

POSCO  
Form 20-F  
June 28, 2004

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As filed with the Securities and Exchange Commission on June 28, 2004

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

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**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, 2003**

**Commission file number 1-13368**

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**POSCO**

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

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**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.**

<b>Title of Class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares, each representing one-fourth of one share of Common Stock	New York Stock Exchange, Inc.
Common Stock, par value W5,000 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.**

**\$200,000,000 7 1/8% Notes due 2004**

**\$250,000,000 7 3/8% Notes due 2005**

**\$300,000,000 7 1/8% Notes due 2006**

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(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.

**80,707,945 shares of common stock, par value W5,000 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)**

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.

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**GLOSSARY**

ADR	American Depositary Receipt evidencing ADSs.
ADR depository	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 W5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of September 26, 1994, among POSCO, the ADR Depository 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, 2002 and 2003 and for each of the three years in the period ended December 31, 2003 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.

**INCOME STATEMENT DATA**

For the Year Ended December 31,

	1999	2000	2001	2002	2003	2003(11)
(In billions of Won and millions of Dollars, except per share data)						
<b>Korean GAAP:</b>						
Sales(1)	W12,701	W13,776	W13,121	W14,355	W17,789	US\$ 14,924
Cost of goods sold(2)	10,005	10,752	10,680	11,338	13,451	11,284
Selling and administrative expenses	685	718	854	967	1,075	902
Operating income	2,011	2,306	1,587	2,050	3,263	2,737
Interest expense	439	464	451	332	250	210
Foreign exchange transaction and translation gains (losses), net	53	(173)	(10)	135	(105)	88
Donations(3)	123	449	83	50	103	87
Income taxes	698	689	337	398	730	613
Net earnings	1,554	1,634	846	1,089	1,996	1,674
Earnings per share of common stock(4)	16,204	19,131	10,366	13,295	24,496	20.55
Dividends per share of common stock	1,750	2,500	2,500	3,500	6,000	5.03



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<b>U.S. GAAP(5):</b>						
Operating income	W1,972	W2,475	W1,588	W2,021	W3,235	US\$ 2,714
Net earnings (loss)	1,532	1,743	908	1,018	1,997	1,675
Basic and diluted earnings (loss) per share of common stock	15,976	20,410	11,126	12,430	24,455	20.52

**Table of Contents****BALANCE SHEET DATA**

As of December 31,

	1999	2000	2001	2002	2003	2003(11)
(In billions of Won and millions of Dollars)						
<b>Korean GAAP:</b>						
Working capital(6)	W1,458	W960	W1,342	W1,695	W3,450	US\$ 2,894
Property, plant and equipment, net(7)	10,811	10,455	10,601	10,325	9,846	8,260
Total assets(7)	19,690	20,147	19,405	19,077	20,769	17,423
Long-term debt(8)(9)(10)	3,740	4,159	4,235	3,194	2,952	2,477
Total stockholders equity(7)	9,200	9,558	10,351	11,820	13,250	11,115
<b>U.S. GAAP(5):</b>						
Property, plant and equipment, net	W10,544	W10,113	W10,522	W10,322	W9,880	US\$ 8,289
Total assets	19,251	19,620	19,285	19,000	20,838	17,481
Total shareholders equity	9,674	9,936	10,940	11,464	13,018	10,921

- (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.
- (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 23 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 W1,192 to US\$1.00, the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2003. 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.

**Table of Contents****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)				
1999	1,136.0	1,188.2	1,243.0	1,125.0
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
December	1,192.0	1,192.3	1,200.0	1,183.0
2004 (through June 24)	1,156.0	1,165.7	1,195.1	1,141.4
January	1,174.0	1,183.3	1,195.1	1,172.0
February	1,179.0	1,167.5	1,180.0	1,152.2
March	1,146.7	1,166.3	1,181.0	1,146.7
April	1,173.6	1,152.9	1,173.6	1,141.4
May	1,165.0	1,177.9	1,191.0	1,165.0
June (through June 24)	1,156.0	1,160.4	1,164.8	1,155.0

- (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).

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 following factors.

