

# *2006 CEO Forum*

**January 2006**

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# I. 2005 Operating Results

## II. Steel Industry Overview

## III. Mid-term Business Strategies

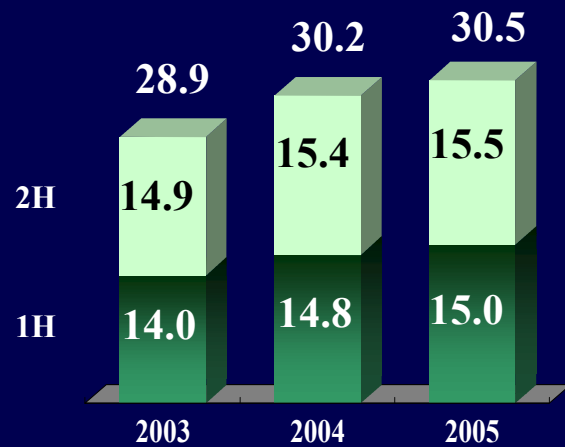
*The figures provided in this presentation are based on unaudited financial statements. Certain numbers may be presented differently once audited and the company takes no responsibility and accepts no liability for such changes.*

# Production & Sales

2005 Operating  
Results

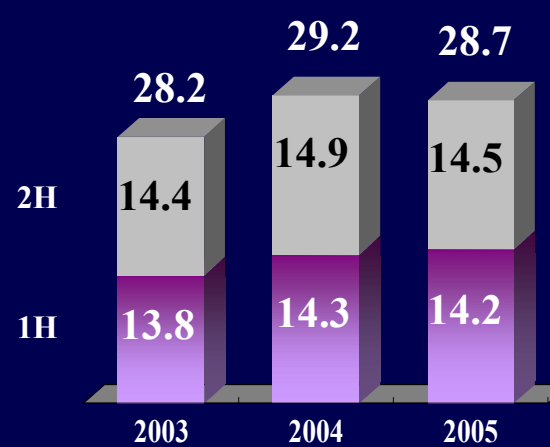
## Steel Production

(mm tons)



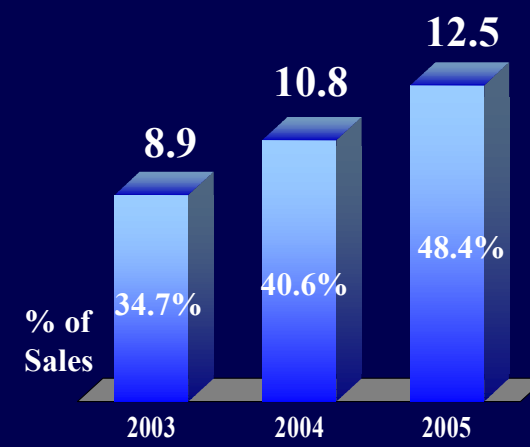
## Sales of Products

(mm tons)



## Sales of Strategic Products

(mm tons)



# Profitability

2005 Operating  
Results

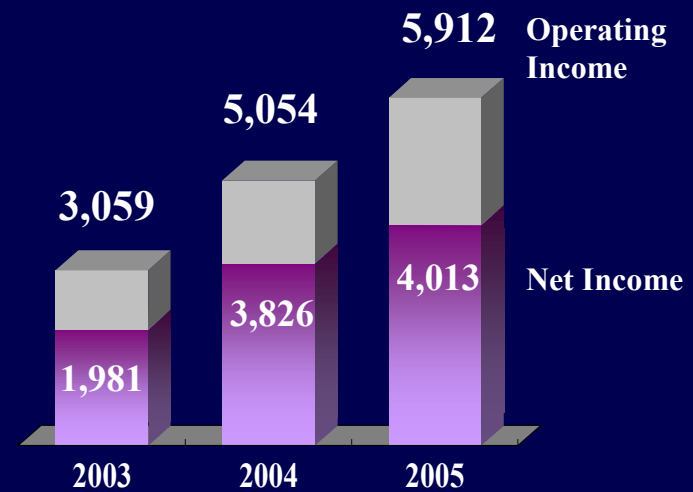
## Revenue

(KRW bn)



