4,610,052)	W 14,354,918
Less: Inter-segment	(2,076,385)	(686,250)	(1,847,417)	4,610,052	
	W 11,516,625	W 1,898,282	W 940,011	W	W 14,354,918
Balance sheet:					
Inventories	W 1,470,931	W 26,933	W 193,871	W (20,289)	W 1,671,446
Investments	3,908,130	295,959	557,102	(1,898,578)	2,862,613
Property, plant and equipment	10,068,549	217,739	594,364	(556,078)	10,324,574
Intangible assets	391,271	3,444	83,002	(2,905)	474,812

Substantially all of the Company's operations are for the production of steel products. Net sales and non-current assets by geographic area as of and for the years ended December 31, 2004, 2003 and 2002 are as follows:

2004					
	Sales			Non-current assets	
(in millions of Korean Won)					
Korea	W	16,738,372	W	15,295,486	
Japan		1,163,541		84,640	
China		3,315,789		813,798	
Asia/ Pacific, excluding Japan and China		1,257,108		108,119	
North America		529,080		153,919	
Others		969,163		61,815	
Consolidation adjustments				(2,876,633)	
	W	23,973,053	W	13,641,144	

2003					
	Sales			Non-current assets	

	(in millions of Korean Won)			
Korea	W	12,100,326	W	12,146,239
Japan		770,765		55,430
China		2,706,120		613,078
Asia/ Pacific, excluding Japan and China		1,078,675		130,410
North America		311,529		162,198
Others		821,822		39,596
	W	17,789,237	W	13,146,951

F-67

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

		2002	
		Sales	Non-current assets
(in millions of Korean Won)			
Korea	W	9,531,423	W 12,853,344
Japan		650,029	43,110
China		2,088,735	369,075
Asia/ Pacific, excluding Japan and China		1,069,432	236,359
North America		473,289	142,238
Others		542,010	17,873
	W	14,354,918	W 13,661,999

Condensed consolidated balance sheets categorized by types of business are as follows:

		2004	
		Non-financial Institution	Financial Institution
(in millions of Korean Won)			
Asset			
Current asset	W	10,484,417	W 19,247
Non-current asset		13,581,551	168,593
Investment assets		2,645,019	168,518
Property, plant and equipment		10,440,265	26
Intangible assets		496,267	49
Total assets		24,065,968	187,840
Liabilities			
Current liabilities		4,923,870	87,641
Non-current liabilities		2,757,773	31,351
Total liabilities		7,681,643	118,992
Shareholders equity			
Common stock		482,403	52,908
Capital surplus		3,894,235	
Retained earnings		12,854,385	19,859
Capital adjustments		(1,152,868)	(3,919)
Minority interest		306,170	

Total liabilities and shareholders' equity		16,384,325		68,848
	W	24,065,968	W	187,840

F-68

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Condensed consolidated statements of income categorized by types of business are as follows:

	2004	
	Non-financial Institution	Financial Institution
	(in millions of Korean Won)	
Sales	W 23,966,264	W 6,848
Cost of goods sold	(17,358,582)	(2,280)
Selling and administrative expense	(1,290,280)	(2,493)
Operating income	5,317,402	2,075
Non-operating income	829,000	5,840
Non-operating expenses	(806,897)	(3,341)
Ordinary income	5,339,505	4,574
Extraordinary income	3,388	
Extraordinary expense		
Net income before income tax expense and minority interest	5,342,893	4,574
Income tax expense	(1,501,195)	(451)
Net income before minority interest	3,841,698	4,123
Minority interest in income of consolidated subsidiaries	(26,955)	
Net income	W 3,814,743	W 4,123

30. Operating Results for the Final Interim Period

Significant operating results for the three-month period ended December 31, 2004 are as follows:

	(in millions of Korean Won, except per share amount)	
Sales	W	6,748,462
Cost of sales		4,708,064
Operating income		1,656,003
Net income		1,175,618
Ordinary income per share		19,755
Net income per share		14,602

31. Reclassification of Prior Year Financial Statement Presentation

Certain amounts in the financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the 2004 presentation. These reclassifications had no effect on previously reported net income or

shareholders' equity.

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

On February 3, 2005, the Company decided to purchase 1,743,730 shares of its own stock from the market during the period from February 7, 2005 to May 6, 2005.

