

POSCO
Form 20-F
June 24, 2008

Table of Contents

As filed with the Securities and Exchange Commission on June 24, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report
For the transition period from to

Commission file number 1-13368

POSCO

(Exact name of Registrant as specified in its charter)

POSCO

(Translation of Registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

**POSCO Center, 892 Daechi-4-dong, Gangnam-gu
Seoul, Korea 135-777**

(Address of principal executive offices)

Lee, Hyeong-Soo

**POSCO Center, 892 Daechi-4-dong, Gangnam-gu,
Seoul, Korea 135-777**

Telephone: +82-2-3457-1189; E-mail: sunrise77@posco.com; Facsimile: +82-2-3457-1982

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of Each Class

Name of Each Exchange on Which Registered

New York Stock Exchange, Inc.

American Depositary Shares, each representing
one-fourth of one share of common stock
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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

**As of December 31, 2007, there were 75,540,201 shares of common stock, par value Won 5,000 per share,
outstanding
(not including 11,646,634 shares of common stock held by the company as treasury shares)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. **Yes No**

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing. **U.S. GAAP IFRS Other**

If **Other** has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. **Item 17 Item 18**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes No**

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

Table of Contents**TABLE OF CONTENTS**

| | | |
|-----------------|--|----|
| <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 1.A. Directors and Senior Management</u> | 2 |
| | <u>Item 1.B. Advisers</u> | 2 |
| | <u>Item 1.C. Auditors</u> | 2 |
| <u>ITEM 2.</u> | <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u> | 2 |
| | <u>Item 2.A. Offer Statistics</u> | 2 |
| | <u>Item 2.B. Method and Expected Timetable</u> | 2 |
| <u>ITEM 3.</u> | <u>KEY INFORMATION</u> | 2 |
| | <u>Item 3.A. Selected Financial Data</u> | 2 |
| | <u>Item 3.B. Capitalization and Indebtedness</u> | 5 |
| | <u>Item 3.C. Reasons for Offer and Use of Proceeds</u> | 5 |
| | <u>Item 3.D. Risk Factors</u> | 5 |
| <u>ITEM 4.</u> | <u>INFORMATION ON THE COMPANY</u> | 12 |
| | <u>Item 4.A. History and Development of the Company</u> | 12 |
| | <u>Item 4.B. Business Overview</u> | 12 |
| | <u>Item 4.C. Organizational Structure</u> | 26 |
| | <u>Item 4.D. Property, Plants and Equipment</u> | 27 |
| <u>ITEM 4A.</u> | <u>UNRESOLVED STAFF COMMENTS</u> | 28 |
| <u>ITEM 5.</u> | <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> | 29 |
| | <u>Item 5.A. Operating Results</u> | 29 |
| | <u>Item 5.B. Liquidity and Capital Resources</u> | 38 |
| | <u>Item 5.C. Research and Development, Patents and Licenses, Etc.</u> | 43 |
| | <u>Item 5.D. Trend Information</u> | 43 |
| | <u>Item 5.E. Off-balance Sheet Arrangements</u> | 44 |
| | <u>Item 5.F. Tabular Disclosure of Contractual Obligations</u> | 44 |
| | <u>Item 5.G. Safe Harbor</u> | 44 |
| <u>ITEM 6.</u> | <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> | 44 |
| | <u>Item 6.A. Directors and Senior Management</u> | 44 |
| | <u>Item 6.B. Compensation</u> | 47 |
| | <u>Item 6.C. Board Practices</u> | 47 |
| | <u>Item 6.D. Employees</u> | 50 |
| | <u>Item 6.E. Share Ownership</u> | 51 |
| <u>ITEM 7.</u> | <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> | 53 |
| | <u>Item 7.A. Major Shareholders</u> | 53 |
| | <u>Item 7.B. Related Party Transactions</u> | 53 |
| | <u>Item 7.C. Interests of Experts and Counsel</u> | 53 |
| <u>ITEM 8.</u> | <u>FINANCIAL INFORMATION</u> | 53 |
| | <u>Item 8.A. Consolidated Statements and Other Financial Information</u> | 53 |
| | <u>Item 8.B. Significant Changes</u> | 54 |
| <u>ITEM 9.</u> | <u>THE OFFER AND LISTING</u> | 54 |
| | <u>Item 9.A. Offer and Listing Details</u> | 54 |
| | <u>Item 9.B. Plan of Distribution</u> | 57 |

Table of Contents

| | | |
|------------------|---|----|
| | <u>Item 9.C. Markets</u> | 57 |
| | <u>Item 9.D. Selling Shareholders</u> | 62 |
| | <u>Item 9.E. Dilution</u> | 62 |
| | <u>Item 9.F. Expenses of the Issuer</u> | 62 |
| <u>ITEM 10.</u> | <u>ADDITIONAL INFORMATION</u> | 62 |
| | <u>Item 10.A. Share Capital</u> | 62 |
| | <u>Item 10.B. Memorandum and Articles of Association</u> | 62 |
| | <u>Item 10.C. Material Contracts</u> | 66 |
| | <u>Item 10.D. Exchange Controls</u> | 67 |
| | <u>Item 10.E. Taxation</u> | 70 |
| | <u>Item 10.F. Dividends and Paying Agents</u> | 74 |
| | <u>Item 10.G. Statements by Experts</u> | 75 |
| | <u>Item 10.H. Documents on Display</u> | 75 |
| | <u>Item 10.I. Subsidiary Information</u> | 75 |
| <u>ITEM 11.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 75 |
| <u>ITEM 12.</u> | <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u> | 76 |
| | <u>Item 12.A. Debt Securities</u> | 77 |
| | <u>Item 12.B. Warrants and Rights</u> | 77 |
| | <u>Item 12.C. Other Securities</u> | 77 |
| | <u>Item 12.D. American Depositary Shares</u> | 77 |
| <u>PART II</u> | | 77 |
| <u>ITEM 13.</u> | <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u> | 77 |
| <u>ITEM 14.</u> | <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | 77 |
| <u>ITEM 15.</u> | <u>CONTROLS AND PROCEDURES</u> | 77 |
| <u>ITEM 16.</u> | <u>[RESERVED]</u> | 78 |
| <u>ITEM 16A.</u> | <u>AUDIT COMMITTEE FINANCIAL EXPERT</u> | 78 |
| <u>ITEM 16B.</u> | <u>CODE OF ETHICS</u> | 78 |
| <u>ITEM 16C.</u> | <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u> | 79 |
| <u>ITEM 16D.</u> | <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u> | 79 |
| <u>ITEM 16E.</u> | <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u> | 80 |
| <u>PART III</u> | | 81 |
| <u>ITEM 17.</u> | <u>FINANCIAL STATEMENTS</u> | 81 |
| <u>ITEM 18.</u> | <u>FINANCIAL STATEMENTS</u> | 81 |
| <u>ITEM 19.</u> | <u>EXHIBITS</u> | 82 |
| | <u>EX-7.1 COMPUTATION OF RATIO EARNINGS TO FIXED CHARGES</u> | |
| | <u>EX-8.1 LIST OF CONSOLIDATED SUBSIDIARIES</u> | |
| | <u>EX-12.1 CertifEX-8.1 CERTIFICATION PURSUANT TO SECTION 302</u> | |
| | <u>EX-12.2 CERTIFICATION PURSUANT TO SECTION 302</u> | |
| | <u>EX-13.1 CERTIFICATION PURSUANT TO SECTION 906</u> | |
| | <u>EX-15.1 CONSENT OF SAMIL PRICEWATERCOOPERS</u> | |

Table of Contents

GLOSSARY

| | |
|---|--|
| ADR | American Depositary Receipt evidencing ADSs. |
| ADR depositary | The Bank of New York Mellon. |
| ADS | American Depositary Share representing one-fourth of one share of Common Stock. |
| Australian Dollar or A\$ common stock deposit agreement | The currency of the Commonwealth of Australia. Common stock, par value Won 5,000 per share, of POSCO. 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\$ Government | The currency of the United States of America. The government of the Republic of Korea. |
| Yen or JPY | The currency of Japan. |
| Korea | The Republic of Korea. |
| Korean GAAP | Generally accepted accounting principles in the Republic of Korea. |
| Gwangyang Works | Gwangyang Steel Works. |
| We | POSCO and its consolidated subsidiaries. |
| Pohang Works | Pohang Steel Works. |
| 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 of America. |
| Won ₩ 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 1.A. *Directors and Senior Management*

Not applicable

Item 1.B. *Advisers*

Not applicable

Item 1.C. *Auditors*

Not applicable

Item 2. *Offer Statistics and Expected Timetable*

Not applicable

Item 2.A. *Offer Statistics*

Not applicable

Item 2.B. *Method and Expected Timetable*

Not applicable

Item 3. *Key Information*

Item 3.A. *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, 2006 and 2007 and for each of the three years in the period ended December 31, 2007 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, | | | | | | |
|--|---|----------|----------|----------|----------|----------|--------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007(11) | |
| | (In billions of won and millions of dollars, except per share data) | | | | | | |
| Korean GAAP: | | | | | | | |
| Sales(1) | ₩ 17,789 | ₩ 23,973 | ₩ 26,302 | ₩ 25,842 | ₩ 31,608 | US\$ | 33,776 |
| Cost of goods sold(2) | 13,451 | 17,361 | 18,767 | 19,897 | 24,903 | | 26,611 |
| Selling and administrative expenses | 1,075 | 1,293 | 1,451 | 1,556 | 1,785 | | 1,908 |
| Operating income | 3,263 | 5,319 | 6,083 | 4,389 | 4,920 | | 5,257 |
| Interest expense | 250 | 192 | 149 | 183 | 240 | | 256 |
| Foreign currency transaction and translation gains (losses), net | (105) | 179 | 159 | 99 | (19) | | (20) |
| Donations(3) | 103 | 170 | 153 | 155 | 197 | | 211 |
| Income tax expenses | 730 | 1,502 | 1,474 | 922 | 1,274 | | 1,362 |
| Net income | 2,017 | 3,841 | 4,007 | 3,353 | 3,678 | | 3,930 |
| Net income attributable to controlling interest | 1,996 | 3,814 | 4,022 | 3,314 | 3,559 | | 3,803 |
| Net income attributable to minority interest | 21 | 27 | (15) | 39 | 119 | | 127 |
| Basic and diluted earnings per share of common stock(4) | 24,496 | 47,185 | 50,790 | 42,115 | 46,854 | | 50 |
| Dividends per share of common stock | 6,000 | 8,000 | 8,000 | 8,000 | 10,000 | | 10.69 |
| U.S. GAAP (5): | | | | | | | |
| Operating income | ₩ 3,235 | ₩ 5,299 | ₩ 5,671 | ₩ 4,259 | ₩ 4,967 | US\$ | 5,308 |
| Net income | 1,997 | 3,460 | 4,102 | 3,408 | 3,565 | | 3,810 |
| Basic and diluted earnings per share of common stock | 24,508 | 42,806 | 51,789 | 43,304 | 46,938 | | 50.16 |

BALANCE SHEET DATA

| | As of December 31, | | | | | | |
|---------------------------------------|---|---------|---------|---------|---------|----------|--------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2007(11) | |
| | (In billions of won and millions of dollars, except per share data) | | | | | | |
| Korean GAAP: | | | | | | | |
| Working capital(6) | ₩ 3,450 | ₩ 5,493 | ₩ 5,759 | ₩ 7,155 | ₩ 7,769 | US\$ | 8,302 |
| Property, plant and equipment, net(7) | 9,846 | 10,440 | 12,272 | 14,643 | 15,582 | | 16,651 |
| Total assets(7) | 20,769 | 24,129 | 27,507 | 31,149 | 36,275 | | 38,763 |
| Long-term debt(8)(9)(10) | 2,952 | 2,051 | 1,131 | 2,726 | 3,306 | | 3,533 |
| Total shareholders Equity(7) | 13,250 | 16,386 | 19,874 | 22,402 | 25,118 | | 26,841 |

U.S. GAAP (5):

| | | | | | | | | | | | | |
|------------------------------------|---|--------|---|--------|---|--------|---|--------|---|--------|------|--------|
| Property, plant and equipment, net | ₩ | 9,880 | ₩ | 10,541 | ₩ | 12,420 | ₩ | 14,860 | ₩ | 15,836 | US\$ | 16,922 |
| Total assets | | 20,838 | | 24,279 | | 27,525 | | 31,208 | | 36,349 | | 38,843 |
| Total shareholders Equity | | 13,018 | | 16,208 | | 19,498 | | 21,972 | | 24,561 | | 26,246 |

- (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.

Table of Contents

- (3) Includes donations to educational foundations supporting basic science and technology research. See Item 5. Operating and Financial Review and Prospects Item 5.C. 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 35 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 5.A. 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 28 of Notes to Consolidated Financial Statements.
- (11) Translated into U.S. Dollars at the rate of Won 935.80 to US\$1.00, the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2007. 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) (Per US\$1.00) | High | Low |
|------------------------|-----------------------------|---|-------------|------------|
| 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 | 1,010.0 | 1,023.2 | 1,059.8 | 997.0 |
| 2006 | 930.0 | 954.3 | 1002.9 | 913.7 |
| 2007 | 935.8 | 929.0 | 950.2 | 903.2 |
| 2008 (through June 23) | 1,036.8 | 990.9 | 1,047.0 | 935.2 |
| January | 943.4 | 942.1 | 953.2 | 935.2 |
| February | 942.8 | 943.9 | 948.2 | 937.2 |
| March | 988.6 | 981.7 | 1,021.5 | 947.1 |
| April | 1,005.0 | 986.9 | 1,005.0 | 973.5 |
| May | 1,028.5 | 1,034.1 | 1,047.0 | 1,004.0 |

| | | | | |
|------------------------|---------|---------|---------|---------|
| June (through June 23) | 1,036.8 | 1,029.0 | 1,044.0 | 1,016.8 |
|------------------------|---------|---------|---------|---------|

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).

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.

Table of Contents

Item 3.B. *Capitalization and Indebtedness*

Not applicable

Item 3.C. *Reasons for Offer and Use of Proceeds*

Not applicable

Item 3.D. *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 most of our operations and assets are located in Korea. In addition, Korea is our most important market, accounting for 66.2% of our total sales volume of steel products in 2007. 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.

The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control. Recent developments in the Middle East including the war in Iraq and its aftermath, higher oil prices, the general weakness of the global economy due in part to problems in the U.S. mortgage and housing markets and the reduced availability of credit 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 business, financial condition and results of operations.

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

- a slowdown in consumer spending and the overall economy;

- 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 the manufacturing base from Korea to China);

- the economic impact of any pending or future free trade agreements, including the Free Trade Agreement recently negotiated with the United States;

- social and labor unrest;

- substantial decreases in the market prices of Korean real estate;

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

financial problems or lack of progress in restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain Korean conglomerates;

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

Table of Contents

the recurrence of severe acute respiratory syndrome or an outbreak of 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 and overseas sales to customers abroad accounted for 33.8% of our total sales volume of steel products in 2007. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 68.5% of our total export sales volume for steel products in 2007, 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, 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 also 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 45.2% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2007;

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.

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.

Table of Contents

We are dependent on imported raw materials, and significant increases in market prices of essential raw materials could adversely affect our margins and profits.

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. In 2007, POSCO imported approximately 45.5 million dry metric tons of iron ore and 24.4 million wet metric 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.

In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The prices of iron ore and nickel have increased substantially in recent years. The average price of iron ore per ton (including all associated costs such as insurance, freight costs and customs duties) increased from \$45 in 2005 to \$55 in 2006 and \$64 in 2007 and increased further in the first half of 2008. The average price of nickel per ton (including insurance and freight costs) increased substantially in recent years from \$15,230 in 2005 to \$21,654 in 2006 and \$40,619 in 2007 but decreased in the first half of 2008. In addition, the price of coal, which remained relatively stable in 2005, 2006 and 2007, has increased substantially in the first half of 2008. Further increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. Increased prices may also cause potential customers to defer purchase of steel products, which would have an adverse effect on our business, financial condition and results of operations.

We expect global steel production capacity to continue to expand 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 renewed interest in expansion of steel production capacity. World Steel Dynamics estimated the global crude steel production capacity to increase from 1,340 million tons in 2006 to 1,421 million tons in 2007 and expects the production capacity to continue to increase further in 2008, primarily as a result of additions of new capacity in China and India. 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. For example, consolidation of Mittal and Arcelor in 2006 has created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal and new market entrants, especially from China and India, 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.

Expansion of our production operations abroad is important to our long-term success, and our limited experience in the operation of our business outside Korea increases the risk that our international expansion efforts will not be successful.

We conduct international trading and construction operations abroad, and our business relies on a global trading network comprised of overseas subsidiaries, branches and representative offices. Although many of our subsidiaries

and overseas branches are located in developed countries, we also operate in numerous countries with developing economies. In addition, we intend to continue to expand our production operations internationally by carefully seeking out promising investment opportunities, particularly in China, India and Vietnam, in part to prepare for the eventual maturation of the Korean steel market. We may enter into joint ventures with foreign steel producers that would enable us to rely on these businesses to conduct our operations, establish local networks and

Table of Contents

coordinate our sales and marketing efforts abroad. To the extent that we enter into these arrangements, our success will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

In other situations, we may decide to establish manufacturing facilities by ourselves instead of relying on partners. The demand and market acceptance for our products produced abroad are subject to a high level of uncertainty and are substantially dependent upon the market condition of the global steel industry. We cannot assure you that our international expansion plan will be profitable or that we can recoup the costs related to such investments.

Expansion of our trading, construction and production operations abroad requires management attention and resources. In addition, we face additional risks associated with our expansion outside Korea, including:

challenges caused by distance, language and cultural differences;

higher costs associated with doing business internationally;

legal and regulatory restrictions, including foreign exchange controls that might prevent us from repatriating cash earned in countries outside Korea;

longer payment cycles in some countries;

credit risk and higher levels of payment fraud;

currency exchange risks;

potentially adverse tax consequences;

political and economic instability; and

seasonal reductions in business activity during the summer months in some countries.

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

In recent years, several of our products have been subject to anti-dumping or countervailing proceedings, including in the United States and China. In addition, the European Union initiated an anti-dumping investigation in October 2007 into our sales of stainless steel cold-rolled coils in European countries. We expect the European Union to announce its decision in early 2009. Further increases in or new imposition of anti-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. Our export sales and overseas sales to customers in the United States, China and Europe accounted for 14.0% of our sales volume of steel products in 2007. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

Cyclical fluctuations based on macroeconomic factors may adversely affect the business and performance of our engineering and construction segment.

In order to complement our steel operations, we engage in engineering and construction activities through POSCO Engineering & Construction Co., Ltd., a 90.9%-owned subsidiary. The engineering and construction segment, which accounted for approximately 8.6% of our consolidated sales in 2007, is highly cyclical and tends to fluctuate based on

macroeconomic factors, such as consumer confidence and income, employment levels, interest rates, inflation rates, demographic trends and policies of the Government. Although we believe that our strategy of focusing on high-value-added plant construction and urban planning and development projects such as Songdo New City has enabled us to be exposed to a lesser degree to general economic conditions in Korea in comparison to some of our domestic competitors, our construction revenues have fluctuated in the past depending on the level of domestic construction activity including new construction orders. Our construction operations could suffer in the future in the event of a general downturn in the construction market resulting in weaker demand, which could adversely affect the business, financial condition and results of operations of our engineering and construction segment.

Table of Contents

Many of our engineering and construction segment's domestic and overseas construction projects are on a fixed-price basis, which could result in losses for us in the event that unforeseen additional expenses arise with respect to the project.

Many of our engineering and construction segment's domestic and overseas construction projects are carried out on a fixed-price basis according to a predetermined timetable, pursuant to the terms of a fixed-price contract. Under such fixed-price contracts, we retain all cost savings on completed contracts but are also liable for the full amount of all cost overruns and may be required to pay damages for late delivery. The pricing of fixed-price contracts is crucial to our profitability, as is our ability to quantify risks to be borne by us and to provide for contingencies in the contract accordingly.

We attempt to anticipate increases in costs of labor, raw materials and parts and components in our bids on fixed-price contracts. However, the costs incurred and gross profits realized on a fixed-price contract may vary from our estimates due to factors such as:

unanticipated variations in labor and equipment productivity over the term of a contract;

unanticipated increases in labor, raw material, parts and components, subcontracting and overhead costs, including as a result of bad weather;

delivery delays and corrective measures for poor workmanship; and

errors in estimates and bidding.

If unforeseen additional expenses arise over the course of a construction project, such expenses are usually borne by us, and our profit from the project will be correspondingly reduced or eliminated. If we experience significant unforeseen additional expenses with respect to our fixed price projects, we may incur losses on such projects, which could have a material adverse effect on our financial condition and results of operations of our engineering and construction segment.

The domestic residential property business of our engineering and construction segment is highly dependent on the real estate market in Korea, which is substantially affected by the Government's real estate policies.

The performance of the domestic residential property business of our engineering and construction segment is highly dependent on the general condition of the real estate market in Korea. The Korean real estate market has been subject to substantial fluctuations in recent years, and some market analysts and commentators have warned of a property market bubble in certain regions of Korea, particularly in the residential sector. Such fluctuations have led the Government to introduce a series of measures over the past few years to mitigate increases in housing prices in Korea, which include constraints on the amount of mortgage loans and imposition of higher real estate and capital gains taxes, as well as discouraging redevelopment of existing apartment complexes in certain parts of Seoul. In addition, the Government began imposing ceilings on the prices at which developers can sell newly constructed apartments to the public and disclosure of certain costs related to the development and construction of apartments. In part due to such policies, the real estate market for new residential properties in Korea has experienced a slowdown in recent years, with an increase in new homes left unsold nationwide.

We cannot assure you that significant declines in demand or prices will not take place in the Korean real estate market in the future. Additional changes in the Government's real estate policies may further reduce demand and depress prices for new residential properties in Korea, which could negatively affect our engineering and construction segment's business, results of operations and financial conditions.

We may not be able to successfully execute our diversification strategy.

In part to prepare for the eventual maturation of the Korean steel market, our overall strategy includes securing new growth engines by diversifying into new businesses related to our steel operations that we believe will offer greater potential returns, such as liquefied natural gas production, logistics and magnesium coil and sheet production, as well as entering into new businesses not related to our steel operations such as power generation, development of alternative energy and advanced materials, information and technology related consulting services

Table of Contents

and wireless broadband Internet access service. Our ability to implement this diversification strategy will depend on a variety of factors, some of which are beyond our control, including the availability of qualified engineers and personnel, establishment of new relationships and expansion of existing relationships with various customers and suppliers, procurement of necessary technology and know-how to engage in such businesses and access to investment capital at reasonable costs. No assurance can be given that our diversification strategy can be completed profitably.

We are subject to environmental regulations, and our operations could expose us to substantial liabilities.

We are subject to national and local environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our manufacturing process, and our steel manufacturing and construction operations could expose us to risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. We may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. We may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the government or private litigants. In the course of our operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated at third party-owned or operated disposal sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites, for any associated natural resource damage, and for civil or criminal fines or penalties.

Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.

We believe that developing new steel manufacturing technologies that can be differentiated from those of our competitors, such as FINEX, strip casting and silicon steel manufacturing technologies, is critical to the success of our business. We take active measures to obtain protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors. Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

We rely on trade secrets and other unpatented proprietary know-how to maintain our competitive position, and unauthorized disclosure of our trade secrets or other unpatented proprietary know-how could negatively affect our business.

We rely on trade secrets and unpatented proprietary know-how and information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and patentable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business.

Escalations in tension with North Korea could have an adverse effect on us and the market value of our securities.

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 and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the

Table of Contents

international community. 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. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea's weapons program, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications. In October 2007, Korea and North Korea held a summit meeting to discuss easing tensions and fostering peace on the Korean peninsula. Mr. Lee, Myung Bak, who became the President of Korea in February 2008, has announced that no further summit meetings will be held until North Korea discontinues its nuclear weapons program.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tension, including a breakdown of high-level contacts between Korea and North Korea or occurrence of military hostilities, could have a material adverse effect on our operations.

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 that 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 10.D. 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 issue new shares to persons other than our shareholders (See Item 10.B. Memorandum and Articles of Association - Preemptive Rights and Issuance of Additional Shares), a holder of our ADSs will experience dilution of such holding. If none of these exceptions is available, we will be required to grant preemptive rights when issuing additional common shares under Korean law. Under the deposit agreement governing the ADSs, 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.

Table of Contents

We are under no obligation to file any registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the registration requirement under the Securities Act would be available. Accordingly, 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 4.A. History and Development of the Company

We were established by the Government on April 1, 1968, under the Commercial Code 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 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 4.B. 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 2007. We produced approximately 32.8 million tons of crude steel in 2007 (including 2.5 million tons of stainless steel), a substantial portion of which was produced at Pohang Works and Gwangyang Works. Currently, Pohang Works has 15.0 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 18.0 million tons. We

believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. We manufacture and sell a diversified line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

Table of Contents

We sell primarily to the Korean market, with domestic sales accounting for 66.2% of our total sales volume of steel products in 2007. We believe that we had an overall market share of approximately 38.6% of the total sales volume of steel products sold in Korea in 2007. Our export sales and overseas sales to customers abroad in 2006 and 2007 accounted for 32.3% and 33.8% of our total sales volume of steel products, respectively. Our major export market is Asia, with China accounting for 29.4%, Japan 19.7% and the rest of Asia 19.5% of our total steel export sales volume in 2007.

Business Strategy

Leveraging on our success during the past forty years, our goal is to strengthen our position as one of the leading steel producers in the world and strive to rank among the top three global steel companies in technology leadership, operational excellence and production capacity. 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. Over the next decade, we seek to expand our position as a global company by adding significant production bases outside Korea. We also intend to secure growth by further solidifying our market position in the steel sector, while allocating additional resources into businesses that we believe will offer us greater potential returns and serve as our new growth engines, such as the engineering and construction, energy and information and technology businesses.

We seek to strengthen our competitiveness and pursue growth through the following core business strategies:

Continue to Seek Growth Opportunities in the Steel Sector

We carefully seek out promising investment opportunities abroad, primarily in China, India, Vietnam and Mexico, in part to prepare for the eventual maturation of the Korean steel market. We believe that China, India, Vietnam and Mexico will continue to offer substantial growth opportunities, and we plan to selectively seek investment opportunities and expand our production base in these countries. For example, in June 2005, we entered into a memorandum of understanding with Orissa State Government of India for the construction of an integrated steel mill and the development of iron ore mines in Orissa state. In Vietnam, we obtained an approval from the Vietnamese Government in November 2006 to construct steel mills with an annual production capacity of 1.2 million tons of cold rolled products and 3.0 million tons of hot rolled products. We began construction of a cold rolling mill with target completion in September 2009. We also submitted a feasibility report in June 2008 to the Vietnamese Government in order to obtain the Prime Minister's approval for the construction and operation of an integrated steel mill in Vietnam. In Mexico, we are building a plant with an annual production capacity of 400 thousand tons to produce automotive steel sheets. We are also building a global distribution network of supply chain management centers to provide processing and logistics services and more effectively respond to changes in consumer trends in the global steel market. In 2007, we operated 28 supply chain management centers worldwide that recorded aggregate sales of 1,460 thousand tons of steel products. We plan to continue expanding our global network of supply chain management centers, and we expect to operate 35 centers by the end of 2008. In Korea, we plan to continue to expand our production facilities and upgrade our facilities that utilize advanced manufacturing technologies, and we plan to enhance the quality of our products through continued modernization and rationalization of our facilities.

Maintain Technology Leadership

As part of our strategy, we have identified core products that we plan to further develop, such as premium automobile steel sheets, silicon steel and API-grade steel, and we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our products. In order to increase our competitiveness, we plan to make additional investments in the development of new manufacturing technologies, such as FINEX, strip casting, endless rolling and environment-friendly manufacturing processes. We will continue to refine

FINEX, a low cost, environmentally friendly steel manufacturing process that 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 sintering and coking plants, as well as reducing operating and raw

Table of Contents

material costs. We also plan to accelerate development of other advanced technologies, such as strip casting that directly casts coils from liquid steel and a rolling process that rolls hot rolled coils up to 40 slabs at a time. We plan to further devote additional resources into our research and development efforts and increase the proportion of our sales of higher margin, higher value-added products.

Pursue Cost-Cutting through Operational and Process Innovations

We seek to achieve cost reductions in this era of increasing raw material costs through our company-wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization of efficient production methods and management discipline will strengthen our corporate competitiveness. After implementation of Six Sigma innovations in recent years, we are now implementing Quick Six Sigma program, a customized program that we believe will enhance our corporate culture that rewards innovative ideas at all stages of our operations and enable us to benchmark successful innovations to all relevant processes within the company. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

Secure Procurement of Raw Materials through Strategic Investments

We purchase substantially all of the principal raw materials we use, including iron ore, coal and nickel, from sources outside Korea. Import prices of many of the principal raw materials, including iron ore and nickel, have increased substantially 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 Australia and Brazil.

Selectively Seek Opportunities in Growth Industries

We will continue to selectively seek opportunities in growth industries to diversify our business both vertically and horizontally. New businesses not related to our steel operations in which we intend to focus our diversification include power generation, alternative energy development and information and technology. POSCO Power Corporation, our wholly-owned subsidiary that is the largest private power generation company in Korea, signed a strategic partnership agreement in February 2007 with FuelCell Energy, a global leader in molten carbonate fuel cell technology, pursuant to which POSCO Power Corporation will explore opportunities to expand into the stationary fuel cell market. POSCO Power Corporation also began construction of a fuel cell manufacturing plant in Pohang in 2007. Through POSDATA, a 61.9%-owned subsidiary, we also engage in information and technology consulting and wireless broadband Internet access service. Businesses related to our steel operations in which we intend to devote more resources include engineering and construction. POSCO Engineering & Construction, our consolidated subsidiary and one of the leading engineering and construction companies in Korea, is primarily engaged in the planning, design and construction of industrial plants and architectural works and civil engineering. We will continue to selectively seek opportunities to identify new growth engines and diversify our operations.

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.

For the Year Ended December 31,

| Steel Products | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|--------------------------|------------------------|--------------|------------------------|--------------|------------------------|--------------|------------------------|--------------|------------------------|--------------|
| | Billions of Won | % | Billions of Won | % | Billions of Won | % | Billions of Won | % | Billions of Won | % |
| Hot rolled products | 4,185 | 26.1 | 5,449 | 25.1 | 5,877 | 25.0 | 4,650 | 20.8 | 4,495 | 16.1 |
| Plates | 1,320 | 8.2 | 1,987 | 9.1 | 2,253 | 9.6 | 2,380 | 10.7 | 2,847 | 10.2 |
| Wire rods | 1,064 | 6.6 | 1,351 | 6.2 | 1,528 | 6.5 | 1,243 | 5.6 | 1,458 | 5.2 |
| Cold rolled products | 5,208 | 32.4 | 6,564 | 30.2 | 7,527 | 32.0 | 6,765 | 30.3 | 8,672 | 31.1 |
| Silicon steel sheets | 431 | 2.7 | 531 | 2.4 | 688 | 2.9 | 681 | 3.0 | 1,105 | 4.0 |
| Stainless steel products | 3,172 | 19.7 | 4,920 | 22.6 | 4,543 | 19.3 | 5,751 | 25.8 | 8,268 | 29.7 |
| Others | 687 | 4.3 | 952 | 4.4 | 1,132 | 4.7 | 859 | 3.8 | 1,003 | 3.7 |
| Total | 16,067 | 100.0 | 21,753 | 100.0 | 23,547 | 100.0 | 22,329 | 100.0 | 27,848 | 100.0 |

For the Year Ended December 31,

| Steel Products | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|--------------------------|--------------------------|--------------|--------------------------|--------------|--------------------------|--------------|--------------------------|--------------|--------------------------|--------------|
| | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % |
| Hot rolled products | 11,514 | 37.6 | 10,966 | 34.5 | 10,330 | 33.2 | 9,604 | 31.0 | 8,221 | 25.6 |
| Plates | 3,047 | 9.9 | 3,385 | 10.6 | 3,193 | 10.3 | 3,615 | 11.7 | 3,926 | 12.2 |
| Wire rods | 2,777 | 9.1 | 2,503 | 7.9 | 2,366 | 7.6 | 2,153 | 6.9 | 2,222 | 6.9 |
| Cold rolled products | 9,770 | 31.9 | 10,242 | 32.2 | 10,468 | 33.6 | 10,864 | 35.1 | 12,146 | 37.8 |
| Silicon steel sheets | 671 | 2.2 | 705 | 2.2 | 737 | 2.4 | 686 | 2.2 | 934 | 2.9 |
| Stainless steel products | 1,778 | 5.8 | 2,069 | 6.5 | 1,919 | 6.2 | 2,260 | 7.3 | 2,694 | 8.4 |
| Others | 1,100 | 3.5 | 1,926 | 6.1 | 2,100 | 6.7 | 1,802 | 5.8 | 1,967 | 6.2 |
| Total | 30,657 | 100.0 | 31,796 | 100.0 | 31,115 | 100.0 | 30,984 | 100.0 | 32,110 | 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 2003, 1.0 million tons in 2004, 1.0 million tons in 2005, 0.8 million tons in 2006 and 1.0 million tons in 2007, accounting for Won 679 billion in 2003, Won 699 billion in 2004, Won 807 billion in 2005, Won 470 billion in 2006 and Won 623 billion in 2007, 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, 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 8.2 million tons in 2007, representing 25.6% of our total sales volume of steel products. The Korean market accounted for 6.7 million tons or 81.4% of our hot rolled product sales in 2007, representing a domestic market share of approximately 40%. 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 one of our two largest product categories in terms of sales volume. In 2007, our sales volume of hot rolled products decreased by 14.4% compared to 2006 primarily due to an increase in the quantity set aside for use in the production of cold rolled products.

Table of Contents

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 3.9 million tons in 2007, representing 12.2% of our total sales volume of steel products. The Korean market accounted for 3.7 million tons or 94.1% of our plate sales in 2007, representing a domestic market share of approximately 35%. 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 2007, our sales volume of plates increased by 8.6% compared to 2006 primarily due to an increase in demand from the shipbuilding 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 2.2 million tons in 2007, representing 6.9% of our total sales volume of steel products. The Korean market accounted for 1.7 million tons or 77.4% of our wire rod sales in 2007, representing a domestic market share of approximately 50%. The largest customers for our wire rods are manufacturers of wire ropes and fasteners.

In 2007, our sales volume of wire rods increased by 3.2% compared to 2006 primarily due to 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 12.1 million tons in 2007, representing 37.8% of our total sales volume of steel products. The Korean market accounted for 6.0 million tons or 49.1% of our cold rolled product sales in 2007, representing a domestic market share of approximately 45%.

Cold rolled products constitute our largest product category in terms of sales volume and revenue. Sales of cold rolled products in recent years have experienced growth due to an increase in demand from the automobile industry, which we were able to satisfy through an increase in production resulting from the renovation of a cold rolling mill. In 2007, our sales volume of cold rolled products increased by 11.8% compared to our sales volume in 2006.

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 934 thousand tons in 2007, representing 2.9% of our total sales volume of steel products. The Korean market accounted for 423 thousand tons or 45.3% of our silicon steel sheet sales in 2007, representing a domestic market share of approximately 95%.

In 2007, our sales volume of silicon steel sheets increased by 36.1% compared to 2006 due to an increase in demand from manufacturers of power transformers and generators, which we were able to satisfy through an increase in production resulting from the renovation of our silicon steel sheet manufacturing facilities.

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

Stainless steel products are used to manufacture household goods and are also 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 2.7 million tons in 2007, representing 8.4% of our total sales volume of steel products. The Korean market accounted for 1.0 million tons or 37.1% of our stainless steel product sales in 2007, representing a domestic market share of approximately 60%.

Stainless steel products constitute our second largest product category in terms of revenue. Although sales of stainless steel products accounted for only 8.4% of our total sales volume in 2007, they represented 29.7% of our total revenues from sales of steel products in 2007. Our sales volume of stainless steel products increased by 19.2% in 2007 compared to 2006 due to an increase in demand from the stainless steel products industry and stabilization of production from China.

Others

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

Markets

Korea is our most important market. Domestic sales represented 66.2% of our total sales volume of steel products in 2007. Our export sales and overseas sales to customers abroad represented 33.8% of our total sales volume of steel products in 2007. 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 and to expand our international market presence.

Domestic Market

The total Korean market for steel products amounted to 55.1 million tons in 2007. We sold a total of 21.3 million tons of steel products in Korea in 2007, maintaining an overall domestic market share of approximately 38.6% for such period.

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

| Source | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|------------------------------------|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|-------|
| | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % |
| POSCO's sales | 21,121 | 46.6 | 23,599 | 50.0 | 22,880 | 48.5 | 20,991 | 42.3 | 21,256 | 38.6 |
| Other Korean steel companies sales | 17,838 | 39.3 | 15,969 | 33.9 | 15,957 | 33.9 | 18,052 | 36.4 | 21,224 | 38.5 |
| Imports(1) | 6,411 | 14.1 | 7,595 | 16.1 | 8,287 | 17.6 | 10,591 | 21.3 | 12,628 | 22.9 |
| Total domestic sales(1) | 45,370 | 100.0 | 47,163 | 100.0 | 47,124 | 100.0 | 49,634 | 100.0 | 55,108 | 100.0 |

(1) Source: 2007 Official Statistics, Korea Iron & Steel Association.

Total domestic sales increased by 4.0% in 2004, primarily resulting from 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.

In 2005, total domestic sales decreased by 0.1%, primarily due to a decrease in demand from the construction industry, which more than offset an increase in demand from the automobile and shipbuilding industries. Imports from foreign competitors, primarily from Japan, China, and Russia, showed strong growth as import sales volume

Table of Contents

increased by 9.1% in 2005 to 8.3 million tons. Growth in domestic sales volume of other Korean steel companies decreased by 0.1% in 2005 while our domestic sales volume decreased by 3.0% in 2005 to 22.9 million tons. Accordingly, our market share decreased to 48.5% in 2005 from 50.0% in 2004.

In 2006, total domestic sales increased by 5.3%, primarily due to an increase in demand from the shipbuilding and automobile 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 27.8% in 2006 to 10.6 million tons. Growth in domestic sales volume of other Korean steel companies increased by 13.1% in 2006 while our domestic sales volume decreased by 8.3% in 2006 to 21.0 million tons. Accordingly, our market share decreased to 42.3% in 2006 from 48.5% in 2005.

In 2007, total domestic sales increased by 11.0%, primarily due to an increase in demand from the shipbuilding and automobile 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 19.2% in 2007 to 12.6 million tons. Growth in domestic sales volume of other Korean steel companies increased by 17.6% in 2007 and our domestic sales volume increased by 1.3% in 2007 to 21.3 million tons. Accordingly, our market share decreased to 38.6% in 2007 from 42.3% in 2006.

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 and factors that may affect domestic sales in the future, see Item 5. Operating and Financial Review and Prospects Item 5.A. Operating Results.

Exports

Our export sales and overseas sales to customers abroad represented 33.8% of our total sales volume of steel products in 2007, 68.5% of which was generated from exports sales and overseas sales to customers in Asian countries. Our export sales and overseas sales to customers abroad in terms of sales volume increased by 8.6% to 10.9 million tons in 2007. The tables below set out our export sales and overseas sales to customers abroad in terms of sales volume of steel products by geographical market and by product for the periods indicated.

| Region | For the Year Ended December 31, | | | | | | | | | |
|---|---------------------------------|------|-------------------------|------|-------------------------|------|-------------------------|------|-------------------------|------|
| | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
| | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % |
| China | 3,510 | 36.8 | 3,138 | 38.3 | 2,640 | 32.1 | 2,524 | 25.3 | 3,186 | 29.4 |
| Japan | 1,719 | 18.0 | 1,661 | 20.3 | 1,843 | 22.4 | 1,959 | 19.6 | 2,137 | 19.7 |
| Asia (other than China and Japan) | 2,259 | 23.7 | 1,502 | 18.3 | 1,636 | 19.9 | 1,895 | 19.0 | 2,112 | 19.5 |
| North America | 715 | 7.5 | 737 | 9.0 | 761 | 9.2 | 963 | 9.6 | 756 | 7.0 |
| Europe | 236 | 2.5 | 116 | 1.4 | 34 | 0.4 | 318 | 3.2 | 546 | 5.0 |
| Others | 1,096 | 11.5 | 1,043 | 12.7 | 1,320 | 16.0 | 2,335 | 23.3 | 2,117 | 19.4 |

| | | | | | | | | | | |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|
| Total | 9,535 | 100.0 | 8,198 | 100.0 | 8,234 | 100.0 | 9,994 | 100.0 | 10,854 | 100.0 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|

Table of Contents

| Steel Products | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|--------------------------|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|-------|
| | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % | Thousands of Tons | % |
| Hot rolled products | 2,464 | 25.8 | 2,049 | 25.0 | 1,960 | 23.8 | 2,477 | 24.8 | 1,531 | 14.1 |
| Plates | 363 | 3.8 | 295 | 3.6 | 229 | 2.8 | 228 | 2.3 | 231 | 2.1 |
| Wire rods | 598 | 6.3 | 252 | 3.1 | 333 | 4.1 | 498 | 5.0 | 502 | 4.6 |
| Cold rolled products | 4,649 | 48.8 | 4,139 | 50.5 | 4,142 | 50.3 | 4,774 | 47.8 | 6,186 | 57.0 |
| Silicon steel sheets | 223 | 2.3 | 245 | 3.0 | 262 | 3.2 | 369 | 3.7 | 511 | 4.7 |
| Stainless steel products | 795 | 8.3 | 1,019 | 12.4 | 1,032 | 12.5 | 1,245 | 12.4 | 1,695 | 15.6 |
| Others | 443 | 4.7 | 199 | 2.4 | 276 | 3.3 | 403 | 4.0 | 198 | 1.9 |
| Total | 9,535 | 100.0 | 8,198 | 100.0 | 8,234 | 100.0 | 9,994 | 100.0 | 10,854 | 100.0 |

The table below sets out our total sales, including non-steel sales, by geographical location of customers for the periods indicated. See Note 30 of Notes to Consolidated Financial Statements.

| Geographical Location of Customers | For the Year Ended December 31, | | |
|------------------------------------|---------------------------------|----------|----------|
| | 2005 | 2006 | 2007 |
| | (In billions of won) | | |
| Korea | ₩ 18,566 | ₩ 17,250 | ₩ 19,970 |
| China | 3,118 | 3,070 | 4,504 |
| Asia (other than China and Japan) | 1,502 | 1,486 | 2,042 |
| Japan | 1,372 | 1,312 | 1,742 |
| North America | 550 | 610 | 732 |
| Other | 1,194 | 2,114 | 2,618 |
| Total | 26,302 | 25,842 | 31,608 |

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 apparent crude steel use for the periods indicated.

| | For the Year Ended December 31, | | | | |
|--|---------------------------------|------|------|------|------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |

Edgar Filing: POSCO - Form 20-F

| | | | | | |
|--|------|-------|-------|-------|-------|
| Apparent crude steel use (million metric tons) | 984 | 1,091 | 1,113 | 1,178 | 1,250 |
| Percentage of annual increase (decrease) | 7.3% | 10.9% | 2.0% | 5.8% | 6.1% |

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 renewed interest in expansion of steel production capacity. World Steel Dynamics estimated the global crude steel production capacity to increase from 1,340 million tons in 2006 to 1,421 million tons in 2007 and expects the production capacity to increase further in 2008, primarily as a result of additions of new capacity in China and India. Over-capacity in the global steel industry may return if increase in demand from developing countries that have experienced significant growth in recent 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 2007 was China, which accounted for 29.4% 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 2.6 million tons in 2005, 2.5 million tons in 2006 and 3.2 million tons in 2007. Exports to China decreased by 15.9% in 2005 and 4.4% in 2006 primarily due to our decision to focus on meeting increased domestic demand and an adjustment of our sales volume from China to other countries with more favorable market price conditions. Our exports to China increased by 26.2% in 2007

Table of Contents

primarily due to favorable market price conditions in China in 2007. Our exports to Japan increased from 1.8 million tons in 2005 to 2.0 million tons in 2006 and 2.1 million tons in 2007 primarily due to a general increase in the Japanese market price for our products. Sales volume to Asian countries other than China and Japan increased from 1.6 million tons in 2005 to 1.9 million tons in 2006 and 2.1 million tons primarily due to a general increase in demand from Asian countries.

In 2006, our exports to the United States and Europe increased from an aggregate of 0.8 million tons in 2005 to an aggregate of 1.3 million tons in 2006, primarily due to favorable market price conditions in these regions during the first half of 2006. Our sales volume to the United States and Europe remained stable at an aggregate of 1.3 million tons in 2007.

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 572 thousand tons in 2005, 730 thousand tons in 2006 and 494 thousand tons in 2007, accounting for approximately 75% of our sales to North America in 2005, 76% in 2006 and 65% in 2007.

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 margin of 0.07% and an anti-dumping duty margin of 0.35%, but none is actually imposed pursuant to the de minimis margin rule. Our sales of stainless steel plates are subject to an anti-dumping duty of 1.19% and our sales of stainless steel sheets are subject to an anti-dumping duty of 0.92%.

In China, we are subject to an anti-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 anti-dumping duty.

In Europe, the European Union initiated an anti-dumping investigation in October 2007 into our sales of stainless steel cold-rolled coils in European countries. We expect the European Union to announce its decision in early 2009.

Our products that have been subject to anti-dumping or countervailing proceedings in the aggregate have not accounted for a material portion of our total sales in recent years. Consequently, the anti-dumping or countervailing duties 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, Europe 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.