## Operating & Net Income

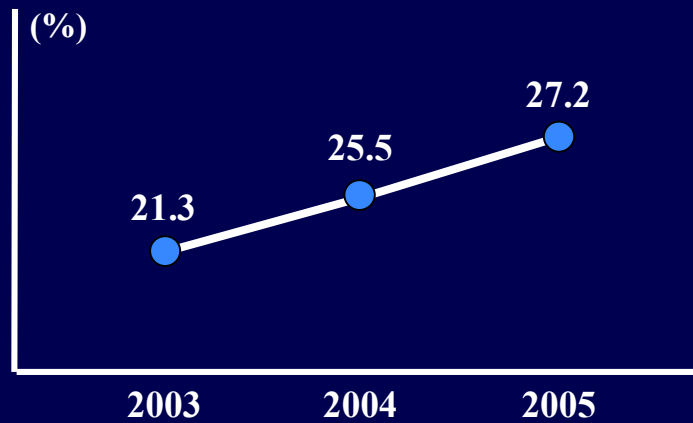
(KRW bn)



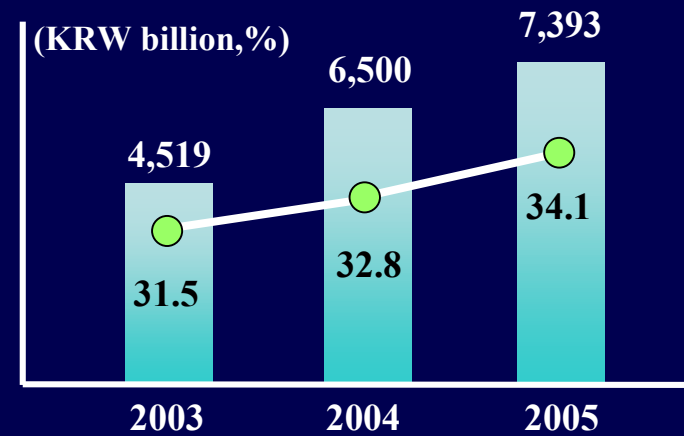
# Financial Ratios

2005 Operating Results

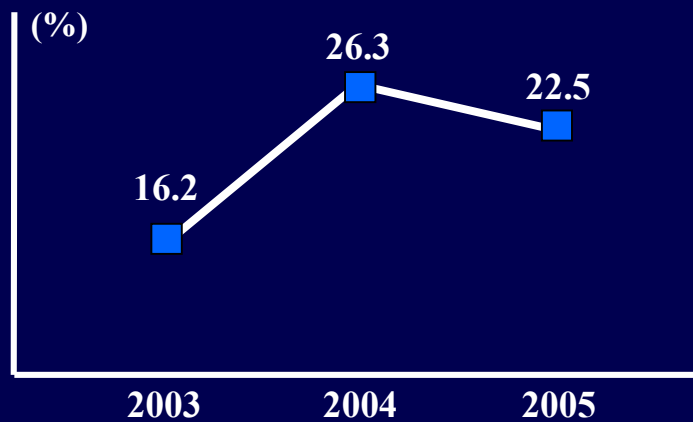
## Operating Margin



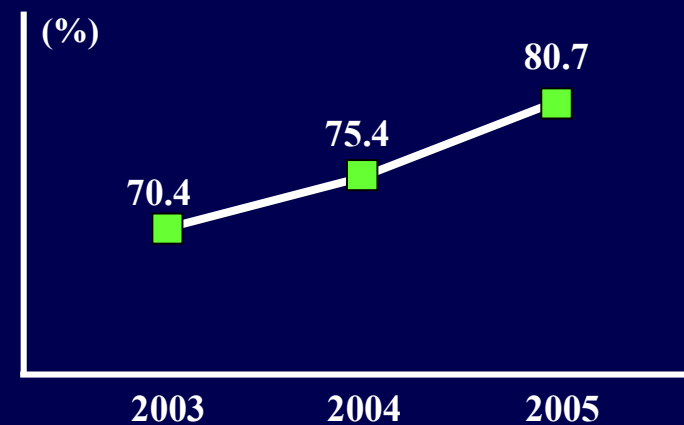
## EBITDA & EBITDA Margin



## Return on Equity



## Equity/Total Assets



## □ POSCO India Project

### ● 1st Stage Plan (approved by BOD : Dec '05)

#### • Construction of Integrated Steel Mill (~ Dec '10)

- Location: Jagatsinghpur in the state of Orissa
- Capacity: 4 mm tons of crude steel (FINEX 2 mm tons × 2 plants)
- Products : Hot rolled coil 2.5 mm tons, slab 1.5 mm tons
- Capex : US\$ 3.7 bn

#### • Development of Exclusive Mine (~ Jan '10)

- Location : Keonjhar, Sundargarh (290 km from steel mill)
- Prospecting of 600 mm tons of iron ore (20 mm tons x 30 years)

#### • Construction of related Infrastructure

- Port (for carrying vessels with 100k tons of raw materials), railroad (50 km) and water-supply facilities etc.

#### • Timetable

- '05 : MOU (Jun) & established subsidiary (Aug)
- '06 : Obtain Prospecting License (Mar) & complete purchase of land site (Sept)

## Major Business Activities (Cont'd)

### □ Facilities Investments

#### ● Capacity Expansion for Premium Strategic Products

##### • Automotive Sheet Lines

- Construct Gwangyang No.5 CGL : 1.4 → 1.9 mm tons
- Expand TWB Facility : Capacity 3.9 ('05) → 5.5 ('06) → 6.7 mm sheets ('07)

##### • Expand production of premium Electrical sheet (~ Mar. '07)

- GO Capacity 80→200K tons/year

##### • Rationalization of #2 Plate for shipbuilding & premium API steel

- Increased Plates Capacity 1.8 → 2.1 mm tons/year

