

POSCO  
Form 20-F  
June 27, 2007

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**As filed with the Securities and Exchange Commission on June 27, 2007**

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

**Form 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(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, 2006**  
**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)*

**The Republic of Korea**

*(Jurisdiction of incorporation or organization)*

**Finance Division**

**POSCO Center**

**892 Daechi-4-dong, Gangnam-gu**

**Seoul, Korea**

*(Address of principal executive offices)*

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

**Title of Each Class**

**Name of Each Exchange on Which Registered**

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.  
New York Stock Exchange, Inc.\*

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

**None**  
*(Title of Class)*

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**NONE**  
*(Title of Class)*

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

**77,592,942 shares of common stock, par value Won 5,000 per share**

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 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

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

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

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

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**GLOSSARY**

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

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



**Table of Contents****PART I****Item 1. Identity of Directors, Senior Managers and Advisors****Item 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 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, 2005 and 2006 and for each of the three years in the period ended December 31, 2006 is derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP.

**INCOME STATEMENT DATA**

	<b>For the Year Ended December 31,</b>					
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006(11)</b>
	<b>(In billions of Won and millions of Dollars, except per share data)</b>					
<b>Korean GAAP:</b>						
Sales(1)	W 14,355	W 17,789	W 23,973	W 26,302	W 25,842	US\$ 27,787
Cost of goods sold(2)	11,338	13,451	17,361	18,767	19,897	21,394
Selling and administrative expenses	967	1,075	1,293	1,451	1,556	1,674
Operating income	2,050	3,263	5,319	6,083	4,389	4,720
Interest expense	332	250	192	149	183	197
Foreign currency transaction and translation gains (losses),	135	(105)	179	159	99	106



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net								
Donations(3)		50	103	170	153	155	166	
Income tax expenses		398	730	1,502	1,474	922	991	
Net income		1,089	1,996	3,814	4,022	3,314	3,564	
Basic and diluted earnings per share of common stock(4)		13,295	24,496	47,185	50,790	42,115	45.28	
Dividends per share of common stock		3,500	6,000	8,000	8,000	8,000	8.60	
<b>U.S. GAAP(5):</b>								
Operating income	W	2,021	W 3,235	W 5,299	W 5,671	W 4,259	US\$ 4,579	
Net income		1,018	1,997	3,460	4,102	3,408	3,665	
Basic and diluted earnings per share of common stock		12,430	24,508	42,806	51,789	43,304	46.56	

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

	For the Year Ended December 31,						
	2002	2003	2004	2005	2006	2006(11)	
(In billions of Won and millions of Dollars, except per share data)							
<b>Korean GAAP:</b>							
Working capital(6)	W 1,695	W 3,450	W 5,493	W 5,759	W 7,155	US\$ 7,694	
Property, plant and equipment, net(7)	10,325	9,846	10,440	12,272	14,643	15,745	
Total assets(7)	19,077	20,769	24,129	27,507	31,149	33,494	
Long-term debt(8)(9)(10)	3,194	2,952	2,051	1,131	2,726	2,931	
Total shareholders Equity(7)	11,820	13,250	16,386	19,874	22,402	24,088	
<b>U.S. GAAP(5):</b>							
Property, plant and equipment, net	W 10,322	W 9,880	W 10,541	W 12,420	W 14,860	US\$ 15,978	
Total assets	19,000	20,838	24,279	27,525	31,208	33,557	
Total shareholders Equity	11,464	13,018	16,208	19,498	21,972	23,626	

- (1) Includes sales by our consolidated sales subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.
- (2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.
- (3) Includes donations to educational foundations supporting basic science and technology research. See Item 5. Operating and Financial Review and Prospects Item 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 32 of Notes to Consolidated Financial Statements.
- (6) Working capital means current assets minus current liabilities.
- (7) Reflects revaluations of assets permitted under Korean law.
- (8) Net of current portion and discount on debentures issued.
- (9) For information regarding swap transactions entered into by us, see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Exchange Rate Fluctuations and Note 22 of Notes to Consolidated Financial Statements.
- (10) Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date and resulting translation gains and losses are recognized in current operations. See Notes 2 and 27 of Notes to Consolidated Financial Statements.

- (11) Translated into U.S. Dollars at the rate of Won 930.00 to US\$1.00, the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 29, 2006. This translation should not be construed as a representation that the Korean Won amounts represent, have been, or could be converted to U.S. Dollars at that rate or any other rate.

**Table of Contents****EXCHANGE RATE INFORMATION**

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

<b>Period</b>	<b>At End of Period</b>	<b>Average Rate(1) (Per US\$1.00)</b>	<b>High</b>	<b>Low</b>
2002	1,186.3	1,242.0	1,332.0	1,160.6
2003	1,192.0	1,183.0	1,262.0	1,146.0
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005	1,010.0	1,023.2	1,059.8	997.0
2006	930.0	954.3	1002.9	913.7
2007 (through June 26)	926.1	934.8	949.1	922.3
January	941.0	936.8	942.2	925.4
February	942.3	936.9	942.3	932.5
March	941.1	942.9	949.1	937.2
April	931.0	930.7	937.0	926.1
May	927.4	927.6	934.0	922.3
June (through June 26)	926.1	928.3	932.3	926.1

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.