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 are determined considering the prices of the similar products charged by our competitors. Export prices in Dollar terms increased in the first half of 2005, 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 costs and prices of raw materials. However, our export prices in Dollar terms

decreased in the second half of 2005 due to excessive supply of steel products from China. Our export prices in Dollar terms rebounded in the first half of 2006 due to the recovery of the global steel markets resulting primarily from an increase in demand from the United States and Europe starting in the second quarter, but decreased in the second half of 2006 as such demand slowed. Our export prices in Dollar terms increased in 2007 due to strong demand from China and Japan. Our export prices in Dollar terms have increased further in the first half of 2008, driven primarily by increases in prices of raw materials such as iron ore and coal and strong market demand.

Table of Contents

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 2007, POSCO imported approximately 45.5 million dry metric tons of iron ore and 24.4 million wet metric tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia.

In 2007, we purchased most of our iron ore and coal imports pursuant to long-term contracts. POSCO purchased approximately 12.8% of its iron ore and coal imports in 2007 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 certain fixed amounts of relevant raw materials each year, and we typically have an option to increase or decrease such fixed amounts up to 5% or 10% each year. 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 average price of coal per ton (including all associated costs such as insurance, freight costs and customs duties) decreased from \$114 in 2005 to \$111 in 2006 and \$104 in 2007, but has increased substantially in the first half of 2008. The average price of iron ore per ton (including all associated costs such as insurance, freight costs and customs duties) increased from \$45 in 2005 to \$55 in 2006 and \$64 in 2007 and increased further in the first half of 2008. 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 is determined based on the global market price at the time of purchase. We purchased 3.2 million tons of iron ore from this development project in 2005, 2.9 million tons in 2006 and 2.9 million tons in 2007.

Since 2004, we have made the following investments in Australia: (i) A\$51 million to acquire a 20% interest in a coal mine project in Foxleigh, Australia, securing 1.5 million tons of coal per year, (ii) A\$10 million to acquire a 3.6% interest in a coal mine in Glennies Creek, NSW, Australia, securing 0.5 million tons of coal per year, (iii) A\$12.5 million to acquire a 5% interest in a coal mine in Carborough Downs, Queensland, Australia, securing 50 thousand tons of coal per year, (iv) A\$18 million to acquire 40 million shares of Murchison Metals Ltd. to develop iron ore mines in the western region of Australia (v) A\$30 million to acquire a 10% interest in a coal mine in Newpac, NSW, Australia, to secure 0.5 million tons of coal per year, (vi) A\$25 million to acquire a 19.99% interest in Cockatoo Coal Ltd. to secure 1.0 million tons of coal per year, and (vii) A\$7.2 million to acquire a 19.99% interest in Sandfire Resources Ltd. to secure 30% of all productions from its mines including manganese, iron ore and zinc. In addition, we invested approximately \$25 million to acquire a 2.5% stake in a coal mine project in Elkview, Canada, securing an additional 0.5 million tons of coal per year. POS-Minerals Corporation also entered into a joint venture agreement with General Moly in February 2008 to form a limited liability company to develop a molybdenum mine in Nevada, United States. POS-Minerals Corporation holds a 20.0% interest in the company. In April 2008, we also invested \$200 million in a consortium with Pallinghurst Resources LLP, American Metals & Coal International, Inc. and Investec Limited to pursue various mining opportunities. As the first co-investment by the consortium, we acquired a 13% interest in a manganese project in Kalahari, South Africa to secure approximately 130 thousand tons of manganese ore per year. We continue to seek opportunities to enter into additional strategic relationships 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 the requirements for ferrochrome are purchased from producers in South Africa, India and Kazakhstan. Most of the

Table of Contents

requirements for stainless steel scrap are sourced from domestic and overseas suppliers in 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 insurance and freight costs) increased substantially in recent years from \$15,230 in 2005 to \$21,654 in 2006 and \$40,619 in 2007 but decreased in the first half of 2008, primarily due to an increase in demand for stainless steel from China. The average price of scrap iron per ton (including insurance and freight costs) decreased from \$275 in 2005 to \$254 in 2006 but increased to \$330 in 2007.

In order to secure stable sources of nickel for stainless steel production, we entered into a joint venture in June 2006 with Société Minière du Sud Pacifique S.A. to establish SNNC Co., Ltd. We hold a 49.0% interest in the company that is primarily engaged in nickel smelting, and Société Minière du Sud Pacifique S.A., a French major mining company, holds the remaining interest. SNNC is currently constructing a nickel smelting works with the capacity of 300 thousand tons and target operation date of September 2008.

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 75% of our coal and iron ore in 2007, with the remaining 25% 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 21% and 13% of the total cost of such materials in 2007. We expect transportation costs of raw materials to increase in 2008 primarily due to the increase in oil prices in recent years.

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. 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 slab, blooms or billets at the continuous casting machine. Slab, blooms and billets are produced at different standardized sizes and shapes. Slab, 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.

Slab are processed to produce hot rolled coil 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 slab are produced at a continuous casting mill. The slab 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.

Table of Contents

Competition

Domestic Market

We are currently the only fully integrated steel producer in Korea. We generally face fragmented competition in the domestic market. In hot rolled products, where we had a market share of approximately 40% in 2007, we face competition from a Korean steel producer that operates mini-mills and produces hot-rolled coil products from slabs 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 45% and 60% in 2007, respectively, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan.

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 Hyundai Steel, an electric-furnace steel producer with annual crude steel production of 11.3 million tons in 2007.

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, Mittal Steel's takeover of Arcelor in 2006 created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal, and new market entrants, especially from China and India, could result in a significant increase in competition. Major competitive factors include 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.

Subsidiaries and Global Joint Ventures

Steel Production

In order to effectively implement our strategic initiatives and to solidify our leadership position in the global steel industry, we have established various subsidiaries and global joint ventures around the world.

We established POSCO Specialty Steel Co., Ltd. as a wholly-owned subsidiary in Korea in February 1997. POSCO Specialty Steel produces high-quality steel products for the automobile, machinery, nuclear power plant, shipbuilding, aeronautics and electronics industries. Production facilities operated by POSCO Specialty Steel have an aggregate annual production capacity of 859 thousand tons of wire rods, round bars, steel pipes and semi-finished products. POSCO Specialty Steel Co., Ltd. produced 862 thousand tons of such products in 2007.

In order to expand our sale of value-added products, we established POSCO Coated and Color Sheet Co., Ltd. by merging a coated steel manufacturer and a color sheet manufacturer in March 1999. POSCO Coated and Color Sheet

produces 600 thousand tons a year of both galvanized and aluminized steel sheets widely used in the construction, automobile parts and home appliances industries. POSCO Coated and Color Sheet also produces color sheets with an annual capacity of 300 thousand tons that are mainly used for interior and exterior materials and home appliances.

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 82.5% interest in the joint venture (including 23.9% interest of POSCO China Holding Corporation). The plant commenced production of stainless cold rolled steel products in December 1998. The joint venture also completed

Table of Contents

the construction of new mills in July 2006 with additional annual production capacity of 800 thousand tons of stainless hot rolled products. Zhangjiagang Pohang Stainless Steel produced 780 thousand tons of stainless steel products in 2007.

We currently hold an 80.0% interest in Qingdao Pohang Stainless Steel Co., Ltd. (including a 10.0% interest by 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 April 2003 and became operational in December 2004, with an annual production capacity of 180 thousand tons of stainless cold rolled steel products. Qingdao Pohang Steel produced 183 thousand tons of such products in 2007.

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. The cold rolling mill became operational in March 2006 and produced 1.3 million tons of such products in 2007. We expect the plant to reach its full production capacity in late 2008. We currently hold a 25.0% interest in this joint venture.

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 solidifies their business relationships with clients and suppliers.

In addition to the above investments, we are carefully seeking out additional promising investment opportunities abroad. In June 2005, we entered into a memorandum of understanding with Orissa State Government of India for the construction of an integrated steel mill and the development of iron ore mines in Orissa state. We estimate the aggregate costs of the initial round of construction and mine development to be approximately \$3.7 billion and an additional cost of approximately \$8.3 billion in order to increase the annual production capacity to 12 million tons of plates and hot rolled products. In 2007, we obtained environmental clearances from the Indian Government required for the construction of a steel plant and a related port. We are currently in the process of acquiring an area of approximately 4,000 acres for the construction, as well as obtaining regulatory approvals for the development of iron ore mines.

We also obtained an approval from the Vietnamese Government in November 2006 to construct steel mills with an annual production capacity of 1.2 million tons of cold rolled products and 3.0 million tons of hot rolled products, pursuant to which we expect to invest \$211 million and finance the remainder to construct a \$528 million cold rolling mill with target completion in September 2009. We also submitted a feasibility report in June 2008 to the Vietnamese Government in order to obtain the Prime Minister's approval for the construction and operation of an integrated steel mill in Vietnam.

In Mexico, we are planning to build an automotive steel sheet plant to supply automobile manufacturers in Mexico and Southwestern United States. We expect to invest \$143 million and finance the remainder to construct a \$239 million automotive steel sheet plant with an annual capacity of 0.4 million tons with target completion in June 2009. The plant construction is currently progressing as planned, and the mechanical and electrical erection will begin in June 2008.

In the United States, we entered into a joint venture in March 2007 with US Steel and SeAH to establish United Spiral Pipe to produce American Petroleum Institute-compliant pipes targeting customers in the United States and Canada. We hold a 35% interest in the company. US Steel and we will each supply 50% of the hot-rolled steel required for the production of pipes. United Spiral Pipe is currently constructing a \$129 million manufacturing plant with an annual production capacity of 270,000 tons with target completion in April 2009.

In order to secure an alternative sales source for stainless hot-rolled steel products and an export base for expanding into the Southeast Asia stainless steel markets, we acquired a 15.0% interest in Thainox Stainless Public Company Limited, a major stainless steel manufacturer in Thailand, in 2007.

We also established approximately thirty supply chain management centers around the world to provide processing and logistics services such as cutting flat steel products to smaller sizes to meet customers' needs. In

Table of Contents

2007, our twenty-eight supply chain management centers recorded aggregate sales of 1,460 thousand tons of steel products. We plan to continue expanding our global network of supply chain management centers, and we expect to operate 35 centers by the end of 2008.

Steel Trading

Our trading activities consist of exporting and importing a wide range of steel products that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. To strengthen our global market presence, we are coordinating these trading activities through a global trading network comprised of overseas subsidiaries, branches and representative offices. Such subsidiaries and offices support our trading activities by locating suitable local suppliers and purchasers on behalf of ourselves as well as customers, identifying business opportunities and providing information regarding local market conditions. Our consolidated subsidiaries engaged in steel trading include POSCO Steel Service & Sales Co., Ltd. that primarily focuses in the domestic market, and POSCO Asia Company Limited located in Hong Kong, POSCO Japan Co., Ltd. located in Tokyo, Japan and POSCO America Corporation located in New Jersey, U.S.A.

Engineering and Construction

POSCO Engineering & Construction is one of the leading engineering and construction companies in Korea, primarily engaged in the planning, design and construction of industrial plants and architectural works and civil engineering projects. In particular, POSCO Engineering & Construction has established itself as one of the premier engineering and construction companies in Korea through:

its strong and stable customer base; and

its cutting-edge technological expertise obtained from construction of advanced integrated steel plants, as well as participation in numerous modernization and rationalization projects at our Pohang Works and Gwangyang Works.

Leveraging its technical know-how and track record of building some of the leading industrial complexes in Korea, POSCO Engineering & Construction has also focused on diversifying its operations into construction of high-end apartment complexes and participating in a wider range of architectural works and civil engineering projects, as well as engaging in urban planning and development projects and expanding its operations abroad. One of its landmark urban planning and development projects includes the development of a 5.7 million-square meter area of Songdo International City in Incheon, which POSCO Engineering & Construction is co-developing with Gale International, a respected real estate developer based in the United States. We believe that overseas demand for complex industrial plants, urban planning and development projects and skyscrapers will continue to offer substantial growth opportunities, and POSCO Engineering & Construction is currently engaged in construction activities in China, Vietnam, India, Latin America and the Middle East, as well as various other locations.

Energy

We have accumulated several decades of experience and know-how in a wide range of energy-related fields, including natural gas and other forms of power generation. As part of our diversification efforts, we strive to identify appropriate opportunities for power generation, renewable energy projects, liquefied natural gas logistics and natural gas exploration.

In order to make inroads into the power generation business, in 2006 we completed the acquisition of the largest domestic private power generation company that operates a liquefied natural gas combined cycle power plant with

total power generation capacity of 1,800 megawatts and renamed it POSCO Power Corporation. POSCO Power Corporation plans to continue to expand its power generation capacity. In order to meet the increasing demand for clean and renewable sources of energy, POSCO Power Corporation signed a strategic partnership agreement in February 2007 with FuelCell Energy, a global leader in molten carbonate fuel cell technology, pursuant to which POSCO Power Corporation will explore opportunities to expand into the stationary fuel cell market. POSCO Power Corporation also began construction of a fuel cell manufacturing plant in Pohang in 2007.

Table of Contents

In the field of liquefied natural gas logistics, we constructed the Gwangyang liquefied natural gas receiving terminal, which is equipped with two 100,000 cubic meter storage tanks, two open-rack vaporizers and other processing facilities. In July 2007, we began expanding the terminal to increase the storage capacity from 200,000 cubic meters to 365,000 cubic meters by September 2010.

We are also actively seeking business opportunities in upstream energy resources exploration, especially in the field of natural gas. In 2007, we participated in the Aral Sea Exploration Project in Uzbekistan, purchasing a 9.8% interest from the Korea National Oil Corporation. We expect the drilling activity to commence in early 2009.

Information and Technology

Through POSDATA, a 61.9%-owned subsidiary, we have diversified our business into information and technology consulting and system network integration and outsourcing services, as well as wireless broadband Internet access service, or WiBro, and worldwide interoperability for microwave access service, or WiMAX. POSDATA also completed the initial stages of the nationwide electronic toll collection project for Korea's highway system, and is currently promoting accelerated adoption of WiMAX services in overseas markets. POSDATA also engages in convergent information technology equipment manufacturing businesses such as electronic toll collection systems, digital video surveillance products, Internet protocol phones and multifunction units. We expect to launch Internet protocol television services in the second half of this year.

Others

We acquired or established several subsidiaries that address specific services to support the operations of Pohang Works and Kwangyang Works. POSCON Co., Ltd., acquired in 1986, provides industrial engineering services to member companies of the POSCO Group and manufacturing services utilizing automation technology. POSCO Machinery & Engineering Co., Ltd. and POSCO Machinery Co., Ltd. were established to perform maintenance of our manufacturing equipment. POSCO Refractories and Environment Company Ltd. manufactures refractories and industrial furnaces.

We also entered into a joint venture with Mitsui Corporation of Japan for a 51.0% interest in POSCO Terminal Co., Ltd. that 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 6.3 million tons.

Insurance

As of December 31, 2007, our property, plant and equipment are insured against fire and other casualty losses up to Won 8,876 billion. In addition, we carry general insurance for vehicles and accident compensation insurance for our employees to the extent we consider appropriate.

Item 4.C. *Organizational Structure*

The following table sets out the jurisdiction of incorporation and our ownership interests of our significant subsidiaries:

| Name | Jurisdiction of Incorporation | Percentage of Ownership |
|------|-------------------------------|-------------------------|
|------|-------------------------------|-------------------------|

Edgar Filing: POSCO - Form 20-F

| | | |
|---|-------|--------|
| POSCO Engineering & Construction Co., Ltd. | Korea | 90.9% |
| POSCO Power Corporation | Korea | 100.0% |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | China | 82.5% |
| POSCO Specialty Steel Co., Ltd. | Korea | 100.0% |
| POSCO Steel Service & Sale Co., Ltd. | Korea | 95.3% |
| POSDATA Co., Ltd. | Korea | 61.9% |

Table of Contents**Item 4.D. *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 5.B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion.

Pohang Works

Construction of Pohang Works began in 1970 and ended in 1983. We increased the annual crude steel and stainless steel production capacity of Pohang Works from 14.3 million tons in 2007 to 15.0 million tons at the end of 2007 through the installation of a de-phosphorization facility at Pohang Works no. 2 steelmaking plant. 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 40 plants, 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 Works capacity utilization rates for the periods indicated.

| | For the Year Ended December 31, | | | | |
|--|--|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Crude steel and stainless steel production capacity (million tons per year) | 12.67 | 13.30 | 13.30 | 13.30 | 14.30 |
| Actual crude steel and stainless steel output (million tons) | 12.67 | 13.45 | 13.36 | 12.60 | 13.66 |
| Capacity utilization rate (%) ⁽¹⁾ | 100.0 | 101.1 | 100.4 | 94.7 | 95.5 |

(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 13.7 million square meters reclaimed from the sea in Gwangyang City in the southwestern region of Korea. We increased the annual crude steel production capacity of Gwangyang Works from 16.7 million tons in 2007 to 18.0 million tons at the end of 2007 through the installation of a de-phosphorization facility at Gwangyang Works no. 2 steelmaking plant. 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 43 plants, 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 40 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 Works, Gwangyang Works is equipped

Table of Contents

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.

| | For the Year Ended December 31, | | | | |
|---|--|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Crude steel production capacity (million tons per year) | 16.23 | 16.70 | 16.70 | 16.70 | 16.70 |
| Actual crude steel output (million tons) | 16.23 | 16.76 | 17.19 | 17.45 | 17.41 |
| Capacity utilization rate (%) ⁽¹⁾ | 100.0 | 100.4 | 102.9 | 104.5 | 104.2 |

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

The Environment

We believe we are in compliance with applicable environmental laws and regulations in all material respects. Our levels of pollution control are higher than those mandated by Government standards. We established an on-line environmental monitoring system with real-time feedback on pollutant levels and a forecast system of pollutant concentration in surrounding areas. We also undergo periodic environmental inspection by both internal and external inspectors in accordance with ISO 14001 standards to monitor execution and maintenance of our environmental management plan. We recently invested in comprehensive flue gas treatment facilities at some of sinter plants, dust collector at steelmaking plants and coke wastewater treatment facilities. In addition, we recycle most of by-products from the steelmaking process. We also have been developing environmentally friendly products such as chrome-free steel sheets in an effort to compete with products from the European Union, the United States and Japan and meet strengthened environmental regulations. Anticipating the trend toward increasing regulation of chrome in various steel products, we have introduced chrome-free steel products meeting international environmental standards in 2006 that are used to manufacture automobile oil tanks.

We plan to continue to invest in developing more environmentally friendly steel manufacturing processes. We commenced research and development for a new steel manufacturing technology called FINEX in 1992 jointly with the Research Institute of Industrial Science and Technology and VOEST Alpine, an Australian company, and we completed the construction of our first FINEX plant with an annual production capacity of 1.5 million tons in May 2007. We will continue to refine 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 by eliminating major sources of pollution such as sinter and coke plants, as well as decreasing operating and raw material costs.

In response to increasingly strict regulation on greenhouse gas emissions as outlined in the Kyoto Protocol, we engage in various Clean Development Mechanism projects to strive to reduce carbon dioxide emissions during the steel manufacturing process and acquire certified emission reductions. We plan to register three projects with the United Nations, including a combined cycle power generation facility that uses waste gas and a hydropower generation facility at Gwangyang Works. We are also linking onsite and offsite investment projects to Clean Development Mechanism projects, such as strip casting and fuel cells.

POSCO spent Won 127 billion in 2005, Won 194 billion in 2006 and Won 494 billion in 2007 on anti-pollution facilities.

Item 4A. *Unresolved Staff Comments*

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act of 1934.

Table of Contents

Item 5. *Operating and Financial Review and Prospects*

Item 5.A. *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 decreased by 0.4% in 2006 but increased by 3.6% in 2007. Our crude steel output decreased from 31.4 million tons in 2005 to 31.2 million tons in 2006, and sales volume decreased from 31.1 million tons in 2005 to 31.0 million tons in 2006. In 2007, our crude steel output increased to 32.8 million tons and sales volume increased to 32.1 million tons primarily due to an increase in production resulting from completion of relining of no. 3 blast furnace of Pohang Works and commencement of operation of the FINEX plant. For a discussion of our sales volume and revenues by major products and markets from 2003 to 2007, see Item 4. Information on the Company Item 4.B. Business Overview Major Products and Markets.

In 2006, unit sales price in Won for all of our principal product lines other than silicon steel sheets and stainless steel products decreased, and the weighted average unit prices for our products decreased by 4.8%, partially due to appreciation of the Korean Won against the Dollar in 2006 that contributed to a decrease in our export prices in Won terms. The average exchange rate of the Korean Won against the Dollar appreciated from Won 1,023.2 per Dollar in 2005 to Won 954.3 per Dollar in 2006. Unit sales price of hot rolled products, which accounted for 31.0% of total sales volume, decreased by 14.9% in 2006. Unit sales price of cold rolled products, which accounted for 35.1% of total sales volume, decreased by 13.4% in 2006. Unit sales price of wire rods, which accounted for 6.9% of total sales volume, decreased by 10.6%. Unit sales price of plates, which accounted for 11.7% of total sales volume, decreased by 6.7% in 2006. These decreases were partially offset by a 7.5% increase in unit sales price of stainless steel products, which accounted for 7.3% of total sales volume in 2006 and also by a 6.2% increase in unit sales price of silicon steel sheets, which accounted for 2.2% of total sales volume in 2006.

In 2007, unit sales price in Won for all of our principal product lines increased, and the weighted average unit prices for our products increased by 20.4% in 2007 compared to 2006 despite an appreciation of the Korean Won against the Dollar in 2007 that contributed to a decrease in our export prices in Won terms. The average exchange rate of the Korean Won against the Dollar appreciated from Won 954.3 per Dollar in 2006 to Won 929.0 per Dollar in 2007. Unit

sales price of stainless steel products, which accounted for 8.4% of total sales volume, increased by 20.6% in 2007. Unit sales price of silicon steel sheets, which accounted for 2.9% of total sales volume, increased by 19.3% in 2007. Unit sales price of wire rods, which accounted for 6.9% of total sales volume, increased by 13.6% in 2007. Unit sales price of cold rolled products, which accounted for 37.8% of total sales volume, increased by 14.7% in 2007. Unit sales price of hot rolled products, which accounted for 25.6% of total sales volume, increased by 12.9% in 2007. Unit sales price of plates, which accounted for 12.2% of total sales volume, increased by 10.2% in 2007.

Export prices in Dollar terms increased in the first half of 2005 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 costs

Table of Contents

and prices of raw materials. However, our export prices in Dollar terms decreased in the second half of 2005 due to excessive supply of steel products from China. Our export prices in Dollar terms rebounded in the first half of 2006 due to the recovery of the global steel markets resulting primarily from an increase in demand from the United States and Europe starting in the second quarter, but decreased in the second half of 2006 as such demand slowed during this period. Our export prices in Dollar terms increased in 2007 due to strong demand from China and Japan. Our export prices in Dollar terms have increased further in the first half of 2008 driven by increases in prices of raw materials such as iron ore and coal and strong market demand. See Item 4. Information on the Company Item 4.B. 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.

| Products | For the Year Ended December 31, | | |
|--------------------------|---------------------------------|---------|---------|
| | 2005 | 2006 | 2007 |
| | (In thousands of won per ton) | | |
| Hot rolled products | ₩ 568.9 | ₩ 484.2 | ₩ 546.8 |
| Plates | 705.4 | 658.4 | 725.2 |
| Wire rods | 645.9 | 577.2 | 656.0 |
| Cold rolled products | 719.0 | 622.7 | 714.0 |
| Silicon steel sheets | 934.0 | 991.8 | 1,182.9 |
| Stainless steel products | 2,366.9 | 2,544.3 | 3,069.0 |
| Others | 538.6 | 476.6 | 509.5 |
| Average(1) | ₩ 756.8 | ₩ 720.6 | ₩ 867.3 |

(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 4.B. 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.

| | For the Year Ended | | |
|--|---------------------------|-------|-------|
| | 2005 | 2006 | 2007 |
| | December 31, | | |
| | (Percentage of net sales) | | |
| Cost of goods sold | 71.4% | 77.0% | 78.8% |
| Selling and administrative expenses(1) | 5.5 | 6.0 | 5.6 |
| Total operating expenses | 76.9 | 83.0 | 84.4 |
| Gross margin | 28.6 | 23.0 | 21.2 |

| | | | |
|------------------|------|------|------|
| Operating margin | 23.1 | 17.0 | 15.6 |
|------------------|------|------|------|

(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 4.D. Property, Plants and Equipment.

Table of Contents

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

| | For the Year Ended December 31, | | |
|--|--|-------------|-------------|
| | 2005 | 2006 | 2007 |
| Crude steel and stainless steel production capacity (million tons per year)(1) | 30.9 | 31.2 | 32.8 |
| Actual crude steel and stainless steel output (million tons) | 31.4 | 31.2 | 32.8 |
| Capacity utilization rate (%) | 101.6 | 99.9 | 99.9 |
| Steel product sales (million tons)(2) | 31.12 | 30.98 | 32.11 |
| Man-hours per ton of crude steel produced(3) | 1.16 | 1.06 | 0.91 |

(1) Includes production capacity of POSCO Specialty Steel Co., Ltd. and Zhangjiagang Pohang Stainless Steel Co., Ltd.

(2) 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 2003, 1.0 million tons in 2004, 1.0 million tons in 2005, 0.8 million tons in 2006 and 1.0 million tons in 2007.

(3) 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 45.2% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2007;

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. 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 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, 2007, we had entered into swap contracts, currency forward contracts and currency future contracts. The net valuation gain of our derivatives contracts was approximately Won 9.1 billion and the net transaction gain was Won 11.4 billion in 2007. We may incur losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 22 of Notes to Consolidated Financial Statements.

Table of Contents

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. Due to the continuing unstable economic condition and related decrease in the selling price of products, which in turn resulted in the deterioration in profitability, the management's operations committee decided in April 2002 to cease the construction of the no. 2 mini-mill. We recognized impairment losses on the construction-in-progress in Gwangyang no. 2 mini-mill amounting to Won 469.6 billion in 2003 and 2004 and reclassified related machinery held to be disposed of in the future as other investment assets as of December 31, 2004. We entered into a contract with Al-Tuwairqi Trading and Contracting Establishment of Saudi Arabia in June 2006 to sell the no. 2 mini-mill equipment for \$96 million. Dismantling and transportation of the equipment is expected to be completed in the second half of 2008. The book values of property, plant and equipment held for sale amounted to Won 70 billion and are classified as other investment assets as of December 31, 2007.

Reportable Operating Segments

We have three reportable operating segments—a steel segment, an engineering and construction segment and a trading segment. The steel segment includes production of steel products and sale of such products. The engineering and construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The trading segment consists of exporting and importing a wide range of steel products that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. The operations of all other entities which fall below the reporting thresholds are included in the others segment, and include power generation, liquefied natural gas production, network and system integration, logistics and magnesium coil and sheet production. See Note 30 of Notes to Consolidated Financial Statements.

Inflation

Inflation in Korea, which was 2.8% in 2005, 2.2% in 2006 and 2.5% in 2007, 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.

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.

Table of Contents

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 that 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 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

Table of Contents

actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets. A percentage difference in cash flow projections or discount rate used would not likely result in an impairment write-down.

Operating Results***2007 Compared to 2006***

Our sales in 2007 increased by 22.3% to Won 31,608 billion from Won 25,842 billion in 2006, reflecting an increase of 20.4% in the average unit sales price per ton of our steel products, as discussed in Overview Sales Volume, Prices and Product Mix above, and a 3.6% increase in the sales volume of our steel products.

Sales volume of silicon steel sheets, which accounted for 2.9% of total sales volume, showed the greatest increase among our major steel product categories in 2007 with an increase of 36.1%. Sales volume of stainless steel products, which accounted for 8.4% of total sales volume, increased by 19.2%. Sales volume of cold rolled products, which accounted for 37.8% of total sales volume, increased by 11.8%. Sales volume of plates, which accounted for 12.2% of total sales volume, increased by 8.6%. Sales volume of wire rods, which accounted for 6.9% of total sales volume, increased by 3.2%. On the other hand, sales volume of hot rolled products, which accounted for 25.6% of total sales volume, decreased by 14.4%. See Item 4. Information on the Company Item 4.B. Business Overview Major Products.

Our sales to domestic customers in 2007 increased by 15.8% in terms of sales revenues (including sales of non-steel products and services) and increased by 1.3% in terms of sales volume of steel products compared to 2006. In 2007, our sales to domestic customers accounted for approximately 66.2% of our total sales volume of steel products, compared to 67.7% in 2006. The increase in domestic sales revenues in 2007 compared to 2006 was attributable primarily to an increase in the price of steel products sold in Korea and, to a lesser extent, an increase in sales volume to domestic customers.

Our export sales and overseas sales to customers abroad in 2007 increased by 35.5% in terms of sales revenues (including sales of non-steel products and services) and by 8.6% in terms of sales volume of steel products compared to 2006. Export sales and overseas sales to customers abroad as a percentage of total sales volume increased to 33.8% of our total sales volume of steel products in 2007 compared to 32.3% in 2006. The increase in export sales and overseas sales to customers abroad in terms of sales revenues in 2007 compared to 2006 was primarily attributable to an increase in the price of steel products sold abroad and, to a lesser extent, an increase in sales volume to customers abroad, which more than offset the reduction in net sales in Won from sales to customers abroad caused by appreciation of the Won against the Dollar.

Gross profit in 2007 increased by 12.8% to Won 6,705 billion from Won 5,946 billion in 2006. Gross margin in 2007 decreased to 21.2% from 23.0% in 2006 due to a 25.2% increase in cost of goods sold in 2007 to Won 24,903 billion from Won 19,897 billion in 2006, which outpaced the 22.3% increase in sales discussed above. The increase in cost of goods sold was attributable primarily to an increase in raw materials costs, which more than offset the impact from our cost savings programs, including implementation of the Mega Y project to reduce raw material costs and steel production costs related to sintering and coking processes. Raw materials costs in 2007 increased primarily as a result of a general increase in unit costs of iron ore and nickel, as well as an increase in our production of crude steel to 32.8 million tons in 2007 from 31.2 million tons in 2006. The average price of iron ore per ton (including all associated costs such as insurance, freight costs and customs duties) increased by 16.4% to \$64 in 2007 from \$55 in 2006, and the average price of nickel per ton (including insurance and freight costs) increased by 87.6% to \$40,619 in 2007 from \$21,654 in 2006. In 2007, our crude steel output increased to 32.8 million tons primarily due to an increase in production resulting from completion of relining of no. 3 blast furnace of Pohang Works and commencement of

operation of the FINEX plant. Depreciation and amortization increased by 19.3% to Won 2,127 billion in 2007 from Won 1,783 billion in 2006, primarily due to an increase in capital investment in our facilities for production of higher value-added products.

Operating income in 2007 increased by 12.1% to Won 4,920 billion from Won 4,389 billion in 2006. Operating margin decreased to 15.6% in 2007 from 17.0% in 2006, as selling and administrative expenses increased by 14.7% in 2007 to Won 1,785 billion from Won 1,556 billion in 2006. The increase in selling and administrative expenses

Table of Contents

resulted principally from increases in transportation and storage expenses, labor-related expenses, selling and administrative expenses others and fees and charges, the aggregate impact of which were partially offset by a decrease in provision for doubtful accounts. Transportation and storage expenses increased by 14.8% to Won 619 billion in 2007 from Won 540 billion in 2006 primarily due to an increase in our sales volume to customers abroad, as well as an increase in transportation costs, which in turn was primarily due to an increase in oil prices. Our labor-related expenses included in selling and administrative expenses, which consist of salaries, welfare expenses and provisions for severance benefits, increased by 20.2% to Won 387 billion in 2007 from Won 322 billion in 2006, primarily as a result of an increase in our salaries, as well as an increase in the number of employees of our subsidiaries. Selling and administrative expenses others increased by 41.5% to Won 165 billion in 2007 from Won 117 billion in 2006 primarily as a result of an increase in stock compensation expenses. Fees and charges increased by 55.1% to Won 97 billion in 2007 from Won 63 billion in 2006, primarily as a result of a reclassification of new order commissions as fees and charges starting in 2007, as well as increases in management and tax consulting expenses in 2007. Our provision for doubtful accounts decreased by 47.1% to Won 62 billion in 2007 from Won 117 billion in 2006, primarily as a result of a decrease in estimated losses that may arise from our doubtful accounts.

Our net income in 2007 increased by 9.7% to Won 3,678 billion from Won 3,353 billion in 2006 primarily due to an increase in operating income discussed above, a decrease in loss from disposition of investment assets and an increase in interest and dividend income and a decrease in other bad debt expense, the aggregate impact of which were partially offset by a net loss of Won 46 billion on foreign currency translation in 2007 compared to a net gain of Won 79 billion on foreign currency translation in 2006 and an increase in interest expense. We recognized no loss from disposition of investment assets in 2007 compared to such loss of Won 66 billion in 2006 resulting from our disposition of SK Telecom shares. Our interest and dividend income increased by 28.4% to Won 235 billion in 2007 from Won 183 billion in 2006 primarily due to an increase in cash equivalents, short-term financial instruments and available for sale debt-securities in 2007 compared to 2006. Our other bad debt expense decreased by 76.8% to Won 16 billion in 2007 from Won 70 billion in 2006 primarily due to a decrease in bad debt expenses of POSCO Engineering & Construction relating to unsold residential units in 2007 compared to 2006. We recorded a net loss of Won 46 billion on foreign currency translation in 2007 compared to a net gain of Won 79 billion on foreign currency translation in 2006 primarily due to a depreciation of the Korean Won against the Yen in 2007 compared to appreciation of the Korean Won against the Yen in 2006. In addition, our interest expense increased by 30.9% to Won 240 billion in 2007 from Won 183 billion in 2006 primarily due to an increase in long-term borrowings, as well as a general increase in market interest rates in Korea.

Our effective tax rate in 2007 was 26.0% compared to 21.5% in 2006. The statutory income tax rate applicable to us, including resident tax surcharges, remain the same at 27.5% in 2007 compared to 2006. See Note 25 of Notes to Consolidated Financial Statements

Segment Results Steel

Our sales to external customers increased by 17.6% to Won 27,911 billion in 2007 from Won 23,728 billion in 2006, primarily as a result of the reasons discussed above. After adjusting for inter-segment transactions, our net sales increased by 17.4% to Won 23,172 billion in 2007 from Won 19,743 billion in 2006.

Operating profit increased by 10.9% to Won 4,524 billion in 2007 from Won 4,079 billion in 2006, primarily as a result of the reasons discussed above. Depreciation and amortization increased by 12.1% to Won 1,920 billion in 2007 from Won 1,713 billion in 2006, primarily due to an increase in capital investment in our facilities for production of higher value-added products.

Segment Results Engineering and Construction

Our sales to external customers increased by 1.3% to Won 3,802 billion in 2007 from Won 3,752 billion in 2006, primarily due to an increase in our plant construction activities. After adjusting for inter-segment transactions, our net sales increased by 27.8% to Won 2,710 billion in 2007 from Won 2,121 billion in 2006.

Operating profit increased by 0.8% to Won 285 billion in 2007 from Won 282 billion in 2006, primarily due to an increase in profit margins of our construction projects.

Table of Contents***Segment Results Trading***

Our sales to external customers increased by 31.9% to Won 4,018 billion in 2007 from Won 3,046 billion in 2006, primarily due to an increase in the average unit sales price per ton of steel products sold and, to a lesser extent, an increase in the sales volume. After adjusting for inter-segment transactions, our net sales increased by 30.3% to Won 3,143 billion in 2007 from Won 2,413 billion in 2006.

Operating profit increased by 28.4% to Won 31 billion in 2007 from Won 24 billion in 2006, primarily due to an increase in the sales volume and sales prices of steel products.

2006 Compared to 2005

Our sales in 2006 decreased by 1.7% to Won 25,842 billion from Won 26,302 billion in 2005, primarily due to a decrease of 4.8% in the average unit sales price per ton of our steel products, as discussed in Overview Sales Volume, Prices and Product Mix above, and a 0.4% decrease in the sales volume of our steel products, which were offset in part by recognition of sales of Won 413 billion from POSCO Power Corporation and Won 198 billion from POSCO-Foshan Steel Processing Center Co., Ltd., our newly consolidated subsidiaries in 2006.

Sales volume of wire rods, which accounted for 6.9% of total sales volume, showed the greatest decrease among our major steel product categories in 2006 with a decrease of 9.0%. Sales volume of hot rolled products, which accounted for 31.0% of total sales volume, decreased by 7.0%. In addition, sales volume of silicon steel sheets, which accounted for 2.2% of total sales volume, decreased by 6.9%. These decreases in sales volume were partially offset by increases in sales volume of stainless steel products and plates. Sales volume of stainless steel products, which accounted for 7.3% of total sales volume, showed the greatest increase among our major steel product categories in 2006 with an increase of 17.8%. Sales volume of plates, which accounted for 11.7% of total sales volume, increased by 13.2%. See Item 4. Information on the Company Item 4.B. Business Overview Major Products.

Our sales to domestic customers in 2006 decreased by 7.1% in terms of sales revenues (including sales of non-steel products and services) and decreased by 8.3% in terms of sales volume of steel products compared to 2005. In 2006, our sales to domestic customers accounted for approximately 67.7% of our total sales volume of steel products, compared to 73.5% in 2005. The decrease in domestic sales revenues in 2006 compared to 2005 was attributable primarily to a decrease in sales volume to domestic customers, as well as a decrease in the price of steel products sold in Korea.

Our export sales and overseas sales to customers abroad in 2006 increased by 11.1% in terms of sales revenues (including sales of non-steel products and services) and by 21.4% in terms of sales volume compared to 2005. Export sales and overseas sales to customers abroad as a percentage of total sales volume increased to 32.3% of our total sales volume of steel products in 2006 compared to 26.5% in 2005. The increase in export sales and overseas sales to customers abroad in terms of sales revenues in 2006 compared to 2005 was primarily attributable to an increase in sales volume to customers abroad, which more than offset a decrease in the price of steel products sold abroad and the reduction in net sales in Won from sales to customers abroad caused by appreciation of the Won against the Dollar.

Gross profit in 2006 decreased by 21.1% to Won 5,946 billion from Won 7,535 billion in 2005. Gross margin in 2006 decreased to 23.0% from 28.6% in 2005 due to a 6.0% increase in cost of goods sold in 2006 to Won 19,897 billion from Won 18,767 billion in 2005, as well as a 1.7% decrease in sales discussed above. The increase in cost of goods sold was attributable primarily to an increase in raw materials costs, which more than offset the impact from our cost savings programs, including implementation of the Mega Y project to reduce raw material costs and steel production costs related to sintering and coking processes. Raw materials costs in 2006 increased primarily as a result of a general increase in unit costs of iron ore and nickel, the impact of which was offset in part by a decrease in our production of

crude steel to 31.2 million tons in 2006 compared to 31.4 million tons in 2005, as well as recognition of gain from disposition of scrap metal as a partial offset to raw material costs starting in 2006. The average price of iron ore per ton (including all associated costs such as insurance, freight costs and customs duties) increased by 22.2% to \$55 in 2006 from \$45 in 2005, and the average price of nickel per ton (including insurance and freight costs) increased by 42.2% to \$21,654 in 2006 from \$15,230 in 2005. Depreciation and amortization

Table of Contents

increased by 10.5% to Won 1,783 billion in 2006 from Won 1,613 billion in 2005, primarily due to an increase in capital investment in our facilities for production of higher value-added products.

Operating income in 2006 decreased by 27.8% to Won 4,389 billion compared to Won 6,083 billion in 2005. Operating margin decreased to 17.0% in 2006 from 23.1% in 2005, as selling and administrative expenses increased by 7.2% in 2006 to Won 1,556 billion compared to Won 1,451 billion in 2005. The increase in selling and administrative expenses resulted principally from increases in transportation and storage expenses and sales commissions, the impact of which were offset in part by a significant decrease in fees and charges. Transportation and storage expenses increased by 9.5% to Won 540 billion in 2006 compared to Won 493 billion in 2005 primarily due to an increase in our sales volume to customers abroad. Our sales commission expenses increased by 82.2% to Won 43 billion in 2006 compared to Won 23 billion in 2005 primarily due to reclassification of claim-related expenses as sales commissions starting in 2006. Our fees and charges in 2006 decreased by 48.8% to Won 63 billion compared to Won 122 billion in 2005, primarily as a result of a decrease in charges related to construction projects of POSCO Engineering & Construction. Our labor-related expenses included in selling and administrative expenses, which consist of salaries, welfare expenses and provisions for severance benefits, increased by 2.2% to Won 322 billion in 2006 from Won 315 billion in 2005, primarily as a result of a Won 15 billion increase in salaries resulting from the addition of POSCO Power Corporation and POSCO-Foshan Steel Processing Center Co., Ltd. as consolidated subsidiaries.

Our net income in 2006 decreased by 16.3% to Won 3,353 billion compared to Won 4,007 billion in 2005 primarily due to decreases in operating income, non-operating income others and net gain on foreign currency translation, as well as increases in other bad debt expense and interest expense, the aggregate impact of which were partially offset by a decrease in non-operating expenses others. Our non-operating income others decreased by 33.9% to Won 141 billion in 2006 from Won 214 billion in 2005 primarily due to recognition of gain from disposition of scrap metal as a partial offset to raw material costs instead of non-operating income starting in 2006. Our net gain on foreign currency translation decreased by 43.2% to Won 79 billion in 2006 from Won 140 billion in 2005 primarily due to a decrease in the magnitude of appreciation of the Korean Won against the Dollar in 2006 compared to such appreciation in 2005. Other bad debt expense increased by 133.4% to Won 70 billion in 2006 from Won 30 billion in 2005 primarily due to allocation of Won 31 billion in bad debt expenses relating to accounts receivable for the construction expenses of POSCO Engineering & Construction. Interest expense increased by 22.7% to Won 183 billion in 2006 from Won 149 billion in 2005 primarily due to an increase in long-term borrowings, as well as a general increase in market interest rates in Korea. Our non-operating expenses others decreased by 76.0% to Won 205 billion in 2006 from Won 854 billion in 2005 due to a significant decrease in special subsidies granted to 1,672 employees who were transferred to outsourcing companies in 2006 compared to such subsidies paid out to 23 employees who were transferred to outsourcing companies in 2005, as well as payment of additional income taxes of Won 179 billion in 2005 assessed following a regular audit conducted by the National Tax Service of our corporate income tax returns for 2000 to 2004; we have commenced an administrative action to challenge such assessment.

Our effective tax rate in 2006 was 21.5% compared to 26.9% in 2005. The statutory income tax rate applicable to us, including resident tax surcharges, remain the same at 27.5% in 2006 compared to 2005. See Note 25 of Notes to Consolidated Financial Statements.

Segment Results Steel

Our sales to external customers decreased by 4.7% to Won 23,728 billion in 2006 from Won 24,887 billion in 2005, primarily as a result of the reasons discussed above. After adjusting for inter-segment transactions, our net sales decreased by 5.6% to Won 19,743 billion in 2006 from Won 20,912 billion in 2005.

Operating profit decreased by 30.6% to Won 4,079 billion in 2006 from Won 5,880 billion in 2005, primarily as a result of the reasons discussed above. Depreciation and amortization increased by 6.8% to Won 1,713 billion in 2006 from Won 1,604 billion in 2005, primarily due to an increase in capital investment in our facilities for production of higher value-added products.

Table of Contents**Segment Results** *Engineering and Construction*

Our sales to external customers decreased by 6.1% to Won 3,752 billion in 2006 from Won 3,994 billion in 2005, primarily due to a decrease in our plant construction activities. After adjusting for inter-segment transactions, our net sales decreased by 1.3% to Won 2,121 billion in 2006 from Won 2,148 billion in 2005.

Operating profit increased by 15.3% to Won 282 billion in 2006 from Won 245 billion in 2005, primarily due to an increase in profit margins of our construction projects.

Segment Results *Trading*

Our sales to external customers decreased by 9.7% to Won 3,046 billion in 2006 from Won 3,374 billion in 2005, primarily due to reduction in the use of POSCO Steel Service & Sale and POSCO Asia by POSCO in our exporting activities. After adjusting for inter-segment transactions, our net sales increased by 1.3% to Won 2,413 billion in 2006 from Won 2,383 billion in 2005.

Operating profit remained relatively unchanged, decreasing by 1.0% to Won 24.2 billion in 2006 from Won 24.5 billion in 2005.

Item 5.B. *Liquidity and Capital Resources*

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

| | For the Year Ended December 31, | | |
|--|--|-------------|-------------|
| | 2005 | 2006 | 2007 |
| | (In billions of won) | | |
| Net cash provided by operating activities | ₩ 5,472 | ₩ 3,926 | ₩ 5,553 |
| Net cash used in investing activities | 3,444 | 3,363 | 4,264 |
| Net cash used in financing activities | 1,887 | 269 | 1,001 |
| Cash and cash equivalents at beginning of period | 482 | 654 | 936 |
| Cash and cash equivalents at end of period | 654 | 936 | 1,293 |
| Net increase in cash and cash equivalents | 172 | 283 | 356 |

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 in investing activities was Won 3,444 billion in 2005, Won 3,363 billion in 2006 and Won 4,264 billion in 2007. These amounts included purchases of property, plant and equipment of Won 3,361 billion in 2005, Won 3,709 billion in 2006 and Won 2,892 billion in 2007. We recorded net disposal of available-for-sale securities of Won 28 billion in 2005, but recorded net acquisition of available-for-sale securities of Won 507 billion in 2006 and Won 1,171 billion in 2007. We also recorded net acquisition of short-term financial instruments of Won 113 billion in 2005, Won 94 billion in 2006 and Won 973 billion in 2007. In our financing activities, we used cash of Won 1,368 billion in 2005, Won 1,353 billion in 2006 and Won 527 billion in 2007 for principal repayments of outstanding long-term debt. We used Won 1,295 billion in 2005, Won 851 billion in 2006 and Won 1,291 billion in 2007 for the repurchase of our shares from the market as treasury stock. We raised cash of Won 932 billion in 2005, Won 70 billion in 2006 and Won 407 billion in 2007 from disposal of treasury shares.