F-69

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Reconciliation to U.S. Generally Accepted Accounting Principles

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Republic of Korea (Korean GAAP), which differs in certain material respects from generally accepted accounting principles in the United States of America (U.S. GAAP). Application of U.S. GAAP would have affected the balance sheets as of December 31, 2003 and 2004 and net income for the three year periods then ended to the extent described below.

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

33. Significant Differences between Korean GAAP and U.S. GAAP**(a) Reconciliation of net income from Korean GAAP to U.S. GAAP**

		2004		2003		2002
		(in millions of Korean Won and thousands of US Dollar)				
Net income under Korean GAAP	W	3,814,225	W	1,995,983	W	1,089,288
Adjustments:						
Property, plant and equipment:						
Fixed asset revaluation		26,428		26,351		28,667
Capitalized costs		47,458		16,187		64,890
Capitalized repairs		(9,422)		(9,721)		(11,466)
Impairment loss on investment securities		(557,615)		(22,557)		(177,532)
Others, net		4,270		(8,773)		(5,448)
Income tax effect		134,870		(442)		30,017
		(354,011)		1,045		(70,872)
Net income as adjusted in accordance with U.S. GAAP	W	3,460,214	W	1,997,028	W	1,018,416
Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP	W	42,806	W	24,508	W	12,430
Weighted-average shares outstanding		80,835,690		81,483,634		81,932,084

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

(b) Reconciliation of shareholders equity from Korean GAAP to U.S. GAAP

	2004	2003	2002
(in millions of Korean Won and thousands of US Dollar)			
Shareholders equity before minority interest under Korean GAAP(1)	W 16,386,056	W 13,249,567	W 11,819,646
Minority interest	(307,891)	(293,299)	(279,165)
	16,078,165	12,956,268	11,540,481
Adjustments:			
Property, plant and equipment:			
Fixed asset revaluation	(195,044)	(221,472)	(247,823)
Capitalized costs	270,827	223,369	207,182
Capitalized repairs	9,036	18,458	28,179
Impairment loss on investment securities	(48,399)	(36,732)	(191,435)
Others, net	(4,127)	(8,397)	376
Income tax effect	169,387	34,517	44,031
Deferred taxes related to OCI	(71,788)	52,306	82,734
	129,892	62,049	(76,756)
Shareholders equity, as adjusted, in accordance with U.S. GAAP	W 16,208,057	W 13,018,317	W 11,463,725

(1) As indicated in note 2, the Korean Accounting Standards Board (KASB) has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial and Supervisory Board. The balance sheet as of December 31, 2002, was restated in accordance with SKFAS No. 6. As a result, the dividends payable, previously recorded as current liabilities, decreased by W245,216 million and the balance of retained earnings increased by same amount as of December 31, 2002.

(c) Fixed asset revaluation

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

(d) Capitalized costs

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

gains and losses are included in the results of operations for the current period. No foreign exchange gains and losses have been capitalized as of December 31, 2004, 2003 and 2002 under Korean GAAP. Depreciation of net capitalized foreign exchange gains and losses carried forward from prior periods amounted to W20,611 million in 2004, 2003 and 2002, respectively.

F-71

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

In addition, effective from the period beginning after December 31, 2002, under Korean GAAP, interest costs that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use are generally expensed as incurred, except when certain criteria are met for capitalization. The Company has adopted this application and expensed financing costs subject to the capitalization. Under U.S. GAAP, the Company is required to capitalize the amount that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use. Capital projects that have had their progress halted would suspend the capitalization of interest and would also delay the accumulation of depreciation during the suspense period.

Capitalized interest for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
	(in millions of Korean Won)		
Capitalized interest	W 84,948	W 54,386	W 64,788
Depreciation of capitalized interest	(55,871)	(54,857)	(73,254)
Net income impact	W 29,077	W (471)	W (8,466)

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

U.S. GAAP reconciliation adjustments for the capitalization and amortization of intangible assets for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
	(in millions of Korean Won)		
Net income impact	W(2,230)	W(3,953)	W12,347

(e) Capitalized repairs

Under Korean GAAP, repair costs associated with the Company's furnaces are expensed as incurred, regardless of the nature of the expenditure. U.S. GAAP requires that repairs that extend an asset's useful life or significantly increase its value be capitalized when incurred and depreciated. Routine maintenance and repairs are expensed as incurred. No repair costs have been capitalized as of December 31, 2004, 2003 and 2002 under Korean GAAP. Depreciation of capitalized repairs carried forward from prior periods have been recorded.