***Adverse economic and financial developments in Korea recently had and may in the future have an adverse effect on domestic demand for our products.***

In 1997 and 1998, the Republic experienced a significant increase in the number and size of companies filing for corporate reorganization and protection from their creditors. As a result of these corporate failures, high levels of short-term foreign currency borrowings from foreign financial institutions and the consideration of non-market oriented factors in making lending decisions, the Republic's financial institutions experienced a sharp increase in non-performing loans and a deterioration in their capital adequacy ratios. These developments led to a substantial increase in the number of unemployed workers, reducing the purchasing power of consumers in Korea. These developments also led international credit rating agencies to downgrade the credit ratings of the Republic and various companies, including us, and financial

institutions in the Republic to below investment grade, although S&P and Moody's raised the

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credit rating of the Republic and our credit rating back to investment grade levels in early 1999. The current long-term foreign currency rating of the Republic by Standard & Poor's is A- and the current foreign currency rating on bond obligations of the Republic by Moody's is A3. Prompted by heightened security concerns stemming from North Korea's nuclear weapons program, Moody's changed the outlook on the long-term ratings of the Republic from positive to negative in February 2003.

Although the Korean economy began to experience a recovery in 1999, the pace of the recovery has since slowed and has been volatile. The economic indicators in 2001, 2002 and 2003 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 terrorist attacks in the United States that took place on September 11, 2001, recent developments in the Middle East, higher oil prices and the outbreak of severe acute respiratory syndrome, or SARS, in Asia and other parts of the world have increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the world economy, and may thus adversely affect the Korean economy. Any future deterioration of the Korean economy would adversely affect our financial condition and results of operations.

Other possible developments that could hurt Korea's economy in the future include:

financial problems relating to chaebols, or their suppliers, and their potential adverse impact on Korea's financial sector;

failure of restructuring of large troubled companies, including troubled credit card companies and financial institutions;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;

increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

adverse developments in the economies of countries such as the United States, China and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

the continued emergence of China, 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 the manufacturing base from Korea to China);

social and labor unrest;

declining consumer confidence and spending in Korea resulting from increasing unemployment and lower levels of income;

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

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

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

an increase in the level of tensions or an outbreak of hostilities between Korea and North Korea.

Any developments that adversely affect the Republic's economic recovery will likely also decrease demand for our products and adversely affect our results of operations. Korea is our most important market, accounting for 68.9% of our total sales volume of steel products in 2003.

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***Adverse economic and financial developments in Asia in the future may have an adverse effect on demand for our products in Asia.***

Our export sales accounted for 31.1% of our total sales volume for steel products in 2003. Our export sales to Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 78.5% of our total export sales volume for steel products in 2003, and we expect that sales to these countries, especially to China, may increase in the future. 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, including companies in the automobile, machinery and electrical appliance industries. In addition, weaker demand in these countries, combined with the continuing condition of over-capacity in the world steel industry, may reduce export prices in Dollar terms for 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.

***Increased tensions with North Korea could have an adverse effect on us or the price of the ADSs.***

Relations between Korea and North Korea have been tense over most of Korea's history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. 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, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in Beijing, China. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and could lead to a decline in the market value of the ADSs.

***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 54.7% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2003;

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 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.

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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 Korea Stock Exchange and, as a result, will likely affect the market price of the ADSs. These fluctuations also will affect the Dollar conversion by the depositary 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. Although we have not experienced any unanticipated supply disruptions in the past, any such supply disruptions, which could be caused by, among other things, political or other events in the countries from which we import these materials, could adversely affect our operations.

***Over-capacity exists in the world steel industry.***

The world steel industry continues to have production over-capacity. This over-capacity reflects reduced demand growth in many industrialized Western countries, which has not been accompanied by significant reductions in production capacity in those countries, and development of production capacity in a number of developing countries and in the United States. This over-capacity in the world steel industry will affect our ability to expand export sales and to increase steel production in general.

***A number of our products have been and may become subject to anti-dumping and countervailing proceedings or safeguard measures.***

In the United States, China and the European Union, a number of our products have been subject to anti-dumping and countervailing proceedings or safeguard measures. Further increases in or new imposition of dumping duties, countervailing duties, quotas or tariffs on our sales in the United States, China or the European Union may have a material adverse effect on our exports to these regions in the future. Exports to these regions accounted for 14.6% of our sales volume of steel products in 2003. See Item 4. Information on the Company Item 4B. Business Overview Markets Exports .