We paid dividends on common stock in the amount of Won 681 billion in 2005, Won 636 billion in 2006 and Won 655 billion in 2007.

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 and repurchase of our shares from the market as treasury stock. Our total capital expenditures (acquisition of property, plant and equipment) were Won 2,892 billion in 2007 and, under current plans, are estimated to increase to approximately Won 3,906 billion in 2008. We retain the ability to reduce or suspend our planned capital expenditures. However, our failure to undertake planned expenditures on steel-

Table of Contents

producing facilities could adversely affect the modernization of our production facilities and our ability to produce higher value-added products.

Principal repayment obligations with respect to long-term debt outstanding as of December 31, 2007 are Won 484 billion in 2008, Won 691 billion in 2009, Won 315 billion in 2010, Won 1,013 billion in 2011 and Won 1,301 billion in 2012 and beyond. As of December 31, 2007, we had short-term borrowings of Won 1,572 billion and current portion of long term debt of Won 484 billion (excluding discount). We expect to repay these obligations primarily through cash provided by operations and additional borrowings.

The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2007.

| Contractual Obligations | Total | Payments Due by Period | | | |
|-----------------------------|---------|------------------------|---|-----------------|------------------|
| | | Less Than 1 Year | 1 to 3 Years (In billions of won) | 4 to 5 Years | After 5 Years |
| Long-term debt obligations | 3,802.6 | 484.0 | 2,018.0 | 568.6 | 732.0 |
| Capital lease obligations | | | | | |
| Operating lease obligations | 20.0 | 7.0 | 9.1 | 2.0 | 1.9 |
| Purchase obligations | (a) | (a) | (a) | (a) | (a) |
| Other long-term liabilities | (b) | (b) | (b) | (b) | (b) |
| Total | 3,822.6 | 491.0 | 2,027.1 | 570.6 | 733.9 |

(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, 2007, 414 million tons of iron ore and 83 million tons of coal remained to be purchased under long-term contracts.

(b) See Note 14 of Notes to Consolidated Financial Statements for our accrued severance benefits. Other long-term liabilities do not have maturity or due dates. Accordingly, payment due information of other long-term liabilities has not been presented in the above table.

In addition, as of December 31, 2007, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies and non-affiliated companies totaled Won 577 billion and Won 526 billion, respectively. See Note 16 of Notes to Consolidated Financial Statements for our commitments and contingent liabilities.

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.

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 5,620 billion in 2005, Won 5,136 billion in 2006 and Won 5,805 billion in 2007, and cash proceeds from long-term debt were Won 594 billion in 2005, Won 2,160 billion in 2006 and Won 1,054 billion in 2007. Total long-term debt, including current portion but excluding discount on debentures issued, was Won 2,190 billion as of December 31, 2005, Won 3,143 billion as of December 31, 2006 and Won 3,803 billion as of December 31, 2007.

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.

Table of Contents

Our total shareholders' equity increased from Won 19,874 billion as of December 31, 2005 to Won 25,118 billion as of December 31, 2007. 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 29.4% of our sales in 2005, 33.2% of our sales in 2006 and 36.8% of our sales in 2007 were denominated in foreign currencies, of which approximately 85% were denominated in Dollars and around 15% in Yen and which were derived almost entirely from export sales. As of December 31, 2007, approximately 45.2% 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 cost of Won-denominated financing in Korea, 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 3,361 billion in 2005, Won 3,709 billion in 2006 and Won 2,892 billion in 2007. 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. As of December 31, 2007, 414 million tons of iron ore and 83 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 5,759 billion as of December 31, 2005, Won 7,155 billion as of December 31, 2006 and Won 7,769 billion as of December 31, 2007. As of December 31, 2007, POSCO had unused credit lines of Won 814 billion out of total available credit lines of Won 1,162 billion. See Note 16 of Notes to Consolidated Financial Statements for a discussion of unused credit lines and total available credit lines of our consolidated subsidiaries. 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, | | |
|--|-----------------------------|-------------|-------------|
| | 2005 | 2006 | 2007 |
| | (In billions of won) | | |
| Cash and cash equivalents, net of government grants | ₩ 654 | ₩ 936 | ₩ 1,293 |
| Short-term financial instruments | 760 | 867 | 1,743 |
| Trading securities | 2,611 | 2,001 | 1,287 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount | 3,045 | 3,492 | 4,036 |
| Inventories, net | 3,793 | 4,018 | 4,902 |

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 three to twelve months.

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

| | As of December 31, | | |
|---|-----------------------------|-------------|-------------|
| | 2005 | 2006 | 2007 |
| | (In billions of won) | | |
| Trade accounts and notes payable | ₩ 1,146 | ₩ 1,507 | ₩ 2,247 |
| Short-term borrowings | 860 | 1,239 | 1,572 |
| Income tax payable | 1,367 | 701 | 931 |
| Current portion of long-term debt, net of discount on debentures issued | 1,057 | 404 | 483 |

Table of Contents

In January 2000, we reduced our credit terms 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 have had or will have a material effect on our cash flows.

Capital Expenditures and Capacity Expansion

Our capital expenditures for 2005, 2006 and 2007 amounted to Won 3,361 billion, Won 3,709 billion and Won 2,892 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 3,906 billion in 2008. The following table sets out the major items of POSCO's capital expenditures as of December 31, 2007:

| Project | Expected Completion Date | Total Cost of Project | Estimated Remaining Cost of Completion as of December 31, 2007 |
|--|---|--------------------------------------|---|
| | (In billions of won) | | |
| Pohang Works: | | | |
| Installation of stainless steel continuous tandem rolling mill | May 2009 | 297 | 261 |
| Capacity expansion of silicon steel production facility | August 2009 | 282 | 255 |
| Installation of no. 2 thick heavy plate production facility | January 2008 | 115 | 2 |
| Installation of electrolytic galvanizing line | December 2008 | 99 | 85 |
| Installation of a bloom caster for the no. 1 continuous casting line | February 2008 | 89 | 8 |
| Expansion of plate production facility | December 2008 | 86 | 62 |
| Rationalization of billet mill. | March 2008 | 61 | 11 |
| Gwangyang Works: | | | |
| Capacity expansion of no. 2 pickling and tandem cold rolling mill | April 2009 | 226 | 219 |

Significant Changes in Korean GAAP

The Korean Accounting Standards Board 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 Commission. We have adopted SKFAS No. 1 through No. 25, except No. 14 and No. 24, in our financial statements as of and for the year ended December 31, 2007. Significant accounting policies adopted by us for our annual financial statement for the year ended December 31, 2007 are identical to the accounting policies followed by us for the annual financial statements for the year ended December 31, 2006, except for SKFAS Nos. 11, 21, 22, 23, 24 and 25, which became effective for us on January 1, 2007. The following new SKFAS have become effective for accounting periods beginning on or after January 1, 2007:

SKFAS No. 11, Discontinued Operations

SKFAS No. 21, Preparation and Presentation of Financial Statements I

SKFAS No. 22, Share-based Payments

SKFAS No. 23, Earnings Per Share

SKFAS No. 25, Consolidated Financial Statements

In accordance with SKFAS No. 21, Preparation and Presentation of Financial Statements I, our financial statements include the statements of changes in shareholders' equity. We classified our capital adjustments account

Table of Contents

into capital adjustments and accumulated other comprehensive income and expense, and also disclosed the details of our comprehensive income in the notes to the financial statements. In addition, we disclosed our earnings per share on the face of our statements of income.

Certain prior year accounts, presented in the annual report for comparative purposes, have been reclassified to conform to current year's financial statement presentation. Such reclassification does not impact the net income or net assets reported in the prior year.

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 35 of Notes to Consolidated Financial Statements.

We recorded net income under U.S. GAAP of Won 3,565 billion in 2007 compared to net income of Won 3,408 billion in 2006 and Won 4,102 billion in 2005 primarily due to the factors discussed in Operating Results. Our net income under U.S. GAAP of Won 3,565 billion in 2007 is 0.2% higher than our net income attributable to controlling interest under Korean GAAP of Won 3,559 billion. See Note 35(a) of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements in U.S. GAAP

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurement. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, except as amended by FASB position (FSP) SFAS 157-1 and FSP SFAS 157-2 as described further below. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The provisions of SFAS 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied except for certain cases where it should be applied retrospectively. We are currently evaluating the impact that SFAS 157 may have on the consolidated financial position, results of operations or cash flows. This statement will be effective for us for the fiscal year beginning on January 1, 2008. In February 2008, the FASB issued FSP SFAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions and FSP SFAS 157-2, Effective Date of FASB Statement No. 157. FSP SFAS 157-1 removes leasing from the scope of SFAS No. 157, Fair Value Measurements. FSP SFAS 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In February 2007, the FASB issued SFAS Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits companies and not-for-profit organizations to make a one-time election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact that SFAS 159 may have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). Under SFAS No. 141(R), companies are required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. This statement further requires

that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. We are in the process of evaluating the impact that SFAS 141 (revised 2007) may have on our consolidated financial statements. This statement will be effective for us

Table of Contents

for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period that begins on or after December 15, 2008.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 (FAS 160). FAS 160 requires all entities to report noncontrolling interests in subsidiaries (also known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. FAS 160 also establishes accounting and reporting standards for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS 160 is effective as of January 1, 2009. We are in the process of evaluating the impact that FAS 160 may have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. FAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are in the process of evaluating the impact that SFAS 161 may have on our consolidated financial statements. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

Item 5.C. *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 founded by us in 1987. As of December 31, 2007, Pohang University of Science & Technology and the Research Institute of Industrial Science and Technology employed a total of 566 researchers.

In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. As of December 31, 2007, the Technical Research Laboratory employed a total of 346 researchers.

We recorded research and development expenses of Won 173 billion as cost of goods sold in 2005, Won 271 billion in 2006 and Won 290 billion in 2007, as well as research and development expenses of Won 53 billion as selling and administrative expenses in 2005, Won 54 billion in 2006 and Won 53 billion in 2007. In addition, we made donations to educational foundations supporting basic science and technology research, amounting to Won 33 billion in 2005, Won 33 billion in 2006 and Won 47 billion in 2007. We also donated Won 17 billion in 2005, Won 22 billion in 2006 and Won 25 billion in 2007 to Pohang University of Science & Technology, a university founded by us.

Our research and development program has filed over twenty thousand industrial rights applications relating to steel-making technology, approximately one-fourth of which were registered as of December 31, 2007, and has successfully applied many of these to the improvement of our manufacturing process.

Item 5.D. *Trend Information*

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

Table of Contents

Item 5.E. *Off-balance Sheet Arrangements*

As of December 31, 2005, 2006 and 2007, 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 5.F. *Tabular Disclosure of Contractual Obligations*

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

Item 5.G. *Safe Harbor*

See Item 3. Key Information Item 3.D. Risk Factors This annual report contains forward-looking statements that are subject to various risks and uncertainties.

Item 6. *Directors, Senior Management and Employees*

Item 6.A. *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;

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 6.C. Board Practices.

Under the Commercial Code and our articles of incorporation, one Chairman should be elected among the Outside Directors and several Representative Directors may be elected among the Standing Directors by our board of directors resolution.

Table of Contents***Standing Directors***

Our current Standing Directors are:

| Name | Position | Responsibilities and Division | Years | | Age | Expiration of Term of Office |
|------------------|---|--|-------------|------------|-----|------------------------------|
| | | | as Director | with POSCO | | |
| Lee, Ku-Taek | Chief Executive Officer and Representative Director | | 18 | 39 | 62 | February 2010 |
| Yoon, Seok-Man | President and Representative Director | Chief Marketing Officer | 4 | 31 | 59 | February 2010 |
| Chung, Joon-Yang | President and Representative Director | Chief Operating Officer and Technology Officer | 4 | 33 | 60 | February 2010 |
| Cho, Soung-Sik | Senior Executive Vice President | Managing Director, POSCO-India Pvt. Ltd. | 2 | 33 | 57 | February 2009 |
| Lee, Dong-Hee | Senior Executive Vice President | Chief Finance Officer | 2 | 31 | 58 | February 2009 |
| Choi, Jong-Tae | Senior Executive Vice President | Chief Staff Officer | 0 | 34 | 58 | February 2011 |

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

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 Korean Securities and Exchange Act).

| Name | Position | Principal Occupation | Years | | Age | Expiration of Term of Office |
|-------------------|-----------------------|------------------------------------|-------------|-------------|-----|------------------------------|
| | | | as Director | as Director | | |
| Suh, Yoon-Suk | Chairman of the Board | Professor, Ewha Woman's University | 4 | 53 | 53 | February 2009 |
| Park, Young-Ju | Director | CEO, Eagon Industrial Co., Ltd. | 4 | 67 | 67 | February 2009 |
| Jones, Jeffrey D. | Director | Attorney, Kim & Chang | 4 | 56 | 56 | February 2010 |

Edgar Filing: POSCO - Form 20-F

| | | | | | |
|-----------------|----------|---|---|----|---------------|
| Park, Won-Soon | Director | Executive Director, The Beautiful Foundation | 4 | 52 | February 2010 |
| Sun, Wook | Director | CEO, Nongshim Co., Ltd. | 3 | 63 | February 2011 |
| Ahn, Charles | Director | Chairman of the Board, AhnLab, Inc. | 3 | 46 | February 2011 |
| Huh, Sung-Kwan | Director | Former President, Gwangju Institute of Science and Technology | 2 | 60 | February 2009 |
| Park, Sang-Yong | Director | Professor, Yonsei University | 0 | 57 | February 2011 |

Jun, Kwang-Woo, one of our outside directors as of December 31, 2007, resigned on March 6, 2008 due to his appointment as the chairman of the Financial Services Commission.

The term of office of the Directors is up to three (3) years. Each Director's term expires at the close of the ordinary general meeting of shareholders convened in respect of the fiscal year that is the last one to end during such Director's tenure.

Senior Management

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

| Name | Position | Responsibility and Division | Years with POSCO | Age |
|-----------------|---------------------------------|---|------------------|-----|
| Hur, Nam-Suk | Senior Executive Vice President | General Superintendent, Gwangyang Works | 33 | 58 |
| Chung, Keel-Sou | Senior Executive Vice President | Chief of Stainless Steel Division | 33 | 58 |

Table of Contents

| Name | Position | Responsibility and Division | Years with POSCO | Age |
|------------------|--------------------------|---|-------------------------|------------|
| Kim, Sang-Ho | Executive Vice President | Legal Affairs Dept. | 7 | 54 |
| Oh, Chang-Kwan | Executive Vice President | General Superintendent, Pohang Works | 30 | 55 |
| Kwon, Young-Tae | Executive Vice President | Raw Materials Procurement Dept. | 33 | 57 |
| Chang, Hyun-Shik | Executive Vice President | Energy Business Dept. | 6 | 57 |
| Kim, Jin-II | Executive Vice President | Vietnam Project Dept. | 33 | 55 |
| Kwon, Oh-Joon | Executive Vice President | General Superintendent, Technical Research Laboratories | 21 | 57 |
| Park, Han-Yong | Executive Vice President | Human Resources Dept. | 30 | 57 |
| Kim, Sang-Young | Executive Vice President | Corporate Communication Dept. | 21 | 56 |
| Kim, Soo-Kwan | Executive Vice President | General Superintendent, Human Resources Development Center, Corporate Contribution Dept. | 31 | 56 |
| Cho, Jun-Gil | Senior Vice President | Deputy General Superintendent, Gwangyang Works (Hot and Cold Rolling) | 31 | 56 |
| Yoo, Kwang-Jae | Senior Vice President | Stainless Steel Production and Technology | 30 | 56 |
| Yoon, Yong-Chul | Senior Vice President | Deputy General Superintendent, Gwangyang Works (Iron and Steel Making) | 30 | 55 |
| Cho, Noi-Ha | Senior Vice President | Production Order and Process Dept., Technical Service Dept., Market Development Group, Automotive Flat Products Service Group | 30 | 55 |
| Yoon, Yong-Won | Senior Vice President | Facilities Investment Planning Dept., Pohang New Steel Making Plant Project Dept., Gwangyang Plate Mill Project Dept., Raw Materials Handling Buildup Project Dept. | 30 | 56 |
| Park, Ki-Hong | Senior Vice President | Finance Dept. | 2 | 50 |
| Choo, Wung-Yong | Senior Vice President | European Union Office | 25 | 55 |
| Kim, Sung-Kwan | Senior Vice President | India Project Dept. | 31 | 57 |
| Jang, Byung-Hyo | Senior Vice President | POSCO-Japan Co., Ltd | 31 | 54 |

Edgar Filing: POSCO - Form 20-F

| | | | | |
|-----------------|--------------------------|--|----|----|
| Kim, Joon-Sik | Senior Vice President | Technology Development Dept., Magnesium Business Dept. | 27 | 54 |
| Jang, Young-Ik | Senior Vice President | Stainless Steel Raw Materials Procurement Dept. | 29 | 54 |
| Kim, Moon-Seok | Senior Vice President | Seoul Office | 29 | 54 |
| Yun, Tai-Han | Senior Vice President | Hot Rolled Steel Sales Dept., API Steel Sales Group, Plate Sales Dept., Wire Rod Sales Dept. | 28 | 55 |
| Cho, Bong-Rae | Senior Vice President | Deputy General Superintendent, Pohang Works (Iron and Steel Making) | 28 | 55 |
| Chang, In-Hwan | Senior Vice President | Cold Rolled Steel Sales Dept., Automotive Flat Products Sales Dept., Automotive Flat Products Exports Dept., Flat Products Sales SCM Dept., Coated Steel Sales Dept., Electrical Steel Sales Group | 27 | 53 |
| Kong, Yoon-Chan | Senior Vice President | Deputy General Superintendent, Gwangyang Works (Administration) | 28 | 55 |
| Lee, In-Bong | Senior Vice President | Information Planning Dept. | 27 | 53 |
| Shin, Jung-Suk | Senior Vice President | Zhangjiagang Pohang Stainless Steel Co. Ltd. | 29 | 55 |

Table of Contents

| Name | Position | Responsibility and Division | Years with POSCO | Age |
|------------------|-----------------------|---|-------------------------|------------|
| An, Byung-Sik | Senior Vice President | Deputy General Superintendent, Pohang Works (Maintenance) | 30 | 52 |
| Baek, Sung-Kwan | Senior Vice President | Investment Management Dept. | 27 | 52 |
| Cho, Chang-Hwan | Senior Vice President | Deputy General Superintendent, Gwangyang Works (Maintenance) | 28 | 53 |
| Yoon, Dong-Jun | Senior Vice President | Business Innovation Dept. | 24 | 49 |
| Lee, Kyung-Hoon | Senior Vice President | Environment & Energy Dept. | 29 | 54 |
| Chang, Song-Hwan | Senior Vice President | Deputy General Superintendent, Pohang Works (Administration) | 27 | 53 |
| Lee, Hoo-Geun | Senior Vice President | FINEX Research & Development Project Dept. | 25 | 50 |
| Woo, Jong-Soo | Senior Vice President | Deputy General Superintendent, Technical Research Laboratories | 28 | 52 |
| Kang, Chang-Gyun | Senior Vice President | Auditing Dept. | 28 | 52 |
| Lee, Jung-Sik | Senior Vice President | Deputy General Superintendent, Pohang Works (Hot and Cold Rolling) | 28 | 53 |
| Suh, Young-Sea | Senior Vice President | Stainless Steel Strategy Group, Stainless Steel Hot Rolled Product Sales Dept., Stainless Steel Cold Rolled Product Sales Dept. | 24 | 52 |
| Park, Myung-Kil | Senior Vice President | Materials Purchasing and Supply Management Dept. | 22 | 49 |
| Lee, Young-Hoon | Senior Vice President | Corporate Strategic Planning Dept. | 22 | 48 |
| Hwang, Eun-Yeon | Senior Vice President | Marketing Strategy Dept., Sales & Production Planning Group, Sales Logistics Group | 21 | 49 |

Item 6.B. Compensation**Compensation of Directors and Officers**

Salaries and bonuses for Standing Directors and salaries for Directors are paid in accordance with standards decided by the board of directors within the limitation of directors remuneration approved by the annual general meeting of shareholders. In addition, executive officers compensation is paid in accordance with standards decided by the board of directors. The aggregate compensation paid and accrued to all Directors and executive officers was approximately Won 16.7 billion in 2007 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 6.4 billion in 2007.

We have also granted stock options to some of our Directors and executive officers. See Item 6.E. Share Ownership for a list of stock options granted to our Directors and executive officers. At the annual shareholders meeting held in February 2006 our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

Item 6.C. Board Practices

Director Candidate Recommendation Committee

The Director Candidate Recommendation Committee comprises three Outside Directors, Park, Won-Soon (committee chair), Ahn, Charles and Sun, Wook and one Standing Director, Choi, Jong-Tae. 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.

Table of Contents

Evaluation and Compensation Committee

The Evaluation and Compensation Committee comprises four Outside Directors, Park, Young-Ju (committee chair), Suh, Yoon-Suk, Ahn, Charles and Huh, Sung-Kwan. The Evaluation and Compensation Committee's primary responsibilities include establishing evaluation procedures and compensation plans for executive officers and taking necessary measures to execute such plans.

Finance and Operation Committee

The Finance and Operation Committee is comprised of three Outside Directors, Huh, Sung-Kwan (committee chair), Park, Young-Ju and Park, Won-Soon and two Standing Directors, Yoon, Seok-Man and Lee, Dong-Hee. 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: Lee, Ku-Taek (committee chair), Yoon, Seok-Man, Chung, Joon-Yang, Cho, Soung-Sik, Lee, Dong-Hee and Choi, Jong-Tae. 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 Suh, Yoon-Suk (committee chair), Jones, Jeffrey D., Sun, Wook and Park, Sang-Yong.

The duties of the Audit Committee include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;
- reviewing annual financial statements;
- 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, Suh, Yoon-Suk (committee chair), Jones, Jeffrey D., Sun, Wook and Park, Sang-Yong. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

Table of Contents

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 Korean Securities and Exchange Act.

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), and 8 out of 14 directors are Outside Directors. Under our articles of incorporation, we may have up to six Standing Directors and nine 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.

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

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.

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

We currently have an Employee Stock Ownership Program.

We previously provided a stock options program for officers and directors, as another equity compensation plan. However, during our annual shareholders' meeting in February 2006, our shareholders resolved to terminate the stock option program and amended our articles of incorporation to delete the provision allowing grant of

stock options to officers and directors.

Consequently, we may not grant stock options to officers and directors starting February 24, 2006. 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.com.

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.com.

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

Table of Contents

Item 6.D. *Employees*

As of December 31, 2007, we had 28,543 employees, including 11,236 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 28,297 employees, including 10,774 persons employed by our subsidiaries, as of December 31, 2006, and 28,853 employees, including 9,849 persons employed by our subsidiaries, as of December 31, 2005. 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 of manufacturing companies 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. As of December 31, 2007, only 18 of our employees were members of the POSCO labor union.

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.

As of December 31, 2007, our employees owned, through our employee stock ownership association, approximately 0.7% of our common stock in their association accounts and 3.43% of our common stock in their employee accounts.

Table of Contents**Item 6.E. Share Ownership****Common Stock**

The persons who are currently our Directors or executive officers held, as a group, 6,484 common shares as of December 31, 2007, the most recent practicable 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 |
|---------------------|--------------------------------------|
| Yoon, Yong-Won | 1,879 |
| Choi, Jong-Tae | 1,573 |
| Hur, Nam-Suk | 1,002 |
| Yoo, Kwang-Jae | 500 |
| Kim, Jin-Il | 200 |
| Yoon, Dong-Jun | 177 |
| Lee, In-Bong | 145 |
| Jang, Young-Ik | 138 |
| Yun, Tai-Han | 130 |
| Chang, In-Hwan | 130 |
| Kim, Joon-Sik | 128 |
| Baek, Sung-Kwan | 100 |
| Shin, Jung-Suk | 98 |
| Yoon, Yong-Chul | 81 |
| Lee, Jung-Sik | 69 |
| Kim, Soo-Kwan | 42 |
| Lee, Young-Hoon | 29 |
| Lee, Kyung-Hoon | 18 |
| Chang, Hyun-Shik | 15 |
| Park, Han-Yong | 12 |
| Woo, Jong-Soo | 10 |
| Kwon, Oh-Joon | 2 |
| Cho, Jun-Gil | 2 |
| Lee, Hoo-Geun | 2 |
| Cho, Chang-Hwan | 1 |
| Chang, Song-Hwan | 1 |
| Total | 6,484 |

Table of Contents**Stock Options**

The following table sets forth information regarding the stock options we have granted to our current Directors and executive officers as of March 31, 2008. With respect to 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. Expiration date of options is seven years from the date on which the options are granted. All of the stock options below relate to our common stock.

At the annual shareholders' meeting held in February 2006, our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

| Directors | Grant Date | Exercise Period | | Exercise Price | Granted Options | Exercised Options | Exercisable Options |
|------------------|--------------------|-----------------|-----------|----------------|-----------------|-------------------|---------------------|
| | | From | To | | | | |
| Lee, Ku-Taek | July 23, 2001 | 7/24/2003 | 7/23/2008 | 98,900 | 45,184 | 34,518 | 10,666 |
| | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 49,000 | 0 | 49,000 |
| Yoon, Seok-Man | September 18, 2002 | 9/19/2004 | 9/18/2009 | 116,100 | 11,179 | 6,000 | 5,179 |
| | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 7,840 | 0 | 7,840 |
| Chung, Joon-Yang | April 27, 2002 | 4/28/2004 | 4/27/2009 | 136,400 | 9,316 | 9,316 | 0 |
| | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 4,900 | 0 | 4,900 |
| Cho, Soung-Sik | July 23, 2001 | 7/24/2003 | 7/23/2008 | 98,900 | 9,037 | 9,037 | 0 |
| | April 26, 2003 | 4/27/2005 | 4/26/2010 | 102,900 | 1,921 | 192 | 1,729 |
| Lee, Dong-Hee | April 26, 2003 | 4/27/2005 | 4/26/2010 | 102,900 | 9,604 | 5,960 | 3,644 |
| Choi, Jong-Tae | July 23, 2001 | 7/24/2003 | 7/23/2008 | 98,900 | 9,037 | 7,903 | 1,134 |
| | April 26, 2003 | 4/27/2005 | 4/26/2010 | 102,900 | 1,921 | 192 | 1,729 |
| Park, Young-Ju | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 1,862 | 0 | 1,862 |
| Jones, Jeffrey D | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 1,862 | 1,862 | 0 |
| Suh, Yoon-Suk | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 1,862 | 500 | 1,362 |
| Sun, Wook | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 2,000 | 0 | 2,000 |
| Ahn, Charles | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 2,000 | 0 | 2,000 |

| Executive Officers | Grant Date | Exercise Period | | Options Exercise Price | Granted Options | Exercised Options | Exercisable |
|--------------------|--------------------|-----------------|-----------|------------------------|-----------------|-------------------|-------------|
| | | From | To | | | | |
| Hur, Nam-Suk | April 27, 2002 | 4/28/2004 | 4/27/2009 | 136,400 | 9,316 | 9,316 | 0 |
| | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 2,000 | 0 | 2,000 |
| Chung, Keel-Sou | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 9,800 | 0 | 9,800 |
| Kim, Sang-Ho | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 12,000 | 12,000 | 0 |
| Oh, Chang-Kwan | April 27, 2002 | 4/28/2004 | 4/27/2009 | 136,400 | 9,316 | 3,931 | 5,385 |
| Kwon, Young-Tae | September 18, 2002 | 9/19/2004 | 9/18/2009 | 116,100 | 9,316 | 931 | 8,385 |
| | April 26, 2003 | 4/27/2005 | 4/26/2010 | 102,900 | 9,604 | 9,604 | 0 |
| Kim, Jin-Il | April 26, 2003 | 4/27/2005 | 4/26/2010 | 102,900 | 9,604 | 9,492 | 112 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | | |
|-----------------|----------------|-----------|-----------|---------|--------|--------|--------|
| Kwon, Oh-Joon | April 26, 2003 | 4/27/2005 | 4/26/2010 | 102,900 | 9,604 | 8,604 | 1,000 |
| Park, Han-Yong | April 26, 2003 | 4/27/2005 | 4/26/2010 | 102,900 | 9,604 | 9,604 | 0 |
| Kim, Sang-Young | July 23, 2004 | 7/24/2006 | 7/23/2011 | 151,700 | 9,800 | 0 | 9,800 |
| Cho, Jun-Gil | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 10,000 | 0 | 10,000 |
| Yoo, Kwang-Jae | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 10,000 | 10,000 | 0 |
| Yoon, Yong-Chul | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 10,000 | 0 | 10,000 |
| Cho, Noi-Ha | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 10,000 | 0 | 10,000 |
| Yoon, Yong-Won | April 28, 2005 | 4/29/2007 | 4/28/2012 | 194,900 | 10,000 | 10,000 | 0 |

Table of Contents**Item 7. Major Shareholders and Related Party Transactions****Item 7.A. Major Shareholders**

The following table sets forth certain information relating to the shareholders of our common stock issued as of December 31, 2007.

| Shareholders | Number of Shares Owned | Percentage |
|---|-----------------------------------|-------------------|
| Nippon Steel Corporation(1) | 4,394,712 | 5.04 |
| Mirae Asset Investments Co., Ltd. | 3,660,603 | 4.20 |
| National Pension Service | 3,404,897 | 3.91 |
| SK Telecom | 2,481,310 | 2.85 |
| Pohang University of Science and Technology | 2,000,000 | 2.29 |
| Directors and executive officers as a group | 6,484 | 0.01 |
| Public(2) | 59,592,195 | 68.35 |
| POSCO (held in the form of treasury stock) | 9,430,749 | 10.81 |
| POSCO (held through treasury stock fund) | 2,215,885 | 2.54 |
| Total issued shares of common stock | 87,186,835 | 100.00% |

(1) Held in the form of ADRs.

(2) Includes ADRs.

As of December 31, 2007, there were 15,748,592 shares of common stock outstanding in the form of ADRs, representing 18.06% of the total issued and outstanding shares of common stock.

Item 7.B. Related Party Transactions

We have issued guarantees of Won 561 billion as of December 31, 2005, Won 598 billion as of December 31, 2006 and Won 577 billion as of December 31, 2007, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. Please see Note 16 of Notes to Consolidated Financial Statements.

As of December 31, 2005, 2006 and 2007, we had no loans outstanding to our executive officers and Directors.

Item 7.C. Interests of Experts and Counsel

Not applicable

Item 8. Financial Information**Item 8.A. Consolidated Statements and Other Financial Information**

See Item 18. Financial Statements and pages F-1 through F-94.

Legal Proceedings

We have been subject to a number of anti-dumping and countervailing proceedings in the United States and China. In addition, the European Union initiated an anti-dumping investigation in October 2007 into our sales of stainless steel cold-rolled coils in European countries. We expect the European Union to announce its decision in early 2009. The 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, China or Europe may not have a material adverse effect on our exports to these regions in the future. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

Table of Contents

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.

The table below sets out the annual dividends declared on the outstanding common stock to shareholders of record on December 31 of the years indicated and the interim dividends declared on the outstanding common stock to shareholders of record on June 30 of the years indicated. A total of 87,186,835 shares of common stock were issued at the end of 2007. Of these shares, 75,540,201 shares were outstanding and 9,430,749 shares were held by us in treasury and 2,215,885 shares were held through our treasury stock fund. The annual dividends set out for each of the years below were paid in the immediately following year.

| Year | Annual Dividend per Common Stock to Public | Interim Dividend per Common Stock (In won) | Average Total Dividend per Common Stock |
|-------------|---|---|--|
| 2003 | 5,000 | 1,000 | 6,000 |
| 2004 | 6,500 | 1,500 | 8,000 |
| 2005 | 6,000 | 2,000 | 8,000 |
| 2006 | 6,000 | 2,000 | 8,000 |
| 2007 | 7,500 | 2,500 | 10,000 |

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 8.B. Significant Changes

Not applicable

Item 9. The Offer and Listing**Item 9.A. Offer and Listing Details**

Market Price Information

Notes

Not applicable

Table of Contents***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, 2003.

| | Price | | Average Daily |
|----------------------------------|-----------------|------------|-----------------------|
| | High | Low | Trading Volume |
| | (In won) | | (Number of |
| | | | shares) |
| 2003 | | | |
| First Quarter | 133,000 | 92,400 | 336,187 |
| Second Quarter | 127,000 | 97,500 | 300,224 |
| Third Quarter | 152,500 | 123,500 | 310,936 |
| Fourth Quarter | 163,000 | 131,500 | 345,272 |
| 2004 | | | |
| First Quarter | 181,000 | 156,500 | 312,764 |
| Second Quarter | 177,000 | 131,000 | 413,523 |
| Third Quarter | 184,000 | 145,000 | 241,698 |
| Fourth Quarter | 203,000 | 163,000 | 287,632 |
| 2005 | | | |
| First Quarter | 225,500 | 176,500 | 293,360 |
| Second Quarter | 203,000 | 174,500 | 298,650 |
| Third Quarter | 240,500 | 182,000 | 295,458 |
| Fourth Quarter | 236,500 | 199,500 | 334,140 |
| 2006 | | | |
| First Quarter | 251,500 | 196,500 | 391,776 |
| Second Quarter | 287,000 | 217,500 | 381,220 |
| Third Quarter | 254,000 | 225,500 | 269,202 |
| Fourth Quarter | 318,500 | 239,000 | 243,547 |
| 2007 | | | |
| First Quarter | 395,000 | 286,500 | 282,570 |
| Second Quarter | 481,000 | 366,000 | 251,054 |
| Third Quarter | 673,000 | 445,000 | 290,037 |
| Fourth Quarter | 765,000 | 557,000 | 336,932 |
| 2008 | | | |
| First Quarter | 582,000 | 417,000 | 333,766 |
| January | 582,000 | 465,000 | 355,143 |
| February | 555,000 | 487,500 | 278,397 |
| March | 530,000 | 417,000 | 367,758 |
| Second Quarter (through June 23) | 607,000 | 445,000 | 378,173 |
| April | 522,000 | 445,000 | 431,208 |
| May | 607,000 | 491,000 | 413,782 |
| June (through June 23) | 596,000 | 529,000 | 289,529 |

Table of Contents**ADSs**

Our common stock is also listed on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange in the form of ADSs. The ADSs have been issued by The Bank of New York Mellon 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, 2007, 15,748,592 ADSs were outstanding, representing 18.06% shares of common stock.

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, 2003.

| | Price | | Average Daily Trading Volume (Number of ADSs) |
|----------------------------------|-----------|--------|--|
| | High | Low | |
| | (In US\$) | | |
| 2003 | | | |
| First Quarter | 28.66 | 18.46 | 324,595 |
| Second Quarter | 26.55 | 19.26 | 333,511 |
| Third Quarter | 32.49 | 26.08 | 262,191 |
| Fourth Quarter | 33.97 | 28.98 | 477,580 |
| 2004 | | | |
| First Quarter | 38.43 | 33.55 | 578,963 |
| Second Quarter | 39.01 | 27.97 | 1,013,306 |
| Third Quarter | 40.14 | 32.47 | 729,723 |
| Fourth Quarter | 47.50 | 36.49 | 765,003 |
| 2005 | | | |
| First Quarter | 54.85 | 41.22 | 866,811 |
| Second Quarter | 49.70 | 43.75 | 790,208 |
| Third Quarter | 57.08 | 44.12 | 606,928 |
| Fourth Quarter | 56.01 | 47.85 | 671,024 |
| 2006 | | | |
| First Quarter | 63.80 | 48.97 | 812,089 |
| Second Quarter | 74.41 | 56.07 | 922,906 |
| Third Quarter | 66.88 | 58.59 | 760,752 |
| Fourth Quarter | 84.88 | 63.00 | 748,789 |
| 2007 | | | |
| First Quarter | 106.88 | 76.49 | 770,003 |
| Second Quarter | 129.60 | 99.34 | 712,996 |
| Third Quarter | 184.54 | 124.50 | 809,315 |
| Fourth Quarter | 195.89 | 147.17 | 721,160 |
| 2008 | | | |
| First Quarter | 147.74 | 108.41 | 418,434 |
| January | 147.74 | 129.06 | 454,638 |
| February | 146.13 | 125.50 | 362,235 |
| March | 135.40 | 108.41 | 436,620 |
| Second Quarter (through June 23) | 147.05 | 112.80 | 259,072 |
| April | 134.07 | 112.80 | 315,663 |

Edgar Filing: POSCO - Form 20-F

| | | | |
|------------------------|--------|--------|---------|
| May | 144.38 | 123.09 | 243,528 |
| June (through June 23) | 147.05 | 128.08 | 218,025 |

Table of Contents

Item 9.B. *Plan of Distribution*

Not applicable

Item 9.C. *Markets*

The Korean Securities Market

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures 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. There are three different markets operated by the Korea Exchange: the Stock Market, the KOSDAQ Market and the Futures Market. The Korea Exchange has two trading floors located in Seoul, one for the Stock Market and one for the KOSDAQ Market, and one trading floor in Busan for the Futures Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) securities companies and futures companies that were formerly members of the Korea Stock Exchange or the Korea Futures Exchange, (ii) the Small Business Corporation, (iii) the Korea Securities Finance Corporation and (iv) the Korea Securities Dealers Association. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean securities companies and some Korean branches of foreign securities companies.

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 pursuant to the Regulation on Listing on the Korea Exchange. 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 publicly offer their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index (KOSPI) every ten seconds, which is an index of all equity securities listed on 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.

Table of Contents

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

| Year | Opening | High | Low | Closing | Period Average | |
|------------------------|----------|----------|----------|----------|-----------------------------------|----------------------------|
| | | | | | Dividend Yield(1)(2) (Percent) | Price Earnings Ratio(2)(3) |
| 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 | 134.48 | 106.00 | 128.99 | 10.5 | 3.4 |
| 1983 | 122.52 | 134.46 | 115.59 | 121.21 | 6.9 | 3.8 |
| 1984 | 115.25 | 142.46 | 115.25 | 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 |
| 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 | 1,027.45 | 1,016.77 | 847.09 | 882.94 | 1.2 | 16.4 |
| 1996 | 882.29 | 986.84 | 651.22 | 651.22 | 1.3 | 17.8 |
| 1997 | 647.67 | 792.29 | 350.68 | 376.31 | 1.5 | 17.0 |
| 1998 | 374.41 | 579.86 | 280.00 | 562.46 | 1.9 | 10.8 |
| 1999 | 565.10 | 1,028.07 | 498.42 | 1,028.07 | 1.1 | 13.5 |
| 2000 | 1,028.33 | 1,059.04 | 500.60 | 504.62 | 1.6 | 18.6 |
| 2001 | 503.31 | 704.50 | 468.76 | 693.70 | 2.0 | 14.2 |
| 2002 | 698.00 | 937.61 | 584.04 | 627.55 | 1.4 | 17.8 |
| 2003 | 633.03 | 822.16 | 515.24 | 810.71 | 2.2 | 10.9 |
| 2004 | 821.26 | 936.06 | 719.59 | 895.92 | 2.1 | 15.8 |
| 2005 | 896.00 | 1,379.37 | 870.84 | 1,379.37 | 1.7 | 11.0 |
| 2006 | 1,383.32 | 1,464.70 | 1,203.86 | 1,434.46 | 1.7 | 11.4 |
| 2007 | 1,438.89 | 2,015.48 | 1,345.08 | 1,897.13 | 1.4 | 16.8 |
| 2008 (through June 23) | 1,891.45 | 1,901.13 | 1,537.53 | 1,715.59 | 1.6 | 14.7 |

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) Starting in April 2000, dividend yield and price earnings ratio are calculated based on KOSPI 200, an index of 200 equity securities listed on the Stock Market Division of the Korea Exchange. Starting in April 2000, excludes classified companies, companies which did not submit annual reports to the Stock Market Division of the Korea

Exchange, and companies which received qualified opinion from external auditors.

(3) The price earnings ratio is based on figures for companies that record a profit in the preceding year.

Table of Contents

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 listed 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 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 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 Korea Exchange by the securities companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax 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 10.E. Taxation Korean Taxation.

Table of Contents

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 | (Billions of Won) | (Millions of US\$)(1) | Thousands of Shares | (Millions of Won) | (Thousands of US\$) (1) |
| 1979 | 355 | ₩ 2,609 | US\$ 5,391 | 5,382 | ₩ 4,579 | US\$ 4,641 |
| 1980 | 352 | 2,527 | 3,829 | 5,654 | 3,897 | 5,905 |
| 1981 | 343 | 2,959 | 4,224 | 10,565 | 8,708 | 12,432 |
| 1982 | 334 | 3,000 | 4,408 | 9,704 | 6,667 | 8,904 |
| 1983 | 328 | 3,490 | 4,387 | 9,325 | 5,941 | 7,468 |
| 1984 | 336 | 5,149 | 6,223 | 14,847 | 10,642 | 12,862 |
| 1985 | 342 | 6,570 | 7,381 | 18,925 | 12,315 | 13,834 |
| 1986 | 355 | 11,994 | 13,924 | 31,755 | 32,870 | 38,159 |
| 1987 | 389 | 26,172 | 33,033 | 20,353 | 70,185 | 88,583 |
| 1988 | 502 | 64,544 | 94,348 | 10,367 | 198,364 | 289,963 |
| 1989 | 626 | 95,477 | 140,490 | 11,757 | 280,967 | 414,430 |
| 1990 | 669 | 79,020 | 110,301 | 10,866 | 183,692 | 256,411 |
| 1991 | 686 | 73,118 | 96,107 | 14,022 | 214,263 | 281,629 |
| 1992 | 688 | 84,712 | 107,448 | 24,028 | 308,246 | 390,977 |
| 1993 | 693 | 112,665 | 139,420 | 35,130 | 574,048 | 710,367 |
| 1994 | 699 | 151,217 | 191,730 | 36,862 | 776,257 | 984,223 |
| 1995 | 721 | 141,151 | 182,201 | 26,130 | 487,762 | 629,613 |
| 1996 | 760 | 117,370 | 139,031 | 26,571 | 486,834 | 576,680 |
| 1997 | 776 | 70,989 | 50,162 | 41,525 | 555,759 | 392,707 |
| 1998 | 748 | 137,799 | 114,091 | 97,716 | 660,429 | 546,803 |
| 1999 | 725 | 349,504 | 305,137 | 278,551 | 3,481,620 | 3,039,655 |
| 2000 | 704 | 188,042 | 149,275 | 306,163 | 2,602,211 | 2,065,739 |
| 2001 | 689 | 255,850 | 192,934 | 473,241 | 1,997,420 | 1,506,237 |
| 2002 | 683 | 258,681 | 215,496 | 857,245 | 3,041,598 | 2,533,815 |
| 2003 | 684 | 355,363 | 296,679 | 542,010 | 2,216,636 | 1,850,589 |
| 2004 | 683 | 412,588 | 395,275 | 372,895 | 2,232,109 | 2,138,445 |
| 2005 | 702 | 655,075 | 646,158 | 467,629 | 3,157,662 | 3,114,679 |
| 2006 | 731 | 704,588 | 757,948 | 279,096 | 3,435,180 | 3,695,331 |
| 2007 | 745 | 951,900 | 1,016,770 | 363,741 | 5,539,653 | 5,917,168 |
| 2008 (through June 23) | 756 | 940,190 | 904,900 | 311,798 | 5,965,681 | 5,741,753 |

Source: The Korea Exchange

(1)

Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the FSC , the Korean Securities and Exchange Act and the Korean Securities and Futures Exchange Act. The Korean 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 Korean Securities and Exchange Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to

Table of Contents

investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The Korean Securities and Futures Exchange Act regulates the operation and monitoring of the securities and futures markets.

Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996, a stock index option market was opened on July 7, 1997, an equity option market was opened on January 28, 2002 and an equity futures market was opened on May 6, 2008, in each case at the Korea Exchange. Remittance and repatriation of funds in connection with foreign investment in stock index and equity 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 or the KOSDAQ 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 other securities including shares of Korean companies which are not listed on 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 a 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 Stock Market Division or the KOSDAQ Market Division of the Korea Exchange and this securities company places a sell order with another securities company which is a member of the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold and 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.

Under the Korean Securities and Exchange Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counter party as a result of a breach by its members of the Stock Market Division or the KOSDAQ Market Division. If a securities company which is a member of the Stock Market Division or the KOSDAQ Market Division 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. Accordingly, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

Table of Contents

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 the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million of cash deposited with a securities company in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Korean 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 insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Korean 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 9.D. *Selling Shareholders*

Not applicable

Item 9.E. *Dilution*

Not applicable

Item 9.F. *Expenses of the Issuer*

Not applicable

Item 10. *Additional Information***Item 10.A. *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, 2007, 87,186,835 Common Shares were issued, of which 9,430,749 shares were held by us in treasury and an additional 2,215,885 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 10.B. *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 Korean 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.

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.

Table of Contents

We may 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 Korean Commercial Code, we may pay an annual dividend only to the extent the net asset amount in our balance sheets exceeds the sum of the following: (i) our stated capital, (ii) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period, and (iii) the legal reserve to be set aside for annual dividend. We may not pay an annual dividend unless we have set aside as earned surplus reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated earned surplus reserve of not less than one-half of our stated capital. 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:

offered publicly or to underwriters for underwriting pursuant to the Korean Securities and Exchange Act;

issued to members of our employee stock ownership association pursuant to the Korean Securities and Exchange Act;

represented by depositary receipts pursuant to the Korean Securities and Exchange Act;

issued in a general public offering pursuant to a board resolution in accordance with the Korean Securities and Exchange Act, 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, strategic coalition or technology inducement agreement when deemed necessary for management purposes; or

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

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 2,000 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 Korean Securities and Exchange Act. This right is exercisable only to the extent that the total number of Shares so acquired and held by

Table of Contents

members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2007, our employees owned, through our employee stock ownership association, approximately 0.7% of our common stock in their association accounts and 3.43% of our common stock in their employee accounts.