#### ● Commercialize New Technology

##### • Construction of #1 FINEX Plant (Aug '04 ~ Dec '06)

- Capacity: 1.5 mm tons/year, 46% completion

##### • Construction of Strip Casting Demo Plant (Aug '04 ~ Jun '06)

- Capacity: 600K tons/year, 94% completion

#### ● Revamp No.2 Blast Furnace (Gwangyang)

- Capacity Increase : 460k tons/year

## Major Business Activities (Cont'd)

### □ Investment in Energy Business

#### ● Construction of LNG Terminal

- Stable, economic procurement of LNG to meet environmental regulations (Capacity: 1.7 mm tons/year)
- Contract for direct import of LNG : 550k tons/year for 20 years from '05 (Cost saving of KRW 60bn p.a. expected)

#### ● Part Acquisition of KIECO (Currently POSCO Power)

- Largest domestic private power plant (capacity : 1,800MW)
- Stable profit and synergies with LNG terminals

### □ Investment of Raw Materials

#### ● Joint Investment in Overseas Mines

- Iron ore : 5.5% ownership of Jack Hills mine in Australia
- Coals : 5% of Carborough Downs and 5% of Glennies in Australia, 2.5% of Elkview in Canada
- Nickel : 49% of Mine & Smelting Plant in New Caledonia

#### ● Increased Long-term Contracts for Main Raw Materials

- Iron ore : 88% ('03) → 90% ('04) → 91% ('05)
- Coals : 56% ('03) → 61% ('04) → 69% ('05)



*Major Business Activities (Cont'd)*

- **Listing Shares on Tokyo Stock Exchange**
  - Enables 24hr global trading of POSCO shares
  - 31% of total outstanding shares listed in overseas indexes (NYSE/LSE 27%, TSE 4%)
  
- **Outsourcing to Improve Human Resource Structure**
  - 8 areas including roll maintenance/ raw materials unloading
  