**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 67.7% of our total sales volume of steel products in 2006. Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automobile, electrical appliances and downstream steel processors, and the Korean economy in general. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea.

From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it is widely believed the country has now recovered to a significant extent. However, the economic indicators in recent years have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to the terrorist attacks in the United States on September 11, 2001, recent developments in the Middle East including the war in Iraq, higher oil prices, and the general weakness of the global economy have increased the uncertainty of global economic prospects and may continue to adversely

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affect the Korean economy. Any future deterioration of the Korean and global economy could adversely affect our financial condition and results of operations.

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

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

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

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

a slowdown in consumer spending;

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

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

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

social and labor unrest;

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

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

implementation of free trade agreements between Korea and other countries, including the United States;

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

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

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

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

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

Our export sales accounted for 32.3% of our total sales volume of steel products in 2006. Our export sales volume to Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 63.8% of our total export sales volume for steel products in 2006, 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.

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

Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 50.8% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2006;

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 depositary for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

***We are dependent on imported raw materials.***

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. In 2006, we imported approximately 42.6 million tons of iron ore and 19.7 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions or significant increases in market prices of essential raw materials, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations.

***We expect 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. The International Iron and Steel Institute estimated the global crude steel production capacity to increase from 1,129 million tons in 2005 to 1,221 million tons in 2006 and expects that the production capacity to continue to increase further in 2007, primarily as a result of additions of new capacity in China, India and other Asian countries. Over-capacity in the global steel industry may return if increase in demand from developing countries that have experienced significant growth in the past several years does not meet this growth in production capacity. Over-capacity will affect our ability to expand export sales and to increase steel production in general, as well as reduce export prices in Dollar terms of our principal products.

***Consolidation in the global steel industry may increase competition.***



In recent years, there has been a trend toward industry consolidation among our competitors. 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 Mittal-Arcelor 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

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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 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. 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. Exports to these regions accounted for 15.6% of our sales volume of steel products in 2006. See Item 4. Information on the Company Item 4B. Business Overview Markets Exports.

**Table of Contents*****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 8.2% of our consolidated sales in 2006, is cyclical and also tends to fluctuate based on macroeconomic factors. Although we believe that our strategy of focusing on high-value-added plant construction and architectural works 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 and falling prices, which could adversely affect the business, financial condition and results of operations of our engineering and construction segment.

***Fixed price construction contracts without price escalation provisions could result in losses for our engineering and construction segment in the event that unforeseen additional expenses arise with respect to the construction project.***

Most domestic and international construction projects are carried out on a fixed price basis according to a predetermined timetable, pursuant to the terms of a fixed price contract. The pricing of fixed price contracts is crucial to the profitability of a contractor, as is the ability of the contractor to quantify risks to be borne by it and to provide for contingencies in the contract accordingly. If unforeseen additional expenses arise, for example due to increases in the cost of raw materials or supplies or because the property underlying a structure requires unforeseen remedial treatment in order for it to support the structure, such expenses are usually borne by the contractor, whose profit from the project will be correspondingly reduced or eliminated. If we experience significant unforeseen additional expenses with respect to our fixed price construction projects, we may incur losses on such projects, which could adversely affect the business, financial condition and results of operations of our engineering and construction segment.

***The Korean housing construction market fluctuates based on the Government's real estate policies.***

The performance of the housing construction business of POSCO Engineering & Construction is affected by a variety of factors, many of which are beyond our control. In particular, the housing market in Korea is influenced by the Government's real estate policies. In recent years, the Government has introduced a variety of new measures to mitigate increases in housing prices in Korea, which include constraints on the amount of mortgage loans, imposition of higher real estate and capital gains taxes and disclosure of construction project costs. The Government has also discouraged redevelopment of apartment complexes in certain parts of Seoul. In part due to such policies, the real estate market for new housing in Korea has experienced a slowdown in recent months. Additional changes in the Government's real estate policies may further reduce demand for new housing in Korea, which would negatively affect the business, financial condition and results of operations of our engineering and construction segment.

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

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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 return, the other five parties in the six-party talks agreed to provide emergency energy assistance to North Korea in the initial phase of 50,000 tons of heavy fuel oil.

There can be no assurance that the February 2007 accord will be implemented as agreed or 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 10D. Exchange Controls.

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

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

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

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

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

and may suffer dilution of your equity interest in us.

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

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements

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

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

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

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

**Item 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 2006. We produced approximately 31.2 million tons of crude steel in 2006, a substantial portion of which was produced at Pohang Works and Gwangyang Works. Currently, Pohang Works has 13.3 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 16.7 million tons. We manufacture and sell a broad line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products.