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 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, 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. The Commercial Code and the Korean Securities and Exchange Act 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;

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

Table of Contents

approving matters required to be approved at a general meeting of shareholders, which have material effects on our assets, as determined by the Board of Directors; or

reducing capital.

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 that 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, the holders of Non-Voting Shares may be entitled to vote during the period between the general meeting of shareholders in which required preferred dividends are not paid to such holders until the next general meeting of shareholders at which the payment of such preferred dividends to such holders is declared. 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 depository, 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 depository 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 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 dissenter's 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.

Table of Contents

Annual Report

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

Under the Korean Securities and Exchange Act, we must file with the FSC and the Korea Exchange (1) an annual business 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 10.D. Exchange Controls.

Our transfer agent is Kookmin Bank, located at 36-3, Yeoido-dong, Yeongdeungpo-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 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 Korean 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 have no

preference in liquidation.

Item 10.C. *Material Contracts*

None.

Table of Contents

Item 10.D. *Exchange Controls*

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) and the Foreign Investment Promotion Law 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.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea or certain other governmental agencies or financial institutions; and

if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect the Korean Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea or certain other governmental agencies or financial institutions.

Government Review of Issuance of ADSs

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 Minister of Strategy and Finance, 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.

Table of Contents

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 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 and 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.

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;

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;

shares acquired by direct investment as defined in the Foreign Investment Promotion Law;

disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;

disposal of shares in connection with a tender offer;

acquisition of shares by a foreign depository in connection with the issuance of depository receipts;

acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange and such overseas stock exchange; and

arm's length transactions between foreigners, if all of such foreigners belong to the investment group managed by the same person.

Table of Contents

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 Minister of Strategy and Finance. 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 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 according to its articles of incorporation. 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 or by foreigners in the aggregate. 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

Table of Contents

Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Minister of Knowledge Economy. 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 asset management 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 asset management 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.

Item 10.E. *Taxation*

The following summary is based upon tax laws of the United States and 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 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 with registered office or main office is located in Korea or actual management of which takes place in Korea; 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.

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 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

Table of Contents

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 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 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.

Capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea (except for the case where you transfer the ADSs which you received as a holder of the relevant shares upon the deposit of such shares) 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.

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

Table of Contents

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, 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 interprets depositary receipts as the underlying share certificates, you may be treated as the 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.

Although it is not entirely clear whether depositary receipts constitute share certificates subject to the securities transaction tax, the transfer of share certificates listed on the New York Stock Exchange, the Nasdaq National Market or other qualified foreign exchanges is exempt from the securities transaction tax under the Securities Transaction Tax Law. Accordingly, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax irrespective of whether depositary receipts constitute share certificates subject to the securities transaction tax.

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 shares of common stock or ADSs. This summary applies to you only if you hold shares of

Table of Contents

common stock or ADSs as capital assets for tax purposes. 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 shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds 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 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.

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.

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. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss on any Won received by a U.S. holder that is converted into U.S. dollars on a date subsequent to receipt.

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, 2011 with respect to the ADSs and common stock will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs and common stock will be treated as qualified dividends if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and

Table of Contents

(ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). The income tax treaty between Korea and the United States (the Treaty) has been approved for the purposes of the qualified dividend rules. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2006 or 2007 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2008 taxable year. You should consult your own tax advisers regarding the availability of the reduced dividend tax rate in the light of your own particular circumstances.

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 that 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 generally may claim a credit, up to any applicable reduced rates provided under the Treaty, 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. You may not be able to use the foreign tax credit associated with any Korean withholding tax imposed on a distribution of additional shares that is not subject to U.S. tax unless you can use the credit against United States tax due on other foreign-source income.

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

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 10.F. *Dividends and Paying Agents*

See Item 8.A. Consolidated Statements and Other Financial Information *Dividends* above for information concerning our dividend policies and our payment of dividends. See Item 10.B. Memorandum and Articles of

Table of Contents

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 the Bank of New York Mellon.

Item 10.G. *Statements by Experts*

Not applicable

Item 10.H. *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 Rooms in Washington, D.C., New York, New York and Chicago, Illinois. 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 10.I. *Subsidiary Information*

Not applicable

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.

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 a fixed exchange rate.

As of December 31, 2007, we had entered into swap contracts, currency forward contracts and currency future contracts. We may incur losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 22 of Notes to Consolidated Financial Statements.

Table of Contents**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, 2007, we did not have any outstanding interest rate swap contract.

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, 2007 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

| | Maturities | | | | | | December 31, 2007 | December 31, 2006 | | |
|---|-------------------|-------------|-------------|-------------|-------------|-------------------|--------------------------|--------------------------|--------------|-------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter | Total | Fair Value | Total | Fair Value |
| (In billions of won except rates) | | | | | | | | | | |
| Local currency: | | | | | | | | | | |
| Fixed rate | 281 | 335 | 112 | 1,006 | 517 | 34 | 2,285 | 2,276 | 1,652 | 1,641 |
| Average weighted rate(1) | 4.32% | 4.67% | 4.77% | 4.92% | 4.92% | 3.85% | 4.78% | | 4.68% | |
| Variable rate | | 2 | | | 45 | | 47 | 47 | 5 | 5 |
| Average weighted rate(1) | | 6.12% | | | 3.75% | | 3.85% | | 5.31% | |
| Sub-total | 281 | 337 | 112 | 1,006 | 562 | 34 | 2,332 | 2,323 | 1,657 | 1,646 |
| Foreign currency, principally Dollars and Yen: | | | | | | | | | | |
| Fixed rate | 1,728 | 322 | 119 | 6 | 7 | 698 | 2,880 | 2,952 | 2,697 | 2,754 |
| Average weighted rate(1) | 3.30% | 5.63% | 7.07% | 0.90% | 2.04% | 3.60% | 3.78% | | 3.27% | |
| Variable rate | 47 | 32 | 84 | | | | 163 | 163 | 28 | 28 |
| Average weighted rate(1) | 5.18% | 5.22% | | | | | 5.04% | | 6.17% | |
| Sub-total | 1,775 | 354 | 203 | 6 | 7 | 698 | 3,043 | 3,115 | 2,725 | 2,782 |
| Total | 2,056 | 691 | 315 | 1,012 | 569 | 732 | 5,375 | 5,438 | 4,382 | 4,428 |

(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, 2007, 414 million tons of iron ore and 83 million tons of coal remained to be purchased under long-term supply contracts. As of December 31, 2007, we had entered into one zinc futures contract, which recorded net transaction loss of Won 2 billion in 2007.

Equity Price Risk

We are exposed to equity price risk primarily from changes in the stock price of SK Telecom and Nippon Steel Corporation. As of December 31, 2007, we hold a 2.88% interest in SK Telecom (excluding shares placed as collateral for exchangeable bonds issued in August 2003) and a 3.50% 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*

Not applicable

Table of Contents

Item 12.A. *Debt Securities*

Not applicable

Item 12.B. *Warrants and Rights*

Not applicable

Item 12.C. *Other Securities*

Not applicable

Item 12.D. *American Depositary Shares*

Not applicable

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*

a. *Disclosure Controls and Procedures*

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2007. 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 our disclosure controls and procedures were effective as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b. *Management's Annual Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed by, and under the supervision of, our principal executive, principal operating and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Table of Contents

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has completed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007 based on criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2007.

Samil PricewaterhouseCoopers, an independent registered public accounting firm, which also audited our consolidated financial statements as of, and for the year ended December 31, 2007, as stated in their report which is included herein, has issued an attestation report on the effectiveness of our internal control over financial reporting.

c. Attestation Report of the Independent Registered Public Accounting Firm

The attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting is furnished in Item 18 of this Form 20-F.

d. Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

At our annual general meeting of shareholders in February 2008, our shareholders elected the following four members to the audit committee: Suh, Yoon-Suk (committee chair), Jones, Jeffrey D., Sun, Wook and Park, Sang-Yong. The board of directors has approved this newly elected audit committee. Suh, Yoon-Suk 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.com. 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 Pricewaterhouse Coopers, during the fiscal years ended December 31, 2006 and 2007:

| | For the Year Ended December 31, 2006 2007 (In millions of won) | |
|--------------------|--|---------|
| Audit fees | ₩ 1,485 | ₩ 1,791 |
| Audit-related fees | 141 | 0 |
| Tax fees | 104 | 139 |
| Other fees | | 14 |
| Total fees | ₩ 1,730 | ₩ 1,944 |

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 E&C, POSCO Specialty Steel Co., Ltd., POSCO Australia Pty. Ltd., POSCO Canada Ltd., POS-NP Pty. Ltd, POSCO-Vietnam Co., Ltd. and POSCO-Mexico S.A De C.V. 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, 2007:

| 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 | 30,000(1) | ₩ 289,845 | | |
| February 1 to February 29 | 803,666 | 365,909 | 803,666 | 1,811,939 |
| March 1 to March 31 | 1,240,578 | 373,941 | 1,240,578 | 571,361 |
| April 1 to April 30 | 571,361 | 386,256 | 571,361 | |
| May 1 to May 31 | | | | |
| June 1 to June 30 | 2,911(1) | 458,594 | | |
| July 1 to July 31 | 40,919(1) | 516,255 | | |
| August 1 to August 31 | 220,255(1) | 491,601 | | |
| September 1 to September 30 | 20,374(1) | 624,274 | | |
| October 1 to October 31 | 22,000(1) | 635,220 | | |
| November 1 to November 30 | 103,702(1) | 573,989 | | |
| December 1 to December 31 | 76,297(1) | 582,364 | | |
| Total | 3,132,063 | ₩ 398,697 | 2,615,605 | |

(1) Stocks purchased through the treasury stock fund that was partially funded by the sale of 872,000 treasury shares to Hyundai Mipo Dockyard Co., Ltd.

PART III

Item 17. *Financial Statements*

Not applicable

Item 18. *Financial Statements*

| | Page |
|--|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-1 |
| <u>Consolidated Balance Sheets as of December 31, 2006 and 2007</u> | F-3 |
| <u>Consolidated Statements of Income for the Years Ended December 31, 2005, 2006 and 2007</u> | F-5 |
| <u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2005, 2006 and 2007</u> | F-6 |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2006 and 2007</u> | F-10 |
| <u>Notes to Consolidated Financial Statements</u> | F-12 |

Table of Contents

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, 2006)*
- 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)*
- 7.1 Computation of ratio of earnings to fixed charges
- 8.1 List of consolidated subsidiaries
- 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:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of POSCO and its subsidiaries (the Company) at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the Republic of Korea. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15(b) of the Company's 2007 Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2007 and 2006). 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 35 to the consolidated financial statements.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Seoul, Republic of Korea
June 10, 2008

F-2

Table of Contents**POSCO and Subsidiaries****Consolidated Balance Sheets
December 31, 2007 and 2006**

| | 2007 | 2006 | (Note 2) 2007 |
|---|---|--------------|------------------|
| | (In millions of Korean won and thousands of US dollar) | | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents, net of government grants (Notes 3, 28 and 31) | ₩ 1,292,581 | ₩ 936,289 | \$ 1,381,258 |
| Short-term financial instruments (Notes 3, 13 and 28) | 1,743,079 | 867,310 | 1,862,662 |
| Trading securities (Note 4) | 1,286,939 | 2,000,647 | 1,375,229 |
| Current portion of available-for-sales securities (Note 7) | 32,113 | 13,375 | 34,316 |
| Current portion of held-to-maturity securities (Note 7) | 192,393 | 153,476 | 205,592 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 13, 28 and 29) | 4,035,602 | 3,491,660 | 4,312,462 |
| Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 28 and 29) | 214,956 | 246,805 | 229,702 |
| Inventories, net (Notes 6, 13 and 30) | 4,902,016 | 4,018,205 | 5,238,316 |
| Deferred income tax assets (Note 25) | 101,982 | 118,073 | 108,978 |
| Other current assets, net of allowance for doubtful accounts (Note 11) | 591,872 | 391,113 | 632,478 |
| Total current assets | 14,393,533 | 12,236,953 | 15,380,993 |
| Property, plant and equipment, net (Notes 8, 13 and 30) | 15,581,765 | 14,643,120 | 16,650,743 |
| Investment securities (Notes 7, 13 and 28) | 5,178,723 | 3,165,055 | 5,534,006 |
| Intangible assets, net (Notes 9 and 30) | 570,779 | 557,082 | 609,937 |
| Long-term loans receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 28 and 29) | 40,474 | 62,295 | 43,251 |
| Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5 and 28) | 39,919 | 44,347 | 42,657 |
| Deferred income tax assets (Note 25) | 279,903 | 266,866 | 299,105 |
| Guarantee deposits (Note 28) | 57,485 | 60,368 | 61,428 |
| Long-term financial instruments (Notes 3, 13 and 28) | 17,065 | 12,339 | 18,236 |
| Other long-term assets, net of allowance for doubtful accounts and present value discount (Note 11) | 115,117 | 100,648 | 123,016 |
| Total assets | ₩ 36,274,763 | ₩ 31,149,073 | \$ 38,763,372 |

Table of Contents**POSCO and Subsidiaries****Consolidated Balance Sheets (Continued)**

(Note 2)
2007
(In millions of Korean won and thousands of US
dollar)

LIABILITIES AND SHAREHOLDERS EQUITY

| | | | |
|---|---------------------|---------------------|----------------------|
| Current liabilities | | | |
| Trade accounts and notes payable (Notes 28 and 29) | ₩ 2,246,890 | ₩ 1,507,227 | \$ 2,401,036 |
| Short-term borrowings (Notes 12, 28 and 29) | 1,572,020 | 1,238,749 | 1,679,868 |
| Current portion of long-term debts, net of discount on debentures issued (Notes 13 and 28) | 483,402 | 404,412 | 516,565 |
| Accrued expenses (Note 28) | 172,971 | 221,936 | 184,838 |
| Other accounts and notes payable (Notes 28 and 29) | 502,665 | 290,867 | 537,150 |
| Withholdings (Note 28) | 133,495 | 133,131 | 142,653 |
| Income tax payable | 930,822 | 701,037 | 994,681 |
| Deferred income tax liabilities (Note 25) | 120,992 | 77,541 | 129,292 |
| Other current liabilities (Note 15) | 461,358 | 507,395 | 493,010 |
| Total current liabilities | 6,624,615 | 5,082,295 | 7,079,093 |
| Long-term debts, net of current portion and discount on debentures issued (Notes 13, 28 and 29) | 3,306,486 | 2,725,502 | 3,533,326 |
| Accrued severance benefits, net (Note 14) | 336,095 | 331,006 | 359,152 |
| Deferred income tax liabilities (Note 25) | 654,969 | 460,342 | 699,903 |
| Other long-term liabilities (Notes 15 and 21) | 234,858 | 148,186 | 250,970 |
| Total liabilities | 11,157,023 | 8,747,331 | 11,922,444 |
| Commitments and contingencies (Note 16) | | | |
| Shareholders' equity | | | |
| Common stock (Notes 1 and 17) | 482,403 | 482,403 | 515,498 |
| Capital surplus (Note 18) | 4,176,592 | 4,035,273 | 4,463,125 |
| Capital adjustments, net (Note 20) | (2,727,147) | (1,678,229) | (2,914,242) |
| Accumulated other comprehensive income (Notes 22 and 27) | 784,933 | 209,754 | 838,783 |
| Retained earnings (Note 19) | 21,767,302 | 18,863,333 | 23,260,635 |
| | 24,484,083 | 21,912,534 | 26,163,799 |
| Minority interest | 633,657 | 489,208 | 677,129 |
| Total shareholders' equity | 25,117,740 | 22,401,742 | 26,840,928 |
| Total liabilities and shareholders' equity | ₩ 36,274,763 | ₩ 31,149,073 | \$ 38,763,372 |

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

F-4

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Income
Years Ended December 31, 2007, 2006 and 2005**

| | 2007 | 2006 | 2005 | (Note 2) 2007 |
|--|---|--------------|--------------|--------------------------|
| | (In millions of Korean won and thousands of US dollar, except per share amounts) | | | |
| Sales (Notes 29 and 30) | ₩ 31,607,741 | ₩ 25,842,326 | ₩ 26,301,788 | \$ 33,776,172 |
| Cost of goods sold (Note 29) | 24,902,663 | 19,896,764 | 18,767,195 | 26,611,095 |
| Gross profit | 6,705,078 | 5,945,562 | 7,534,593 | 7,165,077 |
| Selling and administrative expenses (Notes 23, 32 and 33) | 1,785,217 | 1,556,415 | 1,451,317 | 1,907,691 |
| Operating income | 4,919,861 | 4,389,147 | 6,083,276 | 5,257,386 |
| Non-operating income | | | | |
| Interest and dividend income (Note 29) | 234,841 | 182,832 | 161,135 | 250,952 |
| Gain on foreign currency transactions | 158,346 | 156,722 | 114,615 | 169,209 |
| Gain on foreign currency translation | 19,179 | 84,269 | 148,857 | 20,495 |
| Gain on valuation of trading securities | 16,039 | 19,467 | 15,357 | 17,139 |
| Gain on disposal of trading securities | 57,236 | 67,284 | 59,436 | 61,163 |
| Gain on disposal of property, plant and equipment | 15,182 | 19,144 | 24,225 | 16,223 |
| Gain on valuation of derivatives (Note 22) | 12,741 | 1,857 | 1,671 | 13,615 |
| Gain on derivative transactions (Note 22) | 17,689 | 15,477 | 3,857 | 18,903 |
| Earnings of equity method investees (Note 7) | 71,563 | 47,147 | 26,095 | 76,472 |
| Gain on recovery of allowance for doubtful accounts | 41,124 | 13,776 | 18,591 | 43,945 |
| Others | 174,567 | 141,248 | 213,827 | 186,543 |
| | 818,507 | 749,223 | 787,666 | 874,660 |
| Non-operating expenses | | | | |
| Interest expense (Note 29) | 239,913 | 183,290 | 149,337 | 256,373 |
| Other bad debt expense | 16,335 | 70,370 | 30,146 | 17,455 |
| Loss on foreign currency transactions | 130,679 | 137,567 | 95,646 | 139,644 |
| Loss on foreign currency translation | 65,432 | 4,855 | 9,091 | 69,921 |
| Losses of equity method investees (Note 7) | 28,929 | 722 | 6,371 | 30,913 |
| Donations (Note 24) | 197,366 | 154,678 | 153,018 | 210,906 |
| Loss on disposal of property, plant and equipment | 43,544 | 54,179 | 42,815 | 46,531 |

Edgar Filing: POSCO - Form 20-F

| | | | | |
|---|-------------|-------------|-------------|--------------|
| Loss on valuation of derivatives (Note 22) | 3,617 | 820 | 21,393 | 3,865 |
| Loss on derivative transactions (Note 22) | 6,312 | 40,363 | 9,000 | 6,746 |
| Loss on impairment of investments | 11,542 | 2,088 | 11,846 | 12,334 |
| Others | 95,768 | 204,847 | 854,090 | 102,337 |
| | 839,437 | 853,779 | 1,382,753 | 897,026 |
| Net income before income tax expense | 4,898,931 | 4,284,591 | 5,488,189 | 5,235,020 |
| Income tax expense (Note 25) | (1,274,226) | (921,951) | (1,473,589) | (1,361,644) |
| Net income (loss) of consolidated subsidiaries before acquisition | (53,259) | 9,558 | 7,607 | (56,913) |
| Net income | ₩ 3,677,964 | ₩ 3,353,082 | ₩ 4,006,993 | \$ 3,930,289 |
| Net income attributable to controlling interest | ₩ 3,558,660 | ₩ 3,314,181 | ₩ 4,022,492 | \$ 3,802,800 |
| Net income attributable to minority interest | ₩ 119,304 | ₩ 38,901 | ₩ (15,499) | \$ 127,489 |
| Basic and diluted earnings per share (Note 26) (in Korean won and US dollar) | ₩ 46,854 | ₩ 42,115 | ₩ 50,790 | \$ 50 |

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
Years Ended December 31, 2007, 2006 and 2005**

| | Common Stock | Common Amount | Capital Surplus (In millions of Korean won and thousands of US dollar) | Capital Adjustments | Accumulated Other Comprehensive Income | Retained Earnings | Minority Interest | Total |
|-------------------------------|-------------------------|--------------------------|---|--------------------------------|---|------------------------------|------------------------------|--------------|
| Balance as of January 1, | 87,186,835 | ₩ 482,403 | ₩ 3,895,378 | ₩ (703,328) | ₩ (447,406) | ₩ 12,851,118 | ₩ 307,891 | ₩ 16,380,000 |
| Income for the year | | | | | | 4,022,492 | | 4,022,492 |
| Dividends paid | | | 167 | | | 3,981 | | (1,814) |
| Change of ownership of shares | | | (12,893) | | | 598 | | (12,295) |
| Issuance of new stock | | | 108,018 | (279,061) | | (680,794) | | (171,837) |
| Share-based compensation | | | | | (30,251) | | | (30,251) |
| Gain on sale of assets | | | | | 324,757 | | | 324,757 |
| Other | | | | | (35,364) | | | (35,364) |
| Balance as of December 31 | | | | | | | 62,223 | 62,223 |

of
in
age of
y

y
in
of
dated
aries

| | | | | | | | | |
|----------------|------------|-----------|-------------|-------------|-------------|--------------|-----------|---------|
| | | | 739 | 16,956 | | (28,503) | (15,499) | (1 |
| | | | | | | | 30,055 | 1 |
| e as of | | | | | | | | |
| ber 31, | 87,186,835 | ₩ 482,403 | ₩ 3,991,409 | ₩ (965,433) | ₩ (188,264) | ₩ 16,168,892 | ₩ 384,670 | ₩ 19,87 |

F-6

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity (Continued)

| | Common Stock | Common Amount | Capital Surplus | Capital Adjustments | Accumulated Other Comprehensive Income | Retained Earnings | Minority Interest | Tot |
|---|---|--------------------------|----------------------------|--------------------------------|---|------------------------------|------------------------------|------------|
| | (In millions of Korean won and thousands of US dollar) | | | | | | | |
| as of r 1, | 87,186,835 | ₩ 482,403 | ₩ 3,991,409 | ₩ (965,433) | ₩ (188,264) | ₩ 16,168,892 | ₩ 384,670 | ₩ 19,8 |
| me for | | | | | | 3,314,181 | | 3,3 |
| e n | | | (1,012) | | | 40,649 | | |
| ation | | | (8,645) | | | (636,487) | | (6 |
| e n ge of ip of s ds in stock) s ns on ent) in n gain on ent s) in | | | 50,565 | (711,485) | | | | (6 |
| ent rom ethod ents) | | | | | (46,086) | | | (|
| | | | | | 432,469 | | | 4 |
| | | | | | 11,635 | | | |

ge of

ated
ries

as of
er 31,

| | | | | | | | | | | | | | | |
|------------|---|---------|---|-----------|---|-------------|----------|---------|--------|------------|---|---------|---|------|
| | | | | | | | | | 61,639 | | | | | |
| | | | | | | | | | 38,901 | | | | | |
| | | 2,956 | | (1,311) | | | (23,902) | | 3,998 | | | | | |
| 87,186,835 | ₩ | 482,403 | ₩ | 4,035,273 | ₩ | (1,678,229) | ₩ | 209,754 | ₩ | 18,863,333 | ₩ | 489,208 | ₩ | 22,4 |

F-7

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity (Continued)

| | Common Stock | Common Amount | Capital Surplus (In millions of Korean won and thousands of US dollar) | Capital Adjustments | Accumulated Other Comprehensive Income | Retained Earnings | Minority Interest | Total |
|-----------------------|-------------------------|--------------------------|---|--------------------------------|---|------------------------------|------------------------------|--------------|
| as of December 31, | 87,186,835 | ₩ 482,403 | ₩ 4,035,273 | ₩ (1,678,229) | ₩ 209,754 | ₩ 18,863,333 | ₩ 489,208 | ₩ 22,400,000 |
| Change for | | | | | | 3,558,660 | | 3,558,660 |
| of | | | 37 | | | | 62,024 | 62,061 |
| of | | | (5,500) | | | (655,099) | | (660,600) |
| of | | | 175,231 | (1,045,274) | | | | (870,043) |
| of | | | | | 87,957 | | | 87,957 |
| of | | | | | 498,711 | | | 498,711 |
| of | | | | | (7,455) | | | (7,455) |

s in
n of
ves
)
f
n
ge of
y
y
in
of
lated
ries
e as of
er 31,

(4,034)

16,380

(28,449)

(3,644)

408

119,304
(53,259)

1
(

87,186,835 ₩ 482,403 ₩ 4,176,592 ₩ (2,727,147) ₩ 784,933 ₩ 21,767,302 ₩ 633,657 ₩ 25,1

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Changes in Shareholders' Equity (Continued)**

| | Common Stock | Common Amount | Capital Surplus | Capital Adjustments (Thousands of US dollar) | Accumulated Other Comprehensive Income | Retained Earnings | Minority Interest | Total |
|--|-------------------------|--------------------------|----------------------------|---|---|------------------------------|------------------------------|---------------|
| Balance as of January 1, 2017 | 87,186,835 | \$ 515,498 | \$ 4,312,110 | \$ (1,793,363) | \$ 224,145 | \$ 20,157,440 | \$ 522,770 | \$ 23,938,600 |
| Net income for 2017 | | | | | | 3,802,800 | | 3,802,800 |
| Effect of change in scope of consolidation (Note 1) | | | 40 | | | | 66,280 | 66,320 |
| Effect of change in percentage of ownership of investees | | | (5,877) | | | | | (5,877) |
| Dividends change in treasury stock (Note 20) | | | 187,252 | (1,116,985) | | (700,041) | | (929,774) |
| Share-based payments translation adjustment (Note 27) | | | | | 93,991 | | | 93,991 |
| Changes in valuation gain loss on investment securities (Note 27) | | | | | 532,924 | | | 532,924 |
| Changes in net investment resulting from the equity method investments (Note 27) | | | | | (7,966) | | | (7,966) |

| | | | | | | | | | |
|----------------------|------------|------------|--------------|----------------|------------|---------------|------------|---------------|----------|
| anges in | | | | | | | | | |
| uation of | | | | | | | | | |
| ivatives | | | | | | | | | |
| ote 27) | | | | (4,311) | | | | | (4,311) |
| ect of | | | | | | | | | |
| nge in | | | | | | | | | |
| centage of | | | | | | | | | |
| ority | | | | | | | | | |
| erest | | | | | | | 17,504 | | 17,504 |
| ority | | | | | | | | | |
| erest in | | | | | | | | | |
| ome of | | | | | | | | | |
| olidated | | | | | | | | | |
| nsidiaries | | | | | | | 127,489 | | 127,489 |
| ers | (30,400) | | (3,894) | | | 436 | (56,914) | | (90,771) |
| Balance as of | | | | | | | | | |
| December 31, | | | | | | | | | |
| 2017 | 87,186,835 | \$ 515,498 | \$ 4,463,125 | \$ (2,914,242) | \$ 838,783 | \$ 23,260,635 | \$ 677,129 | \$ 26,840,921 | |

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

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005**

| | 2007 | 2006 | 2005 | (Note 2) 2007 |
|--|---|-------------|-------------|--------------------------|
| | (In millions of Korean won and thousands of US dollar) | | | |
| Cash flows from operating activities | | | | |
| Net income | ₩ 3,677,964 | ₩ 3,353,082 | ₩ 4,006,993 | \$ 3,930,289 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation and amortization | 2,126,729 | 1,782,738 | 1,612,554 | 2,272,632 |
| Accrual of severance benefits | 211,758 | 144,931 | 213,082 | 226,285 |
| Provision for doubtful accounts, net | 37,237 | 173,931 | 115,865 | 39,792 |
| Loss (gain) on foreign currency translation, net | 49,334 | (76,453) | (138,296) | 52,719 |
| Gain on valuation of trading securities, net | (15,599) | (18,863) | (15,124) | (16,669) |
| Gain on valuation of derivatives, net | (9,124) | (1,037) | 19,722 | (9,750) |
| Loss (gain) on derivatives transaction, net | (11,377) | 24,886 | 5,143 | (12,157) |
| Gain on disposal of trading securities and investments, net | (57,199) | (66,507) | (58,865) | (61,123) |
| Loss on disposal of property, plant and equipment, net | 28,362 | 35,035 | 18,590 | 30,308 |
| Earnings of equity method investees, net | (42,634) | (46,425) | (19,724) | (45,559) |
| Net income (loss) of consolidated subsidiaries before acquisition | (53,259) | 9,558 | 7,607 | (56,913) |
| Others | 263,988 | 374,968 | 391,783 | 282,098 |
| | 2,528,216 | 2,336,762 | 2,152,337 | 2,701,662 |
| Changes in operating assets and liabilities | | | | |
| Increase in trade accounts and notes receivable | (613,548) | (398,201) | 45,112 | (655,640) |
| Increase in inventories | (461,226) | (380,143) | (706,528) | (492,868) |
| Decrease (increase) in other accounts and notes receivable | 67,929 | (30,932) | (94,499) | 72,589 |
| Increase in accrued income | (15,218) | (26,205) | (19,757) | (16,262) |
| Increase in advance payments | (70,847) | (73,034) | (83,702) | (75,708) |
| Increase in prepaid expenses | (23,658) | (5,009) | (1,360) | (25,281) |
| Increase in trade accounts and notes payable | 561,078 | 272,270 | (170,131) | 599,570 |
| Increase in other accounts and notes payable | 164,460 | 122,673 | (7,571) | 175,742 |
| Increase (decrease) in advances received | (16,884) | 78,449 | (7,888) | (18,042) |
| Decrease in accrued expenses | (108,184) | (459,579) | 493,376 | (115,606) |
| Increase (decrease) in income tax payable | 162,806 | (715,691) | 281,240 | 173,975 |
| Deferred income tax, net | (20,127) | (59,480) | (151,602) | (21,508) |

Edgar Filing: POSCO - Form 20-F

| | | | | |
|--|-----------|-------------|-----------|-----------|
| Payment of severance benefits | (64,975) | (36,817) | (84,049) | (69,432) |
| Increase in group severance insurance deposits | (147,366) | (48,880) | (98,790) | (157,476) |
| Increase (decrease) in other current liabilities | (13,055) | 5,855 | (30,479) | (13,951) |
| Others | (54,105) | (9,616) | (50,321) | (57,817) |
| | (652,920) | (1,764,340) | (686,949) | (697,713) |
| Net cash provided by operating activities | 5,553,260 | 3,925,504 | 5,472,381 | 5,934,238 |

F-10

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Cash Flows (Continued)**

| | 2007 | 2006 | 2005 | (Note 2) 2007 |
|---|--|--------------|--------------|------------------|
| | (In millions of Korean won and thousands of US dollar) | | | |
| Cash flows from investing activities | | | | |
| Disposal of trading securities | 9,064,842 | 15,322,978 | 12,758,304 | 9,686,731 |
| Acquisition of trading securities | (8,173,811) | (14,516,637) | (12,536,599) | (8,734,570) |
| Disposal of available-for-sale securities | 9,412 | 145,990 | 347,987 | 10,058 |
| Acquisition of available-for-sale securities | (1,180,449) | (653,466) | (319,854) | (1,261,433) |
| Disposal of short-term financial instruments | 1,705,169 | 1,516,362 | 1,322,222 | 1,822,151 |
| Acquisition of short-term financial instruments | (2,678,616) | (1,610,510) | (1,434,935) | (2,862,380) |
| Disposal of long-term financial instruments | 34,555 | 113,339 | 1,509 | 36,926 |
| Acquisition of property, plant and equipment | (2,892,247) | (3,709,422) | (3,360,537) | (3,090,668) |
| Disposal of property, plant and equipment | 34,958 | 425,976 | 66,273 | 37,356 |
| Proceeds from short-term loans | 108,221 | 64,436 | 107,484 | 115,646 |
| Short-term loans provided | (50,687) | (62,641) | (119,033) | (54,164) |
| Long-term loans provided | (24,235) | (6,388) | (33,406) | (25,898) |
| Acquisition of intangible assets | (81,946) | (131,575) | (81,605) | (87,568) |
| Acquisition of other investment assets | (160,098) | (131,095) | (239,211) | (171,081) |
| Others | 21,220 | (130,557) | 77,814 | 22,672 |
| Net cash used in investing activities | (4,263,712) | (3,363,210) | (3,443,587) | (4,556,222) |
| Cash flows from financing activities | | | | |
| Proceeds from short-term borrowings | 6,811,282 | 4,119,189 | 4,828,860 | 7,278,566 |
| Proceeds from long-term debt | 1,054,138 | 2,160,279 | 594,312 | 1,126,457 |
| Proceeds from other long-term liabilities | 37,060 | 15,535 | 497,193 | 39,603 |
| Disposal of treasury stock | 406,991 | 69,779 | 931,664 | 434,912 |
| Repayment of current portion of long-term debt | (278,699) | (1,188,281) | (1,040,410) | (297,818) |
| Repayment of short-term borrowings | (6,599,799) | (3,821,014) | (4,715,293) | (7,052,574) |
| Repayment of long-term debt | (248,087) | (165,212) | (328,037) | (265,107) |
| Payment of cash dividends | (655,099) | (636,487) | (680,794) | (700,041) |
| Acquisition of treasury stock | (1,291,362) | (851,123) | (1,295,163) | (1,379,956) |
| Repayment of other long-term liabilities | (94,072) | (78,173) | (398,998) | (100,526) |
| Others | (143,209) | 106,643 | (279,863) | (153,034) |
| Net cash used in financing activities | (1,000,856) | (268,864) | (1,886,529) | (1,069,518) |

| | | | | |
|---|-------------|-----------|-----------|--------------|
| Effect of exchange rate changes on cash and cash equivalents | 30,901 | (15,245) | (4,425) | 33,021 |
| Net increase in cash and cash equivalents from changes in consolidated subsidiaries | 36,815 | 4,365 | 33,939 | 39,341 |
| Net increase in cash and cash equivalents | 356,407 | 282,550 | 171,779 | 380,859 |
| Cash and cash equivalents | | | | |
| Beginning of the year | 936,421 | 653,871 | 482,092 | 1,000,663 |
| End of the year | ₩ 1,292,828 | ₩ 936,421 | ₩ 653,871 | \$ 1,381,522 |

Supplemental cash flow information for the years ended December 31 is follows:

| | 2007 | 2006 | 2005 | 2007 |
|--|--|-----------|-----------|------------|
| | (In millions of Korean won and thousands of US dollar) | | | |
| Cash paid during the year for interest | ₩ 229,113 | ₩ 179,501 | ₩ 154,240 | \$ 244,831 |
| Cash paid during the year for Income tax | 1,107,888 | 1,305,077 | 1,443,439 | 1,183,894 |

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

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements
December 31, 2007 and 2006****1. Consolidated Companies**

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (Collectively the Company), including POSCO Engineering & Construction Co., Ltd. (POSCO E&C) and 19 other domestic subsidiaries and 43 overseas subsidiaries, whose accounts are included in the consolidated financial statements, and 22 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. 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. POSCO operates its principal market in the domestic market in Korea and concentrates export and overseas sales in the Asia Pacific region including Japan, China and other countries.

As of December 31, 2007, POSCO's shareholders are as follows:

| | Number of Shares | Percentage of Ownership (%) |
|---|-----------------------------|--|
| Nippon Steel Corporation(1) | 4,394,712 | 5.04 |
| Mirae Asset Investments Co., Ltd. | 3,660,603 | 4.20 |
| National Pension Service | 3,404,897 | 3.91 |
| SK Telecom Co., Ltd. | 2,481,310 | 2.85 |
| Pohang University of Science and Technology | 2,000,000 | 2.29 |
| Others | 71,245,313 | 81.71 |
| | 87,186,835 | 100.00 |

(1) Nippon Steel Corporation has American Depository Receipts(ADRs), each of which represents 0.25 share of POSCO's common share and has par value of ₩5,000 per share.

As of December 31, 2007, the shares of POSCO are listed on the Korea Stock Exchange, and its depository receipts are listed on the New York, London and Tokyo Stock Exchange.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****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, 2007:

| Business | Number of Outstanding Shares | POSCO | Number of Shares Subsidiaries | Percentage of | | Summary of Financial Information | | |
|----------------------------|------------------------------------|------------|-------------------------------------|-------------------------------------|-------------------------------------|---|--|-----------|
| | | | | Ownership of Ownership (%) | Ownership of Subsidiaries (%) | Total Assets (In millions of Korean won) | Net Assets (In millions of Korean won) | |
| and | 30,000,000 | 27,281,080 | | 27,281,080 | 90.94 | | 2,763,452 | 1,358,478 |
| and service control | 18,000,000 | 17,155,000 | | 17,155,000 | 95.31 | | 532,013 | 324,736 |
| manufacturing | 3,519,740 | 3,098,610 | | 3,098,610 | 88.04 | | 271,475 | 149,729 |
| ng | 6,000,000 | 3,412,000 | | 3,412,000 | 56.87 | | 403,993 | 275,322 |
| | 1,700,000 | 1,700,000 | | 1,700,000 | 100.00 | | 103,308 | 50,029 |
| hardware | 81,551,600 | 50,440,720 | | 50,440,720 | 61.85 | | 288,171 | 163,733 |
| research and activities | 3,800,000 | 3,800,000 | | 3,800,000 | 100.00 | | 26,335 | 23,185 |
| | 3,945,000 | 2,737,000 | 1,208,000 | 3,945,000 | 100.00 | POSCO E & C (30.62) | 76,779 | 41,992 |
| and | 230,000 | 230,000 | | 230,000 | 100.00 | | 46,627 | 30,321 |
| eel ng | 26,000,000 | 26,000,000 | | 26,000,000 | 100.00 | | 1,062,479 | 491,770 |
| installation | 1,000,000 | 1,000,000 | | 1,000,000 | 100.00 | | 43,711 | 22,770 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | | | |
|-------------|------------|------------|-----------|------------|--------|---|-----------|---------|
| n venture | 6,000,000 | 5,700,000 | | 5,700,000 | 95.00 | | 40,455 | 38,732 |
| ng | 5,907,000 | 3,544,200 | | 3,544,200 | 60.00 | | 174,308 | 132,953 |
| and | 5,000,000 | 2,550,000 | | 2,550,000 | 51.00 | | 40,709 | 35,915 |
| n | 10,560,000 | | 4,229,280 | 4,229,280 | 40.00 | POSCO E & C (30.62) | 357,740 | 61,651 |
| management | 714,286 | 214,286 | | 214,286 | 30.00 | | 60,273 | 36,694 |
| erials | | | | | | Posmate Co., Ltd. | | |
| ng of | 3,000,000 | 270,000 | 831,756 | 1,101,756 | 36.73 | (27.73) | 144,942 | 77,793 |
| | 40,000,000 | 40,000,000 | | 40,000,000 | 100.00 | | 1,007,130 | 523,318 |
| n new | | | | | | POSTECH Venture Capital Corp(10.53) | | |
| s ng and | 570 | | 126 | 126 | 22.11 | POSCO Power (11.58) | 29,340 | 29,177 |
| | 3,907,151 | | 1,992,647 | 1,992,647 | 51.00 | Posteel (51.00) | 66,372 | 12,919 |

F-13

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| Primary Business | Number of Outstanding Shares | POSCO | Number of Shares | | Percentage of Ownership (%) | Percentage of Ownership of Subsidiaries (%) | Summary of Financial I | |
|------------------------------|------------------------------------|-----------|---------------------|-----------|--------------------------------------|--|---|---------------|
| | | | Subsidiaries | Total | | | Total Assets (In millions of Korean | Net Assets |
| trading | 320,796 | 319,024 | 1,772 | 320,796 | 100.00 | POSCAN (0.55) | 191,976 | 110,200 |
| trading | 761,775 | 761,775 | | 761,775 | 100.00 | | 323,885 | 181,140 |
| trading | 1,099,885 | | 1,099,885 | 1,099,885 | 100.00 | Posteel (100.00) POSCAN | 131,664 | 112,591 |
| trading | 304,061 | | 304,061 | 304,061 | 100.00 | (100.00) | 35,934 | 35,742 |
| trading | 9,360,000 | 9,360,000 | | 9,360,000 | 100.00 | | 77,944 | 20,861 |
| manufacturing | | | | | 40.00 | Posteel (5.00) Posteel (10.00) | 35,491 | 15,234 |
| d steel facturing | | | | | 55.00 | POSCO-China (10.00) | 67,646 | 9,625 |
| service center | | | | | 70.00 | Posteel (60.00) POSCO-Japan | 31,440 | 9,988 |
| service center | 6,000 | | 4,500 | 4,500 | 75.00 | (75.00) | 30,519 | 6,736 |
| estate rental | | | | | 100.00 | POSCO E&C (100.00) | 138,092 | 92,360 |
| estate rental | | | | | 60.00 | POSCO E&C (60.00) | 76,223 | 28,005 |
| structure ation and sales | | | | | 70.00 | POSCO E&C (60.00) Posteel(10.00) | 38,246 | (14,156) |
| ess steel facturing | | | | | 82.48 | POSCO-China (23.88) | 1,315,745 | 569,173 |
| d steel facturing | | | | | 95.19 | POSCO-China (11.53) | 81,239 | 22,994 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | | | |
|--------------------|-----------|-----------|-----------|-----------|--------|-----------------|---------|--------|
| service center | 5,941,570 | 3,805,383 | 2,136,187 | 5,941,570 | 100.00 | Posteel (35.95) | 100,650 | 18,734 |
| high quality steel | | | | | | | | |
| manufacturing and | 19,200 | 13,440 | | 13,440 | 70.00 | | 8,819 | 3,581 |

F-14

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| Business | Number of Outstanding Shares | POSCO | Number of Shares | | Percentage of Ownership (%) | Percentage of Ownership of Subsidiaries (%) | Summary of Financial Information | |
|--------------------------|------------------------------------|-----------|---------------------|------------|--------------------------------------|--|---|---|
| | | | Subsidiaries | Total | | | Total Assets (In millions of Korean won) | Net Assets (In millions of Korean won) |
| Steel Manufacturing | | | | | 90.00 | POSCO E&C (25.00) ZPSS (65.00) | 11,735 | 11,650 |
| Trading | 4,900 | | 2,785 | 2,785 | 56.84 | POSCO-Japan (56.84) | 30,050 | 4,800 |
| | 5,000,000 | 5,000,000 | | 5,000,000 | 100.00 | | 157,712 | 68,600 |
| Service center | | | | | 70.00 | Posteel (40.00) | 48,399 | 16,440 |
| Steel Manufacturing | | | | | 80.00 | POSCO-China (10.00) | 199,990 | 83,550 |
| Service center | | | | | 100.00 | POSCO-China (10.00) | 101,012 | 36,640 |
| Production | 24,400 | | 24,400 | 24,400 | 100.00 | POSCO E&C (100.00) | 41,148 | 22,160 |
| Service center mining | | | | | 100.00 | Posteel (100.00) | 44,383 | 10,030 |
| Trading | 17,500,001 | | 17,500,001 | 17,500,001 | 100.00 | POSA (100.00) | 36,804 | 30,700 |
| Plant | | | | | 100.00 | | 197,989 | 196,270 |
| Trading | 90,438 | 90,438 | | 90,438 | 100.00 | | 394,730 | 58,180 |
| Manufacturing | | | | | 100.00 | POSCO E&C (100.00) | 8,050 | 5,640 |
| Trading | 12,550,000 | | 12,550,000 | 12,550,000 | 100.00 | POSA (100.00) | 17,250 | 8,050 |
| Trading | 11,050,000 | | 11,050,000 | 11,050,000 | 100.00 | POSA (100.00) | 17,139 | 8,290 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | | | |
|-------------|-------------|-------------|--------|-------------|--------|------------------------|--------|-------|
| ing | 225,000,000 | 225,000,000 | | 225,000,000 | 100.00 | | 58,355 | 53,70 |
| vice center | 65,790,858 | 42,764,058 | | 42,764,058 | 65.00 | | 44,391 | 20,65 |
| vice center | 49,000 | | 44,100 | 44,100 | 90.00 | POSCO-Japan (90.00) | 33,053 | 2,51 |

F-15

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| Business | Number of Outstanding Shares | POSCO | Number of Shares | | Percentage of Ownership Total (%) | Percentage of Ownership of Subsidiaries (%) | Summary of Financial Information (In millions of Korean won) | |
|--|------------------------------------|-------------|---------------------|-------------|---|---|---|------------------|
| | | | Subsidiaries | Total | | | Total Assets | Net Assets |
| Service center for production and marketing | | | | | 100.00 | POA (22.10) POSCO-China (33.20) | 98,900 | 21,500 |
| Service center | 1,656,638 | | 1,010,550 | 1,010,550 | 61.00 | POSCO E&C (100.00) POSAM (61.00) ZPSS (47.30) POSA (27.70) | 40,753 | 10,700 |
| Material and hot service center for rolled steel manufacturing and marketing | | | | | 100.00 | POSCO-China (25.00) | 22,677 | 11,000 |
| Service center for rolled steel manufacturing and marketing | 494,152,598 | 257,916,530 | 236,236,068 | 494,152,598 | 100.00 | POSCAN (47.80) | 154,164 | 146,700 |
| Service center for rolling | 1,263 35,000,000 | 966 | 35,000,000 | 35,000,000 | 76.48 100.00 | POSA (100.00) | 17,473 36,653 | 13,800 27,400 |
| Service center for rolled steel manufacturing and marketing | 11,040,000 | 8,832,000 | | 8,832,000 | 80.00 | POSCORE (100.00) | 10,003 | 9,900 |

(1) Total assets, total liabilities and net assets of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date, and sales and net income are translated at the weighted-average exchange rate of the reporting period.