(f) Guarantees

Under Korean GAAP, the guarantor is required to disclose guarantees, including indirect guarantees of indebtedness of others. Under U.S. GAAP, the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after

December 31, 2002. As of December 31, 2004, the guarantees issued or modified after December 31, 2002 by the Company for the repayment of loans amounts to W197,040 million,

F-72

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

excluding guarantees issued either between parents and their subsidiaries or between corporations under common control (Note 17). The Company has recognized the fair value of liabilities amounting to W2,956 million and W2,396 million for the years ended December 31, 2004 and 2003, respectively.

(g) Stock Appreciation Rights

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

The compensation costs, in accordance with U.S. GAAP, for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
	(in millions of Korean Won)		
Stock compensation expense	W9,810	W24,894	W4,299

(h) Investment Securities

Under Korean GAAP, if the fair value of an investment permanently declines compared to its acquisition cost as evidenced by events such as bankruptcy, liquidation, negative net asset values and cessation of operations, the carrying value of the debt or equity security is adjusted to fair value, with the resulting valuation loss charged to current operations. If the fair value of the security subsequently recovers, a gain is recognized up to the amount of previously recognized impairment loss. In addition, available-for-sale securities, including securities that are not publicly traded, are reported at fair value. Securities that are not publicly traded and which the fair value cannot be reasonably measured are recorded at acquisition cost. In accordance with Korean GAAP, the Company has recorded certain securities that are not publicly traded at fair value based on discounted cash flows of investees with resulting valuation losses being charged to capital adjustments.

Under U.S. GAAP, declines in fair value of individual investments below their cost that are other-than-temporary result in write-downs of the investments' carrying value to their fair value. In addition, U.S. GAAP prohibits gain recognition based on subsequent recoveries of previously impaired investments. In addition, equity securities without readily determinable market value are accounted for as cost method investments and carried at cost less impairment if any.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Information with respect to available-for-sale debt and equity securities as of December 31, 2004, 2003 and 2002 is as follows:

Available-for-Sale Securities:

	2004	2003	2002
	(in millions of Korean Won)		
Book value	W 2,261,620	W 2,315,508	W 2,580,290
Unrealized gains and losses	47,272	(157,844)	(298,640)
Permanent impairment loss	(3,190)	(10,651)	(27,041)
Fair value (Korean GAAP)	2,305,702	2,147,013	2,254,609
Other-than-temporary impairment	(48,399)	(38,118)	(191,435)
Fair value (US GAAP)	W 2,257,303	W 2,108,895	W 2,063,174

No other-than-temporary impairment is recorded for held-to-maturity securities as of December 31, 2004, 2003 and 2002.

The gross unrealized losses on investments in available-for-sale securities at December 31, 2004 for 12 months or longer are W3 million.

(i) Deferred Income Taxes

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

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

(j) Deferred taxes in accordance with U.S. GAAP

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities at December 31, 2004 and 2003, computed under U.S. GAAP, and a description of the financial statement items that created these differences are as follows:

		2004		2003
(in millions of Korean Won)				
Deferred tax assets:				
Fixed asset revaluation	W	30,705	W	37,545
Capitalized foreign exchange losses		3,071		8,574
Investment securities		69,822		55,845
Loss on valuation of equity method investments		78,145		78,396
Impairment loss on fixed assets		129,135		116,057
Impairment loss on investment securities		221,337		61,976
Allowance for doubtful accounts		32,148		78,706
Allowance for severance benefits		69,913		48,243
Depreciation expense		17,299		15,510
Capital expenditures		9,489		8,876
Research and development expense		9,804		9,768
Deferred taxes related to OCI				52,306
Others		132,133		101,655
Total deferred tax assets		803,001		673,457
Deferred tax liabilities:				
Earnings from equity-method investees		159,545		32,572
Reserve for repairs		137,394		140,267
Accrued income		3,453		15,748
Reserve for technology		367,283		255,379
Capitalized repairs		2,485		5,076
Capitalized costs		78,876		65,212
Deferred taxes related to OCI		71,788		
Others		101,061		149,035
Total deferred tax liabilities		921,885		663,289
Net deferred tax assets (liabilities)	W	(118,884)	W	10,168