***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

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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

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. Those 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 in 1968. 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. In 1998, 1999 and 2000, the Government disposed of all of its interest in us. 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, which represented approximately 3.1% of our issued common stock, and The Korea Development Bank sold approximately 2.7% of our issued common stock, both in the form of ADSs. In July 1999, The Korea Development Bank sold approximately 8.0% of our issued common stock in the form of ADSs and, in December 1999, an additional 3.0% of our issued common stock, which we purchased as treasury stock. In June 2000, The Korea Development Bank sold an additional 3.0% of our issued common stock, which we purchased as treasury stock. In September 2000, The Korea Development Bank sold the rest of our shares that it owned, which amounted to 4.6% of our common stock, in the form of ADSs in a global offering. As a result of that offering, the Government no longer holds any direct interest in us. The remainder of our outstanding common stock is currently held by individuals and institutions. See Item 7. Major Shareholders and Related Party Transactions Item 7A. Major Stockholders .



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

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

In Korea, we produce almost all of our steel at Pohang Works and Gwangyang Works. Currently, Pohang Works has 12.87 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 15.83 million tons.

We sell primarily to the Korean market, with Korean sales accounting for 68.9% of our total sales volume of steel products in 2003. We believe that we had an overall market share of approximately 46.6% of the total sales volume of steel products sold in Korea in 2003. We maintained a domestic market share larger than 44.4% in each of our major product categories in 2003.

Our exports in each of 2002 and 2003 accounted for 30.5% and 31.1% of our total sales volume of steel products, respectively. Our major export market is Asia, with China accounting for 36.8%, Japan 18.0% and the rest of Asia 23.7% of our total steel export sales volume in 2003.

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.

### **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 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 31.1% of our total sales volume in 2003, with 78.5% of our export and overseas sales volume to customers in nearby Asian markets in 2003. 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 significantly expanded in recent years and we expect our exports to China to continue to grow. Our export sales provide a natural 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 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.

#### ***Continue to Seek Investment Opportunities Abroad***

We carefully seek out promising investment opportunities abroad, primarily in China, in part to prepare for the eventual maturation of the Korean steel market. We believe that China will continue to offer substantial growth opportunities, and we plan to selectively seek additional investment opportunities in China. 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 ton that we expect to be operational by December 2005. In the second half of 2004, we plan to invest \$23.2 million for a 10.0% interest in Benxi Steel POSCO Cold Rolled Sheet Co., Ltd. and to invest another \$23.2 million through POSCO China Holding Corporation

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for an additional 10.0% interest. In October 2003, we also announced plans to expand stainless steel production facilities of our Chinese subsidiary, Zhangjiagang Pohang Stainless Steel Co., Ltd., in which we currently hold an 82.5% interest. We plan to contribute \$244.1 million as additional capital for the joint venture to add stainless steel and hot rolling facilities with annual production capacity of 60,000 ton by December 2006 to its existing cold rolling facility with annual production capacity of 27,900 tons. In November 2003, we also launched POSCO China Holding Corporation, a holding company for our investments in China. In addition to China, we continue to seek investment opportunities abroad, including India and Southeast Asia.

### ***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 the energy source and 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 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 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. Higher value-added products represented 39.9% of our total sales volume in 2003. Because our existing facilities can produce these products with minor enhancements, we do not believe that additional production will require significant capital expenditures.

### ***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 using Internet technology could lead to a number of benefits, including more efficient inventory management, improved delivery time for our products and generally enhanced customer service. Among the e-commerce opportunities that we are pursuing is the establishment of an online market at [www.steel-n.com](http://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***

In July 2001, we completed phase one of a process innovation initiative designed to enhance the efficiency of operations and cost-effectiveness 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. In May 2002, we implemented a six-sigma standard master plan and continue to seek new opportunities to implement our company-wide process innovation and increase our efficiency and cost-effectiveness. We completed the initial round of

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implementation of six-sigma programs in May 2003 and aim to instill six-sigma programs as part of our company-wide corporate culture by January 2005.

### ***Improve Transparency and Enhance Corporate Governance and Management System***

We have sought to improve the transparency of our management and to enhance our corporate governance by expanding the role of independent directors, developing sub-committees with special tasks and implementing an audit committee. All of the directors on our audit committee are required to be comprised of outside directors. In 1997, our articles of incorporation were amended to provide for outside directors. Our board of directors is currently comprised of six directors who are also executive officers and nine outside directors. In addition, we recognize that our future performance depends, in substantial part, on hiring and retaining highly qualified personnel. We provide performance-based compensation which focus on rewarding performance to our executive officers and directors. We have also reinforced our commitment to ethical business standards. In 2003, we adopted a company-wide code of business conduct and ethics (the Code of Conduct ).