We sell primarily to the Korean market, with domestic sales accounting for 67.7% of our total sales volume of steel products in 2006. We believe that we had an overall market share of approximately 42.3% of the total sales volume of steel products sold in Korea in 2006.

Our exports in 2005 and 2006 accounted for 26.5% and 32.3% of our total sales volume of steel products, respectively. Our major export market is Asia, with China accounting for 25.1%, Japan 19.4% and the rest of Asia 18.8% of our total steel export sales volume in 2006.



**Business Strategy**

Our goal is to maintain and strengthen our position as one of the leading steel producers in the world. In recent years, the global steel industry has undergone significant consolidation, resulting in the emergence of steel companies with expanded production capacity. We seek to achieve continued global excellence in this era of

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consolidation through a renewed emphasis on growth and innovation. We are currently pursuing the following business strategies.

### ***Continue to Seek Investment Opportunities Abroad and Establish Global Production Base***

We carefully seek out promising investment opportunities abroad, primarily in China, India and Vietnam, in part to prepare for the eventual maturation of the Korean steel market. We believe that China, India and Vietnam will continue to offer substantial growth opportunities, and we plan to selectively seek additional investment opportunities and expand our production base in these countries. In November 2003, we launched POSCO China Holding Corporation, a holding company for our investments in China. 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 an iron ore mine in Orissa state. We estimate the aggregate costs of the initial round of construction and mine development to be approximately \$3.7 billion and additional costs of approximately \$8.3 billion in order to increase the annual production capacity to 12 million tons of slab and hot rolled products. We also obtained an approval from the Government of Vietnam in November 2006 to construct steel mills with annual production capacities of 1.2 million tons of cold rolled products and 3.0 million tons of hot rolled products, pursuant to which we plan to invest \$196 million and finance the remainder to start construction of a \$491 million cold rolling mill in November 2007 with target completion in December 2009. We also entered into a memorandum of understanding with Vina-shin Group in May 2007 to jointly study feasibility of construction and operation of an integrated steel mill in Vietnam. We will continue to seek investment opportunities abroad.

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

We plan to continue to invest in developing leading technology necessary to produce higher margin, higher value-added products and enhance the overall quality of our products. We 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 through elimination of major sources of pollution such as sinter and coke plants, as well as decreasing operating and raw material costs. We completed the construction of our first FINEX plant with an annual production capacity of 1.5 million tons in May 2007. We are also incorporating a new technology called strip casting, which eliminates most of the existing slab casting and hot rolling process and transforms molten steel directly into steel sheets with 1.6 mm to 3.0 mm in thickness. We completed construction of a testing plant with an annual production capacity of 600 thousand tons that utilizes strip casting technology, which we expect to start operating late this year.

We have also sought to enhance the quality of our products through continued modernization and rationalization of our facilities. Through our strategic alliance with Nippon Steel, we also participate in jointly sponsored research. Leveraging our leading technology, we plan to further increase the proportion of our sales of higher margin, higher value-added products such as cold-rolled products (including automotive steel sheets), silicon steel sheets and stainless steel products.

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

We continue to refine our Six Sigma programs as part of our company-wide process for innovation and enhancing efficiency of operations. We reoriented our business transaction processes, including purchase of raw materials and sale of goods, to focus on our customers and established a computerized resource management system. The company-wide inventory and product classification and data standardization system have substantially cut operational inefficiencies and enhanced our cost-effectiveness. In addition, by sharing inventory and cost information in real time,

we have shortened the period required to prepare monthly financial accounting data. In recent years, we have also implemented aggressive 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. In addition to improving the efficiency of our production, we also strive to create an innovative corporate culture. Under the slogan of "improve and practice everyday," the POSCO Six Sigma Model extends to business process management

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which enables us to monitor and control our performance. We will continue to seek new opportunities to implement our company-wide process innovation and increase our efficiency and cost-effectiveness.

### ***Continue to Expand Our Export Customer Base***

Although supplying the Korean domestic market is our priority, we intend to continue to supply a significant amount of our products to customers in overseas markets. Our export and overseas sales volume represented 32.3% of our total sales volume of steel products in 2006, with 63.8% of our export and overseas sales volume of steel products to customers in nearby Asian markets in 2006. We intend to further strengthen our global market position by cultivating relationships with our existing overseas customers and assertively seeking out prospective new customers in the emerging markets for high value steel products. Our export sales provide a foreign currency hedge by generating foreign currency that can be used to service our foreign currency debt and to purchase key raw materials, most of which we source from overseas. Maintaining strong relationships with major export customers also provides us with the flexibility to reallocate sales to foreign markets in periods when domestic demand is weak.

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

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

### ***Selectively Seek Opportunities in Growth Industries***

Our first priority is to maximize revenues and profits from our steel operations. We also selectively seek opportunities in growth industries, in part to prepare for the eventual maturation of the Korean steel market. When determining our diversification projects, we consider attractiveness of the industry and its future growth potential, as well as our capabilities to become competitive in such an industry. New businesses related to our steel operations include liquefied natural gas production, logistics and magnesium coil and sheet production. New businesses not related to our steel operations in which we intend to focus our efforts for diversification include power generation, advanced materials and alternative energy development. For example, we purchased a 50.0% interest in POSCO Power Corporation for Won 291 billion in July 2005 and the remaining 50.0% interest for Won 306 billion in March 2006. POSCO Power Corporation is the largest private power generation company in Korea that operates power plants with total power generation capacity of 1,800 megawatts. 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.

