

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 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 and 2002 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 such as the terrorist attacks in the United States that took place on September 11, 2001, the war in Iraq and the outbreak of severe acute respiratory syndrome (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.

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 other large troubled companies;
- a slowdown in consumer spending and the overall economy;
- adverse changes or volatility in foreign currency reserve levels, commodity 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 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;
- 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, lead to an increased government budget deficit;
- political uncertainty or increased strife among and 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;
- political uncertainty and risk of further attacks by terrorist groups around the world;
- 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 resulting from those hostilities; 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 69.5% of our total sales volume in 2002.

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 30.5% of our total sales volume for steel products in 2002. Our export sales to Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 76.0% of our total export sales volume for steel products in 2002, 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, weak 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 modern history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current events, including renewed contacts at the highest levels of the governments of Korea and North Korea and the increased 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, evicted inspectors from the United Nations International Atomic Energy Agency and has reportedly resumed activity at the Yongbyon power plant. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty and demanded that the United States sign a non-aggression pact before North Korea dismantles its nuclear power and arms program. North Korea has also test-fired at least two missiles, engaged an unarmed U.S. military aircraft and is reported to have developed nuclear weapons. As a result of these events, the level of tension between the two Koreas, as well as between North Korea and other countries including the United States, has increased. While discussions between North Korea and other countries, including Korea, the United States and China, to resolve these issues peacefully have taken place, any further increase in the tension or occurrence of military hostilities could have a material adverse effect on our operations and the price 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 50.8% of our total long-term debt, including current portion, as of December 31, 2002;

- 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, (1) causes our export products to be less competitive by raising our prices in Dollar terms and (2) 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.

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 cost increases in Dollar terms or supply disruptions in the past, any such cost increases or 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.

Substantial 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 substantial 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 13.5% of our sales volume of steel products in 2002. See "Information on the Company – Markets – Exports".

We are subject to various regulations under Korean fair trade laws as a result of our discontinued designation as a public corporation.

Korean fair trade laws provide for various regulations and restrictions on large business groups enforced by the Fair Trade Commission. Previously, we were not regulated as a large business group under Korean fair trade laws due to our designation as a public corporation by the Government. The Government removed such designation effective September 28, 2000. As a result, we were designated as a large business group under Korean fair trade laws on April 1, 2001, which subjects us to regulations limiting, among other things, cross guarantees of debt and cross shareholdings by members of a business group.

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 (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. 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 "Additional Information – 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
- 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.