### ***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. New businesses related to our steel operations include liquefied natural gas production and logistics. We are currently constructing a W288 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 to invest W255.0 million 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. In October 2003, we agreed to invest an additional W12.5 billion in POSCO Terminal Co., Ltd. for the construction of facilities by October 2005 to increase its annual handling capacity by 4.0 million tons. This facility enhancement will allow POSCO Terminal 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 biotechnology, advanced materials and alternative energy development. For example, in September 2002, we agreed to set up a venture capital fund in the United States called POSCO BioVenture, L.P. and committed to investing \$50.0 million by December 2005. The fund invests in promising biotech companies, including numerous pharmaceutical companies, and assists in their development in cooperation with Pohang University of Science & Technology.

## **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.

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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 Product	1999		2000		2001		2002		2003	
	Billions of W	%	Billions of W	%	Billions of W	%	Billions of W	%	Billions of W	%
Hot rolled products	3,251	26.8	3,137	23.6	3,125	24.8	3,416	25.4	4,185	26.1
Plates	1,211	10.0	1,239	9.3	1,242	9.9	1,237	9.2	1,320	8.2
Wire rods	778	6.4	933	7.0	1,149	9.1	1,178	8.7	1,064	6.6
Cold rolled products	4,187	34.6	4,526	34.0	4,055	32.2	4,310	32.0	5,208	32.4
Silicon steel sheets	269	2.2	315	2.4	304	2.4	347	2.6	431	2.7
Stainless steel products	2,142	17.7	2,555	19.2	2,076	16.5	2,278	16.9	3,172	19.7
Others	277	2.3	607	4.6	624	5.0	700	5.2	687	4.3
Total	12,115	100.0	13,312	100.0	12,576	100.0	13,465	100.0	16,067	100.0

**Year Ended December 31,**

Steel Product	1999		2000		2001		2002		2003	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	10,712	38.2	10,098	35.0	11,381	37.9	11,461	37.8	11,514	37.6
Plates	3,026	10.8	3,146	10.9	3,146	10.5	3,060	10.1	3,047	9.9
Wire rods	2,169	7.7	2,651	9.2	2,802	9.3	2,808	9.3	2,777	9.1
Cold rolled products	8,786	31.3	9,437	32.7	9,425	31.3	9,503	31.3	9,770	31.9
Silicon steel sheets	463	1.7	542	1.9	591	2.0	589	1.9	671	2.2
Stainless steel products	1,639	5.9	1,423	4.9	1,266	4.2	1,394	4.6	1,778	5.8
Others	1,244	4.4	1,578	5.5	1,455	4.8	1,518	5.0	1,100	3.5
Total	28,039	100.0	28,875	100.0	30,065	100.0	30,333	100.0	30,657	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 1.3 million tons in 1999, 1.4 million tons in 2000, 1.3 million tons in 2001, 1.2 million tons in 2002 and 1.4 million tons in 2003, accounting for W572 billion in 1999, W644 billion in 2000, W657 billion in 2001, W511 billion in 2002 and W679 billion in 2003, 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 11.5 million tons in 2003, representing 37.6% of our total steel sales volume. The Korean market accounted for 9.1 million tons or 78.6% of our hot rolled product sales in 2003, representing a domestic market share of approximately

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69.2%. The largest customers of our hot rolled products are downstream steelmakers in Korea who use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute our largest product category in terms of sales volume and revenue. In 2003, our sales volume of hot rolled products remained fairly constant compared to 2002.

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***Plates***

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

Our deliveries of plates amounted to 3.0 million tons in 2003, representing 9.9% of our total steel sales volume. The Korean market accounted for 2.7 million tons or 88.1% of our plate sales in 2003, representing a domestic market share of approximately 44.4%. 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 2003, our sales volume of plates remained fairly constant compared to 2002.

***Wire Rods***

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

Our deliveries of wire rods amounted to 2.8 million tons in 2003, representing 9.1% of our total steel sales volume. The Korean market accounted for 2.2 million tons or 78.5% of our wire rod sales in 2003, representing a domestic market share of approximately 65.6%. The largest customers for our wire rods are manufacturers of wire and nails.

In 2003, our sales volume of wire rods decreased by 1.1% compared to 2002.

***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 9.8 million tons in 2003, representing 31.9% of our total steel sales volume. The Korean market accounted for 5.1 million tons or 52.4% of our cold rolled product sales in 2003, representing a domestic market share of approximately 47.7%.