- **Highest Credit Rating Among Global Integrated Steel Producers**
  - Moody's rating upgraded : A3 (Stable) → A2 (Stable) in July
  - S&P outlook upgraded : A- (Stable) → A- (Positive) in October
  
- **Hosting of the IISI\* Convention**
  - Steel industry professionals from 35 countries
  - Main Topic : Adding value to the World

\*IISI : International Iron & Steel Institute

# Treasury Shares & Dividends

2005 Operating Results

## Treasury Shares

- Treasury stock purchase and/or cancellation for the last 5 years
  - Purchased and retained 2% treasury stocks in '05

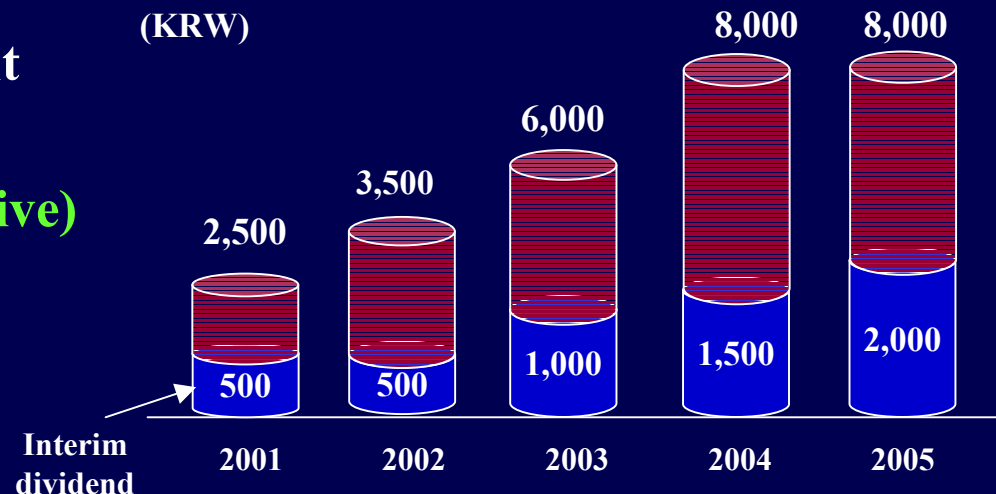
### < Buy Back / Cancellation of Treasury Shares >

(000 shares)	Purchase	Cancellation	Retention
2001	-	2,891	11,663
2002	-	2,808	8,221
2003	1,816	1,816	7,346
2004	1,779	1,779	5,771
2005	1,744	-	6,189
Total	5,339	9,294	

## Dividends

- Maintain stable dividend payout in long-term
- Dividend Payout for '05 (tentative)
  - KRW 8,000 per share
    - Includes KRW 2,000 interim dividend
  - Dividend yield : 3.96%

### < Annual Dividend Payout >



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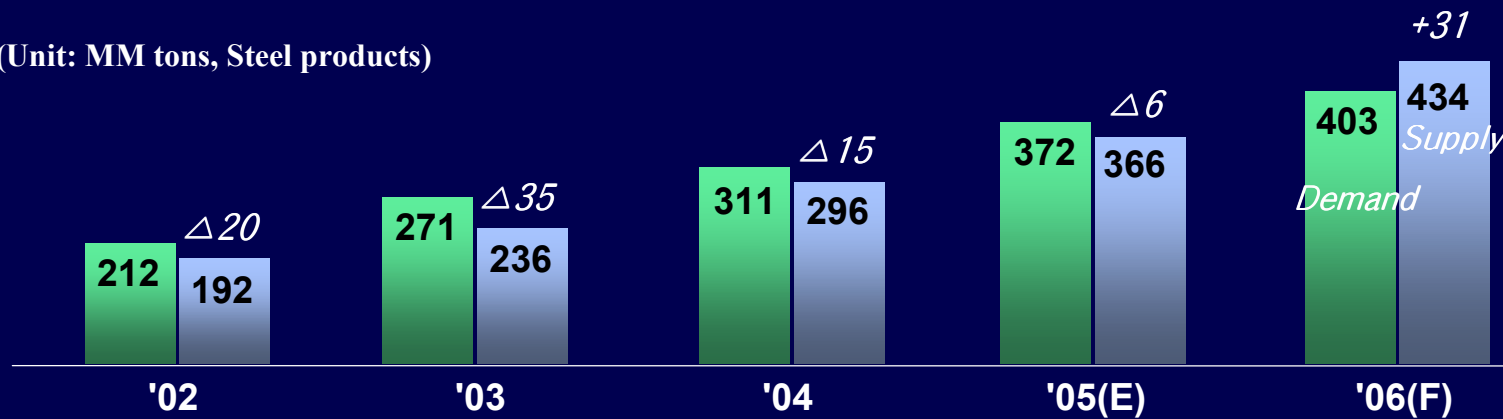
**II. Steel Industry Overview**