## **Major Products**

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

hot rolled products;

plates;

wire rods;

cold rolled products;  
silicon steel sheets; and  
stainless steel products.

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

Steel Products	2002		2003		Year Ended December 31, 2004		2005		2006	
	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%
Hot rolled products	3,416	25.4	4,185	26.1	5,449	25.1	5,877	25.0	4,650	20.8
Plates	1,237	9.2	1,320	8.2	1,987	9.1	2,253	9.6	2,380	10.7
Wire rods	1,178	8.7	1,064	6.6	1,351	6.2	1,528	6.5	1,243	5.6
Cold rolled products	4,310	32.0	5,208	32.4	6,564	30.2	7,527	32.0	6,765	30.3
Silicon steel sheets	347	2.6	431	2.7	531	2.4	688	2.9	681	3.0
Stainless steel products	2,278	16.9	3,172	19.7	4,920	22.6	4,543	19.3	5,751	25.8
Others	700	5.2	687	4.3	952	4.4	1,132	4.7	859	3.8
Total	13,465	100.0	16,067	100.0	21,753	100.0	23,547	100.0	22,329	100.0

Steel Products	2002		2003		Year Ended December 31, 2004		2005		2006	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	11,461	37.8	11,514	37.6	10,966	34.5	10,330	33.2	9,604	31.0
Plates	3,060	10.1	3,047	9.9	3,385	10.6	3,193	10.3	3,615	11.7
Wire rods	2,808	9.3	2,777	9.1	2,503	7.9	2,366	7.6	2,153	6.9
Cold rolled products	9,503	31.3	9,770	31.9	10,242	32.2	10,468	33.6	10,864	35.1
Silicon steel sheets	589	1.9	671	2.2	705	2.2	737	2.4	686	2.2
Stainless steel products	1,394	4.6	1,778	5.8	2,069	6.5	1,919	6.2	2,260	7.3
Others	1,518	5.0	1,100	3.5	1,926	6.1	2,100	6.7	1,802	5.8
Total	30,333	100.0	30,657	100.0	31,796	100.0	31,115	100.0	30,984	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 1.2 million tons in 2002, 1.4 million tons in 2003, 1.0 million tons in 2004, 1.0 million tons in 2005 and 0.8 million tons in 2006, accounting for Won 511 billion in 2002, Won 679 billion in 2003, Won 699 billion in 2004, Won 807 billion in 2005 and Won 470 billion in 2006, 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, railway rolling stocks, industrial pipes and tanks, and automobile chassis. Hot rolled coil is also manufactured in a wide range of widths and thickness as the feedstock for higher value-added products such as cold rolled products and silicon steel sheets.

Our deliveries of hot rolled products amounted to 9.6 million tons in 2006, representing 31.0% of our total sales volume of steel products. The Korean market accounted for 7.1 million tons or 74.2% of our hot rolled product sales in 2006, representing a domestic market share of approximately 51.3%. 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 2006, our sales volume of hot rolled products decreased by 7.0% compared to 2005 primarily due to a decrease in demand from the construction industry and an increase in the quantity set aside for use in the production of cold rolled products.

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### ***Plates***

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

Our deliveries of plates amounted to 3.6 million tons in 2006, representing 11.7% of our total sales volume of steel products. The Korean market accounted for 3.4 million tons or 93.7% of our plate sales in 2006, representing a domestic market share of approximately 37.2%. 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 2006, our sales volume of plates increased by 13.2% compared to 2005 primarily due to an increase in demand from the shipbuilding and industrial machinery industries.

### ***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 2006, representing 6.9% of our total sales volume of steel products. The Korean market accounted for 1.7 million tons or 76.9% of our wire rod sales in 2006, representing a domestic market share of approximately 52.7%. The largest customers for our wire rods are manufacturers of wire and nails.

In 2006, our sales volume of wire rods decreased by 9.0% compared to 2005 primarily due to a decrease in demand from the construction industry, which more than offset an increase in demand from the automobile industry.

### ***Cold Rolled Products***

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

Our deliveries of cold rolled products amounted to 10.9 million tons in 2006, representing 35.1% of our total sales volume of steel products. The Korean market accounted for 6.1 million tons or 56.1% of our cold rolled product sales in 2006, representing a domestic market share of approximately 52.3%.

Cold rolled products constitute one of our two largest product categories in terms of sales volume and revenue. Sales of cold rolled products in recent years have experienced growth due to the launching of a sixth continuous galvanizing line at Gwangyang Works and an increase in demand from the automobile industry. In 2006, our sales volume of cold rolled products increased by 3.8% compared to our sales volume in 2005.