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 2003, our sales volume of cold rolled products increased by 2.8% compared to 2002.

***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 671 thousand tons in 2003, representing 2.2% of our total steel sales volume. The Korean market accounted for 449 thousand tons or 66.9% of our silicon steel sheet sales in 2003, representing a domestic market share of approximately 97.6%.

Our sales volume of silicon steel sheets increased significantly since 1998 as a result of increased demand from manufacturers of power transformers and generators and rotating machines and an addition of a manufacturing line, which was completed in October 1998. The new line has an annual production capacity of 240,000 tons of silicon steel sheets.

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In 2003, our sale volume of silicon steel sheets increased by 13.9% compared to 2002, primarily as a result of rationalization of our facilities which increased our production of silicon steel sheets.

**Table of Contents*****Stainless Steel Products***

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

Our deliveries of stainless steel products amounted to 1,778 thousand tons in 2003, representing 5.8% of our total steel sales volume. The Korean market accounted for 983 thousand tons or 55.3% of our stainless steel product sales in 2003, representing a domestic market share of approximately 51.4%.

Although sales of stainless steel products accounted for only 5.8% of our total sales volume in 2003, they represented 19.7% of our total revenues from sales of steel products in 2003. Our sales volume of stainless steel increased by 27.6% in 2003 compared to 2002, primarily as an increase in production from completion of our stainless steel hot rolling facility in April 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 68.9% of our total steel sales volume in 2003. Exports and overseas sales by our overseas subsidiaries represented 31.1% of our total sales volume in 2003. 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 45.4 million tons in 2003. We sold a total of 21.1 million tons of steel products in Korea in 2003, maintaining an overall domestic market share of 46.6% for such period. In 2003, we had a domestic market share of more than 44.4% for each of our major product categories. See Major Products .

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

	Year Ended December 31,									
	1999		2000		2001		2002		2003	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
POSCO S sales	18,997	56.3	20,059	52.2	20,894	54.6	21,090	48.2	21,121	46.6
Other Korean steel companies sales	12,559	37.2	15,116	39.3	14,144	37.0	17,732	40.6	17,838	39.3
Imports(1)	2,479	7.3	3,266	8.5	3,235	8.5	4,898	11.2	6,411	14.1
Total domestic sales(1)	34,035	100.0	38,441	100.0	38,273	100.0	43,720	100.0	45,370	100.0

(1) Source: 2003 Official Statistics, Korea Iron & Steel Association.



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Total sales volume of our steel products increased in 2000 by 5.6%, as the Korean economy rebounded from the difficult economic conditions of the late 1990s. Total sales volume increased further by 4.2% in 2001, 0.9% in 2002 and 0.2% in 2003, as the Korean economy continued its growth during this period. Our share of the Korean market decreased from 56.3% in 1999 to 52.2% in 2000, primarily as a result of normalized operations at other Korean steel companies that had experienced difficulties in immediately preceding periods. Our market share increased to 54.6% in 2001 as our sales increased while sales of other Korean steel companies decreased. Our market share decreased to 48.2% in 2002 as substantial increases in sales volume of other Korean steel companies and import volume more than offset a 0.9% increase in our sales volume. Increased demand from the shipbuilding industry and the automobile

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industry contributed to a 14.2% increase in total domestic sales volume in 2002 compared to 2001. Our market share decreased to 46.6% in 2003 as increases in sales volume of other Korean steel companies and import volume more than offset a 0.2% increase in our sales volume. Total domestic sales in Korea 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 into the Korean market in recent years have been mainly from Japan, China and Russia.

We sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. In 2003, approximately 71% of our total sales in Korea in terms of volume were made directly to end-users and other steel processors, and the remainder were made to local distribution companies including our consolidated subsidiaries. The role of the distribution companies and sales affiliates is to sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors and in each important product area.

For a discussion of our domestic sales of steel products in 2001, 2002 and 2003 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 31.1% of our total sales volume of steel products in 2003, 78.5% of which was generated in Asia. Our exports in terms of sales volume increased by 3.2% to 9.5 million tons in 2003, primarily as a result of an increase in our exports to China, which more than offset decreases in Asia (excluding China and Japan) and North America. 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.

Region	Year Ended December 31,									
	1999		2000		2001		2002		2003	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
China	1,954	21.6	2,798	31.7	2,976					