**III. Mid-term Business Strategies**

- **Consolidation / Increase in Size**
  - **Increased Consolidation moving from Regional to Economic Blocs**
    - 4~5 large producers (+100 mm ton capacity) to emerge in 10 years
    - Top 5 to account for 40~50% of global market share (A.T. Kearney '05)
  - **A More Oligopolistic market may cause more competition**
- **Competition for Raw Materials**
  - **Growing Dominance of Suppliers**
    - 3 iron ore suppliers 76%, 5 coal suppliers 62% vs. top 5 steel makers 19%
  - **Competitiveness of Steel Makers with Captive Mines**
- **Polarization of Premium / Commodity Steel**
  - **Focusing More on Premium Products**  
**due to Intensified Competition in Commodity Steel Market**

## ● Overflow expected from Excessive supply

(Unit: MM tons, Steel products)



Source : Chinese association of steel manufacturers ('02~1H '05), POSRI (2H '05,'06)

## ● Government Policy expected to Accelerate Restructuring

- Price cut by domestic majors : some prices below cash cost
- New Steel Policy (July '05)
  - Capacity expansion under control, encouragement of consolidations among existing mills
- '06 Industrial Restructuring Guideline (Dec '05)
  - Gradual closing of small-scaled, outdated facilities

## ● Stable Growth of Steel Consumption

( 000 tons)

	'04	'05(E)	'06(F)	YoY change(%)
Nominal consumption	47,218	47,276	48,213	2.0
Production	54,696	54,945	56,902	3.6
Export	15,090	15,764	16,114	2.2
Import	7,612	8,095	7,426	△8.3

## ● Downstream Industry continue to grow

### ● Ship building : High Value-added Vessels

- Volume (000GT) : 15,143 ('04) → 16,941 ('05) → 16,790 ('06)

### ● Automobile : Domestic sales / exports to grow

- Production volume (000Units): 3,469 ('04) → 3,603 ('05) → 3,739 ('06)

### ● Home appliances : High-quality, premium products

- Production volume (trillion): KRW 34.0 ('04) → 33.5 ('05) → 34.5 ('06)

### ● Construction : New town projects, etc.

- Investments (trillion) : KRW 117.7 ('04) → 119.0 ('05) → 122.1 ('06)

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**III. Mid-term Business Strategies**

- Pursue Global Growth**
- Secure Technological Leadership**
- Enhance Cost Competitiveness**
- Innovate Corporate Culture**