(2) No shares have been issued in accordance with the local laws and regulations.

(3) These subsidiaries are newly included in the consolidation.

F-16

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Equity-Method Investees***

The following table sets forth certain information with regard to equity-method investees as of December 31, 2007:

| Primary Business | Number of Outstanding Shares | Number of Shares | | | Percentage of Ownership (%) | Percentage of Ownership of Subsidiaries (%) | Net Assets(1) (In millions of Korean won) |
|---------------------------------------|------------------------------------|------------------|--------------|---------------|--------------------------------------|--|--|
| | | POSCO | Subsidiaries | Total | | | |
| E-business | 3,200,000 | 560,000 | 300,000 | 860,000 | 26.88 | POSCO E&C (3.75) | 24,169 |
| Engineering | 3,402,000 | | 866,190 | 866,190 | 25.46 | POSCO E&C (25.46) | 20,957 |
| Real estate | | | | | 29.90 | POSCO E&C (29.00) | (132,596) |
| Real estate Fe-Cr manufacturing | 37,000,000 | 18,130,000 | | 18,130,000 | 49.00 | POSCO E&C (29.00) | 38,560 |
| Construction | 8,000,000 | | 2,008,000 | 2,008,000 | 25.10 | POSCO E&C (22.00) POADATA (3.10) | 182,209 |
| Iron ore trading | 4,021,438,370 | 2,010,719,185 | | 2,010,719,185 | 50.00 | | 38,150 |
| Steel processing | | | | | 50.00 | POSAM (50.00) | 85,021 |
| Fe-Cr manufacturing | 86,700 | 21,675 | | 21,675 | 25.00 | | 124,222 |
| Steel processing | | | | | 21.00 | Posteel (10.50) | 26,720 |
| | | | | | | | 14,928 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | | |
|----------------------|------------|-----------|-----------|-----------|-------|-----------------|--------|
| Steel processing | 23,455,600 | 2,345,558 | 4,573,842 | 6,919,400 | 29.50 | Posteel (19.50) | 13,644 |
| Steel manufacturing | | | | | 50.00 | | 4,529 |
| Steel service center | 12,600 | 1,193 | 3,579 | 4,772 | 37.87 | Posteel (28.40) | 8,380 |

F-17

old
et

Steel
manufacturing

25.00

207,462

C

- (1) Net assets of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.
- (2) Although the Company owns over 30% equity interest in these investees, the Company is not their major shareholder. They were therefore excluded from consolidation.
- (3) No shares have been issued in accordance with the local laws and regulations.
- (4) The Company owns 100% equity interest in POSCO Bioventures LP. However, due to an agreement with POSCO Bioventures LP., which prohibits the Company from engaging in management activities, POSCO Bioventures LP. was excluded from consolidation.

F-18

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Subsidiaries or Investees Excluded from the Consolidated Financial Statements**

| Location | Investees | Country | Reason |
|--|---|---|----------------------|
| Domestic | POSWITH Co., Ltd | Korea | Small company |
| | Busan-Gimhae Light Rail Transit Co., Ltd. | Korea | Non-majority control |
| | Pohang Water Environment | Korea | Non-majority control |
| | Pajoo & Viro | Korea | Non-majority control |
| | Incheon-Gimpo Highway | Korea | Non-majority control |
| | Suwon Green Environment.Co., Ltd. | Korea | Non-majority control |
| | Uisinseol LRT Co. Ltd. | Korea | Non-majority control |
| | Green Cheonan Co., Ltd. | Korea | Non-majority control |
| | Garolim Tidal Power Plant Co., Ltd | Korea | Non-majority control |
| | Green Jangryang Co., Ltd. | Korea | Non-majority control |
| | PHP Co., Ltd. | Korea | Small company |
| | Taegisan Wind Power Corporation | Korea | Small company |
| | Innovalley co., Ltd. | Korea | Non-majority control |
| | POSBRO Co., Ltd | Korea | Small company |
| | Applied Science Corp. | Korea | Small company |
| | Sentech Korea Corp. | Korea | Small company |
| | AROMA POSTECH RENEWABLE ENERGY,CO., LTD. | Korea | Non-majority control |
| | KOREASOLARPARK CO., Ltd. | Korea | Small company |
| | HJ photovoltaics, Inc. | Korea | Small company |
| | Overseas | POSK Steel Processing center Co., Ltd. (POSK-PPC) | China |
| POSCO Poland Steel Processing Center (POSCO-PWPC) | | Poland | Small company |
| POSCO-SAMSUNG-SUZHOU Processing Center Co. (POSS-SZPC) | | China | Small company |
| POSCO (Chongqing) Automotive Processing Center (POSCO-CCPC) | | China | Small company |
| POSCO Mexico Human Tech | | Mexico | Small company |
| POSCO-SAMSUNG-Slovakia Processing Center Co., Ltd. (POSS-SLPC) | | Slovakia | Small company |
| Europe Steel Distribution Center (POSCO-ESDC, Logistics, Trading and Investment d.o.o) | | Slovenia | Small company |
| HAMOS | | Vietnam | Small company |
| United Spiral Pipe (USP) | | USA | Small company |
| PT. POSNESIA | | Indonesia | Under liquidation |
| POSCO E&C Nigeria Ltd. | | Nigeria | Small company |
| POSCO E&C India Private Ltd. | | India | Small company |
| VECTUS Limited | | UK | Small company |
| POSCO Philippine Manila Processing Center Inc. (POSCO-PMPC) | | Philippine | Small company |
| Dalian Poscon Dongbang Automatic Co., Ltd | China | Small company | |

Edgar Filing: POSCO - Form 20-F

| | | | |
|----------|---|-----------|---------------|
| Overseas | POSDATA-China | China | Small company |
| | Miller Pohang Coal Company Pty Ltd. (MPCC) | Australia | Small company |
| | Qingdao Posco Steel Processing Co., Ltd | China | Small company |
| | Zhangjiagang BLZ Pohang International Trading CO., Ltd. | China | Small company |
| | Yingkou Posrec Refractories Co., Ltd. | China | Small company |
| | Zhangjiagang Pohang Refractories Co., Ltd. | China | Small company |
| | San Pu Trading Co. Ltd | China | Small company |
| | POSCO SeAH Steel Wire(Nantong) Oo., Ltd | China | Small company |
| | POSCO-JYPC Co., Ltd. | Japan | Small company |
| | HK Lamination(M)SDN. BHD | Hongkong | Small company |

F-19

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Change in Scope of Consolidation***

The consolidated financial statements for 2007 include the accounts of Meta Polis Co., Ltd. and POSCO E&C (Beijing) Co., Ltd. as their total assets exceeded ₩7,000 million as of December 31, 2006. Myanmar POSCO Steel Co., Ltd. is included in the consolidated financial statements for 2007 as it has re-commenced its operations. The Company established POSCO-Mexico Co., Ltd., POSS Delhi Steel Processing Centre Pvt. Ltd., POS-NP Pty. Ltd., and POSCO Vietnam Processing Center Co., Ltd., and acquired POSCORE Co., Ltd., and Suzhou POSCORE during 2007 and have included their results in the consolidated financial statements for 2007. In addition, POSMMIT Steel Centre SDN BHD and POS-OPC Co., Ltd. (Fujiura Butsuryu Center Co., Ltd.) are included in the consolidated financial statements as the Company's ownership effectively exceeded 50% through additional increase in capital.

As a result, the total assets, shareholders' equity, sales, and net income of the consolidated financial statements as of and for the year ended December 31, 2007, increased by ₩828,643 million, ₩350,395 million, ₩467,880 million, and ₩5,860 million, respectively.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its consolidated financial statements for December 31, 2007, 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. 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.

Accounting Estimates

The preparation of the 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.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board 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 Commission. The Company has adopted SKFAS No. 1 through No. 25, except No. 14 and No. 24, in its financial statements as of and for the year ended December 31, 2007. Significant accounting

policies adopted by the Company for the annual financial statement are identical to the accounting policies followed by the Company for the annual financial statements for the year ended December 31, 2006, except for SKFAS Nos. 11, 21 through 25, which became effective for the Company on January 1, 2007.

Table of Contents

POSCO and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The following new SKFAS have become effective for accounting periods beginning on or after January 1, 2007:

SKFAS No. 11, *Discontinued Operations*

SKFAS No. 21, *Preparation and Presentation of Financial Statements I*

SKFAS No. 22, *Share-based Payments*

SKFAS No. 23, *Earnings Per Share*

SKFAS No. 25, *Consolidated Financial Statements*

In accordance with SKFAS No. 21, *Preparation and Presentation of Financial Statements I*, the Company's financial statements include the statements of changes in shareholders' equity. The Company classified its capital adjustments account into capital adjustments and accumulated other comprehensive income and expense, and also disclosed the details of its comprehensive income in the notes to the financial statements. In addition, the Company disclosed its earnings per share on the face of its statements of income.

Certain prior year accounts, presented herein for comparative purposes, have been reclassified to conform to current year's financial statement presentation. Such reclassification does not impact the net income or net assets reported in the prior year.

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 during consolidation.

The Company records differences between the investment account and corresponding capital account of subsidiaries as goodwill or 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. The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interest in consolidated subsidiaries.

Cash and Cash Equivalents, 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 approximates fair value.

Revenue Recognition

Revenue from the sale of products is recognized when title and the significant risks and rewards of ownership have been transferred to the buyer, which is generally upon physical delivery. The Company deems delivery to have occurred upon shipment or upon delivery, depending upon shipping terms of the transaction. No revenue is recognized if there are significant uncertainties regarding collectibility of the amount due, associated costs or the possible return of goods.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts due for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from construction and other services are generally recognized using the percentage-of-completion method.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****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 value of inventories (current replacement cost for raw materials) is lower than its cost, the carrying amount is reduced to the net realizable value 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, generally with cost being determined using the gross average method, moving-average method or first-in, first-out (FIFO) method. Individual accounting policies on inventories of POSCO and each subsidiary are enumerated on pages 34 and 35.

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 three categories: trading, available-for-sale and held-to-maturity.

Securities that are bought and held principally for near-term sale to generate profits from short-term price differences are classified as 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 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 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 a significant control or influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustment

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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. If the book value of the investee has changed due to the capital increase of the investee, net losses not recognized in the prior periods are reflected in equity method investment securities as an adjustment to retained earnings.

Differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are amortized over the period, not to exceed 20 years, using the straight-line method. However, in case of the investee which is also a subsidiary of the Company, if the additional investment results in the change in the ownership percentage, the difference between the change in the proportionate ownership in the book value of the investee and additional investment is recorded as capital adjustment.

The Company's proportionate unrealized profit arising from sales by the Company to equity method investee, sales by the equity method investees to the Company or sales between equity method investees are eliminated to the extent of the Controlling Company's ownership. Only unrealized profit arising from sales by the Company to subsidiaries is fully eliminated.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities (the exchange rates on the acquisition date for capital accounts), 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.

The equity method of accounting is applied based on the most recent available unaudited or unreviewed financial statements of subsidiaries and affiliates. The Company believes that if the financial statements were reviewed, differences between unreviewed and reviewed financial statements would not have a material effect on the financial statements of the Company.

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 pages 34 and 35. 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 | 4-10 years |
| Vehicles | 3-10 years |

Furniture and fixtures

3-10 years

The acquisition cost of an asset consists 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.

F-23

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****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 years |
| Negative goodwill | 5-10 years |
| Intellectual property rights | 5-10 years |
| Port facilities usage rights | 1-75 years(2) |
| Land Usage Right | 20-50 years(2) |
| Deferred development expenses(1) | |
| Long-term power capacity rights | Contract term |
| Other intangible assets | 2-25 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 right with estimated useful lives of 20 years or more, and which represent the rights to use certain port facilities and land, are amortized over the term of exclusive rights.

As of December 31, 2007, port facilities usage rights are related to the quay and inventory yard donated by POSCO in April 1987 to the local bureaus of the Maritime Affairs and Fisheries in Kwangyang, Pohang, Pyoungtaek and Masan. The Company recognized the electricity supply contract, entered into with Korea Electric Power Corporation by POSCO Power Corp., as an identifiable intangible asset. The fair value of the contract rights is recorded as long-term electricity supply contract rights as of the balance sheet date.

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.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Restructuring of Receivables***

The Company recognizes losses on doubtful receivables from financially troubled companies being restructured under work-out plans or other similar rescheduling agreements if the total discounted future cash receipts of such receivables as specified under the modified terms of the work-out plans or other similar rescheduling agreements are less than the nominal amount of the receivables.

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 42 other overseas 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 Service 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

Derivative instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in current operations. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as another comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to current operations. Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in current operations.

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 exchange rates in effect at the balance sheet date, and resulting translation gains and losses are recognized in current operations.

F-25

Table of Contents

POSCO and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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 offset, 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.

Reclassification of Prior Year Consolidated Financial Statement Presentation

Certain amounts in consolidated financial statements as of and for the year ended December 31, 2006, have been reclassified to conform to the December 31, 2007 consolidated financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

Income Taxes

The company estimates tax expenses as the sum of current income taxes imposed and any accrued taxes which is adjusted for changes in deferred taxes. The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred income tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred tax assets are recognized when it is more likely that such deferred tax assets will be realized. Income tax effect of temporary differences is reflected as income tax expenses in the period incurred, and income tax effect of temporary differences in relation to item in shareholders' equity is directly reflected in the related shareholders' equity account. The total income tax provision includes the current income tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the year.

Deferred tax assets and liabilities in the balance sheet are classified into current and non-current portion, and within each classification, deferred tax assets and deferred tax liabilities are offset and recorded.

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 is 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.

Capitalization of Financing Expenses

Financing expense on borrowings 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 chooses to expense

as a financing expense the cost of manufacturing, acquisition, and construction of property, plant, and equipment that require more than one year to complete from the initial date to the date of the estimated completion of the manufacturing, acquisition and construction.

Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow or inflow is dependent upon a future event, is

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability in case of an outflow, or the contingent asset in case of an inflow, is made in the notes to the financial statements.

Sale of Receivables

The Company sells or discounts certain amounts or notes receivable to financial institutions and accounts for these transactions as sale of the receivables if the rights and obligations relating to the receivables sold are substantially transferred to the buyers. The losses from the sale of the receivables are charged to operations as incurred.

Treasury Stock

In accordance with the cost method, the acquisition cost of the Company's treasury stocks are recorded as an adjustment to shareholders' equity. Gain on disposal of treasury stock is recorded as other capital surplus and loss on disposal of treasury stock is first deducted from gain on disposal of treasury stock recorded in other capital surplus, recording the balance as capital adjustments and then offset against retained earnings in accordance with the order of disposition of deficit.

Stock Appreciation Rights

Compensation expense for stock appreciation rights, either partially or fully vested, is recorded based on the differences 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.

Basic Earnings 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.

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: ₩935.80, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2007. 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.

Cost determination methods for inventories and depreciation methods for 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 Posteel Co., Ltd. | | |
| POSCON Co., Ltd. | | Straight-line method, Declining-balance method |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| Company | Inventories(1) | Depreciation of Property, Plant and Equipment |
|--|--------------------------------|--|
| Pohang Coated Steel Co., Ltd. | Gross average method | Straight-line method |
| POSCO Machinery & Engineering Co., Ltd. | Moving-average method | |
| POSDATA Co., Ltd. | | |
| POSCO Research Institute | N/A | |
| Seung Kwang Co., Ltd. | Gross average method | Straight-line method, Declining-balance method |
| POS-AC Co., Ltd. | N/A | |
| Posco Specialty Steel Co., Ltd. | Moving-average method | Straight-line method |
| POSCO Machinery Corp. | | |
| POSTECH Venture Capital Co., Ltd. | N/A | Declining-balance method |
| POSCO Refractories & Environment Company Ltd. (POSREC) | Moving-average method | Straight-line method, Declining-balance method |
| POSCO Terminal Co., Ltd. | | |
| Metapolis Co., Ltd. | | Declining-balance method |
| Posmate Co., Ltd. | N/A | |
| Samjung Packing & Aluminum Co., Ltd. | Moving-average method | Straight-line method, Declining-balance method |
| POSCO Power Corp. | | Straight-line method |
| Postech 2006 Energy Fund | N/A | N/A |
| POSCO America Corp. (POSAM) | Moving-average method | N/A |
| POSCO Australia Pty. Ltd. (POSA) | Gross average method | |
| POSCO Canada Ltd. (POSCAN) | | Straight-line method, Unit of production method |
| POSCAN Elkview Coal Ltd. | N/A | N/A |
| POSCO Asia Co., Ltd. (POA) | | Declining-balance method |
| VSC POSCO Steel Corporation (VPS) | Moving-average method | Straight-line method |
| DALIAN POSCO CFM Coated Steel Co., Ltd. | | |
| POS-Tianjin Coil Center Co., Ltd. | | |
| POSMETAL Co., Ltd. | | |
| Shanghai Real Estate Development Co., Ltd. | N/A | |
| IBC Corporation | Specific identification method | |
| POSLILAMA Steel Structure Co., Ltd. | Moving-average method | |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | | |
| POSCO(Guangdong) Coated Steel Co., Ltd. | | |
| POSCO-Thailand Co., Ltd. | | |
| Myanmar POSCO Steel Co., Ltd. | | |
| Zhangjiagang POSHA Steel Port Co., Ltd. | | |
| POS-OPC Co., Ltd.(Fujiura Butsuryu Center Co., Ltd.) | Specific identification method | |
| POSCO Investment Co., Ltd. | N/A | |

POSMMIT Steel Centre SDN BHD
Qingdao Pohang Stainless Steel Co., Ltd.

Moving-average method

F-28

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| Company | Inventories(1) | Depreciation of Property, Plant and Equipment |
|---|--------------------------------|--|
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | Moving-average method | Straight-line method |
| POSEC-Hawaii Inc. | N/A | |
| POS-Qingdao Coil Center Co., Ltd. | Moving-average method | |
| POSCO-China Holding Corp. | N/A | |
| POS-ORE Pty. Ltd. | Gross average method | |
| POSCO-Japan Co., Ltd. | | |
| POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd. | | |
| POS-GC Pty. Ltd. | | |
| POS-CD Pty. Ltd. | | |
| POSCO-India Private Ltd. | N/A | |
| POS-India Steel Processing Centre Pvt. Ltd. | Specific identification method | |
| POS-NPC Co., Ltd. | Moving-average method | |
| POSCO-Foshan Steel Processing Center Co., Ltd. | Specific identification method | |
| POS-MPC S.A. de C.V. | | |
| Zhangjigang Pohang Port Co., Ltd. | N/A | |
| POSCO-Vietnam Co., Ltd. | Moving-average method | |
| POSCO E&C (Beijing) Co., Ltd. | Specific identification method | |
| POSCO-Mexico Co., Ltd. | N/A | |
| POSS Delhi Steel Processing Centre Pvt. Ltd. | Specific identification method | |
| POS-NP Pty. Ltd. | Gross average method | |
| POSCO Vietnam Processing Center Co., Ltd. | Specific identification method | |
| Suzhou POSCORE | Moving-average method | |

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

F-29

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****3. Cash and Cash Equivalents, and Financial Instruments**

Cash and cash equivalents, and short-term and long-term financial instruments as of December 31, 2007 and 2006, consist of the following:

| | Annual Interest Rate (%) | | 2007 | | 2006 |
|--|-------------------------------------|------------------------------------|-------------|---|-------------|
| | | (In millions of Korean won) | | | |
| Cash and cash equivalents | | | | | |
| Cash on hand and bank deposits | 0.00 ~2.00 | ₩ | 95,292 | ₩ | 19,925 |
| Checking accounts | | | 16,103 | | 4,123 |
| Corporate bank deposits | 0.00 ~6.25 | | 558,267 | | 18,541 |
| Time deposits in foreign currency and others | 2.02 ~5.05 | | 286,679 | | 567,333 |
| Maintained by overseas affiliates | 0.00 ~12.00 | | 336,487 | | 326,498 |
| | | | 1,292,828 | | 936,420 |
| Less : Government grants | | | (247) | | (131) |
| | | ₩ | 1,292,581 | ₩ | 936,289 |
| Short-term financial instruments | | | | | |
| Time deposits | 1.00 ~6.50 | ₩ | 839,257 | ₩ | 473,710 |
| Installment accounts | 3.00 ~4.50 | | 160 | | 1,534 |
| Specified money in trust | 5.00 ~6.25 | | 3,002 | | 20,447 |
| Certificates of deposit | 5.20 ~7.06 | | 769,430 | | 199,000 |
| Commercial papers | 5.91 ~5.91 | | 14,587 | | 20,220 |
| Others | 0.50 ~7.06 | | 54,902 | | 127,591 |
| Maintained by overseas affiliates | 2.25 ~8.50 | | 61,741 | | 24,808 |
| | | ₩ | 1,743,079 | ₩ | 867,310 |
| Long-term financial instruments | | | | | |
| Installment accounts | 5.00 ~6.00 | ₩ | 16,952 | ₩ | 11,212 |
| Guarantee deposits for opening accounts | | | 113 | | 116 |
| Others | | | | | 1,011 |
| | | ₩ | 17,065 | ₩ | 12,339 |

As of December 31, 2007, the Company's financial assets amounting to ₩10,185 million (2006: ₩18,138 million) are pledged as collaterals and accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as

collaterals include short-term financial instruments amounting to ₩4,932 million and ₩5,565 million as of December 31, 2007 and 2006, respectively, and long-term financial instruments of ₩8,013 million as of December 31, 2006, in relation to performance guarantee deposits, short-term borrowings and long-term debts, and others; short-term financial instruments amounting to ₩5,140 million (2006: ₩4,444 million) in relation to government-appropriated projects; and long-term financial instruments amounting to ₩113 million (2006: ₩116 million) in relation to maintaining deposits for opening checking accounts (Note 13).

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****4. Trading Securities**

Trading securities as of December 31, 2007 and 2006, are as follows:

| | 2007 | | 2006 |
|--------------------------|------------------------------------|---|-------------|
| | (In millions of Korean won) | | |
| Beneficiary certificates | ₩ 1,285,650 | ₩ | 1,985,888 |
| Corporate bond | | | 14,118 |
| Money market fund | 1,289 | | 641 |
| | ₩ 1,286,939 | ₩ | 2,000,647 |

5. Accounts and Notes Receivable, and Others

Accounts and notes receivable, and their allowance for doubtful accounts and present value discounts as of December 31, 2007 and 2006, are as follows:

| | 2007 | | 2006 |
|---|------------------------------------|---|-------------|
| | (In millions of Korean won) | | |
| Trade accounts and notes receivable | ₩ 4,290,213 | ₩ | 3,723,033 |
| Less: Allowance for doubtful accounts | (254,417) | | (231,214) |
| Present value discount | (194) | | (159) |
| | ₩ 4,035,602 | ₩ | 3,491,660 |
| Other accounts and notes receivable | ₩ 248,601 | ₩ | 285,919 |
| Less: Allowance for doubtful accounts | (33,287) | | (38,572) |
| Present value discount | (358) | | (542) |
| | ₩ 214,956 | ₩ | 246,805 |
| Long-term trade accounts and notes receivable | ₩ 58,411 | ₩ | 57,567 |
| Less: Allowance for doubtful accounts | (16,187) | | (9,901) |
| Present value discount | (2,305) | | (3,319) |
| | ₩ 39,919 | ₩ | 44,347 |
| Long-term loans receivable | ₩ 43,201 | ₩ | 62,814 |
| Less: Allowance for doubtful accounts | (2,650) | | (469) |

| | | |
|------------------------|----------|----------|
| Present value discount | (77) | (50) |
| | ₩ 40,474 | ₩ 62,295 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Accounts stated at present value under long-term deferred payment and others included as part of accounts and notes receivable, and others as of December 31, 2007, are as follows:

| | Face Value | Present Value Discount | Book Value | Maturity Date | Discount Rate (%) |
|-------------------------------------|-----------------------------|------------------------------|---------------|------------------|----------------------|
| | (In millions of Korean won) | | | | |
| Other accounts receivable | | | | | |
| Tawryu Construction Co., Ltd. | ₩ 9,418 | ₩ 114 | ₩ 9,304 | 2008 | 5.00 |
| BNG Steel Co., Ltd. | 10,000 | 747 | 9,253 | 2009 | 5.60 |
| | ₩ 19,418 | ₩ 861 | ₩ 18,557 | | |
| Long-term loans receivable | | | | | |
| Oh Sehwan and others | ₩ 306 | ₩ 41 | ₩ 265 | 2017 | 7.50 |
| Riviera C.C | 260 | 36 | 224 | 2011 | 3.70 |
| | ₩ 566 | ₩ 77 | ₩ 489 | | |
| Long-term trade accounts receivable | | | | | |
| BNG Steel Co., Ltd.(1) | ₩ 28,259 | ₩ 3,037 | ₩ 25,222 | 20082009 | 8.60 |
| Others | 27,888 | 2,499 | 25,389 | 20102016 | 4.706.50 |
| | ₩ 56,147 | ₩ 5,536 | ₩ 50,611 | | |

(1) The Company provides allowance for bad debts on present value discounts incurred from restructured receivables under work-out plans.

The Company computed discounts on account receivable using the Company's weighted-average borrowing rate incurred as of the date nearest to the Company's year end.

Valuation and qualifying accounts for allowance for doubtful accounts for the years ended December 31, 2007, 2006 and 2005 are as follows:

| Description | Balance at Beginning of Period | Additions | | Deductions(1) | Balance at the End of Period |
|-------------|---|-------------------------------------|--|---------------|------------------------------------|
| | | Charged to Costs and Expenses | Change in Scope of Consolidation | | |

(In millions of Korean Won)

Year ended December 31,**2007:**

Reserves deducted in the balance sheet from the assets to which the apply:

| | | | | | |
|---------------------------------|-----------|----------|---|----------|-----------|
| Allowance for doubtful accounts | ₩ 367,237 | ₩ 37,237 | ₩ | ₩ 62,708 | ₩ 341,766 |
|---------------------------------|-----------|----------|---|----------|-----------|

Year ended December 31,**2006:**

Reserves deducted in the balance sheet from the assets to which the apply:

| | | | | | |
|---------------------------------|---------|---------|--|--------|---------|
| Allowance for doubtful accounts | 263,111 | 173,931 | | 69,805 | 367,237 |
|---------------------------------|---------|---------|--|--------|---------|

Year ended December 31,**2005:**

Reserves deducted in the balance sheet from the assets to which the apply:

| | | | | | |
|---------------------------------|---------|---------|----|--------|---------|
| Allowance for doubtful accounts | 158,944 | 115,865 | 11 | 11,709 | 263,111 |
|---------------------------------|---------|---------|----|--------|---------|

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

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****6. Inventories**

Inventories as of December 31, 2007 and 2006, consist of the following:

| | 2007 | | 2006 |
|----------------------|------------------------------------|---|-------------|
| | (In millions of Korean won) | | |
| Finished goods | ₩ 1,003,788 | ₩ | 844,790 |
| By-products | 24,983 | | 30,795 |
| Semi-finished goods | 1,386,307 | | 893,359 |
| Raw materials | 1,177,880 | | 1,113,870 |
| Fuel and materials | 520,882 | | 395,331 |
| Materials-in-transit | 786,278 | | 716,271 |
| Others | 1,898 | | 23,789 |
| | ₩ 4,902,016 | ₩ | 4,018,205 |

7. Investment Securities

Long-term portion of investment securities as of December 31, 2007 and 2006, consist of the following:

| | 2007 | | 2006 |
|-------------------------------|------------------------------------|---|-------------|
| | (In millions of Korean won) | | |
| Available-for-sale securities | ₩ 4,511,569 | ₩ | 2,848,226 |
| Held-to-maturity securities | 62,542 | | 110,326 |
| Equity-method investments | 604,612 | | 206,503 |
| | ₩ 5,178,723 | ₩ | 3,165,055 |

Available-for-Sale Securities

Available for sale securities as of December 31, 2007 and 2006, consist of the following:

| | 2007 | | 2006 |
|--|------------------------------------|---|-------------|
| | (In millions of Korean won) | | |
| | ₩ 32,113 | ₩ | 13,375 |

Current portion of available-for-sale securities
 Investments in bonds

| | | |
|----------------------------------|--------------------|--------------------|
| Available-for-sale securities | | |
| Marketable equity securities | 3,888,043 | 2,337,984 |
| Non-marketable equity securities | 599,414 | 459,188 |
| Investments in bonds | 3,762 | 35,581 |
| Equity investments | 20,350 | 15,473 |
| | 4,511,569 | 2,848,226 |
| | ₩ 4,543,682 | ₩ 2,861,601 |

F-33

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Investments in marketable equity securities as of December 31, 2007 and 2006, are as follows:

| | Number of Shares | 2007 | | 2006 | |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------|------------------|---------------|
| | | Percentage of Ownership (%) | Acquisition Cost | Book Value(1) | Book Value |
| | | | (In millions of Korean won) | | |
| Hanil Iron & Steel Co., Ltd. | 206,798 | 10.14 | ₩ 2,413 | ₩ 5,811 | ₩ 4,435 |
| HI Steel Co., Ltd. | 135,357 | 9.95 | 1,609 | 2,430 | 2,166 |
| Moonbae Steel Co., Ltd. | 1,849,380 | 9.02 | 3,588 | 8,230 | 2,395 |
| Hana Financial Group Inc. | 4,663,776 | 2.20 | 29,998 | 235,054 | 228,058 |
| SK Telecom Co., Ltd.(2) | 4,241,411 | 5.22 | 1,197,441 | 1,061,740 | 931,735 |
| Dong Yang Steel Pipe Co., Ltd. | 1,564,250 | 2.45 | 3,911 | 2,831 | 1,025 |
| Nippon Steel Corporation | 238,352,000 | 3.50 | 719,622 | 1,374,491 | 1,117,010 |
| Korea Line Corp. | 217,373 | 2.17 | 8,067 | 35,867 | 10,760 |
| Hyundai Heavy Industries | 1,477,000 | 1.94 | 343,505 | 653,572 | |
| Shinhan Financial Group Inc. | 3,815,676 | 1.00 | 219,467 | 204,139 | |
| SeAH Steel Corp. | 540,000 | 10.11 | 18,792 | 26,028 | |
| Thainox Stainless Public Company | 1,200,000,000 | 15.00 | 42,301 | 46,243 | |
| Union Steel Co., Ltd. | 1,005,000 | 9.80 | 40,212 | 23,618 | |
| MML | 40,000,000 | 11.07 | 14,811 | 114,212 | |
| FUELCELL energy, inc. | 3,822,630 | 5.61 | 27,141 | 35,577 | |
| Others | | | 39,080 | 58,200 | 40,400 |
| | | | ₩ 2,711,958 | ₩ 3,888,043 | ₩ 2,337,984 |

(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 under accumulated other comprehensive income in the consolidated balance sheets.

(2) The 1,899,840 SK Telecom Co., Ltd. shares have been placed as a collateral for exchangeable bonds (Note 13).

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Investments in non-marketable equity securities as of December 31, 2007 and 2006, are as follows:

| | 2007 | | | 2006 | |
|--|---------------------|-----------------------------------|-----------------------------|---------------|---------------|
| | Number of Shares | Percentage of Ownership (%) | Acquisition Cost | Book Value | Book Value |
| | | | (In millions of Korean won) | | |
| Hankyung Shinmun Co., Ltd. | 28,728 | 0.15 | ₩ 309 | ₩ 309 | ₩ 309 |
| Keo Yang Shipping Co., Ltd. | 150,000 | 0.88 | 780 | 780 | 780 |
| Jeonnam Pro Football Co., Ltd. | 19,799 | 13.20 | 99 | 99 | 99 |
| Dae Kyeong Special Steel Co., Ltd. | 1,786,000 | 19.00 | 8,930 | 8,930 | 8,930 |
| The Korea Metal Journal Co., Ltd. | 2,000 | 2.67 | 20 | 20 | 20 |
| Pohang Steelers Co., Ltd. | 40,000 | 16.67 | 200 | 200 | 200 |
| Kihyup Technology Banking Corp. | 600,000 | 10.34 | 3,000 | 3,000 | 3,000 |
| Poshome Co., Ltd. | 10,000 | 3.69 | 50 | 50 | 50 |
| LG Powercom Corporation(1) | 6,300,000 | 5.00 | 246,000 | 93,398 | 106,845 |
| The Seoul Shinmun Co., Ltd. | 1,614,000 | 19.40 | 7,479 | | |
| ESCO Professionals, Ltd. | 4,210 | 7.02 | 21 | 21 | 21 |
| TFS Global Co., Ltd. | 5,290 | 8.82 | 26 | 26 | 26 |
| The Siam United Steel | 11,071,000 | 12.30 | 34,658 | 34,658 | 34,658 |
| Global Unity Ltd. | 70,649 | 13.33 | 710 | 710 | 710 |
| PT. POSNESIA Stainless Steel Industry(4) | 29,610,000 | 70.00 | 9,474 | 1,567 | 1,567 |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd.(3) | | | | | 26,803 |
| CTA Co., Ltd. | 73,390 | 14.68 | 37 | 37 | 37 |
| Woori DCI Co., Ltd. | 5,653 | 18.84 | 28 | 28 | 28 |
| RCC Co., Ltd. | 9,053 | 18.11 | 45 | 45 | 45 |
| Myanmar- POSCO Steel Co., Ltd.(5) | | | | | 3,717 |
| Nickel Mining Company SAS(3) | | | | | 28 |
| Wuhan Excellent Steel Center(2) | | 5.00 | 432 | 432 | 432 |
| POSCO Steel Processing Center Co., Ltd. | | | | | |
| (POSK-PPC)(2),(4) | | 20.00 | 1,869 | 1,869 | 928 |
| POSWITH Co., LTD(4) | 320,000 | 100.00 | 1,600 | 1,600 | |
| MTS Korea Co., Ltd. | 11,076 | 18.46 | 55 | 55 | |
| Korea ST Co., Ltd. | 796,000 | 19.90 | 13,930 | 13,930 | |
| POSCO Poland Steel Processing Center (POS-PPC)(4) | 30,000 | 30.00 | 3,803 | 3,803 | |
| POSCO-SAMSUNG-SUZHOU Processing Center (POSS-SZPC)(2),(4) | | 30.00 | 1,608 | 1,608 | |

Edgar Filing: POSCO - Form 20-F

| | | | | | |
|---|------------|--------|-----------|-----------|-----------|
| POSCO (Chongqing) Automotive Processing Center (POS-CPC)(2),(4) | | 90.00 | 6,201 | 6,201 | |
| POSCO Mexico Human Tech(2),(4) | | 100.00 | 3 | 3 | |
| POSCO-SAMSUNG-Slovakia Processing Center (POSS-SLPC)(2),(4) | | 30.00 | 1,794 | 1,794 | |
| Europe Steel Distribution Center (POS-ESDC, Logistics, Trading and Investment d.o.o)(2),(4) | | 50.00 | 1,893 | 1,893 | |
| HAMOS(2),(4) | | 20.00 | 998 | 998 | |
| Incheon International Airport Railroad Co., Ltd.(1) | 22,101,940 | 11.96 | 110,510 | 179,026 | 110,510 |
| Busan-Gimhae Light Rail Transit Co., Ltd.(4) | 3,590,720 | 20.85 | 17,954 | 17,954 | 17,954 |
| Seoul Metro Line Nine Corporation | 3,405,812 | 19.98 | 17,030 | 17,030 | 8,515 |
| Hankuk Leisure Co., Ltd. | 839,964 | 16.42 | 8,627 | 8,627 | 8,476 |
| Vectus Limited(4) | 2,211,837 | 99.59 | 7,011 | 7,006 | 4,219 |
| U-space Co., Ltd. | 2,800,000 | 10.00 | 14,000 | 14,000 | |
| Daejeon Cogeneration Plant Co., Ltd.(1) | 752,400 | 19.80 | 3,762 | 11,196 | |
| Shinbundang Railroad Co., Ltd | 2,061,000 | 6.73 | 10,305 | 10,305 | |
| Kenertec Co., Ltd.(2) | | | 10,000 | 10,000 | |
| EcoTown | 1,596,000 | 19.00 | 7,980 | 7,980 | |
| Pohang Youngil New Port | 1,123,200 | 7.20 | 5,616 | 5,616 | |
| Gyeong Su Highway Corp | 992,000 | 4.52 | 4,960 | 4,960 | |
| Others | | | 105,006 | 127,650 | 120,281 |
| | | | ₩ 668,813 | ₩ 599,414 | ₩ 459,188 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

- (1) The fair values of LG Powercom Corporation and two other investees were based on the valuation report of a public rating services company. Investments without an objective fair value were recorded as acquisition costs, except for LG Powercom Corporation and two other investees.
- (2) No shares have been issued in accordance with the local laws or regulations.
- (3) The investments in these entities are reclassified from available-for-sale securities to equity-method investments in 2007.
- (4) Investees under liquidation, or in possession of total assets of less than ₩7,000 million as of December 31, 2007, were excluded from the equity method investments.
- (5) The entity is a consolidated subsidiary in 2007.

Available-for-sale securities are stated at fair market value, and the difference between the acquisition cost and fair market value is accounted for in the accumulated other comprehensive income. The movements of such differences for the years ended December 31, 2007 and 2006, are as follows:

| | Beginning Balance | 2007 Increase (Decrease) | Ending Balance | Beginning Balance | 2006 Increase (Decrease) | Ending Balance |
|-------------------------------------|------------------------------|---|---------------------------|------------------------------|---|---------------------------|
| | (In millions of Korean won) | | | | | |
| Marketable equity securities | | | | | | |
| SK Telecom Co., Ltd. | ₩ (185,185) | ₩ 86,802 | ₩ (98,383) | ₩ (352,910) | ₩ 167,725 | ₩ (185,185) |
| Hana Financial Group Inc. | 143,594 | 5,072 | 148,666 | 132,918 | 10,676 | 143,594 |
| Moonbae Steel Co., Ltd. | (865) | 4,230 | 3,365 | (496) | (369) | (865) |
| Hanil Iron & Steel Co., Ltd. | 1,467 | 997 | 2,464 | 1,039 | 428 | 1,467 |
| HI Steel Co., Ltd. | 404 | 191 | 595 | 404 | | 404 |
| Korea Line Corporation | 1,952 | 18,203 | 20,155 | (1,783) | 3,735 | 1,952 |
| Nippon Steel Corporation | 412,453 | 62,327 | 474,780 | 180,562 | 231,891 | 412,453 |
| Hyundai Heavy Industries | | 224,798 | 224,798 | | | |
| SeAH Steel Corp. | | 5,246 | 5,246 | | | |
| Thainox Stainless Public Company | | 2,858 | 2,858 | | | |

Edgar Filing: POSCO - Form 20-F

| | | | | | | |
|--------------------------|-----------|-----------|-----------|-------------|-----------|-----------|
| Limited | | | | | | |
| Shinhan Financial | | | | | | |
| Group Inc. | | (11,114) | (11,114) | | | |
| Dong Yang Steel Pipe | | | | | | |
| Co., Ltd. | (2,092) | 1,310 | (782) | (2,041) | (51) | (2,092) |
| Union Steel Co., Ltd. | | (12,031) | (12,031) | | | |
| Others | 11,550 | 97,668 | 109,218 | 6,755 | 4,795 | 11,550 |
| | 383,278 | 486,557 | 869,835 | (35,552) | 418,830 | 383,278 |
| Non-marketable | | | | | | |
| equity securities | | | | | | |
| LG Powercom | | | | | | |
| Corporation | (100,887) | 8,573 | (92,314) | (115,813) | 14,926 | (100,887) |
| Others | (618) | 3,581 | 2,963 | 670 | (1,288) | (618) |
| | (101,505) | 12,154 | (89,351) | (115,143) | 13,638 | (101,505) |
| | ₩ 281,773 | ₩ 498,711 | ₩ 780,484 | ₩ (150,695) | ₩ 432,468 | ₩ 281,773 |

F-36

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Investments in bonds as of December 31, 2007 and 2006, are as follows:

| | Maturity | 2007 Acquisition Cost (In millions of Korean won) | Book Value | 2006 Book Value |
|-----------------------|------------------|--|-----------------------|--------------------------------|
| Government bonds | Less than 1 year | ₩ 4,694 | ₩ 4,694 | ₩ |
| | 1-5 years | 76 | 76 | 1 |
| | 5-10 years | 48 | 48 | |
| Others | Less than 1 year | 27,000 | 27,419 | 13,375 |
| | 1-5 years | 4,118 | 3,638 | 35,580 |
| | | 35,936 | 35,875 | 48,956 |
| Less: Current portion | | (31,694) | (32,113) | (13,375) |
| | | ₩ 4,242 | ₩ 3,762 | ₩ 35,581 |

Equity investments as of December 31, 2007 and 2006, are as follows:

| | 2007 Acquisition Cost (In millions of Korean won) | Book Value | 2006 Book Value |
|------------------------------------|--|-----------------------|--------------------------------|
| Contractor financial fund | ₩ 12,673 | ₩ 15,635 | ₩ 12,284 |
| Software financial fund and others | 4,694 | 4,715 | 3,189 |
| | ₩ 17,367 | ₩ 20,350 | ₩ 15,473 |

Details of gross unrealized gains and losses on available-for-sale securities for the years ended December 31, 2007 and 2006 are as follows:

| Amortized Cost | 2007 | | Fair Value (In millions of Korean Won) | Amortized Cost | 2006 | | Fa Val |
|---------------------------|---------------------------------------|--|---|---------------------------|---------------------------------------|--|-------------------|
| | Gross Unrealized Gains | Gross Unrealized Losses | | | Gross Unrealized Gains | Gross Unrealized Losses | |

Edgar Filing: POSCO - Form 20-F

| | | | | | | | | | | | | | | | | |
|-----------|---|-----------|---|-----------|---|-----------|---|-----------|---|-----------|---|---------|-----------|-----------|---|-----|
| ment and | | | | | | | | | | | | | | | | |
| al bonds | ₩ | 4,818 | ₩ | | ₩ | 4,818 | ₩ | 1 | ₩ | | ₩ | | | | | |
| onds | | 31,118 | | 419 | | (480) | | 31,057 | | 48,452 | | 503 | | | | |
| | | 35,936 | | 419 | | (480) | | 35,875 | | 48,453 | | 503 | | | | |
| ble | | | | | | | | | | | | | | | | |
| curities | | 2,711,958 | | 1,357,567 | | (181,482) | | 3,888,043 | | 1,806,004 | | 794,156 | (262,176) | 2,3 | | |
| arketable | | | | | | | | | | | | | | | | |
| curities | | 668,813 | | 123,409 | | (192,808) | | 599,414 | | 599,195 | | | (140,007) | 4 | | |
| | ₩ | 3,416,707 | ₩ | 1,481,395 | ₩ | (374,770) | ₩ | 4,523,332 | ₩ | 2,453,652 | ₩ | 794,659 | ₩ | (402,183) | ₩ | 2,8 |

For the years ended December 31, 2007, 2006 and 2005, proceeds from sales of available-for-sale securities amounted to ₩9,412 million, ₩145,990 million and ₩347,987 million, respectively. Gross realized gains and losses amounted to ₩907 million and nil, respectively, for the year ended December 31, 2007.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****Held-To-Maturity Securities***

Held-to-maturity securities as of December 31, 2007 and 2006, are as follows:

| | Maturity | 2007 Acquisition Cost (In millions of Korean won) | 2007 Book Value | 2006 Book Value |
|--|-------------|--|-----------------------|-----------------------|
| Current portion of held-to-maturity securities | | | | |
| Government bonds | Less than 1 | ₩ 192,366 | ₩ 192,393 | ₩ 153,476 |
| Held-to-maturity securities | 1-5 years | 31,624 | 31,635 | 79,854 |
| Government bonds | 5-10 years | 30,892 | 30,907 | 30,472 |
| | | 62,516 | 62,542 | 110,326 |
| | | ₩ 254,882 | ₩ 254,935 | ₩ 263,802 |

The Company provided national treasury bonds, amounting to ₩29,630 million, and certain government and municipal bonds, amounting to ₩1,810 million, to the Gyeongsangbuk-do provincial office as a performance guarantee in relation to the development of a waste disposal area.