34. Additional Financial Information in Accordance with U.S. GAAP**(a) Comprehensive income**

Under Korean GAAP, there is no requirement to present comprehensive income. Under U.S. GAAP, comprehensive income and its components are required to be presented under the provisions of SFAS No.130, Reporting Comprehensive Income. Comprehensive income includes all changes in shareholders' equity during the period except those resulting from investments by, or distributions to owners, including

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

certain items not included in the current year's results of operations. Comprehensive income for the years ended December 31, 2004, 2003, and 2002 is summarized as follows:

	2004	2003	2002
(in millions of Korean Won)			
Net income, as adjusted, in accordance with U.S. GAAP	W 3,460,214	W 1,997,028	W 1,018,416
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(91,750)	34,414	(28,789)
Unrealized gains (losses) on investments	433,465	8,960	(214,059)
Comprehensive income, as adjusted, in accordance with U.S. GAAP	W 3,801,929	W 2,040,402	W 775,568

Accumulated other comprehensive income as of December 31, 2004 and 2003 is summarized as follows:

	Foreign currency translation adjustments	Unrealized gains (losses) on investments	Accumulated other comprehensive income
(in millions of Korean Won)			
Balance, December 31, 2001	W 97,661	W (50,643)	W 47,018
Foreign currency translation adjustments, net of tax benefit W34,801 million	(28,789)		(28,789)
Unrealized losses on investments, net of tax benefit of W(147,801) million		(214,059)	(214,059)
Current period change	(28,789)	(214,059)	(242,848)
Balance, December 31, 2002	W 68,872	W (264,702)	W (195,830)
Foreign currency translation adjustments, net of tax benefit W12,163 million	34,414		34,414
Unrealized gains on investments, net of tax expense of W90,436 million		8,960	8,960
Current period change	34,414	8,960	43,374
Balance, December 31, 2003	W 103,286	W (255,742)	W (152,456)
Foreign currency translation adjustments, net of tax benefit of	(91,750)		(91,750)

W34,801 million

Unrealized gains on investments, net of tax expense of W(147,801) million				434,753		434,753
Less: Reclassification adjustment for net realized gain included in income, net of tax expense of W488 million				(1,288)		(1,288)
Current period change		(91,750)		433,465		341,715
Balance, December 31, 2004	W	11,536	W	177,723	W	189,259

F-76

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

(b) Fair value of financial instruments

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

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

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

(ii) Investment Securities

The fair value of market-traded investments such as listed company's stocks, public bonds and other marketable securities are based on quoted market prices for those investments. Investments in non-listed companies' stock, for which there are no quoted market prices, estimate of fair value is based on acquisition cost less impairment if any.

(iii) Long-Term loans, trade account and notes receivable

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

(iv) Long-Term debt

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

The estimated fair values of the Company's financial instruments stated under Korean GAAP as of December 31, 2004 and 2003 are summarized as follows:

	2004		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
	(in millions of Korean Won)			
Cash and cash equivalents	W 486,370	W 486,370	W 592,602	W 592,602
Short-term financial instruments	640,988	640,988	695,169	695,169
Trading securities	2,689,593	2,689,593	1,321,301	1,321,301
Trade accounts and notes receivable, including long-term loans	3,374,219	3,374,219	2,530,551	2,530,551
Investment securities	2,345,076	2,345,076	2,318,830	2,318,830
Short-term borrowings	657,541	657,541	731,781	731,781
Trade accounts and notes payable	1,082,299	1,082,299	917,495	917,495
Long-term debt, including current portion	3,104,054	3,184,984	3,973,900	4,100,490

(c) Minority interest

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

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

(d) Classification differences

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

(e) Segment

The following table provides information on reconciliation of net income of each operating segment of the consolidated subsidiaries from Korean GAAP to U.S. GAAP for the year ended December 31, 2004:

	Steel	Trading	Others	Reconciling adjustments	Consolidated
(in millions of Korean Won)					
Net income under Korean GAAP	W 3,923,286	W 43,408	W 154,270	W (306,739)	W 3,814,225
Adjustments	(346,565)		(7,446)		(354,011)
Net income under U.S. GAAP	W 3,576,721	W 43,408	W 146,824	W (306,739)	W 3,460,214