## ● Targeting Global Production of 50 mm tons

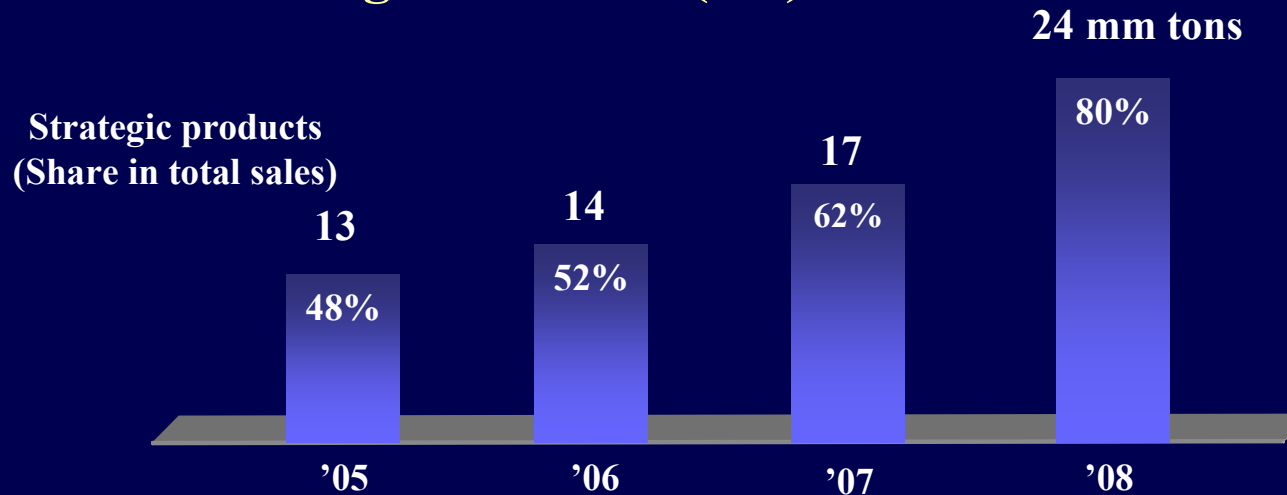
- **Domestic capacity of 35 mm tons, focusing on quality growth ('08)**
  - Facility investment to upgrade quality of all products
  - Investment in capacity expansion
- **Overseas capacity of 15 million tons ('10)**
  - Construction of steel plant in India (12 mm tons on completion)

## ● New Businesses for Future Growth Engines

- **Magnesium Sheet**
  - Future growth area (Mobilization of electronic appliances, etc.)
  - Successful Pilot production by unique technology/process development
- **Fuel Cell**
  - Technology partnerships to commercialize

## ● Shift to Premium Steel Production/Sales Structure

- 80% of Strategic Products ('08)