### ***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 686 thousand tons in 2006, representing 2.2% of our total sales volume of steel products. The Korean market accounted for 318 thousand tons or 46.3% of our silicon steel sheet sales in 2006, representing a domestic market share of approximately 85.0%.



In 2006, despite an increase in demand from manufacturers of power transformers and generators, our sales volume of silicon steel sheets decreased by 6.9% compared to 2005 due to a temporary suspension of a production plant for revamping from April to June in 2006.

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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 2.3 million tons in 2006, representing 7.3% of our total sales volume of steel products. The Korean market accounted for 1.0 million tons or 44.9% of our stainless steel product sales in 2006, representing a domestic market share of approximately 53.9%.

Stainless steel products constitute our second largest product category in terms of revenue. Although sales of stainless steel products accounted for only 7.3% of our total sales volume in 2006, they represented 25.8% of our total revenues from sales of steel products in 2006. Our sales volume of stainless steel products increased by 17.8% in 2006 compared to 2005 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 67.7% of our total sales volume of steel products in 2006. Exports and overseas sales represented 32.3% of our total sales volume of steel products in 2006. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent, to expand our international market presence and to earn foreign exchange.

***Domestic Market***

The total Korean market for steel products amounted to 49.6 million tons in 2006. We sold a total of 21.0 million tons of steel products in Korea in 2006, maintaining an overall domestic market share of 42.3% for such period.

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

Region	2002		2003		2004		2005		2006	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
POSCO's sales	21,090	48.2	21,121	46.6	23,599	50.0	22,880	48.5	20,991	42.3
Other Korean steel companies sales	17,732	40.6	17,838	39.3	15,969	33.9	15,957	33.9	18,052	36.4
Imports(1)	4,898	11.2	6,411	14.1	7,595	16.1	8,287	17.6	10,591	21.3
Total domestic sales(1)	43,720	100.0	45,370	100.0	47,163	100.0	47,124	100.0	49,634	100.0

(1) Source: 2006 Official Statistics, Korea Iron & Steel Association.

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

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

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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 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.

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 exports and overseas sales volume represented 32.3% of our total sales volume of steel products in 2006, 63.8% of which was generated in exports and sales to Asian countries. Our exports in terms of sales volume increased by 21.4% to 10.0 million tons in 2006. The tables below set out our exports and sales of steel products in terms of sales volume by geographical market and by product for the periods indicated.

Region	Year Ended December 31,									
	2002		2003		2004		2005		2006	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
China	2,828	30.6	3,510	36.8	3,138	38.3	2,640	32.1	2,524	25.3
Japan	1,780	19.3	1,719	18.0	1,661	20.3	1,843	22.4	1,959	19.6
Asia (other than China and Japan)	2,414	26.1	2,259	23.7	1,502	18.3	1,636	19.9	1,895	19.0
North America	978	10.6	715	7.5	737	9.0	761	9.2	963	9.6
Europe	294	3.2	236	2.5	116	1.4	34	0.4	318	3.2
Others	949	10.3	1,096	11.5	1,043	12.7	1,320	16.0	2,335	23.3
Total	9,243	100.0	9,535	100.0	8,198	100.0	8,234	100.0	9,994	100.00

Steel Products	2002		2003		2004		2005		2006	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	2,224	24.1	2,464	25.8	2,049	25.0	1,960	23.8	2,477	24.8
Plates	300	3.2	363	3.8	295	3.6	229	2.8	228	2.3
Wire rods	679	7.3	598	6.3	252	3.1	333	4.1	498	5.0
Cold rolled products	4,694	50.8	4,649	48.8	4,139	50.5	4,142	50.3	4,774	47.8
Silicon steel sheets	161	1.7	223	2.3	245	3.0	262	3.2	369	3.7
Stainless steel products	706	7.6	795	8.3	1,019	12.4	1,032	12.5	1,245	12.4
Others	478	5.2	443	4.7	199	2.4	276	3.3	403	4.0
Total	9,243	100.0	9,535	100.0	8,198	100.0	8,234	100.0	9,994	100.0

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

Region	Year Ended December 31,		
	2004	2005	2006
	(In billions)		
Korea	W 16,738	W 18,566	W 17,250
China	3,316	3,118	3,070
Asia (other than China and Japan)	1,257	1,502	1,486
Japan	1,164	1,372	1,312
North America	529	550	610
Other	969	1,194	2,114
Total	23,973	26,302	25,842

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.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
Apparent Crude Steel Use (million metric tons)	917	984	1,091	1,113	1,178
Percentage of annual increase (decrease)	6.3%	7.3%	10.9%	2.0%	5.8%