Equity-Method Investments

Equity-method investees as of December 31, 2007 and 2006, are as follows:

| Investee | Number of Shares Owned | Percentage of Ownership (%) | Acquisition | | Net | | Book Value | |
|--|---------------------------|--------------------------------------|-------------|----------|----------|----------|------------|--|
| | | | Cost | Asset(1) | 2007 | 2006 | | |
| KOBRASCO | 2,010,719,185 | 50.00 | ₩ 32,950 | ₩ 85,021 | ₩ 41,143 | ₩ 32,622 | | |
| POS-OPC Co., Ltd. (Fujiura Butsuryu Center Co., Ltd.)(3) | | | | | | | 835 | |
| USS-POSCO Industries(2) Poschrome (Proprietary) Limited | 21,675 | 50.00 | 241,098 | 124,222 | 59,771 | 49,380 | | |
| | | 25.00 | 4,859 | 26,720 | 5,165 | 4,826 | | |

Edgar Filing: POSCO - Form 20-F

| | | | | | | |
|---|------------|-------|---------|---------|---------|--------|
| Guangdong Xingpu Steel Center Co., Ltd.(2) | | 21.00 | 1,852 | 14,928 | 3,026 | 2,487 |
| POS-Hyundai Steel Manufacturing India Private Limited | 6,919,400 | 29.50 | 3,136 | 13,644 | 4,025 | 2,780 |
| eNtoB Corporation | 860,000 | 26.88 | 4,900 | 24,169 | 6,149 | 4,399 |
| POSVINA Co., Ltd.(2) | | 50.00 | 1,527 | 4,529 | 2,192 | 2,066 |
| Posmmit Steel Centre SDN BHD(3) | | | | | | 3,891 |
| PT POSMI Steel Indonesia MIDAS Information Technology Co., Ltd. | 4,772 | 37.87 | 1,467 | 8,380 | 3,177 | 3,205 |
| CAML Resources Pty Ltd Nickel Mining Company SAS | 866,190 | 25.46 | 433 | 20,957 | 5,321 | 4,292 |
| SNNC Co., Ltd. | 3,239 | 33.34 | 40,388 | 43,912 | 28,155 | 37,717 |
| Henan Tsingpu Ferro Alloy Co., Ltd.(2) | 3,234,698 | 49.00 | 157,585 | 409,431 | 200,622 | |
| Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd.(2) | 18,130,000 | 49.00 | 90,650 | 182,209 | 87,762 | 18,816 |
| BX Steel POSCO Cold Rolled | | 49.00 | 8,846 | 15,827 | 8,470 | |
| | | 34.00 | 9,516 | 29,672 | 10,043 | |
| | | 25.00 | 61,961 | 207,462 | 66,782 | |

F-38

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| | Number of Shares Owned | Percentage of Ownership (%) | Acquisition Cost (In millions of Korean won) | Net Asset(1) | Book Value | |
|---|------------------------------|--------------------------------------|--|-----------------|------------|-----------|
| | | | | | 2007 | 2006 |
| Sheet Co., Ltd. Songdo New City Development Inc.(2),(4) | | 29.90 | 6,674 | (132,596) | | |
| Gale International Korea, Inc. | 4,265 | 29.90 | 21 | 38,560 | 11,385 | 2,070 |
| An Khanh New City Development(2) | | 50.00 | 11,359 | 21,787 | 10,893 | |
| Chungju enterprise City POSCO Bioventures, L.P.(2) | 2,008,000 | 25.10 | 10,040 | 38,150 | 9,576 | |
| Liaoning Rongyuan POSCO Refractories Co., Ltd.(2) | | 100.00 | 46,102 | 35,190 | 35,190 | 33,931 |
| Hubei Huaerliang POSCO Silicon | | 35.00 | 1,125 | 4,203 | 1,380 | |
| | | 30.00 | 3,236 | 14,609 | 4,385 | 3,186 |
| Science & Technology Co., Ltd.(2) | | | ₩ 739,725 | ₩ 1,230,986 | ₩ 604,612 | ₩ 206,503 |

- (1) Due to the delay in the closing of the December 31, 2007 accounts and the settlement of closing differences, the equity method of accounting is applied based on the most recent available December 31, 2007 financial information, which has not been audited or reviewed.
- (2) No shares have been issued in accordance with the local laws and regulations.
- (3) POS-OPC Co., Ltd. and POSMMIT Steel Centre SDN BHD are consolidated in 2007 and excluded from the equity-method investments.
- (4) The equity method of accounting has been suspended for investment in Songdo New City Development Inc. as the Company's net investments have been reduced to zero. Unrecorded changes in equity interest in Songdo New City Development Inc. in 2007 amounted to ₩884 million and the accumulated unrecorded changes in equity interest through 2006 amounted to ₩38,666 million.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Details of equity method valuation for the years ended December 31, 2007 and 2006, are as follows:

| Investee | As of January 1, 2007 | Earnings (Losses) of Equity Method Investees (In millions of Korean won) | Other Increase (Decrease)(1) | As of December 31, 2007 |
|---|--------------------------------------|---|---|--|
| KOBRASCO | ₩ 32,622 | ₩ 18,947 | ₩ (10,426) | ₩ 41,143 |
| POS-OPC Co., Ltd.(Fujiura Butsuryu Center Co., Ltd.) | 835 | | (835) | |
| USS-POSCO Industries | 49,380 | (10,096) | 20,487 | 59,771 |
| Poschrome (Proprietary) Limited | 4,826 | 2,793 | (2,454) | 5,165 |
| Guangdong Xingpu Steel Center Co., Ltd. | 2,487 | 319 | 220 | 3,026 |
| POS-Hyundai Steel Manufacturing India Private Limited | 2,780 | 827 | 418 | 4,025 |
| eNtoB Corporation | 4,399 | 488 | 1,262 | 6,149 |
| POSVINA Co., Ltd. | 2,066 | 172 | (46) | 2,192 |
| Posmmit Steel Centre SDN BHD | 3,891 | | (3,891) | |
| PT POSMI Steel Indonesia | 3,205 | (65) | 37 | 3,177 |
| MIDAS Information Technology Co., Ltd. | 4,292 | 1,002 | 27 | 5,321 |
| Posco Power Co., Ltd. | | | | |
| CAML Resources Pty Ltd | 37,717 | (11,500) | 1,938 | 28,155 |
| Nickel Mining Company | | 32,229 | 168,393 | 200,622 |
| SNNC Co., Ltd. | 18,816 | (2,637) | 71,583 | 87,762 |
| Henan Tsingpu Ferro Alloy Co., Ltd. | | (1,489) | 9,959 | 8,470 |
| Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd. | | (216) | 10,259 | 10,043 |
| BX Steel POSCO Cold Rolled Sheet Co., Ltd. | | 2,213 | 64,569 | 66,782 |
| Songdo New City Development Inc. | | | | |
| Gale International Korea, Inc. | 2,070 | 11,408 | (2,093) | 11,385 |
| AN KHANH NEW CITY DEVELOPMENT | | (353) | 11,246 | 10,893 |
| Chungju enterprise City | | (464) | 10,040 | 9,576 |
| POSCO BioVentures, L.P. | 33,931 | (1,066) | 2,325 | 35,190 |
| Liaoning Rongyuan POSCO Refractories Co., Ltd. | | 252 | 1,128 | 1,380 |
| Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. | 3,186 | 913 | 286 | 4,385 |
| Sozhou POSCORE(2) | | (1,043) | 1,043 | |

₩ 206,503 ₩ 42,634 ₩ 355,475 ₩ 604,612

- (1) Other increase or decrease represents the changes in investment securities due to acquisitions (disposals), dividends received, valuation gain or loss on investment securities, changes in retained earnings and others.
- (2) The entity is included in the scope of consolidation in 2007. The loss of equity method investee was incurred before acquisition.

F-40

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| Investee | January 1, 2006 | Earnings (Losses) of Equity Method Investees (In millions of Korean won) | Other Increase (Decrease)(1) | December 31, 2006 |
|--|----------------------------|---|---|------------------------------|
| KOBRASCO | ₩ 30,268 | ₩ 21,831 | ₩ (19,477) | ₩ 32,622 |
| POS-OPC Co. Ltd.(Fujiura Butsuryu Center Co. Ltd.) | 824 | 105 | (94) | 835 |
| USS-POSCO Industries | 61,707 | 8,469 | (20,796) | 49,380 |
| Poschrome (Proprietary) Limited | 6,153 | 1,481 | (2,808) | 4,826 |
| Guangdong Xingpu Steel Center Co., Ltd. | 2,985 | (342) | (156) | 2,487 |
| POS-Hyundai Steel Manufacturing India Private Limited | 2,229 | 677 | (126) | 2,780 |
| eNtoB Corporation | 4,188 | 211 | | 4,399 |
| POSVINA Co., Ltd. | 1,593 | 975 | (502) | 2,066 |
| Posmmit Steel Centre Sdn Bhd | 3,212 | 737 | (58) | 3,891 |
| PT POSMI Steel Indonesia | 1,746 | (78) | 1,537 | 3,205 |
| MIDAS Information Technology Co., Ltd. | 3,227 | 1,255 | (190) | 4,292 |
| Posco Power Co., Ltd. | 290,255 | 1,580 | (291,835) | |
| CAML Resources Pty Ltd | 38,673 | 1,335 | (2,291) | 37,717 |
| POSCO Bioventures. LP | 33,716 | 4,521 | (4,306) | 33,931 |
| Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. | 3,412 | (50) | (176) | 3,186 |
| SNNC Co., Ltd. | | (252) | 19,068 | 18,816 |
| Gale International Korea, Inc. | | 3,970 | (1,900) | 2,070 |
| | ₩ 484,188 | ₩ 46,425 | ₩ (324,110) | ₩ 206,503 |

(1) Other increase or decrease represents the changes in investment securities due to acquisitions (disposals), dividends received, valuation gain or loss on investment securities, changes in retained earnings and others.

F-41

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Details on the elimination of unrealized gain or loss from inter-company transactions for the years ended December 31, 2007 and 2006, are as follows:

| | 2007 | | | 2006 | | |
|--|-----------------------------|--|---------|-------------|--|---------|
| | Inventories | Property, Plant and Equipment, and Intangible Assets | Total | Inventories | Property, Plant and Equipment, and Intangible Assets | Total |
| | (In millions of Korean won) | | | | | |
| Investee | | | | | | |
| KOBRASCO | ₩ 3,000 | ₩ | ₩ 3,000 | ₩ 5,370 | ₩ | ₩ 5,370 |
| POS-OPC Co., Ltd.(Fujiura Butsuryu Center Co., Ltd.) | | | | 18 | | 18 |
| USS-POSCO Industries | 8,558 | | 8,558 | 1,433 | | 1,433 |
| Poschrome (Proprietary) Limited | (615) | | (615) | (63) | | (63) |
| Guangdong Xingpu Steel Center Co., Ltd. | 254 | | 254 | (358) | | (358) |
| eNtoB Corporation | (340) | (18) | (358) | 37 | (6) | 31 |
| POSVINA Co., Ltd. | 14 | | 14 | 777 | | 777 |
| Posmmit Steel Centre SDN BHD | | | | 306 | | 306 |
| PT POSMI Steel Indonesia | 125 | | 125 | (57) | | (57) |
| MIDAS Information Technology Co., Ltd. | | (13) | (13) | | (8) | (8) |
| SNNC Co., Ltd. | | (1,709) | (1,709) | | | |
| Henan Tsingpu Ferro Alloy Co., Ltd. | 127 | | 127 | | | |
| | ₩ 11,123 | ₩ (1,740) | ₩ 9,383 | ₩ 7,463 | ₩ (14) | ₩ 7,449 |

Details of differences between the initial purchase price and the Company's initial proportionate ownership in the book value of the investees for the years ended December 31, 2007 and 2006, are as follows:

| January 1, 2006 | Increase (Decrease) | Amortization (1) (Recovery) | December 31, 2006 | Increase (Decrease) | Amortization (1) (Recovery) | December 31, 2007 |
|-----------------|---------------------|-----------------------------|-------------------|---------------------|-----------------------------|-------------------|
|-----------------|---------------------|-----------------------------|-------------------|---------------------|-----------------------------|-------------------|

Edgar Filing: POSCO - Form 20-F

(In millions of Korean won)

| | | | | | | | | | | |
|--|---|--------|---|----------|---|-------|---|--------|---|--------|
| eNtoB Corporation | ₩ | ₩ | ₩ | ₩ | ₩ | 670 | ₩ | 80 | ₩ | 590 |
| POSMMIT Steel Centre SDN BHD | | 39 | | 20 | | 19 | | (19) | | |
| PT POSMI Steel Indonesia | | 354 | | 49 | | 182 | | 221 | | 187 |
| POSCO Power Corp. | | 65,804 | | (62,148) | | 3,656 | | | | |
| CAML Resources Pty. Ltd. | | 25,042 | | | | 5,763 | | 19,279 | | 5,764 |
| SNNC Co., Ltd. BX Steel POSCO Cold Rolled Sheet Co., Ltd. | | | | | | | | 209 | | 21 |
| | | | | | | | | 13,363 | | 1,114 |
| | ₩ | 91,239 | ₩ | (62,099) | ₩ | 9,621 | ₩ | 19,519 | ₩ | 14,223 |
| | | | | | | | | | ₩ | 7,166 |
| | | | | | | | | | ₩ | 26,576 |

F-42

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

- (1) Increase or decrease mainly relates to the change in differences between the initial purchase price and the Company's initial proportionate ownership in the book value of the investees resulting from additional investments.

8. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|-----------------------------------|------------------------------------|--------------|
| | (In millions of Korean won) | |
| Buildings and structures | ₩ 7,004,719 | ₩ 6,308,203 |
| Machinery and equipment | 27,312,692 | 24,280,940 |
| Vehicles | 196,939 | 201,878 |
| Tools | 425,335 | 402,294 |
| Furniture and fixtures | 258,670 | 257,624 |
| Financial lease asset | 11,466 | |
| | 35,209,821 | 31,450,939 |
| Less: Accumulated depreciation | (22,318,851) | (20,804,990) |
| Less: Government Subsidy | (2,271) | |
| | 12,888,699 | 10,645,949 |
| Land | 1,509,189 | 1,311,755 |
| Less: Accumulated impairment loss | | |
| | 1,509,189 | 1,311,755 |
| Construction-in-progress | 1,183,877 | 2,685,416 |
| Less: Accumulated impairment loss | | |
| | 1,183,877 | 2,685,416 |
| | ₩ 15,581,765 | ₩ 14,643,120 |

The value of land based on the posted price issued by the Korean tax authority amounted to ₩3,481,264 million as of December 31, 2007 (2006: ₩3,320,047 million).

As of December 31, 2007, property, plant and equipment are insured against fire and other casualty losses for up to ₩8,876,226 million (2006: ₩9,728,538 million). In addition, the Company carries general insurance for vehicles and

accident compensation insurance for its employees.

In accordance with the Asset Revaluation Law, POSCO and certain subsidiaries revalued a substantial portion of their property, plant and equipment, and increased the related amount of assets by ₩3,942 billion as of December 31, 2000, the latest revaluation date. The revaluation surplus amounting to ₩3,225 billion, net of related tax and transfers to capital stock, was credited to capital surplus, a component of shareholders' equity (Note 18).

Construction-in-progress includes capital investments in Gwangyang No. 2 Minimill. Through a resolution of the Board of Directors in May 1998, the construction on the Minimill was 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 to cease the construction on the No. 2 Minimill in April 2002, and to 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

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

No. 2 Minimill amounting to ₩469,581 million and reclassified related machinery held to be disposed of in the future as other investment assets as of December 31, 2004. As of June, 2006, the Company entered into a contract with Al-Tuwairqi Trading & Contracting Establishment in Saudi Arabia to sell the No. 2 Minimill equipment for US\$96 million. The book values of property, plant and equipment held for sale amounted to ₩69,633 million and are classified as other investment assets as of December 31, 2007.

The Company's expenditures in relation to construction-in-progress for the establishment of Gwangyang No. 2 Talinlo business operations and other projects amounted to ₩2,937,680 million for the year ended December 31, 2007.

The changes in the carrying value of property, plant and equipment for the year ended December 31, 2007, are as follows:

| | Beginning Balance | Acquisition(1) | Disposal | Depreciation(3) | Others(2) | Elimination of Intercompany Transactions | Ending Balance |
|-----------------------------------|------------------------------------|-----------------------|-----------------|------------------------|------------------|---|---------------------------|
| | (In millions of Korean won) | | | | | | |
| | ₩ 1,311,755 | ₩ 67,228 | ₩ 2,462 | ₩ | ₩ 132,742 | ₩ (74) | ₩ 1,500 |
| Buildings | 2,400,099 | 366,769 | 16,560 | 193,798 | 232,302 | (165,788) | 2,620,680 |
| Equipment | 1,366,558 | 361,420 | 10,862 | 122,054 | 29,130 | (77,376) | 1,549,734 |
| Machinery and equipment | 6,674,178 | 3,391,203 | 370,812 | 1,585,314 | 976,260 | (558,966) | 8,527,777 |
| Leases | 44,101 | 12,442 | 8,382 | 15,832 | 6,149 | (1,532) | 38,270 |
| Other | 84,134 | 32,598 | 5,262 | 43,284 | 8,565 | (1,368) | 71,905 |
| Intangible assets and fixtures | 76,879 | 10,184 | 8,623 | 35,858 | 30,966 | (4,396) | 60,958 |
| Financial Lease assets | | 11,466 | | 637 | | | 12,103 |
| Construction-in-progress | 2,685,416 | 2,937,680 | 73,678 | | (4,174,278) | (191,263) | 1,147,583 |
| | ₩ 14,643,120 | ₩ 7,190,990 | ₩ 496,641 | ₩ 1,996,777 | ₩ (2,758,164) | ₩ (1,000,763) | ₩ 15,558,500 |

The changes in the carrying value of property, plant and equipment for the year ended December 31, 2006, were as follows:

| | Beginning Balance | Acquisition(1) | Disposal | Depreciation(3) | Others(2) | Elimination of Intercompany Transactions | Ending Balance |
|--|------------------------------------|-----------------------|-----------------|------------------------|------------------|---|---------------------------|
| | (In millions of Korean won) | | | | | | |
| | ₩ 1,202,734 | ₩ 56,561 | ₩ 10,116 | ₩ | ₩ 62,639 | ₩ (63) | ₩ 1,311,261 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | | |
|--------------------|--------------|-------------|-----------|-------------|---------------|-------------|----------|
| ings | 2,268,834 | 314,727 | 7,770 | 175,188 | 165,398 | (165,902) | 2,400 |
| ures | 1,246,290 | 175,023 | 3,569 | 110,623 | 136,735 | (77,298) | 1,366 |
| inery and | | | | | | | |
| ment | 4,866,840 | 2,873,485 | 31,762 | 1,394,402 | 886,787 | (526,770) | 6,674 |
| les | 30,429 | 28,597 | 647 | 16,760 | 4,737 | (2,255) | 44 |
| | 101,568 | 36,409 | 415 | 52,247 | 790 | (1,971) | 84 |
| ure and fixtures | 72,176 | 38,907 | 678 | 29,346 | 1,028 | (5,208) | 76 |
| uction-in-progress | 2,482,839 | 3,346,112 | 441,589 | | (2,568,247) | (133,699) | 2,685 |
| | ₩ 12,271,710 | ₩ 6,869,821 | ₩ 496,546 | ₩ 1,778,566 | ₩ (1,310,133) | ₩ (913,166) | ₩ 14,643 |

- (1) Includes asset transfer from construction-in-progress.
- (2) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation.
- (3) Includes depreciation expense of idle property.

F-44

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The Company entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a Ro-Ro (roll-on roll-off) ship for transporting plates. As of December 31, 2007, the book value of the assets and minimal lease expense are follows:

| | 2007 (In millions of Korean won) | |
|--------------------------------|---|--------------------------------------|
| Financial lease assets | ₩ | 11,466 |
| Less: Accumulated depreciation | | (637) |
| Net book value | ₩ | 10,829 |
| | | Minimal Lease Expense |
| Less 1 year | ₩ | 771 |
| 1 5 years | | 4,421 |
| Over 5 years | | 5,536 |

9. Intangible Assets

Intangible assets, net of accumulated amortization, as of December 31, 2007 and 2006, consist of the following:

| | 2007 (In millions of Korean won) | | 2006 (In millions of Korean won) | |
|--|---|---------|---|---------|
| Goodwill | ₩ | 75,556 | ₩ | 90,105 |
| Negative goodwill | | (1,243) | | (1,388) |
| Intellectual property rights | | 1,811 | | 1,221 |
| Land usage rights | | 13,100 | | 23,439 |
| Development costs | | 91,965 | | 67,862 |
| Port facilities usage rights | | 130,234 | | 112,102 |
| Long-term electricity supply contract rights | | 61,857 | | 68,544 |
| Other intangible assets(1) | | 197,499 | | 195,197 |
| | ₩ | 570,779 | ₩ | 557,082 |

- (1) The Company capitalized costs directly related to the Enterprise Resource Planning (ERP) system and the process innovation as other intangible assets.

F-45

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The changes in the carrying value of intangible assets for the year ended December 31, 2007, are as follows:

| | Beginning Balance | Acquisition | Disposal | Amortization (Recovery) | Others(1) | Elimination of Intercompany Transactions | Ending Balance |
|--|------------------------------------|--------------------|-----------------|------------------------------------|------------------|---|---------------------------|
| | (In millions of Korean won) | | | | | | |
| Goodwill | ₩ 90,105 | ₩ 7,698 | ₩ | ₩ 22,247 | ₩ | ₩ | ₩ 75,556 |
| Negative goodwill | (1,388) | | | (406) | (261) | | (1,243) |
| Intellectual property rights | 1,221 | 3,260 | | 1,067 | (1,603) | | 1,811 |
| Land usage rights | 23,439 | | 386 | 1,200 | (8,753) | | 13,100 |
| Development costs | 67,862 | 42,749 | 75 | 14,684 | (3,469) | (418) | 91,965 |
| Port facilities usage rights | 112,102 | 37,153 | | 18,658 | (1) | (362) | 130,234 |
| Long-term electricity supply contract rights | 68,544 | | | 6,687 | | | 61,857 |
| Other intangible assets | 195,197 | 62,411 | 132 | 70,427 | 15,034 | (4,584) | 197,499 |
| | ₩ 557,082 | ₩ 153,271 | ₩ 593 | ₩ 134,564 | ₩ 947 | ₩ (5,364) | ₩ 570,779 |

The changes in the carrying value of intangible assets for the year ended December 31, 2006, were as follows:

| | Beginning Balance | Acquisition | Disposal | Amortization (Recovery) | Others(1) | Elimination of Intercompany Transactions | Ending Balance |
|---------------------------------|------------------------------------|--------------------|-----------------|------------------------------------|------------------|---|---------------------------|
| | (In millions of Korean won) | | | | | | |
| Goodwill | ₩ | ₩ 100,088 | ₩ | ₩ 9,983 | ₩ | ₩ | ₩ 90,105 |
| Negative goodwill | (1,794) | | | (406) | | | (1,388) |
| Intellectual property rights | 1,394 | 50 | 9 | 230 | 16 | | 1,221 |
| Land usage rights | 43,422 | 2,503 | 21,571 | 195 | (720) | | 23,439 |
| Development costs | 47,299 | 3,527 | 418 | 5,025 | 22,870 | (391) | 67,862 |
| | 127,258 | 3,272 | | 18,429 | 1 | | 112,102 |

| | | | | | | | | |
|--|------------------|------------------|-----------------|------------------|------------------|------------------|--|------------------|
| Port facilities usage rights | | | | | | | | |
| Long-term electricity supply contract rights | | 73,559 | | 5,015 | | | | 68,544 |
| Other intangible assets | 236,130 | 58,057 | 650 | 66,340 | (25,969) | (6,031) | | 195,197 |
| | ₩ 453,709 | ₩ 241,056 | ₩ 22,648 | ₩ 104,811 | ₩ (3,802) | ₩ (6,422) | | ₩ 557,082 |

(1) Includes transfers of an asset, adjustments arising from foreign currency translations and changes in consolidation scope, and others.

The amortization expense for the years ended December 31, 2007 and 2006, was classified under the following:

| | 2007 | 2006 |
|-------------------------------------|------------------------------------|------------------|
| | (In millions of Korean won) | |
| Cost of goods sold | ₩ 77,911 | ₩ 71,880 |
| Selling and administrative expenses | 56,653 | 45,124 |
| | ₩ 134,564 | ₩ 117,004 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The list of significant intangible assets follows:

| Account | | 2007 | 2006 | Remaining Estimated Useful Life |
|------------------------------|---|-------------|-------------|--|
| Goodwill | Excess investment amount over fair value in POSCO Power Co., Ltd. | ₩ 68,894 | ₩ 90,105 | 3 years |
| Port facilities usage rights | Usage right of Masan circulation base | 24,742 | 26,624 | 13 years |
| Other intangible assets | Pohang/Gwangyang MES | 30,719 | 69,621 | 1 years |

The estimated aggregated amortization expenses for each of the next five fiscal years are as follows:

| | (In millions of Korean won) | |
|------|------------------------------------|---------|
| 2008 | ₩ | 113,329 |
| 2009 | | 77,741 |
| 2010 | | 68,853 |
| 2011 | | 49,903 |
| 2012 | | 19,334 |
| | ₩ | 329,160 |

10. Research and Development Costs, and Others

For the year ended December 31, 2007, the Company expensed research and development costs amounting to ₩343,076 million (2006: ₩325,040 million), charging ₩290,230 million (2006: ₩271,005 million) to cost of goods sold, and ₩52,846 million (2006: ₩54,035 million) to selling and administrative expenses.

11. Other Assets

Other assets as of December 31, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|--|------------------------------------|-------------|
| | (In millions of Korean won) | |
| Other current assets | | |
| Short-term loans receivable (Notes 28) | ₩ 54,985 | ₩ 34,071 |
| Accrued income | 53,600 | 74,037 |

| | | |
|---|-----------|-----------|
| Advance payments | 373,167 | 263,623 |
| Prepaid expenses | 58,319 | 18,285 |
| Others | 86,237 | 72,048 |
| | 626,308 | 462,064 |
| Less: Allowance for doubtful accounts | (34,436) | (70,951) |
| | ₩ 591,872 | ₩ 391,113 |
| Other long-term assets | | |
| Other investment assets (Notes 5 and 8) | ₩ 116,409 | ₩ 135,406 |
| Less: Allowance for doubtful accounts | (789) | (34,646) |
| Present value discount | (503) | (112) |
| | ₩ 115,117 | ₩ 100,648 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****12. Short-Term Borrowings**

Short-term borrowings as of December 31, 2007 and 2006, consist of the following:

| Financial Institutions | Annual Interest Rate (%) | 2007 | 2006 |
|------------------------------------|-------------------------------------|------------------------------------|-------------|
| | | (In millions of Korean won) | |
| Won currency borrowings | | | |
| Shinhan Bank and others | 0.8 ~ 6.49 | ₩ 247,598 | ₩ 111,394 |
| Foreign currency borrowings | | | |
| Yamaguchi Bank and others | 4.90 | 8,110 | 24,029 |
| Shinhan Bank and others | 0.35 ~ 17.00 | 1,316,312 | 1,103,326 |
| | | 1,324,422 | 1,127,355 |
| | | ₩ 1,572,020 | ₩ 1,238,749 |

13. Long-Term Debts

Current portion of long-term debts as of December 31, 2007 and 2006, consist of the following:

| Financial Institutions | Annual Interest Rate (%) | 2007 | 2006 |
|--------------------------------------|-------------------------------------|------------------------------------|-------------|
| | | (In millions of Korean won) | |
| Debentures | | | |
| Domestic and foreign debentures | 2.05 ~ 6.55 | ₩ 460,192 | ₩ 231,100 |
| Less: Discount on debentures issued | | (527) | (203) |
| | | 459,665 | 230,897 |
| Won currency borrowings | | | |
| Korea Exchange Bank and others | 1.00-5.70 | 3,147 | 1,885 |
| Foreign currency borrowings | | | |
| Development Bank of Japan and others | 1.00-4.60 | 19,711 | 162,485 |
| | | 22,858 | 164,370 |

Loans from foreign financial institutions

| | | | |
|--------------------------|----------------------|-----|-------|
| Sumitomo Bank and others | 2.00 LIBOR + 0.80 | 879 | 8,797 |
|--------------------------|----------------------|-----|-------|

Lease obligation

| | | | |
|-----------------------|------|-----------|-----------|
| HP Financial Services | 5.00 | | 348 |
| | | ₩ 483,402 | ₩ 404,412 |

F-48

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Debentures as of December 31, 2007 and 2006, are as follow:

| | Annual Interest Rate (%) | 2007 | 2006 |
|-------------------------------|-------------------------------------|------------------------------------|-------------|
| | | (In millions of Korean won) | |
| Domestic debentures | 4.02 - 6.55 | ₩ 1,883,515 | ₩ 1,467,653 |
| Samurai bonds | 2.05 | 416,665 | 390,915 |
| Euro bonds | 5.88 | 281,460 | 278,880 |
| Exchangeable bonds(1) | | 430,182 | 403,596 |
| Float rating note | 5.67 | 84,438 | |
| | | 3,096,260 | 2,541,044 |
| Less: Current portion | | (460,192) | (231,100) |
| Discount on debentures issued | | (12,195) | (13,144) |
| | | ₩ 2,623,873 | ₩ 2,296,800 |

(1) POSCO issued exchangeable bonds on August 20, 2003. They are exchangeable with 15,267,837 SK Telecom Co., Ltd. American Depository Receipts (ADRs). Details of exchangeable bonds 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 3,019/ADR |
| Exercise call period: | Commencing ten business days following the issuance date until ten business days prior to maturity date |
| 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 issued zero-coupon, exchangeable bonds amounting to JPY51,622 million which are fully and unconditionally guaranteed by POSCO and due in 2008. POSCO may elect to pay the holder cash in lieu of delivering SK Telecom Co., Ltd. ADRs (the Cash Settlement Option). The number of ADRs the 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 ADRs upon exercise. These bonds are non-interest bearing and are exchangeable with SK Telecom Co., Ltd. ADRs at the option of the bondholder. The transaction between POSCO and Zeus is deemed a borrowing transaction under Korean generally accepted accounting principles. From 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 1,830,726 ADRs which brought down the exchangeable bond price to JPY3,019/ADR.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Long-term borrowings as of December 31, 2007 and 2006, are as follows:

| Financial Institutions | Annual Interest Rate (%) | 2007 2006 | |
|--|---|---------------------------------------|-----------|
| | | (In millions of Korean won) | |
| Won currency borrowings | | | |
| The Korea Resources Corporation and others | Representative Borrowing Rate(1) ~2.25 | ₩ 45,100 | ₩ 77,951 |
| The Korea Development Bank and others | 1.00 ~ 6.50 | 155,259 | |
| Less: Current portion | | (3,147) | (1,885) |
| | | 197,212 | 76,066 |
| Foreign currency borrowings(2) | | | |
| Development Bank of Japan and others | 1.08 ~ 6.65 | 498,757 | 488,672 |
| Less: Current portion | | (19,711) | (162,485) |
| | | 479,046 | 326,187 |
| Loans from foreign financial institutions | | | |
| Natexis Banques Populaires | 2.00 | 7,234 | 7,179 |
| Sumitomo Bank and others(3) | | | 28,067 |
| Less: Current portion | | (879) | (8,797) |
| | | 6,355 | 26,449 |
| | | ₩ 682,613 | ₩ 428,702 |

(1) The average yield of 3-year government bond is utilized for the annual interest rate calculation. The average yield of 3-year government bond is rounded off to the nearest 0.25%

(2) Foreign currency borrowings include long-term borrowing amounting to ₩957 million, the repayment of which depends on the result of the oil exploration in the Aral Sea in Uzbekistan with Korea National Oil Corporation.

(3) The loans from Sumitomo Bank and others were scheduled to be redeemed until 2010, but the Company redeemed early during current year for the benefit of less interest expense.

Certain current assets, inventories, investments and property, plant and equipment are pledged as collaterals for the above borrowings.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Contractual maturities of long-term debts outstanding as of December 31, 2007, are as follows:

| Year | Debtures | Won | Foreign | Loans from | Total |
|-----------------------------|-------------|---------------------|---------------------|--------------------------------|-------------|
| | | Currency Borrowings | Currency Borrowings | Foreign Financial Institutions | |
| (In millions of Korean won) | | | | | |
| 2008 | ₩ 460,192 | ₩ 3,147 | ₩ 19,711 | ₩ 879 | ₩ 483,929 |
| 2009 | 329,455 | 7,466 | 352,774 | 879 | 690,574 |
| 2010 | 178,488 | 17,597 | 117,826 | 879 | 314,790 |
| 2011 | 930,000 | 76,458 | 5,364 | 879 | 1,012,701 |
| Thereafter | 1,198,125 | 95,691 | 3,082 | 3,718 | 1,300,616 |
| | ₩ 3,096,260 | ₩ 200,359 | ₩ 498,757 | ₩ 7,234 | ₩ 3,802,610 |

Details of assets pledged as collaterals for short-term borrowings and long-term debts, as well as for performance guarantee, as of December 31, 2007 and 2006, are as follows:

| | Beneficiaries | 2007 | 2006 |
|--|---------------------------------------|-----------------------------|-------------|
| | | (In millions of Korean won) | |
| Land | Mizuho Bank and others | ₩ 253,096 | ₩ 74,198 |
| Buildings and structures | The Korea Development Bank and others | 187,611 | 134,531 |
| | The Korea Development Bank and others | 392,230 | 461,413 |
| Machinery and equipment | | | |
| Short-term and long-term financial instruments | The Korea Development Bank | 4,000 | 5,600 |
| Trade accounts and notes receivable | Mizuho Bank and others | 47,268 | 44,445 |
| Available-for-sale securities | Exchangeable bond holder | 685,402 | 410,796 |
| Held-to-maturity securities | Gyeongsangbuk-do provincial office | 31,440 | 31,334 |
| | | ₩ 1,601,047 | ₩ 1,162,317 |

Details of loans from foreign financial institutions guaranteed by a financial institution as of December 31, 2007 and 2006, are as follows:

2007

2006

| Financial Institutions | Foreign Currency | Won Equivalent (In millions of Korean won) | Foreign Currency | Won Equivalent |
|-------------------------------|-----------------------------|---|-----------------------------|---------------------------|
| Korea Development Bank | EUR 5,236,941 | ₩ 7,234 | EUR 6,062,451 | ₩ 7,410 |

As of December 31, 2007, subsidiaries are provided with guarantees amounting to ₩311,890 million from Seoul Guarantee Insurance Company for their contract commitments.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****14. Accrued Severance Benefits**

The changes in accrued severance benefits for the year ended December 31, 2007, are as follows:

| | Beginning Balance | Increase | Decrease | Adjustments(1) | Ending Balance |
|---------------------------------------|------------------------------------|-----------------|-----------------|-----------------------|---------------------------|
| | (In millions of Korean won) | | | | |
| Accrued severance benefits | ₩ 834,047 | ₩ 214,720 | ₩ 63,264 | ₩ 1,453 | ₩ 986,956 |
| National Pension Fund | (2,385) | | (181) | (71) | (2,275) |
| Group severance insurance deposits | (500,656) | (179,882) | (32,517) | (565) | (648,586) |
| | ₩ 331,006 | ₩ 34,838 | ₩ 30,566 | ₩ 817 | ₩ 336,095 |

The changes in accrued severance benefits for the year ended December 31, 2006, were as follows:

| | Beginning Balance | Increase | Decrease | Adjustments(1) | Ending Balance |
|---------------------------------------|------------------------------------|-----------------|-----------------|-----------------------|---------------------------|
| | (In millions of Korean won) | | | | |
| Accrued severance benefits | ₩ 723,954 | ₩ 144,602 | ₩ 41,048 | ₩ 6,539 | ₩ 834,047 |
| National Pension Fund | (2,515) | | (218) | (88) | (2,385) |
| Group severance insurance deposits | (446,627) | (113,682) | (63,507) | (3,854) | (500,656) |
| | ₩ 274,812 | ₩ 30,920 | ₩ (22,677) | ₩ 2,597 | ₩ 331,006 |

(1) Includes foreign currency adjustments, changes in consolidation scope and others.

The Company expects to pay the following future benefits to its employees upon their normal retirement age:

| | (In millions of Korean won) |
|------|------------------------------------|
| 2008 | ₩ 26,655 |
| 2009 | 31,831 |
| 2010 | 45,263 |
| 2011 | 51,778 |

| | | |
|----------|---|---------|
| 20122017 | | 448,912 |
| | ₩ | 604,439 |

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.

F-52

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****15. Other Liabilities**

Other liabilities as of December 31, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|------------------------------------|------------------------------------|-------------|
| | (In millions of Korean won) | |
| Other current liabilities | | |
| Advances received | ₩ 405,548 | ₩ 405,450 |
| Unearned revenue | 1,725 | 2,648 |
| Others | 54,085 | 99,297 |
| | ₩ 461,358 | ₩ 507,395 |
| Other long-term liabilities | | |
| Reserve for allowance | ₩ 29,176 | ₩ 22,427 |
| Others (Note 21) | 205,682 | 125,759 |
| | ₩ 234,858 | ₩ 148,186 |

16. Commitments and Contingencies

As of December 31, 2007, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

| Grantors | Entity Being Guaranteed | Financial Institution | Amount Guaranteed(1) | Won Equivalent (In millions) |
|-----------------|--------------------------------|---------------------------------------|-----------------------------|-------------------------------------|
| POSCO | BX STEEL POSCO Cold | Bank of China and others | CNY 145,200,000 | ₩ 18,651 |
| | Rolled Sheet Co., Ltd. | | US\$ 17,000,000 | 15,949 |
| | Zhangjiagang Pohang | Bank of China and others | US\$ 199,925,000 | 187,570 |
| | Stainless Steel Co., Ltd. | | US\$ 10,200,000 | 9,570 |
| | Zhongyue | Industrial & Commercial Bank of China | | |
| | POSCO(Qinhuangdao) | | | |
| | Tinplate Industrial Co., Ltd. | | | |
| | POSCO Investment Co., | Bank of | CNY 87,000,000 | 11,175 |
| | Ltd. | Tokyo-Mitsubishi | | |
| | | | US\$ 42,000,000 | 39,404 |

Edgar Filing: POSCO - Form 20-F

| | | | | | |
|----------------------------|---|--|------|---------------|-----------|
| POSCO E&C | Taegisan Wind Power Corporation | Standard Chartered Korea First Bank | KRW | 12,252 | 12,252 |
| | IBC Corporation | POSCO Investment Co., Ltd. | US\$ | 15,000,000 | 14,073 |
| | POSLILAMA Steel Structure Co., Ltd. | The Export-Import Bank of Korea and others | US\$ | 53,000,000 | 49,725 |
| POSCO-Japan Co., Ltd. | POSCO-JNPC Co., Ltd. | Lisona Bank and others | JPY | 3,600,000,000 | 30,000 |
| | POSCO-JOPC Co., Ltd. | Mizuho Bank and others | JPY | 2,080,000,000 | 17,333 |
| POSCO Investment Co., Ltd. | Guangdong Pohang coated Steel Co., Ltd. | Bank of Tokyo-Mitsubishi | US\$ | 1,000,000 | 938 |
| | Zhangjiagang Pohang Stainless Steel Co., Ltd. | ING and others | US\$ | 120,000,000 | 112,584 |
| | Qingdao Pohang Stainless Steel Co., Ltd. | Bank of Tokyo-Mitsubishi | US\$ | 52,500,000 | 49,256 |
| | POSCO-MPPC S.A. de C.V. | Bank of Tokyo-Mitsubishi | US\$ | 9,600,000 | 9,007 |
| | | | | | ₩ 577,487 |

(1) Foreign currencies other than US dollars, Japanese yen, and Chinese yuan are translated into US dollar amounts.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

As of December 31, 2006, contingent liabilities on outstanding guarantees provided for the payment of loans of affiliated companies amounted to ₩597,928 million.

As of December 31, 2007, contingent liabilities on outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

| Grantors | Entity Being Guaranteed | Financial Institution | Amount | | Won Equivalent (In millions) |
|--------------------------------------|--------------------------------------|--|---------------|----------------|------------------------------------|
| | | | Guaranteed(1) | | |
| POSCO | DC Chemical Co., Ltd. | E1 Co., Ltd. | KRW | 640 | 640 |
| | The Siam United Steel Co., Ltd. | Japan Bank for International Cooperation | US\$ | 5,120,535 | 4,804 |
| POSCO E&C | Zeus | Related creditors | JPY | 51,622,000,000 | 430,182 |
| | Daejeon Energy System Co., Ltd. | Woori Bank | KRW | 17,475 | 17,475 |
| | Daejeon Cogeneration Plant Co., Ltd. | Woori Bank and others | KRW | 22,600 | 22,600 |
| POSTEEL | Pan Pacific Corp | Korea Exchange Bank | KRW | 10,998 | 10,998 |
| | GIPI | Qatar National Bank and others | US\$ | 12,000,000 | 11,258 |
| Samjung Packing & Aluminum Co., Ltd. | Pyungsan SI Ltd | Seoul Guarantee Insurance Company | KRW | 5,262 | 5,262 |
| POSCO Machinery Co., Ltd | Jaesan Energy | Hana Bank | KRW | 7,189 | 7,189 |
| | Changhwan develop | Hana Bank | KRW | 7,098 | 7,098 |
| POSCO E&C(Beijing) Co., Ltd. | Halla Electric Co., Ltd | Shinhan Bank | KRW | 6,586 | 6,586 |
| | YU RA CORPORATION | Korea Exchange Bank Beijing office | CNY | 4,540,000 | 583 |
| | STX Construction (Dalian) Co., Ltd. | Korea Exchange Bank Beijing office | CNY | 12,680,000 | 1,629 |
| | | | | | ₩ 526,304 |

(1) Foreign currencies other than US dollars, Japanese yen, and Chinese yuan are translated into US dollar amounts.

As of December 31, 2006, the Company has outstanding payment guarantees for related companies and others amounting to ₩475,839 million.

POSCO E&C has provided the completion guarantees for Samsung Corporation amounting to ₩1,593,039 million while Samsung Corporation provides the completion guarantees and payment guarantees on customers' borrowings on behalf of POSCO E&C amounting to ₩1,256,642 million as of December 31, 2007. Also, POSCO E&C has provided the guarantee of debts for Ilgun Co., Ltd. and 12 other companies amounting to ₩1,169,200 million. In addition, POSCO E&C provides a guarantee for Eco-Town Corporation, an investee, amounting to ₩143,260 million for its debts.

POSCO E&C maintains escrow account of ₩71,856 million under its name based on the operation agreements with customers in certain construction contracts. POSCO E&C does not record this escrow account in its books but maintains it as a memo account to reflect economic substance in which the ownership belongs to the customers.

As of December 31, 2007, the Company acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. The Company's lease expenses, with respect to the above

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

lease agreements, amounted to ₩7,332 million for the year ended December 31, 2007. Future lease payments under the above lease agreements are as follows:

| Year | Amount |
|-------------|---------------|
| 2008 | ₩ 6,967 |
| 2009 | 5,145 |
| 2010 | 1,961 |
| 2011 | 1,968 |
| Thereafter | 3,941 |
| | ₩ 19,982 |

As of December 31, 2007, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details as follows:

| Company | Plaintiff | Amount (In millions of Korean won) | Description |
|-------------------|---|---|--|
| POSCO | Songdo Construction Co.,Ltd. and others | 2,728 | 15 lawsuits including claim for operation damages due to loss of the sands at beach |
| POSCO E & C | Kimboksik and other 28 | 7,382 | Claim for restitution related to termination of 174 store agreements in Boondang Mestar |
| | Gujaeun and other 19 | 7,363 | Claim for refund of Sindorim Posvill Bldg land sale amount |
| | Hwangjaeho and others | 6,140 | Lawsuit filed on construction of residents-only sports complex in Songdo Firstworld |
| | eRoomE&C Co., Ltd. | 3,490 | Claim for refund of unjust enrichment related to Ireland Park in Yeoido |
| | FS KOREA | 2,754 | Claim for consulting commission for sale of Jinju Department Store |
| | Doo-A industrial Development Co. | 2,010 | Claim for restitution related to Daejeon Yuseong PJT |
| | Others | 7,260 | Lawsuit for return of loans to Taewoong Development related to studio apartment in Seomyeon and others |
| Posteel Co., Ltd. | CORE METAL INDUSTRY CO., LTD. | US\$1,246,535 | Claim for restitution for cancellation of agreement (Partially won in 2nd judicial decision and appealed by plaintiff) |

The Company believes that although the outcome of these matters is uncertain, they would not result in a material ultimate loss for the Company.

POSCO entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of five to ten years and provide for periodic price adjustments to the market price. As of December 31, 2007, 414 million tons of iron ore and 83 million tons of coal remained to be purchased under such long-term contracts.

POSCO entered into a contract on the usage of bulk carriers with Keo Yang Shipping Co., Ltd. and others in order to ensure the transportation of raw materials.

On July 1, 2005, POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The Company entered into a foreign currency borrowing agreement of up to US\$69 million with Korea National Oil Corporation (KNOC) related to the exploration of gas field in the Aral Sea. The repayment obligation is subject to results of the exploration. If the exploration fails, the Company will be exempted from all or portion of the repayment obligation. But if it succeeds, the portion of the project income is payable to the KNOC.

POSCO Power Corp. provides its whole capacity to Korea Electric Power Corp. in accordance with a long term contract. The price of electric power provided by POSCO Power Corp. is decided using the method of compensating fixed payments and expenses for the cost of production and the investment on electric power production equipment based on the contract. In addition, the Company has been provided with payment guarantee of ₩36,160 million from Seoul Guarantee Insurance as electric power supply collateral to Korea Electric Power Corp.

In addition, POSCO Power Corp. provides warranty for defects in fuel-cell batteries installed on the shipway and, Boondang fuel-cell generated power plant of Korea South-East Power Co., Ltd.

As of December 31, 2007, POSCO has bank overdraft agreements of up to ₩310,000 million with Woori Bank and other six banks. In addition, the Company entered into a credit purchase loan agreement with Industrial Bank of Korea and six other banks for credit lines of up to ₩240,000 million and short-term borrowing agreement of up to ₩325,000 million with Woori Bank and other four banks. The Company has an agreement with Woori Bank and others to open letters of credit, documents against acceptance and documents against payment amounting to US\$485 million and to borrow US\$115 million in foreign short-term borrowings. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2007, amount to US\$40 million for which the Company is contingently liable upon the issuers' default. In addition, POSCO has provided two blank promissory notes to Korea Resources Corp. and three blank promissory notes to Korea National Oil Corp. as collateral for long-term debt.

As of December 31, 2007, POSCO E&C has bank overdraft agreements of up to ₩534,200 million with Woori Bank and other nine banks. POSCO E&C has provided 14 blank promissory notes and nine other notes, approximately amounting to ₩101,813 million, to other financial institutions as collaterals for agreements and outstanding loans. POSCO E&C has provided seven blank checks and one other check, approximately amounting to ₩2,500 million as collaterals for agreements and outstanding loans as of December 31, 2007.