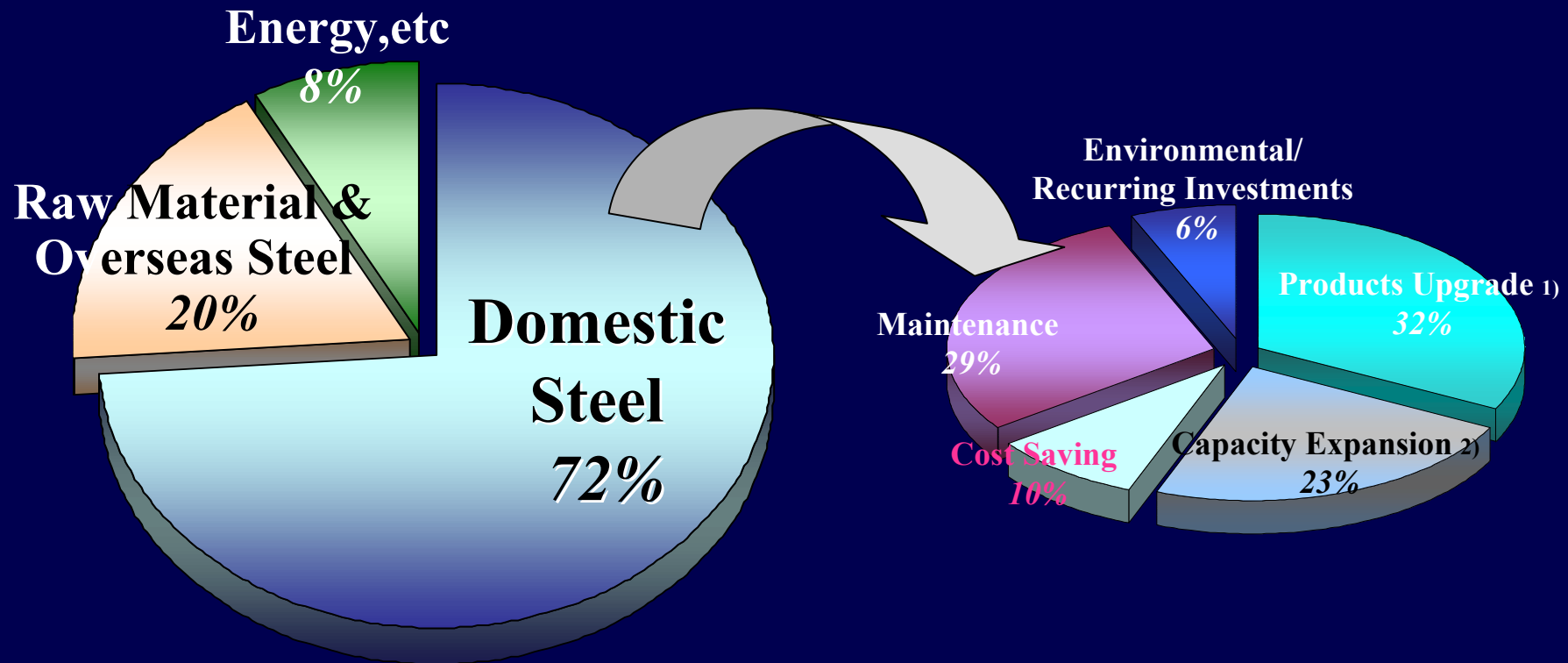
*\* Strategic Products: Products selected for future competitiveness (profitability and marketability), manufacturing technology, and potential effect on related industries*

## ● Development of Innovative Technology

- Commercialization of FINEX Technology ('06)
  - Achieve manufacturing cost equivalent to that of a 3 mm ton capacity furnace
- Develop Technology to Commercialize Strip Casting
  - Complete demo plant and develop key technologies for commercialization

- **Improve Cost Structure**
  - Target cost savings : KRW 1 trillion over the next 3 years
- **Secure Raw Materials for 50 mm ton Target Capacity**
  - Purchase from mines investing : 15%('05) → 30%('10)
- **Secure Global Competitiveness**
  - Outsourcing, automation and shared service centers
- **Enhance Innovative Capabilities through 6 Sigma**
  - Implement 6 Sigma across the board (Customer)
- **Strengthen Consolidated-based Management**
  - Maximize Synergy between steel, energy, construction and IT

## ● Total Investment of KRW 11.7 tr ('06 ~ '08)



\* POSCO stand-alone basis

1) Product Upgrade : Investment for Strategic Products (No. 6 CGL, Electrical Sheet Line etc)

2) Capacity Expansion : Investment for 34 mm tons Capacity (FINEX, BF Revamp, etc)

# 2006 Business Plan

	<u>2005</u>	<u>2006(F)</u>
<ul style="list-style-type: none"> <li>• <b>Crude Steel Production</b> (mm tons)</li> <li style="padding-left: 20px;"><i>- Consolidated Production</i></li> </ul>	<b>30.5</b> 31.4	<b>30.1</b> 31.2
<ul style="list-style-type: none"> <li>• <b>Sales Volume</b> (mm tons)</li> </ul>	<b>28.7</b>	<b>29.0</b>
<ul style="list-style-type: none"> <li>• <b>Revenue</b> (KRW tr)</li> <li style="padding-left: 20px;"><i>- Consolidated Revenue</i></li> </ul>	<b>21.7</b> 26.3	<b>19~20</b> 24~25
<ul style="list-style-type: none"> <li>• <b>CAPEX</b> (KRW tr)</li> </ul>	<b>3.7</b>	<b>3.9</b>

*The data above represents the Company's internal objectives, and should not be used as a basis for investment decisions*

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