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. The International Iron and Steel Institute estimated the global crude steel production capacity to increase from 1,129 million tons in 2005 to 1,221 million tons in 2006 and expects the production capacity to increase further in 2007, primarily as a result of additions of new capacity in China, India and other Asian countries. Over-capacity in the global steel industry may return if increase in demand from developing countries that have experienced significant growth in 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 2006 was China, which accounted for 25.3% of our export volume of steel products, including sales by our overseas subsidiaries. The principal products exported to China are cold rolled products and stainless steel products. Our exports to China amounted to 3.1 million tons in 2004, 2.6 million tons in 2005 and 2.5 million tons in 2006. Exports to China decreased by 10.6% in 2004 and 15.9% in 2005 primarily due to our decision to focus on meeting increased domestic demand. Our exports to China further decreased in 2006 by 4.4% primarily due to an adjustment of our sales volume from China to other countries with more favorable market price conditions. Our exports to Japan recovered from 1.7 million tons in 2004 to 1.8 million tons in 2005 and 2.0 million tons in 2006 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 1.5 million tons in 2004 to 1.6 million tons in 2005 and increased further to 1.9 million tons primarily due to an adjustment of our sales volume from China to other Asian countries with more favorable market price conditions.

In 2004 and 2005, our exports to the United States and Europe remained at relatively low levels primarily due to our decision to export to Asian countries other than Japan that have higher profit margins. However, our sales volume to the United States and Europe increased from 0.8 million tons in 2005 to 1.3 million tons in 2006, primarily due to favorable market price conditions in these regions during the first half of 2006.

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 639

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thousand tons in 2004, 572 thousand tons in 2005 and 730 thousand tons in 2006, accounting for approximately 87% of our sales to North America in 2004, 75% in 2005 and 76% in 2006.

In the United States, a number of our products have been subject to anti-dumping and countervailing proceedings since 1992. As a result of these proceedings, our sales of corrosion resistant steel are subject to a countervailing duty of 0.07% and an anti-dumping duty of 0.35%, 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.

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 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 2004 and 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 cost and price 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 have rebounded and stabilized in the first half of 2007 as demand from Japan remained strong and various steel producers in China, the United States and Europe increased their sales prices.

## **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 2006, we imported approximately 42.6 million tons of iron ore and 19.7 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia.

In 2006, we purchased most of our iron ore and coal imports pursuant to long-term contracts. We purchased approximately 15.4% of our iron ore and coal imports in 2006 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 prices of coal and iron ore increased substantially in recent years. The average price of coal per ton (including all associated costs such as customs duties and transportation costs) increased from \$72.00 in 2004 to

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\$114.40 in 2005 and stabilized at \$111.30 in 2006. The average price of iron ore per ton (including all associated costs such as customs duties and transportation costs) increased from \$32.00 in 2004 to \$44.60 in 2005 and increased further to \$55.10 in 2006. 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 2.4 million tons of iron ore from this development project in 2004, 3.2 million tons in 2005 and 2.9 million tons in 2006.

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, and (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. 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. 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 requirements for ferrochrome are purchased from producers in South Africa, India and Kazakhstan. Most of the 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 nickel price per ton increased from \$13,852 in 2004 to \$15,230 in 2005, and further to \$21,654 in 2006.

In April 2005, we executed a joint venture agreement with Société Minière du Sud Pacifique, a New Caledonian nickel mining company, to procure nickel ore deposits in New Caledonia and operate a ferro-nickel production plant in Korea with annual production capacity of approximately 30,000 metric tons of nickel. Pursuant to the joint venture agreement, two joint venture companies were established in Korea and New Caledonia in May 2006 and June 2006, respectively. We have ownership interest of 49% in each joint venture company and our aggregate investment amount in the joint venture companies is \$352 million. The joint venture company in New Caledonia will own the nickel mines and assets relating to nickel mining operations. We plan to purchase all of the ferro-nickel produced by the joint venture company in Korea using the nickel ore supplied from the joint venture company in New Caledonia starting in 2009 and use it for our stainless steel production.

### ***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 2006, 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 18% and 9% of the total cost of such materials in 2006.

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

#### ***Stainless Steel Electric Arc Furnace Method***

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel 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.

### **Competition**

#### ***Domestic Market***

We are currently the only fully integrated steel producer in Korea. As we had an overall market share of 42.3% of the total sales volume of steel products sold in Korea in 2006, we generally face fragmented competition in the domestic market. In hot rolled products, where we had a market share of approximately 51.3% in 2006, we face competition from a Korean operator of mini-mills, which produces lower quality products, and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 52.3% and 53.9% in 2006, 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 9.3 million tons in 2006.

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 Mittal-Arcelor, and new market entrants, especially from China and India, could result in a significant increase in competition. Major competitive factors include range of

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products offered, quality, price, delivery performance and customer service. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

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

## **Joint Venture and Other Investments**

In September 1996, we entered into an agreement with Sagang Group Co. to establish Zhangjiagang Pohang Stainless Steel Co., Ltd., a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. We have a 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 the construction of new mills in July 2006 with additional annual production capacity of 600 thousand tons of stainless hot rolled products. Zhangjiagang Pohang Stainless Steel produced 458 thousand tons of stainless steel products in 2006.