The following table provides information on reconciliation of total assets of the consolidated subsidiaries from Korean GAAP to U.S. GAAP as of December 31, 2004:

	Steel	Trading	Others	Subtotal before elimination	Reconciling adjustments	U.S. GAAP adjustments	Consolidated
(in millions of Korean Won)							
Segments total assets	W 23,302,209	W 961,762	W 3,509,189	W 27,773,160	W (3,644,200)	W 201,679	W 24,330,639

The following table provides information on the significant items in total assets of each operating segment of the consolidated subsidiaries as of December 31, 2004:

	Steel	Trading	Others	Reconciling adjustments	Consolidated
(in millions of Korean Won)					
Investments under Korean GAAP	W 4,087,223	W 282,491	W 633,453	W (2,298,629)	W 2,704,538

Edgar Filing: POSCO - Form 20-F

Adjustments		139,045	(4,544)	(13,514)		120,987
Investments under U.S. GAAP	W	4,226,268	W 277,947	W 619,939	W (2,298,629)	W 2,825,525
Property, plant and equipment under Korean GAAP	W	10,189,473	W 230,082	W 586,270	W (565,534)	W 10,440,291
Adjustments		100,813				100,813
Property, plant and equipment under U.S. GAAP	W	10,290,286	W 230,082	W 586,270	W (565,534)	W 10,541,104

F-78

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

35. Recent Accounting Pronouncements***U.S. GAAP***

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, Inventory Costs – an Amendment of ARB No. 43, Chapter 4 (FAS 151). FAS 151 provides clarification that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. Additionally, this standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material impact on its financial position or result of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29 (FAS 153). FAS 153 amends and clarifies accounting for exchanges of nonmonetary assets under Accounting Principles Board (APB) Opinion No. 29, Accounting for Nonmonetary Transaction (APB 29). APB 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB 29, however, included certain exceptions to that principle. FAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. The Company does not expect the adoption of this statement to have a material impact on its financial position or result of operations.

Korean GAAP

In February 2004, the Korean Accounting Standards Boards (KASB) issued Statements of Korean Financial Accounting Standards (SKFAS) No. 15, Equity Investment. This statement provides clarification that the Company's proportionate unrealized profit arising from sales by the Company to equity method investees, sales by the equity method investees to the Company or sales between equity method investees should be eliminated. SKFAS No. 15 amends Interpretation No. 42-59 which prescribes that unrealized profit arising from sales by the Company to equity method investees should be fully eliminated. Under SKFAS No. 15, the Company also assesses the potential impairment of investment securities in accordance with the accounting standards on impairment loss, when there is objective evidence. The provisions of this standard are effective prospectively for equity investments beginning on or after December 31, 2004. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In June 2004, the KASB issued SKFAS No. 16, Accountings for income taxes. SKFAS No. 16 provides clarification that deferred income tax on gain and losses on valuation of available-for-sale securities should be recognized. Under this statement, any changes in deferred income tax arising on initial classification of the equity component should be reflected in equity. SKFAS No. 16 amends SKFAS Interpretation No. 45-52 which does not require recognition of the aforementioned deferred income tax. In accordance with the nature of the equity component, accounting treatment should be provided based on the component's applicable guidance. The provisions of this standard are effective prospectively for available-for-sale securities beginning on or after December 31, 2004. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

Table of Contents

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

In October 2004, the KASB issued SKFAS No. 17, Provision for Liabilities and Contingencies. SKFAS No. 17, which clarifies pre-KASB standard of Article 74, Contingencies, states that if the difference between nominal value and present value of provision for liabilities is considered material, expected expenses for performing duty should be valued at present value. Provision for liabilities should be used only for the intended purpose at initial recognition. The provisions of this standard are effective prospectively for liabilities beginning on or after December 31, 2004. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

F-80

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

POSCO

(Registrant)

/s/ Ku-Taek Lee

Name: Ku-Taek Lee

Title: Chairman and Chief Executive Officer

Date: June 28, 2005

Table of Contents

Exhibit Index

1.1	Articles of incorporation of POSCO (English translation) (incorporated by reference to Exhibit 1.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003)*
2.1	Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement No. 33-81554)*
2.2	Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)*
2.3	Letter from ADR Depository to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)*
8.1	List of subsidiaries of POSCO
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers

* Filed previously