As of December 31, 2007, Posteel Co., Ltd. has entered into local and foreign credit agreements, of up to ₩613,399 million and with Hana Bank and other banks of which ₩464,193 million remains unused. In addition, Posteel Co., Ltd. has an unsettled document against acceptance amounting to JPY 767 million and US\$46 million, and an unsettled document against payment in relation to exports amounting to US\$19 million.

As of December 31, 2007, POSCON Co., Ltd. has credit purchase loan agreements with Shinhan Bank and other banks for credit lines of up to ₩73,589 million and US\$183,000 and revolving loan agreements. In addition, POSCON Co., Ltd. has entered into agreements with Kookmin Bank and other banks for opening letters of credit in relation to trade of up to US\$19 million. As of December 31, 2007, POSCON Co., Ltd. has provided a note amounting to ₩1,517,890 thousand to Gyeonggi CES Co., Ltd. as a guarantee for execution of a contract. And the accounts receivables sold to financial institutions and outstanding as of December 31, 2007, amount to ₩1,760,400 thousand for which the company is contingently liable upon the issuers' default.

Edgar Filing: POSCO - Form 20-F

As of December 31, 2007, Pohang Coated Steel Co., Ltd. has provided a blank promissory note to Korea Zinc Company Ltd. as a guarantee for the repayment of loan. In addition, Pohang Coated Steel Co., Ltd. has local credit loan agreements, credit purchase loan agreements and letters of credit in relation to trade of up to ₩44,000 million and US\$5 million with Shinhan Bank and other banks. Pohang Coated Steel Co., Ltd. has entered into an agreement with the Export and Import Bank of Korea for export financing of up to ₩50,000 million, and has entered into trade financial agreements of up to ₩5 million with Citibank Korea Inc.

As of December 31, 2007, POSDATA Co., Ltd. entered into loan on bills agreements of up to ₩193 million and US\$100,000 with Shinhan Bank and other four banks as of December 31, 2007.

F-56

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

As of December 31, 2007, POSCO Machinery & Engineering Co., Ltd. has entered into a bank overdraft agreement of up to ₩2,000 million with Shinhan Bank, local credit loan agreements of up to ₩6,000 million and credit purchase loan agreements of up to ₩9,000 million with Shinhan Bank, and overseas credit loan agreement of up to US\$10 million. In addition, POSCO Machinery & Engineering Co., Ltd. has entered into an agreement with Shinhan Bank for opening letters of credit in relation to trade of up to US\$3 million which amounted to US\$160,974.27.

As of December 31, 2007, POS-AC Co., Ltd. has a bank overdraft agreement with Woori Bank amounting to ₩500 million and a loan agreement. In addition, POS-AC Co., Ltd. has entered into various agreements with Woori Bank for ₩1,000 million related to discount of commercial bills, credit purchase loan up to ₩3,000 million and US\$500,000 related to foreign currency payment.

As of December 31, 2007, POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩100,000 million with Woori Bank. As of December 31, 2007, the Company has used ₩35,602 million of this loan agreement. In addition POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and seven other banks for opening letters of credit of up to US\$55 million, and for a loan of up to ₩165,000 million. It has outstanding balances related to letters of credit of US\$12 million, JPY 299 million and EUR 808 thousand. It has no outstanding loan balances.

As of December 31, 2007, POSCO America Corp. has loan agreements of up to US\$125 million with Bank of America and other banks and has outstanding balance of US\$79.5 million.

As of December 31, 2007, POSCO Asia Co., Ltd. has loan agreements of up to US\$180 million with Bank of America and other banks and has outstanding balance of US\$16 million.

As of December 31, 2007, POS-Tianjin Coil Center Co., Ltd. has loan agreements of up to US\$10 million with HSBC and has outstanding balance of US\$4 million.

As of December 31, 2007, IBC Corporation Ltd. has loan agreements of up to US\$2 million with Korea Development Bank.

As of December 31, 2007, Zhangjiagang Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY 6,214 million and US\$320 million with Bank of China and other banks.

As of December 31, 2007, POSCO Refractories & Environment Company Ltd. (POSREC) has a bank overdraft agreement of up to ₩3,000 million each with Pusan Bank and Woori Bank. In addition, POSREC has credit purchase loan up to ₩12,000 million and outstanding balance of ₩6,100 million. And POSREC has entered into trade financial agreements of up to US\$5 million and ₩5,000 million with Pusan Bank and others.

As of December 31, 2007, POSCO (Suzhou) Automotive Processing center Co., Ltd. has a loan agreement up to US\$234 million with China Agriculture Bank and has outstanding balance of US\$99 million.

As of December 31, 2007, POS-Qingdao Coil Center Co., Ltd. has a loan agreement up to US\$5 million and CNY48 million with HSBC and others, and has outstanding balance of US\$5 million and CNY 43 million.

Edgar Filing: POSCO - Form 20-F

As of December 31, 2007, POSCO-Japan Co., Ltd. has bank overdraft agreements for working capital of up to JPY 54,272 million with MIZUHO bank and has outstanding balance of JPY35 million.

As of December 31, 2007, POSMATE Co., Ltd. has provided a blank promissory note to Hyundai Motor Service as a guarantee for the maintenance of vehicles. In addition, POSMATE Co., Ltd. has a bank overdraft agreements of up to ~~₩~~3,000 million with Woori Bank.

As of December 31, 2007, Samjung Packing & Aluminum Co., Ltd. has a bank overdraft agreement of up to ~~₩~~1,000 million and purchase loan agreements of up to ~~₩~~35,000 million with Woori Bank and other banks. In addition, Samjung Packing & Aluminum Co., Ltd. has entered into loan agreements for energy equipment of up to ~~₩~~870 million with Hana Bank. The accounts receivable in foreign currency sold to financial institutions and

Table of Contents

POSCO and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

outstanding as of December 31, 2007 and 2006, amount to ₩7,095 million and ₩4,549 million, respectively, for which the Company is contingently liable upon the issuers' default. In addition, Samjung Packing & Aluminum Co., Ltd. has entered into an agreement with Woori Bank and four other banks for opening letters of credit in relation to trade of up to US\$73.5 million.

As of December 31, 2007, POSCO power Co., Ltd. has a loan agreement up to ₩53,000 million and US\$20 million with Kookmin Bank and two other banks.

As of December 31, 2007, POSCO-Foshan steel processing center Co., Ltd. has a loan agreement up to US\$882 million and has outstanding balance of US\$162 million.

As of December 31, 2007, POS-MPC S.A. de C.V. has a loan agreement up to US\$54.9 million with Standard Chartered and has outstanding balance of US\$31.6 million.

The stock subscription rights amounting to US\$5 million related to bond with warrants which was issued on October 17, 2003 by POSCORE Co., Ltd., expired, and outstanding as of December 31, 2007.

The accounts receivables of POSCORE Co., Ltd. which was sold to financial institutions and outstanding as of December 31, 2007, amount to ₩5,859 million for which the company is contingently liable upon the issuers' default.

As of December 31, 2007, 20 promisory notes and four overdrafts of POSCORE Co., Ltd. are still outstanding and voided after work out.

As of December 31, 2007, Poscore Co., Ltd. entered into credit purchase loan agreements of up to ₩40,000 million with Woori Bank and other two banks, and trade account receivables discounting agreements of up to ₩14,600 million with NongHyup and other two banks.

17. Capital Stock

Under its Articles of Incorporation, the Company is authorized to issue 200 million shares of capital stock with a par value of ₩5,000 per share. The Company may issue registered preferred stock, which is entitled to cash dividends before common stock, in accordance with applicable laws up to a certain amount. Dividend rates for preferred stock of more than 9% require the Board of Directors' approval.

The Company is authorized to issue to investors, other than its shareholders, convertible debentures and bonds with warrants of up to ₩2,000 billion each. It is also authorized, subject to the Board of Directors' approval, to issue common shares to investors, other than its current shareholders, for the issuance of depositary receipts, Employee Stock Ownership Association subscription, and for other cases provided in its Articles of Incorporation.

The Company is authorized, with the Board of Directors' approval, to retire its treasury stock in accordance with applicable laws up to the maximum amount of certain undistributed earnings. The 9,293,790 shares of common stock have been retired with the Board of Directors' approval.

As of December 31, 2007, exclusive of retired stocks, 87,186,835 shares of common stock have been issued.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****18. Capital Surplus**

Capital surplus as of December 31, 2007 and 2006, consists of the following:

| | 2007 | 2006 |
|----------------------------|------------------------------------|-------------|
| | (In millions of Korean won) | |
| Additional paid-in capital | ₩ 463,205 | ₩ 462,810 |
| Revaluation surplus | 3,224,770 | 3,233,730 |
| Others | 488,617 | 338,733 |
| | ₩ 4,176,592 | ₩ 4,035,273 |

19. Retained Earnings

Retained earnings as of December 31, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|---|------------------------------------|--------------|
| | (In millions of Korean won) | |
| Appropriated | | |
| Legal reserve | ₩ 241,202 | ₩ 241,201 |
| Appropriated retained earnings for business stabilization | 918,300 | 918,300 |
| Other legal reserve | 1,445,000 | 1,383,333 |
| Voluntary reserve | 15,513,068 | 12,926,733 |
| | 18,117,570 | 15,469,567 |
| Unappropriated | 3,649,732 | 3,393,766 |
| | ₩ 21,767,302 | ₩ 18,863,333 |

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, with the ratification of the Company's majority 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, with the ratification of the Company's majority 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, with the shareholders' approval, as a voluntary reserve. This reserve may be transferred to unappropriated retained earnings with the approval of shareholders, and may be distributed as dividends after its reversal.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Dividends**

Details of interim and year-end dividends for the years ended December 31, 2007, 2006 and 2005, are as follows:

| Interim Cash Dividends | 2007 | 2006 | 2005 |
|-------------------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Number of outstanding shares | 75,816,426 | 77,780,460 | 78,759,934 |
| Dividend ratio | 50% | 40% | 40% |
| Dividend amount | ₩ 189,541 | ₩ 155,561 | ₩ 157,520 |

| Year-End Cash Dividends | 2007 | 2006 | 2005 |
|--------------------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Number of outstanding shares | 75,540,201 | 77,592,942 | 80,154,281 |
| Dividend ratio | 150% | 120% | 120% |
| Dividend amount | ₩ 566,552 | ₩ 465,558 | ₩ 480,926 |

Details of the dividend payout ratio and dividend yield ratio for the years ended December 31, 2007, 2006 and 2005, are as follows:

| | 2007 | | 2006 | | 2005 | |
|---------------|------------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | Dividend Payout Ratio | Dividend Yield Ratio | Dividend Payout Ratio | Dividend Yield Ratio | Dividend Payout Ratio | Dividend Yield Ratio |
| Common shares | 21.25% | 1.74% | 18.74% | 2.59% | 15.87% | 3.96% |

20. Capital Adjustments

Capital adjustments as of December 31, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|----------------|------------------------------------|---------------|
| | (In millions of Korean won) | |
| Treasury stock | ₩ (2,715,964) | ₩ (1,670,690) |

| | | |
|--------|--------------------------|--------------------------|
| Others | (11,183) | (7,539) |
| | ₩ (2,727,147) | ₩ (1,678,229) |

As of December 31, 2007, the Company holds 11,719,634 shares of its own common stock amounting to ~~₩~~2,715,964 million.

The voting rights of treasury stock are restricted in accordance with the Korean Commercial Code of the Republic of Korea. In addition, the Company sold 207,322 shares of its treasury stock to the association of employee stock ownership on November 7, 2007, as approved by the Board of Directors on October 19, 2007, and the difference between the fair value and the proceeds from the sale was recognized as welfare expense.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****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 | 6th Grant |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Before the modifications(1) | | | | | | |
| Number of shares | 498,000 shares | 60,000 shares | 22,000 shares | 141,500 shares | 218,600 shares | 90,000 shares |
| Exercise price | ₩98,400 per share | ₩135,800 per share | ₩115,600 per share | ₩102,900 per share | ₩151,700 per share | ₩194,900 per share |
| After the modifications(1) | | | | | | |
| Grant date | July 23, 2001 | April 27, 2002 | September 18, 2002 | April 26, 2003 | July 23, 2004 | April 28, 2005 |
| Exercise price | ₩98,900 per share | ₩136,400 per share | ₩116,100 per share | ₩102,900 per share | ₩151,700 per share | ₩194,900 per share |
| Number of shares granted | 453,576 shares | 55,896 shares | 20,495 shares | 135,897 shares | 214,228 shares | 90,000 shares |
| Number of shares cancelled | 19,409 shares | | | | | |
| Number of shares exercised | 414,272 shares | 42,126 shares | 6,931 shares | 100,598 shares | 55,284 shares | 52,000 shares |
| Number of shares outstanding | 19,895 shares | 13,770 shares | 13,564 shares | 35,299 shares | 158,944 shares | 38,000 shares |
| Exercise period | July 24, 2003 | April 28, 2004 | Sept. 19, 2004 | April 27, 2005 | July 24, 2006 | April 29, 2007 |
| | July 23, 2008 | April 27, 2009 | Sept. 18 2009 | April 26, 2010 | July 23, 2011 | April 28, 2012 |

(1) The Company changed the number of shares granted and the exercise price as presented above, in accordance with the resolutions of the Board of Directors dated April 26, 2003, October 17, 2003, and October 22, 2004.

POSCO applied the intrinsic value method to calculate the compensation cost related to the stock appreciation rights, and such compensation costs are accounted for as other long-term liabilities and amortized over the vesting period of the stock grants.

The compensation costs for stock appreciation rights granted to executives recognized for the year ended December 31, 2007, are as follows:

| | 1st Grant | 2nd Grant | 3rd Grant | 4th Grant | 5th Grant | 6th Grant | Total |
|----------------|------------------------------------|-----------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------|
| | (In millions of Korean won) | | | | | | |
| Prior periods | ₩ 46,960 | ₩ 6,819 | ₩ 3,269 | ₩ 19,791 | ₩ 31,963 | ₩ 7,997 | ₩ 116,799 |
| Current period | 13,865 | 7,231 | 4,568 | 15,354 | 56,860 | 26,003 | 123,881 |
| | ₩ 60,825 | ₩ 14,050 | ₩ 7,837 | ₩ 35,145 | ₩ 88,823 | ₩ 34,000 | ₩ 240,680 |

The Company recorded the above compensation costs as selling and administrative expenses. As of December 31, 2007, liabilities related to stock appreciation rights which are stated as long-term accrued expenses amount to ₩123,479 million.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The following table summarizes information about appreciation rights granted and expense recognized at the award date:

| | 2007 | | 2006 | | 2005 | |
|--|---|---|-------------------------------------|---|-------------------------------------|---|
| | Number of Stock Appreciation Rights Outstanding | Weighted-Average Exercise Price per Share (In Korean won) | Number of Stock Appreciation Rights | Weighted-Average Exercise Price per Share (In Korean won) | Number of Stock Appreciation Rights | Weighted-Average Exercise Price per Share |
| Beginning of year | 460,335 | ₩ 145,238 | 534,642 | ₩ 140,258 | 722,007 | ₩ 118,711 |
| Granted | | | | | 90,000 | 194,900 |
| Excercised | (180,863) | 145,344 | (74,307) | 109,404 | (277,365) | 101,899 |
| Canceled | | | | | | |
| Forfeited | | | | | | |
| Stock appreciation rights outstanding, end of year | 279,472 | 145,170 | 460,335 | 145,238 | 534,642 | 140,258 |
| Excercisable at the year end | 279,472 | ₩ 145,170 | 370,335 | ₩ 133,169 | 230,414 | ₩ 108,276 |
| Weighted-average fair value at grant date | | ₩ 116,176 | | ₩ 116,176 | | ₩ 116,176 |

The following table summarizes information about stock appreciation rights outstanding at December 31, 2007:

| Exercise Prices | Shares | Appreciation Rights Outstanding | |
|-----------------|--------|---|---|
| | | Weighted-Average Remaining Contractual Life (In Korean won) | Weighted-Average Exercise Price per Share |
| 98,900 | 19,895 | 0.56 years | ₩ 98,900 |
| 136,400 | 13,770 | 1.32 years | 136,400 |
| 116,100 | 13,564 | 1.72 years | 116,100 |
| 102,900 | 35,299 | 2.32 years | 102,900 |

Edgar Filing: POSCO - Form 20-F

| | | | | |
|---------|---------|------------|---|---------|
| 151,700 | 158,944 | 3.56 years | | 151,700 |
| 194,900 | 38,000 | 4.33 years | | 194,900 |
| | 279,472 | 3.10 years | ₩ | 145,170 |

F-62

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****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 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, 2007, and related contracts outstanding as of December 31, 2007, are as follows:

| Company | Type of Transaction | Purpose of Transaction | Financial Institutions | Income Statement | | Comprehensive Income(*) | | Transaction Gain | Transaction Loss | |
|---------------------------------|---------------------|-------------------------|--------------------------------|------------------|----------------|-------------------------|------------------|------------------|------------------|---------|
| | | | | Valuation Gain | Valuation Loss | Transaction Gain | Transaction Loss | | | |
| (In millions of Korean won) | | | | | | | | | | |
| POSCO | Embedded derivative | Hedge | KOREA ZINC INC | ₩ | ₩ | ₩ | ₩ | ₩ | 488 | ₩ 2,000 |
| POSCO E&C | Currency future | Exchange rate hedge | HSBE and others | | 301 | | | | 12,892 | 2,000 |
| POSCO Steel Co.,Ltd. | Currency forward | Trading | Korea Exchange Bank and others | | 1,212 | 2,606 | | | 485 | |
| POSCO Steel Co.,Ltd. | Currency future | Trading or Hedge | SC Korea First Bank and others | | 2,374 | 987 | | | 3,023 | |
| POSCO DATA | Currency forward | Cash flow hedge | Korea Exchange Bank | | | | | | | |
| POSCO DATA | Currency forward | Trading | SC Korea First Bank | | 1 | 0 | | | 95 | |
| POSCO Specialty Co.,Ltd. | SWAP | Fair market value hedge | SC Korea First Bank | | 89 | 24 | | | | |
| POSCO Specialty Co.,Ltd. | SWAP | Cash flow hedge | SC Korea First Bank | | | | | | 524 | |
| POSCO Specialty Co.,Ltd. | Currency forward | Trading | Woori Bank and others | | | | | | 432 | |
| POSCO Power Ltd. | SWAP | Fair market value hedge | ING Bank and others | | 1,368 | | | | 274 | |
| POSCO Power Ltd. | SWAP | Cash flow hedge | ING Bank and others | | | | | | 3,510 | |
| POSCO Australia Pty. (POSA) | Derivative | Trading | MML | | 7,359 | | | | | |
| POSCO Australia Pty. (MPC S.A.) | Currency future | Fair market value hedge | Standard Chartered | | 37 | | | | | |

₩ 12,741 ₩ 3,617 ₩ ₩ 4,034 ₩ 17,689 ₩ 6,

(*) Gain and loss on valuation from cash flow hedge transactions are recorded as other comprehensive income, net of tax effect.

F-63

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2006, and related contracts outstanding as of December 31, 2006, were as follows:

| Company | Type of Transaction | Purpose of Transaction | Financial Institutions | Valuation Gain | Valuation Loss | Transaction Gain | Transaction Loss |
|------------------------------------|-----------------------------------|-------------------------------|---|-----------------------|-----------------------|-------------------------|-------------------------|
| (In millions of Korean won) | | | | | | | |
| POSCO | Currency forward Nickel future | Trading | SC Korea First Bank and others Sempra Metal Ltd. | ₩ | ₩ | ₩ 779 | ₩ 11,491 |
| POSCO E&C | Currency forward | | Citibank Korea and others | 1 | 791 | 732 | 920 |
| Posteel Co.,Ltd. | | | Hana bank and others | | | 37 | 300 |
| Pohang Coated Steel Co., Ltd. | Option | | Shinhan Bank | 1,856 | 12 | 1,258 | 843 |
| POSDATA | Currency forward | Cash flow hedge | Korea Exchange Bank | | | 53 | 25 |
| POSCO Specialty Steel Co.,Ltd. | | Fair market value hedge | SC Korea First Bank | | 17 | 190 | 78 |
| POSCO Power Co.,Ltd. | SWAP | Trading | Korea Development Bank and others | | | 10,694 | 14,418 |
| | | | | ₩ 1,857 | ₩ 820 | ₩ 15,477 | ₩ 40,363 |

The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2005, and related contracts outstanding as of December 31, 2005, were as follows:

| Company | Type of Transaction | Purpose of Transaction | Financial Institutions | Valuation Gain | Valuation Loss | Transaction Gain | Transaction Loss |
|------------------------------------|-----------------------------------|-------------------------------|---|-----------------------|-----------------------|-------------------------|-------------------------|
| (In millions of Korean won) | | | | | | | |
| POSCO | Currency forward Nickel future | Trading | SC Korea First Bank and others Sempra Metal Ltd. | ₩ | ₩ 18,727 | ₩ 688 | ₩ 861 |
| | | | | | | 1,674 | 637 |
| Table of Contents | | | | | | | 281 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | |
|--------------------------------|------------------|---------------------------|---------|----------|---------|---------|
| POSCO E&C | Currency forward | Citibank Korea and others | 1,546 | 1,982 | 600 | 6,722 |
| Posteel Co.,Ltd. | | Hana bank and others | | | 170 | 37 |
| Pohang Coated Steel Co.,Ltd. | Option | Shinhan Bank | | 684 | 112 | 125 |
| POSDATA | Currency forward | Korea Exchange Bank | 125 | | 486 | 564 |
| POSCO Specialty Steel Co.,Ltd. | | SC Korea First Bank | | | 90 | 12 |
| | | | | | 37 | 42 |
| | | | ₩ 1,671 | ₩ 21,393 | ₩ 3,857 | ₩ 9,000 |

F-64

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****23. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2007, 2006 and 2005, consist of the following:

| | 2007 | 2006 | 2005 |
|-----------------------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Transportation and storage | ₩ 619,499 | ₩ 539,589 | ₩ 492,921 |
| Salaries | 218,206 | 183,943 | 168,746 |
| Welfare | 123,584 | 111,666 | 116,542 |
| Depreciation and amortization | 87,257 | 72,983 | 60,742 |
| Fees and charges | 97,100 | 62,610 | 122,204 |
| Advertising | 103,979 | 87,666 | 98,158 |
| Research and development expenses | 52,846 | 54,035 | 52,545 |
| Severance benefits | 44,779 | 26,109 | 29,475 |
| Sales commissions | 54,955 | 42,644 | 23,409 |
| Travel | 25,870 | 21,468 | 18,808 |
| Rent | 19,389 | 16,313 | 16,345 |
| Repairs | 12,693 | 8,846 | 14,736 |
| Training | 20,094 | 18,496 | 17,367 |
| Office supplies | 9,053 | 6,957 | 7,654 |
| Provision for doubtful accounts | 62,026 | 117,337 | 104,310 |
| Meeting | 10,240 | 9,368 | 9,680 |
| Taxes and public dues | 29,519 | 18,936 | 14,914 |
| Vehicle expenses | 3,947 | 2,941 | 2,155 |
| Membership fees | 8,593 | 7,273 | 8,876 |
| Sales promotions | 5,651 | 22,471 | 5,745 |
| Entertainment | 10,561 | 7,904 | 7,315 |
| Others | 165,376 | 116,860 | 58,670 |
| | ₩ 1,785,217 | ₩ 1,556,415 | ₩ 1,451,317 |

24. Donations

Donations by the Company for the years ended December 31, 2007, 2006 and 2005, consist of the following:

| | 2007 | 2006 | 2005 |
|------------------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| POSTECH | ₩ 25,000 | ₩ 22,000 | ₩ 17,050 |
| POSCO Educational Foundation | 47,200 | 33,000 | 33,000 |

Edgar Filing: POSCO - Form 20-F

| | | | |
|--------------------------|------------------|------------------|------------------|
| Employee benefit welfare | 66,600 | 59,400 | 69,960 |
| Others | 58,566 | 40,278 | 33,008 |
| | ₩ 197,366 | ₩ 154,678 | ₩ 153,018 |

F-65

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****25. Income Taxes**

Income tax expense for the years ended December 31, 2007, 2006 and 2005, consist of the following:

| | 2007 | 2006 | 2005 |
|---|------------------------------------|------------------|--------------------|
| | (In millions of Korean won) | | |
| Current income taxes | ₩ 1,341,252 | ₩ 1,086,215 | ₩ 1,624,515 |
| Deferred income taxes | 51,397 | 28,531 | (107,986) |
| Carryforward income tax | 2,714 | 3,948 | 4,187 |
| Items charged directly to shareholders' equity | (61,559) | (19,180) | (21,184) |
| Tax effect on elimination of intercompany profit and others | (59,578) | (177,563) | (25,943) |
| | ₩ 1,274,226 | ₩ 921,951 | ₩ 1,473,589 |

The following table reconciles income tax expense computed at the statutory rates to the actual income tax expense recorded by the Company:

| | 2007 | 2006 | 2005 |
|---|------------------------------------|------------------|--------------------|
| | (In millions of Korean won) | | |
| Net income before income tax expense | ₩ 4,898,931 | ₩ 4,284,591 | ₩ 5,488,189 |
| Statutory tax rate (%) | 27.5 | 27.5 | 27.5 |
| Income tax expense computed at statutory rate | 1,347,206 | 1,178,260 | 1,509,252 |
| Tax credit | (159,816) | (181,739) | (215,892) |
| Others, net | 86,836 | (74,570) | 180,229 |
| Income tax expense | ₩ 1,274,226 | ₩ 921,951 | ₩ 1,473,589 |
| Effective rate (%) | 26.01 | 21.52 | 26.85 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Significant changes in tax loss carryforwards, cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2007 and 2006, are as follows:

| | Temporary Differences | | | Deferred Income Tax | | |
|--|-----------------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|
| | January 1, 2007(1) | Increase (Decrease) | December 31, 2007 | January 1, 2007(1) | Increase (Decrease) | December 31, 2007 |
| | (In millions of Korean won) | | | | | |
| Deductible temporary differences: | | | | | | |
| Reserve for special repairs | ₩ (403,384) | ₩ 101,633 | ₩ (301,751) | ₩ (110,930) | ₩ 27,948 | ₩ (82,982) |
| Allowance for doubtful accounts | 345,789 | (53,026) | 292,763 | 94,977 | (14,445) | 80,532 |
| Reserve for technology | (1,484,767) | 383,033 | (1,101,734) | (408,311) | 105,335 | (302,976) |
| Dividend income from related | 304,162 | 62,071 | 366,233 | 83,644 | 17,070 | 100,714 |
| Depreciation expense | 7,091 | (155,084) | (147,993) | 2,684 | (42,799) | (40,115) |
| Valuation of equity method | (718,357) | (578,523) | (1,296,880) | (166,730) | (107,640) | (274,370) |
| Prepaid expenses | 42,084 | (7,653) | 34,431 | 11,555 | (2,088) | 9,467 |
| Impairment loss on property, plant | 516,305 | (96,220) | 420,085 | 147,973 | (26,490) | 121,483 |
| Accrued severance benefits | 124,582 | 37,344 | 161,926 | 34,298 | 10,276 | 44,574 |
| Group severance insurance deposits | (37,376) | (6,899) | (44,275) | (10,278) | (1,897) | (12,175) |
| Provision for construction losses | 15,133 | 6,094 | 21,227 | 4,161 | 1,675 | 5,836 |
| Provision for construction warranty | 18,935 | 2,130 | 21,065 | 5,154 | 640 | 5,794 |
| Appropriated Retained Earnings for Technological Development | (3,500) | 667 | (2,833) | (963) | 183 | (780) |
| Accrued income | (7,952) | (376) | (8,328) | (2,206) | (107) | (2,313) |
| Accrued on valuation of Inventories | 441 | 254 | 695 | 121 | 69 | 190 |
| Accrued on guarantee loss | 41,300 | (41,300) | | 11,358 | (11,358) | |
| Others | 333,308 | (39,448) | 293,860 | 81,188 | (7,769) | 73,419 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | |
|---|-----------|-----------|-------------|------------------------|------------------------|------------------------|
| | (906,206) | (385,303) | (1,291,509) | (222,305) | (51,397) | (273,702) |
| Deferred tax from tax credit | | | | | | |
| Tax credit transferred from prior year | 20,137 | 2,588 | 22,725 | 19,004 | 945 | 19,949 |
| Deficit carried forward | 12,487 | (3,299) | 9,188 | 3,434 | (908) | 2,526 |
| Others | | | | (5,416) | (2,751) | (8,167) |
| | 32,624 | (711) | 31,913 | 17,022 | (2,714) | 14,308 |
| Current and deferred income taxes | | | | | | |
| Capital adjustment arising | (112,643) | (160,305) | (272,948) | (30,975) | (44,085) | (75,060) |
| Gain on valuation of available-for-sale securities | (751,593) | (564,179) | (1,315,772) | (206,689) | (157,684) | (364,373) |
| Loss on valuation of available-for-sale securities | 394,401 | (154,950) | 239,451 | 108,319 | (42,428) | 65,891 |
| Others | | 4,276 | 4,276 | | 1,176 | 1,176 |
| | (469,835) | (875,158) | (1,344,993) | (129,345) | (243,021) | (372,366) |
| Sub total | | | | (334,628) | (297,132) | (631,760) |
| Tax effect on elimination of intercompany profit and others | | | | 178,105 | 59,578 | 237,683 |
| | | | | ₩ (156,523) | ₩ (237,554) | ₩ (394,077) |

(1) The income tax effect of temporary differences and the deferred income tax assets(liabilities) as of January 1, 2007, reflected the effect of tax assessment for the year ended December 31, 2007, and tax audit in the year ended December 31, 2006.

(1) The income tax effect of temporary differences and the deferred income tax assets(liabilities) as of January 1, 2006, reflected the effect of tax assessment for the year ended December 31, 2006, and tax audit in the year ended December 31, 2005.

The effective tax rates for the years ended December 31, 2007 and 2006, 26.01% and 21.52%, respectively.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| | Temporary Differences | | | Deferred Income Tax | | |
|--|-----------------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|
| | January 1, 2006(1) | Increase (Decrease) | December 31, 2006 | January 1, 2006(1) | Increase (Decrease) | December 31, 2006 |
| | (In millions of Korean won) | | | | | |
| Deductible temporary differences: | | | | | | |
| Reserve for special repairs | ₩ (480,439) | ₩ 77,055 | ₩ (403,384) | ₩ (132,120) | ₩ 21,190 | ₩ (110,930) |
| Allowance for doubtful accounts | 226,593 | 119,200 | 345,793 | 62,340 | 32,782 | 95,122 |
| Reserve for technology developments | (1,302,186) | (157,581) | (1,459,767) | (358,102) | (43,334) | (401,436) |
| Dividend income from related | 256,503 | 47,659 | 304,162 | 70,538 | 13,106 | 83,644 |
| Depreciation expense | 111,925 | (104,108) | 7,817 | 31,732 | (28,809) | 2,923 |
| Valuation of equity method investments | (389,678) | (328,653) | (718,331) | (143,720) | (23,007) | (166,727) |
| Prepaid expenses | 47,234 | (5,149) | 42,085 | 12,988 | (1,416) | 11,572 |
| Impairment loss on property, plant and equipment | 517,740 | (376) | 517,364 | 148,657 | (148) | 148,509 |
| Accrued severance benefits | 100,734 | 23,855 | 124,589 | 27,732 | 6,568 | 34,300 |
| Group severance insurance deposits | (60,190) | (16,903) | (77,093) | (16,553) | (4,649) | (21,202) |
| Provision for construction losses | 18,251 | (3,161) | 15,090 | 5,019 | (870) | 4,149 |
| Provision for construction warranty | 12,154 | 4,582 | 16,736 | 3,343 | 1,260 | 4,603 |
| Appropriated retained earnings for technological development | (30,833) | 2,333 | (28,500) | (8,479) | 642 | (7,837) |
| Accrued income | (5,224) | (3,306) | (8,530) | (1,335) | (1,027) | (2,362) |
| Accrued on valuation of Inventories | 18,145 | 38,971 | 57,116 | 4,990 | 10,717 | 15,707 |
| Accrued on guarantee loss | 41,300 | (228) | 41,072 | 11,358 | (63) | 11,295 |
| Others | 362,574 | (46,914) | 315,660 | 53,391 | (11,473) | 41,918 |
| | (555,397) | (352,724) | (908,121) | (228,221) | (28,531) | (256,752) |

| | | | | | | |
|--|-----------|-----------|-----------|-------------|------------|-------------|
| Deferred tax from tax credit transferred prior year and others: | | | | | | |
| Tax credit transferred prior year | 15,924 | 4,213 | 20,137 | 15,396 | 1,410 | 16,806 |
| Deficit carried forward | 4,244 | 8,243 | 12,487 | 5,068 | (2,202) | 2,866 |
| Others | 2,029 | (2,029) | | (2,196) | (3,156) | (5,352) |
| | 22,197 | 10,427 | 32,624 | 18,268 | (3,948) | 14,320 |
| Current and deferred income taxes recognized directly to equity: | | | | | | |
| Capital adjustment arising from equity method investments | (122,226) | 27,120 | (95,106) | (33,626) | 7,473 | (26,153) |
| Gain on valuation of available-for-sale securities | (374,973) | (350,021) | (724,994) | (103,118) | (96,256) | (199,374) |
| Loss on valuation of available-for-sale securities | 591,159 | (240,952) | 350,207 | 162,569 | (66,409) | 96,160 |
| Others | 454 | (454) | | 125 | (125) | |
| | 94,414 | (564,307) | (469,893) | 25,950 | (155,317) | (129,367) |
| Sub total | | | | (184,003) | (187,796) | (371,799) |
| Tax effect on elimination of intercompany profit and others | | | | 41,292 | 177,563 | 218,855 |
| | | | | ₩ (142,711) | ₩ (10,233) | ₩ (152,944) |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****26. Earnings 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.

| | 2007 | 2006 | 2005 |
|--|-------------|-------------|-------------|
| Number of shares issued(1) | 77,592,942 | 80,090,770 | 80,503,664 |
| Acquisition of treasury shares | 1,640,073 | 1,396,589 | 1,305,529 |
| Weighted-average number of common shares | 75,952,869 | 78,694,181 | 79,198,135 |

(1) The number of shares issued excludes the number of treasury shares as of January 1, 2007, 2006 and 2005.

Basic earnings per share for the years ended December 31, 2007, 2006 and 2005, is calculated as follows:

| | 2007 | 2006 | 2005 |
|--|--|-------------|-------------|
| | (In millions of Korean won, except per share amounts) | | |
| Net income attributable to controlling interest | ₩ 3,558,660 | ₩ 3,314,181 | ₩ 4,022,492 |
| Weighted-average number of common shares outstanding | 75,952,869 | 78,694,181 | 79,198,135 |
| Basic earnings per share | ₩ 46,854 | ₩ 42,115 | ₩ 50,790 |

Diluted Earnings Per Share

Diluted earnings per share for the years ended December 31, 2007, 2006 and 2005, are identical to basic earnings per share, since there is no dilutive effect resulting from the stock option plan as of December 31, 2007, 2006 and 2005.

27. Comprehensive income

The details of comprehensive income for the years ended December 31, 2007, 2006 and 2005, are as follows:

| | 2007 | 2006 | 2005 |
|---|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Net income | ₩ 3,677,964 | ₩ 3,353,082 | ₩ 4,006,993 |
| Accumulated other comprehensive income: | 575,179 | 398,019 | 259,142 |
| Gain on valuation of available-for-sale securities(1) | 498,711 | 432,469 | 324,757 |

Edgar Filing: POSCO - Form 20-F

| | | | |
|--|-------------|-------------|-------------|
| Capital adjustment arising from equity method investments(2) | (7,455) | 11,636 | (35,364) |
| Foreign currency translation adjustments(3) | 87,957 | (46,086) | (30,251) |
| Gain on valuation of derivative instruments(4) | (4,034) | | |
| | ₩ 4,253,143 | ₩ 3,751,101 | ₩ 4,266,135 |
| Comprehensive income attributable to controlling interest | ₩ 4,118,011 | ₩ 3,721,622 | ₩ 4,277,958 |
| Comprehensive income attributable to minority interest | ₩ 135,132 | ₩ 29,479 | ₩ (11,823) |

(1) Includes income tax effects of ₩(-)192,094 million (2006: ₩(-)169,652 million, 2005: ₩59,005 million).

(2) Includes income tax effects of ₩(-)34,698 million (2006: ₩1,705 million, 2005: ₩(-)14,883 million).

(3) Includes income tax effects of ₩(-)11,451 million (2006: ₩5,753 million, 2005: ₩(-)18,727 million).

(4) Includes income tax effects of ₩1,331 million.

F-69

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****28. Assets and Liabilities Denominated in Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006, are as follows:

| | | 2007 | | 2006 |
|---|------------------------------|----------------------------|---------------------------|---------------------------|
| | | Foreign Currency(3) | Won Equivalent | Won Equivalent |
| (In millions of Korean won, other currencies in thousands) | | | | |
| Assets | | | | |
| Cash and cash equivalents(1) | US\$ | 231,556 | ₩ 217,246 | ₩ 288,671 |
| | JPY | 74,355 | 620 | 22 |
| | EUR | 27 | 37 | |
| | Overseas subsidiaries (US\$) | 430,853 | 404,226 | 300,339 |
| Trade accounts and notes receivable | US\$ | 323,175 | 303,203 | 216,285 |
| | JPY | 6,042,643 | 50,355 | 18,438 |
| | EUR | 7,796 | 10,768 | 9,157 |
| | Overseas subsidiaries (US\$) | 773,033 | 725,259 | 431,449 |
| Other accounts and notes receivable | US\$ | 5,235 | 4,499 | 28,011 |
| | JPY | 16,960 | 141 | 133 |
| | EUR | 11 | 15 | |
| | Overseas subsidiaries (US\$) | 73,300 | 68,770 | 63,009 |
| Short-term and long-term loans receivable | Overseas subsidiaries (US\$) | 186,380 | 174,862 | 38,184 |
| Long-term trade accounts and notes receivable | Overseas subsidiaries (US\$) | 71 | 66 | |
| Investment securities(2) | Overseas subsidiaries (US\$) | 205,885 | 193,161 | 40,557 |
| Guarantee deposits | US\$ | 427 | 401 | 151 |
| | JPY | | | 42 |
| | EUR | 41 | 57 | |
| | Overseas subsidiaries (US\$) | 6,955 | 6,526 | 23,851 |
| Total | | | ₩ 2,160,212 | ₩ 1,458,299 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| | | 2007 | | 2006 |
|--|--|-------------|-------------------|-------------------|
| | Foreign Currency(3) | | Won Equivalent | Won Equivalent |
| | (In millions of Korean won, other currencies in thousands) | | | |
| Liabilities | | | | |
| Trade accounts and notes payable | US\$ | 410,215 | ₩ 384,863 | ₩ 48,922 |
| | JPY | 1,509,059 | 12,576 | 13,194 |
| | EUR | 1,042 | 1,440 | 3,864 |
| | Overseas subsidiaries (US\$) | 520,780 | 488,595 | 314,976 |
| Other accounts and notes payable | US\$ | 45,304 | 42,505 | 17,306 |
| | JPY | 636,330 | 5,302 | 6,326 |
| | EUR | 446 | 617 | 7,196 |
| | Overseas subsidiaries (US\$) | 44,335 | 41,595 | 39,444 |
| Accrued expenses | US\$ | 2,552 | 2,394 | 87 |
| | Overseas subsidiaries (US\$) | 27,297 | 25,610 | 15,023 |
| Short-term borrowings | US\$ | 194,394 | 182,380 | 14,112 |
| | Overseas subsidiaries (US\$) | 1,355,638 | 1,271,860 | 1,098,220 |
| Withholdings | US\$ | 5,122 | 4,805 | 21 |
| | JPY | 145,910 | 1,216 | |
| | EUR | 2,047 | 2,828 | 369 |
| | Overseas subsidiaries (US\$) | 2,864 | 2,687 | 2,852 |
| Debentures(2, 4) | US\$ | 390,000 | 365,898 | 278,880 |
| | JPY | 101,622,000 | 846,847 | 794,512 |
| Loans from foreign financial institutions(4) | US\$ | 34,829 | 32,677 | 31,875 |
| | JPY | 384,000 | 3,200 | 4,503 |
| | Overseas subsidiaries (US\$) | 538,323 | 505,055 | 289,809 |
| Foreign currency loans(4) | US\$ | | | 13,868 |
| | EUR | 5,237 | 7,234 | 21,378 |
| | | | ₩ 4,232,184 | ₩ 3,016,737 |

(1) Includes cash and cash equivalents, short-term financial instruments and long-term financial instruments.

(2) Presented at face value.

(3) Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of overseas subsidiaries are converted into US dollars.

(4) Includes current portion of long-term debts.

F-71

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****29. Related Party Transactions**

Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2007, 2006 and 2005, and the related account balances as of December 31, 2007 and 2006, are as follows:

| | Sales and Others(1) | | | Purchases and Others(1) | | |
|---|-----------------------------|----------|-----------|-------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| | (In millions of Korean won) | | | | | |
| POSCO E&C Posteel Co., Ltd. | ₩ 20,000 | ₩ 12,134 | ₩ 3,758 | ₩ 984,030 | ₩ 1,618,205 | ₩ 1,732,462 |
| POSCON Co., Ltd. | 1,072,032 | 966,254 | 1,030,276 | 220,459 | 93,315 | 86,005 |
| Pohang Steel Co., Ltd. | 120 | 177 | 131 | 244,365 | 219,602 | 235,232 |
| POSCO Machinery & Engineering Co., Ltd. | 436,206 | 367,443 | 426,007 | 1,327 | 853 | 1,105 |
| POSDATA Co., Ltd. | 157 | 1,908 | 92 | 152,844 | 125,996 | 160,787 |
| POSCO Research Institute | 4,516 | 2,290 | 1,009 | 173,660 | 175,046 | 182,149 |
| Seung Kwang Co., Ltd. | 3 | | | 17,280 | 18,553 | 14,350 |
| POS-AC Co., Ltd. | | | | 69 | 6 | 110 |
| POSCO Specialty Steel Co., Ltd. | 862 | 732 | 566 | 24,298 | 30,546 | 29,554 |
| POSCO Machinery Co., Ltd. | 5,175 | 2,844 | 3,440 | 88,258 | 70,299 | 53,618 |
| POSCO Refractories & Environment (POSREC) | 3,480 | 1,929 | 121 | 114,378 | 76,189 | 107,648 |
| POSTECH Venture | 250 | 166 | 261 | 213,753 | 211,122 | 195,329 |
| | 94 | 77 | 63 | | | |

| | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Capital Co., Ltd. POSCO America Corporation (POSAM) | 130,150 | 84,227 | 97,920 | 686 | 277 | |
| POSCO Australia Pty. Ltd. (POSA) | 18,206 | 17,821 | 10,163 | 231 | 2,235 | 31,305 |
| POSCO Canada Ltd. (POSCAN) | 40 | | | 71,120 | 91,502 | 102,841 |
| POSCO Asia Co., Ltd. (POA) | 600,059 | 440,078 | 552,694 | 121,098 | 73,353 | 130,871 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 22,474 | 487,037 | 723,522 | | | |
| POSCO Japan Co., Ltd. | 831,711 | 566,208 | 544,636 | 50,939 | 75,170 | 75,604 |
| Others | 273,214 | 328,329 | 317,176 | 271,594 | 253,698 | 338,718 |
| | ₩ 3,418,749 | ₩ 3,279,654 | ₩ 3,711,835 | ₩ 2,750,389 | ₩ 3,135,967 | ₩ 3,477,688 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| | Receivables(2) | | Payables(2) | |
|---|------------------------------------|------------------|--------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In millions of Korean won) | | | |
| POSCO E&C | ₩ 186 | ₩ 7,933 | ₩ 105,178 | ₩ 77,678 |
| Posteel Co., Ltd. | 104,624 | 69,539 | 12,386 | 3,198 |
| POSCON Co., Ltd. | 7 | 1 | 24,842 | 18,016 |
| Pohang Steel Co., Ltd. | 40,431 | 41,029 | 119 | 94 |
| POSCO Machinery & Engineering Co., Ltd. | 6 | 4 | 20,431 | 13,211 |
| POSDATA Co., Ltd. | 10 | 1 | 31,614 | 26,639 |
| POSCO Research Institute | 1 | | 6,394 | 3,766 |
| Seung Kwang Co., Ltd. | | 2,034 | | |
| POS-AC Co., Ltd. | 1 | | 2,001 | 1,177 |
| POSCO Specialty Steel Co., Ltd. | 40 | | 8,067 | 3,103 |
| POSCO Machinery Co., Ltd. | 50 | 30 | 10,445 | 11,203 |
| POSCO Refractories & Environment (POSREC) | 9 | 9 | 24,265 | 23,742 |
| POSTECH Venture Capital Co., Ltd. | | | 66 | |
| POSCO America Corporation (POSAM) | 4,447 | 401 | | |
| POSCO Australia Pty. Ltd. (POSA) | | | | |
| POSCO Canada Ltd. (POSCAN) | 21 | 13 | 9,635 | 14,166 |
| POSCO Asia Co., Ltd. (POA) | 24,323 | 20,827 | 1,922 | 1,277 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | | 6 | | |
| POSCO Japan Co., Ltd. | 30,952 | 20,685 | 6 | 5,428 |
| Others | 18,974 | 9,430 | 25,711 | 23,396 |
| | ₩ 224,082 | ₩ 171,942 | ₩ 283,082 | ₩ 226,094 |

(1) Sales and others include sales, non-operating income and others; purchases and others include purchases, overhead expenses and others.