We established POSCO Specialty Steel Co., Ltd. as a wholly-owned subsidiary in Korea in February 1997. POSCO Specialty Steel produces high-quality steel for automobiles, machinery, nuclear power plants, ship-building, aeronautics and electronics industries. The plants operated by POSCO Specialty Steel have an aggregate annual production capacity of 835 thousand tons of wire rods, round bars, steel pipes and semi-finished products. POSCO Specialty Steel Co., Ltd. produced 831 thousand tons of such products in 2006.

We currently hold an 80.0% interest in Qingdao Pohang Stainless Steel Co., Ltd. (including 10.0% interest of POSCO China Holding Corporation), a joint venture set up to manufacture and sell stainless cold rolled steel products in China. Construction of the plant operated by Qingdao Pohang Steel began in August 2003 and became operational in December 2004, with an annual production capacity of 180 thousand tons of stainless cold rolled steel products. Qingdao Pohang Steel produced 171 thousand tons of such products in 2006.

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 506 thousand tons of such products in 2006. We currently hold a 10.0% 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 solidify 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 an iron ore mine 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 slab and hot rolled products. We are currently obtaining the necessary regulatory approvals for the construction of the mill and the development of an iron ore mine.

We also obtained an approval from the Government of Vietnam in November 2006 to construct steel mills with annual production capacities of 1.2 million tons of cold rolled products and 3.0 million tons of hot rolled products, pursuant to which we plan to invest \$196 million and finance the remainder to start construction of a \$491 million cold rolling mill in November 2007 with target completion in December 2009. We also entered into a memorandum of understanding with Vina-shin Group in May 2007 to jointly study feasibility of 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 plan to invest \$84 million and finance the remainder to start

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construction of a \$210 million automotive steel sheet plant with an annual capacity of 0.4 million tons in September 2007 with target completion in June 2009.

## **Subsidiaries**

In order to complement our steel operations, we also engage in engineering and construction activities through POSCO Engineering & Construction Co., Ltd., a 90.9%-owned subsidiary, and steel products trading activities through POSCO Steel Service & Sales Co., Ltd., a 95.3%-owned subsidiary.

### ***POSCO Engineering & Construction***

Our engineering and construction activities include the planning, designing and construction of: (1) plant construction, which involves the construction and enhancement of iron and steel works, power generation facilities, sewage treatment plants and other industrial facilities; (2) civil engineering, which involves the construction of roads and bridges, reservoirs and transportation facilities, land reclamation and other infrastructure projects; (3) architectural works, involving the construction of office and commercial buildings and educational and cultural facilities, as well as urban planning and redevelopment; (4) housing, which involves the construction or reconstruction of apartment buildings; and (5) overseas business, which includes a broad range of construction projects for both public and private sector clients outside Korea, primarily in Asia and the Middle East.

Major construction projects that we have been involved in recent years include steel plant construction projects in India and the Middle East and a power plant construction project in Chile, as well as urban planning and development for An Khanh new city project in Vietnam. In addition, we are involved in various construction projects for the Incheon Songdo international city development project.

### ***POSCO Steel Service & Sales Co., Ltd.***

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. Our trading activities are coordinated 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 customers, identifying business opportunities and providing information regarding local market conditions.

## **Diversification**

Our first priority is to maximize revenues and profits from our steel operations. In addition, we selectively seek opportunities in growth industries, in part to prepare for the eventual maturation of the Korean steel market. When determining our diversification projects, we consider attractiveness of the industry and its future growth potential, as well as our capabilities to become competitive in such an industry.

New businesses related to our steel operations include liquefied natural gas production, logistics and magnesium coil and sheet production. We completed the construction of a liquefied natural gas terminal in July 2005. In January 2003, we also entered into a joint venture with Mitsui Corporation of Japan for a 51.0% interest in POSCO Terminal Co., Ltd. which provides logistics services related to storage and transportation of raw materials used in steel production and other industries. Facilities operated by POSCO Terminal Co., Ltd. currently have an annual handling capacity of 6.3 million tons and enable us to transport raw materials on behalf of third parties, including electric power companies, cement companies and overseas steel manufacturers. In February 2004, we launched a research and development program with Research Institute of Science and Technology on magnesium sheet production using the



strip casting and coil rolling technologies. We expect to complete our first magnesium coil and sheet plant with annual capacity of 3,000 tons in July 2007.

New businesses not related to our steel operations in which we intend to focus our efforts for diversification include power generation, development of alternative energy and advanced materials, information and technology related consulting services and Wireless broadband Internet access service, or WiBro. We purchased a 50.0% interest in POSCO Power Corporation for Won 291 billion in July 2005 and purchased the remaining 50% interest

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for Won 306 billion in March 2006. POSCO Power Corporation is the largest private power generation company in Korea that operates power plants with total power generation capacity of 1,800 megawatts. 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. As for production of advanced materials, we plan to utilize our proprietary steel rolling and strip casting technologies and to develop additional technologies and manufacturing capabilities. Through POSDATA, a 61.9%-owned subsidiary, we also engage in information and technology consulting and system network integration and outsourcing services, as well as WiBro service under the FLYVO brand name. POSDATA also manufactures electronic toll collection terminals, Internet protocol phones and digital video recorders.