(2) Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2007 and 2006, and related account balances as of December 31, 2007, 2006 and 2005, are as follows:

| | Sales and Others(1) | | | Purchases and Others(1) | | |
|---|-----------------------------|-----------|-----------|-------------------------|-----------|-----------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| | (In millions of Korean won) | | | | | |
| eNtoB Corporation | ₩ | ₩ | ₩ | ₩ 216,920 | ₩ 134,703 | ₩ 170,258 |
| KOBRASCO | | | | 72,514 | 141,859 | 202,262 |
| POSCHROME | 35 | | | 41,735 | 35,009 | 45,043 |
| POSVINA | 5,056 | 2,684 | 11,239 | | | |
| USS POSCO Industries (UPI) | 245,814 | 356,190 | 312,377 | | | |
| Guangdong Xingpu Steel Conter Co., Ltd. | 3,094 | 10,295 | | | | |
| SNNC Co., Ltd. | 343 | | | | | |
| | ₩ 254,342 | ₩ 369,169 | ₩ 323,616 | ₩ 331,169 | ₩ 311,571 | ₩ 417,563 |

| | Receivables(2) | | Payables(2) | |
|---|-----------------------------|---------|-------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In millions of Korean won) | | | |
| eNtoB Corporation | ₩ | ₩ | ₩ 2,999 | ₩ 1,917 |
| KOBRASCO | | | 4,048 | 9,737 |
| POSCHROME | | | | |
| POSVINA | | | | |
| USS POSCO Industries (UPI) | | 8 | | |
| Guangdong Xingpu Steel Conter Co., Ltd. | 4,276 | 2,337 | | |
| SNNC Co., Ltd. | 1 | | | |
| | ₩ 4,285 | ₩ 2,337 | ₩ 7,047 | ₩ 11,654 |

(1) Sales and others include sales, non-operating income and others; purchases and others include purchases, overhead expenses and others.

(2) Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Eliminations of intercompany revenues and expenses for the years ended December 31, 2007 and 2006, are as follows:

| | Revenues | | | Expenses | | | |
|-----------------|-----------------------------|-------------|-------------|-------------------------------------|-------------|-------------|-------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | |
| | (In millions of Korean won) | | | | | | |
| Sales | ₩ 8,111,931 | ₩ 7,670,446 | ₩ 8,293,069 | Cost of goods sold | ₩ 7,957,616 | ₩ 7,332,282 | ₩ 8,094,089 |
| Interest income | 24,104 | 694 | 1,322 | Interest expense | 5,608 | 3,912 | 3,778 |
| | | | | Selling and administrative expenses | 171,400 | 259,038 | 156,157 |
| Dividend income | 4,883 | 1,273 | 1,014 | Others | 18,703 | 85,288 | 44,455 |
| Others | 12,409 | 8,107 | 3,074 | | | | |
| | ₩ 8,153,327 | ₩ 7,680,520 | ₩ 8,298,479 | | ₩ 8,153,327 | ₩ 7,680,520 | ₩ 8,298,479 |

Eliminations of significant intercompany receivables and payables as of December 31, 2007 and 2006, are as follows:

| | Receivables | | Payables | | |
|-------------------------------------|-----------------------------|-----------|----------------------------------|-------------|-----------|
| | 2007 | 2006 | 2007 | 2006 | |
| | (In millions of Korean won) | | | | |
| Trade accounts and notes receivable | ₩ 740,252 | ₩ 709,207 | Trade accounts and notes payable | ₩ 468,811 | ₩ 494,980 |
| Short-term loans receivable | 117,938 | 41,642 | Short-term borrowings | 136,750 | 71,630 |
| Other accounts and notes receivable | 11,673 | 8,431 | Other accounts and notes payable | 263,149 | 173,648 |
| Long-term loans receivable | 54,192 | 56,613 | Long-term debts | 24,443 | 25,121 |
| Other assets | 201,439 | 113,497 | Other liabilities | 232,341 | 164,011 |
| | ₩ 1,125,494 | ₩ 929,390 | | ₩ 1,125,494 | ₩ 929,390 |

30. 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, 2007:

| | Steel | Engineering and Construction | Trading (In millions of Korean won) | Others | Consolidation Adjustment | Consolidated |
|----------------------------------|--------------|------------------------------------|--|-------------|-----------------------------|--------------|
| Statement of income | | | | | | |
| Sales | ₩ 27,910,722 | ₩ 3,801,882 | ₩ 4,018,003 | ₩ 3,989,066 | ₩ (8,111,932) | ₩ 31,607,741 |
| Less: Inter-segment | (4,738,741) | (1,092,309) | (874,520) | (1,406,362) | 8,111,932 | |
| Net sales | ₩ 23,171,981 | ₩ 2,709,573 | ₩ 3,143,483 | ₩ 2,582,704 | ₩ | ₩ 31,607,741 |
| Operating profit | ₩ 4,523,589 | ₩ 284,632 | ₩ 31,068 | ₩ 198,225 | ₩ (117,653) | ₩ 4,919,861 |
| Depreciation and amortization | 1,919,594 | 16,188 | 5,591 | 160,778 | 24,578 | 2,126,729 |
| Balance sheet | | | | | | |
| Inventories | ₩ 4,258,206 | ₩ 454,338 | ₩ 126,182 | ₩ 145,708 | ₩ (82,418) | ₩ 4,902,016 |
| Investments | 8,205,751 | 565,983 | 333,688 | 775,105 | (4,641,501) | 5,239,026 |
| Property, plant and equipment | 15,110,911 | 142,157 | 198,856 | 1,341,015 | (1,211,174) | 15,581,765 |
| Intangible assets | 246,932 | 25,152 | 897 | 166,992 | 130,806 | 570,779 |
| Goodwill | | | | 75,556 | | 75,556 |

F-75

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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, 2006:

| | Steel | Engineering and Construction | Trading | Others | Consolidation Adjustment | Consolidated |
|-------------------------------|------------------------------------|---|----------------|---------------|-------------------------------------|---------------------|
| | (In millions of Korean won) | | | | | |
| Statement of income | | | | | | |
| Sales | ₩ 23,727,533 | ₩ 3,752,233 | ₩ 3,046,127 | ₩ 2,986,879 | ₩ (7,670,446) | ₩ 25,842,326 |
| Less: Inter-segment | (3,984,759) | (1,631,547) | (632,841) | (1,421,299) | 7,670,446 | |
| Net sales | ₩ 19,742,774 | ₩ 2,120,686 | ₩ 2,413,286 | ₩ 1,565,580 | ₩ | ₩ 25,842,326 |
| Operating profit | ₩ 4,078,997 | ₩ 282,489 | ₩ 24,202 | ₩ 252,283 | ₩ (248,824) | ₩ 4,389,147 |
| Depreciation and amortization | 1,712,672 | 12,284 | 5,967 | 141,114 | (89,299) | 1,782,738 |
| Balance sheet | | | | | | |
| Inventories | ₩ 3,550,674 | ₩ 225,378 | ₩ 127,600 | ₩ 217,963 | ₩ (103,410) | ₩ 4,018,205 |
| Investments | 5,867,366 | 434,047 | 276,560 | 527,388 | (3,393,443) | 3,711,918 |
| Property, plant and equipment | 14,075,709 | 75,712 | 201,797 | 1,358,874 | (1,068,972) | 14,643,120 |
| Intangible assets | 258,874 | 25,889 | 430 | 125,147 | 146,742 | 557,082 |
| Goodwill | | | | 90,105 | | 90,105 |

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, 2005:

| | Steel | Engineering and Construction | Trading | Others | Consolidation Adjustment | Consolidated |
|----------------------------|------------------------------------|---|----------------|---------------|-------------------------------------|---------------------|
| | (In millions of Korean won) | | | | | |
| Statement of income | | | | | | |
| Sales | ₩ 24,886,534 | ₩ 3,993,961 | ₩ 3,373,587 | ₩ 2,340,775 | ₩ (8,293,069) | ₩ 26,301,788 |
| Less: Inter-segment | (3,974,711) | (1,845,747) | (990,742) | (1,481,869) | 8,293,069 | |
| Net sales | ₩ 20,911,823 | ₩ 2,148,214 | ₩ 2,382,845 | ₩ 858,906 | ₩ | ₩ 26,301,788 |
| Operating profit | ₩ 5,879,972 | ₩ 244,910 | ₩ 24,453 | ₩ 190,378 | ₩ (256,437) | ₩ 6,083,276 |

Edgar Filing: POSCO - Form 20-F

| | | | | | | |
|-------------------------------|-------------|-----------|-----------|-----------|-------------|-------------|
| Depreciation and amortization | 1,604,241 | 11,874 | 7,626 | 70,693 | (81,880) | 1,612,554 |
| Balance sheet | | | | | | |
| Inventories | ₩ 3,275,723 | ₩ 205,622 | ₩ 102,569 | ₩ 314,233 | ₩ (105,553) | ₩ 3,792,594 |
| Investments | 4,662,747 | 348,143 | 273,938 | 468,074 | (2,611,346) | 3,141,556 |
| Property, plant and equipment | 12,223,681 | 63,747 | 213,681 | 571,320 | (800,719) | 12,271,710 |
| Intangible assets | 326,780 | 26,712 | 505 | 110,527 | (10,815) | 453,709 |

F-76

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Substantially all of the Company's operations are for the production of steel products. Net sales for the years ended December 31, 2007, 2006 and 2005, and non-current assets by geographic location as of December 31, 2007 and 2006, are as follows:

| Customer Location | Sales(1) | | | Long Lived-Asset | |
|--|-----------------------------|--------------|--------------|------------------|--------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 |
| | (In millions of Korean won) | | | | |
| Korea | ₩ 19,969,637 | ₩ 17,250,163 | ₩ 18,566,060 | ₩ 15,603,437 | ₩ 14,658,557 |
| Japan | 1,741,972 | 1,311,685 | 1,371,510 | 114,190 | 59,540 |
| China | 4,503,900 | 3,070,422 | 3,117,909 | 1,153,915 | 1,102,657 |
| Asia/Pacific, excluding Japan and China | 2,041,587 | 1,486,331 | 1,502,205 | 131,998 | 164,018 |
| North America | 732,002 | 610,240 | 550,331 | 387 | 88,794 |
| Others | 2,618,644 | 2,113,485 | 1,193,773 | 228,986 | 48,866 |
| Consolidation adjustments | | | | (1,080,368) | (922,230) |
| | ₩ 31,607,742 | ₩ 25,842,326 | ₩ 26,301,788 | ₩ 16,152,545 | ₩ 15,200,202 |

(1) Represents revenues, net of consolidation adjustments, incurred based on customers' locations instead of the Company and subsidiaries' locations.

Condensed consolidated balance sheets as of December 31, 2007 and 2006, categorized by type of business are as follows:

| Assets | Non-Financial Institution | | Financial Institution | |
|-------------------------------|-----------------------------|--------------|-----------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In millions of Korean won) | | | |
| Current assets | ₩ 14,315,689 | ₩ 12,161,686 | ₩ 77,844 | ₩ 75,267 |
| Non-Current assets | 21,748,269 | 18,776,636 | 132,961 | 135,484 |
| Investment assets | 5,109,363 | 3,576,481 | 129,663 | 135,437 |
| Property, plant and equipment | 15,581,387 | 14,643,073 | 378 | 47 |
| Intangible assets | 570,724 | 557,082 | 55 | |
| Other non-current assets | 486,795 | | 2,865 | |
| Total Assets | ₩ 36,063,958 | ₩ 30,938,322 | ₩ 210,805 | ₩ 210,751 |

Liabilities

| | | | | |
|-------------------------|--------------|-------------|----------|----------|
| Current liabilities | ₩ 6,533,867 | ₩ 4,994,824 | ₩ 90,748 | ₩ 87,471 |
| Non-Current liabilities | 4,532,167 | 3,664,895 | 241 | 141 |
| Total Liabilities | ₩ 11,066,034 | ₩ 8,659,719 | ₩ 90,989 | ₩ 87,612 |

F-77

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Condensed consolidated statements of income for the years ended December 31, 2007 and 2006, categorized by type of business are as follows:

| | Non-Financial Institution | | Financial Institution | |
|---|------------------------------------|--------------|------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (In millions of Korean won) | | | |
| Sales | ₩ 31,594,856 | ₩ 25,832,162 | ₩ 12,885 | ₩ 10,164 |
| Cost of goods sold | 24,896,387 | 19,891,544 | 6,276 | 5,220 |
| Selling and administrative expenses | 1,781,474 | 1,553,868 | 3,743 | 2,547 |
| Operating income | 4,916,995 | 4,386,750 | 2,866 | 2,397 |
| Non-operating income | 805,060 | 743,536 | 13,447 | 5,687 |
| Non-operating expenses | 834,844 | 851,338 | 4,593 | 2,441 |
| Net income before income tax expense | 4,887,211 | 4,278,948 | 11,720 | 5,643 |
| Income tax expense | 1,273,328 | 921,382 | 898 | 569 |
| Net income of Subsidiaries before purchasing | (53,259) | 9,558 | | |
| Net income | ₩ 3,667,142 | ₩ 3,348,008 | ₩ 10,822 | ₩ 5,074 |
| Net income attributable to controlling interest | ₩ 3,547,838 | ₩ 3,309,107 | ₩ 10,822 | ₩ 5,074 |
| Net income attributable to minority interest | ₩ 119,304 | ₩ 38,901 | ₩ | ₩ |

31. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2007, 2006 and 2005, are as follows:

| | 2007 | 2006 | 2005 |
|--|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Noncash financing activities: | | | |
| Reclassification of current portion of loans from foreign financial institutions | ₩ 879 | ₩ 8,797 | ₩ 9,065 |
| Reclassification of current portion of long-term debt | 22,858 | 164,370 | 54,933 |
| Reclassification of current portion of debentures | 460,192 | 231,100 | 991,609 |
| Reclassification of current portion of held-to-maturity securities | 192,393 | 153,476 | 2,688 |

Certain amounts in consolidated financial statements as of and for the year ended December 31, 2006 and 2005, have been reclassified to conform to the December 31, 2007 consolidated financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

32. Professional Staff Development Costs

The Company's expenditures on education and training fees in relation to the development of professional personnel for the years ended December 31, 2007, 2006 and 2005, are as follows:

| | 2007 | 2006 | 2005 |
|---------------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Fees for studying abroad | ₩ 6,314 | ₩ 3,999 | ₩ 3,319 |
| Fees for offsite training | 3,025 | 4,498 | 4,217 |
| Tutorial fees | 3,905 | 3,778 | 5,548 |
| Others | 13,782 | 11,783 | 14,275 |
| | ₩ 27,026 | ₩ 24,058 | ₩ 27,359 |

F-78

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****33. Employees Welfare**

In order to enhance the welfare of employees, the Company provides fringe benefits to its employees, such as dining facilities, dispensary, scholarships, employee stock ownership plan, medical insurance, accident compensation, compensated absence and gymnasium facilities, among others. Employee benefits paid by the Company amounted to ₩481,713 million for the year ended December 31, 2007 (2006: ₩537,242 million, 2005: ₩714,157 million).

34. The Effect from Adjustment of Accounting Policy in Consolidated Subsidiaries

The accounting policy and estimates of the consolidated subsidiaries have been adjusted to confirm that of the Company. The effect of adjustments for the years ended December 31, 2007 and 2006, are as follows:

| | 2007 | | |
|--|--|-------------------|-----------------------------------|
| | Net Assets Value before | Adjustment | Net Assets Value after |
| | Adjustment | Amount | Adjustment |
| | (In millions of Korean won) | | |
| Posteel Co., Ltd. | ₩ 324,736 | ₩ (626) | ₩ 324,110 |
| POSCON Co., Ltd. | 149,729 | 901 | 150,630 |
| Pohang Coated Steel Co., Ltd. | 275,322 | (2,821) | 272,501 |
| POSCO Asia Co., Ltd.(POA) | 20,861 | (544) | 20,317 |
| Zhanjiagang Pohang Stainless Steel Co.,Ltd (ZPSS) | 569,173 | (42,750) | 526,423 |
| POSCO Investment Co., Ltd. | 68,609 | (1,574) | 67,035 |
| POSCO Refractories & Environment Company Ltd.(POSREC) | 132,953 | 6,451 | 139,404 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 83,558 | (6,215) | 77,343 |
| POSCO-Japan Co., Ltd. | 58,188 | (545) | 57,643 |
| Samjung Packing & Aluminum Co., Ltd. | 77,793 | 2,362 | 80,155 |
| POSCO Power Corp. | 523,318 | (1,509) | 521,809 |

| | 2006 | | |
|--|--|-------------------|-----------------------------------|
| | Net Assets Value before | Adjustment | Net Assets Value after |
| | Adjustment | Amount | Adjustment |
| | (In millions of Korean won) | | |

Edgar Filing: POSCO - Form 20-F

| | | | | | | |
|--|---|---------|---|----------|---|---------|
| Posteel Co., Ltd. | ₩ | 293,447 | ₩ | (650) | ₩ | 292,797 |
| POSCON Co., Ltd. | | 129,593 | | (769) | | 128,824 |
| Pohang Coated Steel Co., Ltd. | | 267,016 | | (2,922) | | 264,094 |
| POSCO Asia Co., Ltd.(POA) | | 18,353 | | (349) | | 18,004 |
| Zhanjiagang Pohang Stainless Steel Co.,Ltd (ZPSS) | | 481,471 | | (32,705) | | 448,766 |
| POSCO Investment Co., Ltd. | | 64,793 | | (1,556) | | 63,237 |
| POSCO Refractories & Environment Company Ltd.(POSREC) | | 120,342 | | (5,403) | | 114,939 |
| Qingdao Pohang Stainless Steel Co., Ltd. | | 63,728 | | (4,309) | | 59,419 |
| POSCO-Japan Co., Ltd. | | 49,481 | | (337) | | 49,144 |
| Samjung Packing & Aluminum Co., Ltd. | | 68,955 | | (1,501) | | 67,454 |

F-79

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****35. Significant Differences between Korean GAAP and U.S. GAAP*****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, 2007, 2006 and 2005 and the net income for each of the three year periods 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.

(a) Reconciliation of net income from Korean GAAP to U.S. GAAP

| | Adjustments before Income Tax | Income Tax Effect | Adjustments after Income Tax |
|---|---|------------------------------|---|
| | (In millions of Korean won, except share data) | | |
| For the year ended December 31, 2007 | | | |
| Net income under Korean GAAP | | | ₩ 3,558,660 |
| Adjustments: | | | |
| Fixed asset revaluation | ₩ 16,985 | ₩ (4,671) | 12,314 |
| Capitalized costs | 23,853 | (6,560) | 17,293 |
| Capitalized repairs | (882) | 243 | (639) |
| Investment securities | 511 | (141) | 370 |
| Amortizing of goodwill | 29,160 | (8,019) | 21,141 |
| Derivatives | (71,011) | 19,529 | (51,482) |
| Others, net | 10,193 | (2,803) | 7,390 |
| | ₩ 8,809 | ₩ (2,422) | ₩ 6,387 |
| Net income as adjusted in accordance with U.S. GAAP | | | ₩ 3,565,047 |
| Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP | | | ₩ 46,938 |
| Weighted-average shares outstanding | | | 75,952,869 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| | Adjustments before Income Tax (In millions of Korean won, except share data) | Income Tax Effect | Adjustments after Income Tax |
|---|---|------------------------------|---|
| For the year ended December 31, 2006 | | | |
| Net income under Korean GAAP | | | ₩ 3,314,181 |
| Adjustments: | | | |
| Fixed asset revaluation | ₩ 20,152 | ₩ (5,542) | 14,610 |
| Capitalized costs | 35,435 | (9,745) | 25,690 |
| Capitalized repairs | (1,269) | 349 | (920) |
| Investment securities | 54,070 | (14,869) | 39,201 |
| Amortizing of goodwill | 25,322 | (6,964) | 18,358 |
| Others, net | (4,588) | 1,263 | (3,325) |
| | ₩ 129,122 | ₩ (35,508) | ₩ 93,614 |
| Net income as adjusted in accordance with U.S. GAAP | | | ₩ 3,407,795 |
| Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP | | | ₩ 43,304 |
| Weighted-average shares outstanding | | | 78,694,181 |

| | Adjustments before Income Tax (In millions of Korean won, except share data) | Income Tax Effect | Adjustments after Income Tax |
|---|---|------------------------------|---|
| For the year ended December 31, 2005 | | | |
| Net income under Korean GAAP | | | ₩ 4,022,492 |
| Adjustments: | | | |
| Fixed asset revaluation | ₩ 19,301 | ₩ (5,222) | 14,079 |
| Capitalized costs | 15,381 | (4,230) | 11,151 |
| Capitalized repairs | (5,312) | 1,461 | (3,851) |
| Investment securities | 81,659 | (22,456) | 59,203 |
| Amortizing of goodwill | 8,875 | (2,441) | 6,434 |
| Others, net | 4,187 | (12,097) | (7,910) |
| | ₩ 124,091 | ₩ (44,985) | ₩ 79,106 |

| | | |
|---|---|------------|
| Net income as adjusted in accordance with U.S. GAAP | ₩ | 4,101,598 |
| Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP | ₩ | 51,789 |
| Weighted-average shares outstanding | | 79,198,135 |

F-81

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(b) Reconciliation of shareholders equity from Korean GAAP to U.S. GAAP**

| | Adjustments before Income Tax | Income Tax Effect | Adjustments after Income Tax |
|--|--|------------------------------|---|
| | (In millions of Korean won) | | |
| As of December 31, 2007 | | | |
| Total shareholders equity under Korean GAAP | | | ₩ 25,117,740 |
| Minority interest | | | (633,657) |
| | | | 24,484,083 |
| Adjustments: | | | |
| Fixed asset revaluation | ₩ (136,471) | ₩ 15,041 | (121,430) |
| Capitalized costs | 345,496 | (95,011) | 250,485 |
| Capitalized repairs | 1,573 | (433) | 1,140 |
| Investment securities | (71,762) | 19,735 | (52,027) |
| Amortization of goodwill | 63,356 | (17,423) | 45,933 |
| Derivatives | (71,011) | 19,529 | (51,482) |
| Others, net | 5,664 | (1,558) | 4,106 |
| | ₩ 136,845 | ₩ (60,120) | ₩ 76,725 |
| Shareholders equity, as adjusted, in accordance with U.S. GAAP | | | ₩ 24,560,809 |

| | Adjustments before Income Tax | Income Tax Effect | Adjustments after Income Tax |
|---|--|------------------------------|---|
| | (In millions of Korean won) | | |
| As of December 31, 2006 | | | |
| Total shareholders equity under Korean GAAP | | | ₩ 22,401,742 |
| Minority interest | | | (489,208) |
| | | | 21,912,534 |
| Adjustments: | | | |
| Fixed asset revaluation | ₩ (155,755) | ₩ 19,986 | (135,769) |
| Capitalized costs | 321,643 | (88,452) | 233,191 |
| Capitalized repairs | 2,455 | (675) | 1,780 |
| Investment securities | (84,269) | 23,174 | (61,095) |

Edgar Filing: POSCO - Form 20-F

| | | | |
|---|-----------|------------|--------------|
| Amortizing of goodwill | 34,196 | (9,404) | 24,792 |
| Cumulative effect of FAS 123R | (4,097) | 1,127 | (2,970) |
| Others, net | (431) | 119 | (312) |
| | ₩ 113,742 | ₩ (54,125) | ₩ 59,617 |
| Shareholders' equity, as adjusted, in accordance with U.S. GAAP | | | ₩ 21,972,151 |

F-82

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

| | Adjustments before Income Tax | Income Tax Effect | Adjustments after Income Tax |
|---|--|------------------------------|---|
| | (In millions of Korean won) | | |
| As of December 31, 2005 | | | |
| Total shareholders' equity under Korean GAAP | | | ₩ 19,873,677 |
| Minority interest | | | (384,670) |
| | | | 19,489,007 |
| Adjustments: | | | |
| Fixed asset revaluation | ₩ (175,907) | ₩ 25,528 | (150,379) |
| Capitalized costs | 286,208 | (78,707) | 207,501 |
| Capitalized repairs | 3,724 | (1,024) | 2,700 |
| Investment securities | (66,594) | 18,313 | (48,281) |
| Amortization of goodwill | 8,875 | (2,441) | 6,434 |
| Others, net | 60 | (8,873) | (8,813) |
| | ₩ 56,366 | ₩ (47,204) | ₩ 9,162 |
| Shareholders' equity, as adjusted, in accordance with U.S. GAAP | | | ₩ 19,498,169 |

(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 for the years ended December 31, 2007, 2006 and 2005 under Korean GAAP. Depreciation of net capitalized foreign exchange gains and losses carried forward from prior periods amounted to ₩1,048 million, ₩(2,099) million and ₩8,097 million for the years ended December 31, 2007, 2006 and 2005, respectively.

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 such amount. 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.

F-83

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Capitalized interest for the years ended December 31, 2007, 2006 and 2005 are as follows:

| | 2007 | 2006 | 2005 |
|--------------------------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Capitalized interest | ₩ 104,014 | ₩ 123,350 | ₩ 86,269 |
| Depreciation of capitalized interest | (73,888) | (72,034) | (60,581) |
| Net income impact | ₩ 30,126 | ₩ 51,316 | ₩ 25,688 |

Under Korean GAAP, research and development costs, organization 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 which arose mostly from research and development cost for the years ended December 31, 2007, 2006 and 2005, are as follows:

| | 2007 | 2006 | 2005 |
|-------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Net income impact | ₩ (7,321) | ₩ (13,782) | ₩ (18,404) |

(e) Capitalized repairs

Under Korean GAAP, major repair costs associated with the Company's furnaces had been expensed as incurred, regardless of the nature of the expenditure until 2001. U.S. GAAP requires that repairs which 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. Depreciation of capitalized repairs carried forward from prior periods has 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, 2007, the guarantees issued or modified after December 31, 2002 by the Company for the

repayment of loans amounts to ₩147,100 million, excluding guarantees issued either between parents and their subsidiaries or between corporations under common control (Note 16). The fair value of the liability recorded at the inception is amortized into income over the life of the guarantee contract. The Company has recognized the fair value of liabilities net of amortization amounting to ₩(566) million and ₩(417) million and ₩1,732 for the years ended December 31, 2007, 2006 and 2005, respectively. This adjustment is included in Others, net.

(g) *Stock Appreciation Rights*

Under Korean GAAP, the Company accounted for stock-based compensation in accordance with the intrinsic value method for awards that call for settlement in cash, shares, or a combination of both measures. Stock compensation liabilities at the end of each period are determined 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.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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, Statement of Financial Accounting Standards (SFAS) No. 123(R) is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005, which applies to new awards and to awards modified, repurchased or cancelled after effective date. The Company adopted FAS 123(R) on January 1, 2006 using the modified prospective method. The compensation expense for the portion of the awards for which the requisite service period has not been rendered that are outstanding at December 31, 2005 needs to be remeasured from its intrinsic value to its fair value on the adoption date, and any difference to be reflected as the cumulative effect of change in accounting principle, net of any related tax effect. Also, reflected in the cumulative effect of change in accounting principle is the net cumulative impact of estimating future forfeitures in the determination of periodic expense, rather than recording forfeitures when they occur as previously permitted. Prior to adoption of FAS 123(R), the Company applied APB 25, intrinsic value method, as permitted under FAS 123 and recorded stock compensation liabilities under intrinsic value method using the quoted market value of the shares of the Company's stock covered by a grant exceed the option price.

The Company remeasured the value of its stock appreciation rights as of January 1, 2006 and applied the estimated future forfeitures, which resulted in a cumulative effect of change in accounting principle, net of tax, totaling ₩(2,970) million.

The following table illustrates the effect on Net Income and Earnings per Share if the Company had applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation for the year ended December 31, 2005:

| | 2005 |
|---|--|
| | (In millions of Korean won, except per-share amounts) |
| Net Income, as reported | ₩ 4,101,598 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 4,574 |
| Deduct: Stock-based employee compensation expense determined under the fair value method, net of related tax effects | (6,457) |
| Pro forma net earnings | 4,099,715 |
| Earning per share-basic: | |
| As reported | 51,789 |
| Pro forma | 51,765 |
| Earning per share-diluted: | |
| As reported | 51,789 |
| Pro forma | 51,765 |

As the share appreciation right is classified as liability awards, the fair value of stock options granted was remeasured as of the reporting date using a Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2007 |
|-------------------------------|----------------|
| Dividend yield range | 1.74 ~2.98 % |
| Expected volatility range | 34.44 ~49.38 % |
| Risk-free interest rate range | 5.52 ~5.89 % |
| Expected lives (in years) | 0.45 ~3.51 |

F-85

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

U.S. GAAP reconciliation adjustments for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2007, 2006 and 2005 are included in Others, net and are as follows:

| | 2007 | 2006 | 2005 |
|-------------------|-----------------------------|-----------|---------|
| | (In millions of Korean won) | | |
| Net income impact | ₩ 10,759 | ₩ (4,171) | ₩ 2,455 |

The total stock compensation expense, in accordance with U.S. GAAP, for the years ended December 31, 2007, 2006 and 2005 amounts to ₩113,122 million, ₩54,056 million and ₩15,782 million, respectively.

(h) Investment Securities

The differences in accounting for investment securities relate to (i) recognition of an impairment loss under U.S. GAAP but not under Korean GAAP and (ii) Recognition of gain or loss on disposal of investments due to different classification under Korean GAAP and US GAAP.

(i) Recognition of an impairment loss

Under Korean GAAP, if the fair value of investments classified as either available-for-sale or held to maturity 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 impairment 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.

Under U.S. GAAP, if the decline in fair value of investments classified as either available-for-sale or held to maturity is determined to be other-than-temporary, the cost basis of the individual security is written down to fair value as the new cost basis and the amount of the impairment loss is charged to current operations. In addition, U.S. GAAP prohibits gain recognition based on subsequent recoveries of previously impaired investments.

Both Korean GAAP and U.S. GAAP requires that all unrealized gains and losses arising from available-for-sale securities be recorded in accumulated other comprehensive income.

No other-than-temporary impairment is recorded for available-for-sale or held-to-maturity securities for the years ended December 31, 2007, 2006 and 2005.

(ii) Recognition of gain on disposal of available for sale investments

The Company disposed certain securities that had been previously impaired under U.S. GAAP purposes. The fair value of these securities subsequently recovered resulting in the reversal of the impairment under Korean GAAP. As a result, the Company's cost basis relating to those securities was higher under Korean GAAP than under U.S. GAAP. This difference in cost basis resulted in a gain of ₩511 million under U.S. GAAP upon disposal.

A summary of the U.S. GAAP adjustments relating to investment securities for the years ended December 31, 2007, 2006 and 2005 are as follows:

| | 2007 | 2006 | 2005 |
|----------------------------------|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Impairment loss | ₩ | ₩ (1,026) | ₩ (7,882) |
| Recognition of gains on disposal | 511 | 55,096 | 89,541 |
| Net income impact | ₩ 511 | ₩ 54,070 | ₩ 81,659 |

F-86

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Information with respect to available-for-sale debt and equity securities as of December 31, 2007, 2006 and 2005 is as follows:

Investment Securities:

| | 2007 | 2006 | 2005 |
|--|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Book value at prior yearend plus investment acquired during current year | ₩ 4,049,311 | ₩ 2,420,474 | ₩ 1,864,297 |
| Unrealized gains and losses incurred during current year | 498,711 | 443,097 | 328,276 |
| Permanent impairment loss incurred during current year | (4,340) | (1,970) | (11,605) |
| Fair value (Korean GAAP) | 4,543,682 | 2,861,601 | 2,180,968 |
| Accumulated other-than-temporary impairment | (73,851) | (86,357) | (68,682) |
| Fair value (US GAAP) | ₩ 4,469,831 | ₩ 2,775,244 | ₩ 2,112,286 |

(i) Goodwill

Under Korean GAAP, goodwill is amortized over the useful life during which future economic benefits are expected to flow to the enterprise, not exceeding twenty years. The Company amortizes goodwill over five years using straight-line method. Under U.S. GAAP, goodwill is not subject to amortization rather an impairment test is required at least annually.

(j) Embedded Derivatives

The Company issued exchangeable bonds in 2003. The exchangeable bonds are exchangeable into SK Telecom American Depositary Receipts at the option of the holders. The exchangeable right is considered an embedded derivative instrument. Both Korean GAAP and U.S. GAAP requires that an embedded derivative instrument shall be separated from the host contract and accounted for as a derivative instrument if all of the specific criteria are met.

The difference between Korean GAAP and U.S. GAAP in accounting for embedded derivatives relates to condition of readily convertible to cash when determining it could be settled net (net settlement condition which is one of characteristics of derivative).

Under Korean GAAP, when the total number of shares to be converted in the contract is significant compared to the daily transaction volume, this embedded equity conversion option to shares does not regarded as an embedded derivative because it could not meet the characteristics of readily convertible to cash which is one of criteria in determining net settlement condition.

Under U.S. GAAP, in assessing whether a contract, which can contractually be settled in increments, meets definition of net settlement, an entity must determine whether or not the quantity of the asset to be received from the settlement of one increment is considered readily convertible to cash. If the contract can be settled in increments and those increments are considered readily convertible to cash, the entire contract meets the definition of net settlement.

(k) 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.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****36. Additional Financial Information in Accordance with U.S. GAAP****(a) 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, 2007, 2006 and 2005, computed under U.S. GAAP, and a description of the consolidated financial statement items that created these differences are as follows:

| | 2007 | 2006 | 2005 |
|--|-----------------------------|----------|----------|
| | (In millions of Korean won) | | |
| Deferred tax assets: | | | |
| Fixed asset revaluation | ₩ 15,041 | ₩ 19,986 | ₩ 25,528 |
| Investment securities | | 221,139 | 77,984 |
| Impairment loss on fixed assets | 121,483 | 129,264 | 129,135 |
| Impairment loss on investment securities | 19,735 | 45,979 | 23,078 |
| Allowance for doubtful accounts | 80,532 | 91,478 | 61,142 |
| Allowance for severance benefits | 32,399 | 21,964 | 101,867 |
| Depreciation expense | | 2,168 | 18,980 |
| Capital expenditures | | 74 | |
| Research and development expense | | | 12,988 |
| Deferred taxes related to OCI | | 12,141 | 182,824 |
| Denied accrual expenses | | 78,402 | 120,198 |
| Derivatives | 19,529 | | |
| Others | 292,116 | 45,172 | 86,287 |
| Total deferred tax assets | 580,835 | 667,767 | 840,011 |

| | 2007 | 2006 | 2005 |
|--|-----------------------------|---------|---------|
| | (In millions of Korean won) | | |
| Deferred tax liabilities: | | | |
| Gain on valuation of equity method investments | 178,171 | 118,895 | 134,441 |
| Reserve for repairs | 82,982 | 110,930 | 132,120 |
| Accrued income | 2,313 | 16,446 | 917 |
| Reserve for technology | 303,756 | 397,375 | 388,117 |
| Capitalized repairs | 433 | 675 | 1,024 |
| Capitalized costs | 95,011 | 89,361 | 78,707 |
| Deferred taxes related to OCI | 372,366 | 141,155 | 162,434 |
| Others | | | 30,159 |

| | | | |
|---------------------------------------|------------------------|------------------------|-----------------------|
| Total deferred tax liabilities | 1,035,032 | 874,837 | 927,919 |
| Net deferred tax assets (liabilities) | ₩ (454,197) | ₩ (207,070) | ₩ (87,908) |

(b) 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,

F-88

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

including certain items not included in the current year's results of operations. Comprehensive income for the years ended December 31, 2007, 2006 and 2005 is summarized as follows:

| | 2007 | 2006 | 2005 |
|---|------------------------------------|-------------|-------------|
| | (In millions of Korean won) | | |
| Net income, as adjusted, in accordance with U.S GAAP | ₩ 3,565,047 | ₩ 3,407,795 | ₩ 4,101,598 |
| Other comprehensive income, net of tax: | | | |
| Foreign currency translation adjustments | 74,982 | (51,838) | (7,150) |
| Change in a fair value of a derivative instrument | (4,034) | | |
| Unrealized gains (losses) on investments | 521,124 | 351,307 | 85,195 |
| Reclassification adjustment for losses (gains) included in income | (658) | 43,135 | (1,665) |
| Comprehensive income, as adjusted, in accordance with U.S. GAAP | ₩ 4,156,461 | ₩ 3,750,399 | ₩ 4,177,978 |

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

Accumulated other comprehensive income as of December 31, 2007, 2006 and 2005, is summarized as follows:

| | Foreign Currency Translation Adjustments | Change in a Fair Value of a Derivative Instrument (In millions of Korean won) | Unrealized Gains (Losses) on Investments | Accumulated Other Comprehensive Income |
|--|---|--|---|---|
| Balance, December 31, 2004 | ₩ 11,536 | ₩ | ₩ 177,723 | ₩ 189,259 |
| Foreign currency translation adjustments, net of tax benefit of ₩2,712 million | (7,150) | | | (7,150) |
| Unrealized gains on investments, net of tax expense of ₩(32,316) million | | | 85,195 | 85,195 |
| Less: Reclassification adjustment for net realized gain included in income, net of tax expense of ₩632 million | | | (1,665) | (1,665) |
| Current period change | (7,150) | | 83,530 | 76,380 |
| Balance, December 31, 2005 | ₩ 4,386 | ₩ | ₩ 261,253 | ₩ 265,639 |
| Foreign currency translation adjustments, net of tax benefit of ₩19,663 million | (51,838) | | | (51,838) |
| Unrealized gains on investments, net of tax expense of ₩(147,661) million | | | 351,307 | 351,307 |
| Add: Reclassification adjustment for net realized losses included in income, net of tax benefit of ₩(16,362) million | | | 43,135 | 43,135 |
| Current period change | (51,838) | | 394,442 | 342,604 |
| Balance, December 31, 2006 | ₩ (47,452) | ₩ | ₩ 655,695 | ₩ 608,243 |
| Foreign currency translation adjustments, net of tax expense of ₩(28,441) million | 74,982 | | | 74,982 |
| Change in a fair value of a derivative instrument, net of tax benefit of ₩1,530 million | | (4,034) | | (4,034) |
| Unrealized gains on investments, net of tax expense of ₩(197,667) million | | | 521,124 | 521,124 |
| Add: Reclassification adjustment for net realized losses included in income, net of tax benefit of ₩249 million | | | (658) | (658) |

| | | | | |
|----------------------------|----------|-----------|-------------|-------------|
| Current period change | 74,982 | (4,034) | 520,466 | 591,414 |
| Balance, December 31, 2007 | ₩ 27,530 | ₩ (4,034) | ₩ 1,176,161 | ₩ 1,199,657 |

(c) 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

F-90

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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, 2007 and 2006 are summarized as follows:

| | 2007 | | 2006 | |
|---|--------------------|---|--------------------|------------|
| | Carrying Amount | Fair Value (In millions of Korean won) | Carrying Amount | Fair Value |
| Cash and cash equivalents | ₩ 1,292,581 | ₩ 1,292,581 | ₩ 936,288 | ₩ 936,288 |
| Short-term financial instruments | 1,743,079 | 1,743,079 | 867,310 | 867,310 |
| Trading securities | 1,286,939 | 1,286,939 | 2,000,647 | 2,000,647 |
| Trade accounts and notes receivable, including long-term loans | 3,819,857 | 3,819,857 | 3,845,106 | 3,845,106 |
| Investment securities | 5,178,723 | 5,178,723 | 3,165,055 | 3,165,055 |
| Short-term borrowings | 1,572,020 | 1,572,020 | 1,238,749 | 1,238,749 |
| Trade accounts and notes payable | 2,246,890 | 2,246,890 | 1,507,227 | 1,507,227 |
| Long-term debt, including current portion | 3,789,889 | 3,808,261 | 3,129,914 | 3,189,205 |

(d) 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.

(e) Classification differences in the Consolidated Statements of Income

Certain income and expense items in the Company's Consolidated Statements of Income including: (i) gains and losses on disposal of property, plant and equipment; (ii) impairment of property, plant and equipment; (iii) gains on recovery of allowance for doubtful accounts; (iv) other bad debt expenses; (v) and provision for early retirement benefits have been classified as non-operating under Korean GAAP and excluded from the determination of operating income. Under U.S. GAAP, the above noted income and expense items would be included in the determination of operating income. After reclassification of those items, operating income under U.S. GAAP

F-91

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

would be ₩4,990,642 million and ₩4,306,707 million and ₩5,725,875 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Components of Other non-operating expenses

Other non-operating expenses disclosed within the Korean GAAP Consolidated Statements of Income are comprised of the following:

| | 2007 | 2006 | 2005 |
|---|-----------------------------|-----------|-----------|
| | (In millions of Korean won) | | |
| Loss on disposal of investments | ₩ 17,660 | ₩ 66,116 | ₩ 121,474 |
| Loss on impairment of property, plant and equipment | 1,011 | 2,740 | |
| Provision for early retirement benefits(1) | | 14,672 | 418,567 |
| Additional payment of income tax | | 13,472 | 194,506 |
| Others | 77,097 | 107,847 | 119,543 |
| Total | ₩ 95,768 | ₩ 204,847 | ₩ 854,090 |

(1) In 2000, the Company initiated an ongoing plan to offer special termination benefits to employees who voluntarily accept early retirement and received applications for early retirement from employees. The Company recorded no expense for the year ended December 31, 2007 and recorded an expense amounting to ₩14,672 million and ₩418,567 million, for the years ended December 31, 2006 and 2005, respectively, which represents lump sum early retirement benefits which were either paid or accrued for the applicants who were notified of acceptance and approval of their applications at each year end. The employees were terminated effective on or before December 31, 2006 and all liabilities associated with these early retirement benefits were settled by December 2006.

(f) Consolidated statement of cash flows

Under both Korean GAAP and US GAAP, cash flows are classified under operating activities, investing activities and financing activities.

Under U.S. GAAP, cash flows related to purchases and sales of trading securities are classified as cash flows from operating activities. However, under Korean GAAP, they are classified as cash flows from investing activities. Net cash flows from purchases and sales of trading securities are ₩891,031 million, ₩806,341 million and ₩221,705 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****Components of Others financing activities**

Others financing activities disclosed within the Korean GAAP Consolidated Statements of cash flows are comprised of the following:

| | 2007 | 2006 | 2005 |
|---|-----------------------------|-----------|-------------|
| | (In millions of Korean won) | | |
| Proceeds from other current liabilities | ₩ | ₩ 88,907 | ₩ 2,289 |
| Repayment of other current liabilities | | | (1,640) |
| Dividends paid by subsidiaries | (13,765) | (7,530) | (11,300) |
| Issuance of new shares by subsidiaries | 1,996 | 67,431 | 39,675 |
| Additional acquisition of interest of subsidiaries(*) | (142,778) | (42,165) | (308,887) |
| Proceeds from disposal of interest of subsidiaries | 11,338 | | |
| Total | ₩ (143,209) | ₩ 106,643 | ₩ (279,863) |

(*) Additional acquisition of minority interests in a subsidiary is classified as investment activities under US GAAP, while it is required to be classified as financing activities under Korean GAAP.

(g) Segment

The following table provides information on reconciliation of total assets of the reportable segments under Korean GAAP as of December 31, 2007:

| | Steel | Construction | Trading | Others | Subtotal before Elimination | Reconciling Adjustments | Consolidated |
|----------|-----------------------------|--------------|-------------|-------------|-----------------------------------|----------------------------|--------------|
| | (In millions of Korean won) | | | | | | |
| Segments | | | | | | | |
| Total | | | | | | | |
| assets | ₩ 33,869,372 | ₩ 3,246,818 | ₩ 1,195,492 | ₩ 4,295,711 | ₩ 42,607,393 | ₩ (6,332,630) | ₩ 36,274,763 |

37. Recent Accounting Pronouncements**U.S. GAAP**

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 (SFAS 157) Fair Value Measurement. SFAS 157 defines fair value, establishes a framework for measuring

fair value in generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, except as amended by FASB position (FSP) SFAS 157-1 and FSP SFAS 157-2 as described further below. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The provisions of SFAS 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied except for certain cases where it should be applied retrospectively. The Company is currently evaluating the impact that SFAS 157 may have on the consolidated financial position, results of operations or cash flows. This statement will be effective for the Company for the fiscal year beginning on January 1, 2008. In February 2008, the FASB issued FSP SFAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions and FSP SFAS 157-2, Effective Date of FASB Statement No. 157. FSP SFAS 157-1 removes leasing from the scope of SFAS No. 157, Fair Value Measurements. FSP SFAS 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In February 2007, the FASB issued SFAS Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits companies and not-for-profit organizations to make a one-time

Table of Contents**POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that SFAS 159 may have on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). Under SFAS No. 141(R), companies are required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. This statement further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development (IPR&D) is capitalized as an intangible asset and amortized over its estimated useful life. The Company is in the process of evaluating the impact that SFAS 141 (revised 2007) may have on the consolidated financial statements. This statement will be effective for the Company for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period that begins on or after December 15, 2008.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 (FAS 160). FAS 160 requires all entities to report noncontrolling interests in subsidiaries (also known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. FAS 160 also establishes accounting and reporting standards for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS 160 is effective as of January 1, 2009. The Company is in the process of evaluating the impact that FAS 160 may have on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. FAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is in the process of evaluating the impact that SFAS 161 may have on the consolidated financial statements. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

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/ Lee, Ku-Taek

Name: Lee, Ku-Taek

Title: Chief Executive Officer

and Representative Director

Date: June 24, 2008

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, 2006)*
- 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)*
- 7.1 Computation of ratio of earnings to fixed charges
- 8.1 List of consolidated subsidiaries
- 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