**Insurance**

As of December 31, 2006, our property, plant and equipment are insured against fire and other casualty losses up to Won 9,729 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 their jurisdiction of incorporation and our ownership interests of our significant subsidiaries:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage of Ownership</b>
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%

**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 5B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion.

**Pohang Works**

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

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 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.

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The following table sets out Pohang Works' capacity utilization rates for the periods indicated.

	2002	Year Ended December 31,			2006
		2003	2004	2005	
Crude steel and stainless steel production capacity (million tons per year)	12.20	12.67	13.30	13.30	13.30
Actual crude steel and stainless steel output (million tons)	12.16	12.67	13.45	13.36	12.60
Capacity utilization rate(%) <sup>(1)</sup>	99.7	100.0	101.1	100.4	94.7

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

Gwangyang Works is comprised of 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 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.

	2002	Year Ended December 31,			2006
		2003	2004	2005	
Crude steel and stainless steel production capacity (million tons per year)	15.80	16.23	16.70	16.70	16.70
Actual crude steel and stainless steel output (million tons)	15.90	16.23	16.76	17.19	17.45
Capacity utilization rate(%) <sup>(1)</sup>	100.6	100.0	100.4	102.9	104.5

- (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.

## **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

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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 environment 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.

POSCO spent Won 145.5 billion in 2004, Won 127.0 billion in 2005 and 194.0 billion in 2006 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.

**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 2.1% in 2005 and further decreased by 0.4% in 2006. While our crude steel output increased from 31.1 million tons in 2004 to 31.4 million tons in 2005, sales volume decreased from 31.8 million tons in 2004 to 31.1 million tons in 2005 due to an increase in our inventory in the second half of 2005 resulting from adverse Chinese market conditions. In 2006, our crude steel output decreased to 31.2 million tons and sales volume decreased to 31.0 million tons due to a temporary suspension of the second blast furnace and the second hot rolled mill at Pohang Works for revamping from March to May 2006. For a discussion of our sales volume and revenues by major products and markets from 2002 to 2006, see Item 4. Information on the Company Item 4.B. Business Overview Major Products and Markets.

Unit sales price in Won for all of our principal product lines increased in 2005 despite an appreciation of the Korean Won against the Dollar. The weighted average unit prices for our products increased by 10.6% in 2005 compared to 2004. Unit sales price of plates, which accounted for 10.3% of total sales volume, increased by 20.2%

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in 2005. Unit sales price of wire rods, which accounted for 7.6% of total sales volume, increased by 19.7% in 2005. Unit sales price of hot rolled products, which accounted for 33.2% of total sales volume, increased by 14.5% in 2005.

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.

Export prices in Dollar terms increased in 2004 and 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 cost and price 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 have rebounded and stabilized in the first half of 2007 as demand from Japan remained strong and various steel producers in China, the United States and Europe increased their sales prices. 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.

Product	Year Ended December 31,		
	2004	2005	2006
	(In thousands of Won per ton)		
Hot rolled products	W 496.9	W 568.9	W 484.2
Plates	586.8	705.4	658.4
Wire rods	539.6	645.9	577.2
Cold rolled products	640.8	719.0	622.7
Silicon steel sheets	753.0	934.0	991.8
Stainless steel products	2,378.4	2,366.9	2,544.3
Others	494.4	538.6	476.6
Average(1)	W 684.1	W 756.8	W 720.6

(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.





**Table of Contents*****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.

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(Percentage of net sales)</b>		
Cost of goods sold	72.4%	71.4%	77.0%
Selling and administrative expenses(1)	5.4	5.5	6.0
Total operating expenses	77.8	76.9	83.0
Gross margin	27.6	28.6	23.0
Operating margin	22.2	23.1	17.0

(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.

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

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Crude steel and stainless steel production capacity(1) (million tons per year)(1)(2)	30.9	30.9	31.2
Actual crude steel and stainless steel output (million tons)(2)	31.1	31.4	31.2
Capacity utilization rate(%) (2)	100.6	101.6	99.9
Steel product sales (million tons)(2)	31.80	31.12	30.98
Man-hours per ton of crude steel produced(3)	1.12	1.16	1.13

(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 1.2 million tons in 2002, 1.4 million tons in 2003, 1.0 million tons in 2004, 1.0 million tons in 2005 and 0.8 million tons in 2006.

(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 50.8% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2006;

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.

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Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations. In terms of the average noon buying rate, the Won appreciated against the Dollar from Won 1,035.1 to US\$1 as of December 31, 2004 to Won 930.0 to US\$1 as of December 29, 2006. 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, 2006, we had entered into one option contract and seven currency forward contracts. The net valuation gain of the above contracts was approximately Won 1.0 billion and the net transaction loss was Won 24.9 billion in 2006. 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.

***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. The book values of property, plant and equipment held for sale amounted to Won 64 billion and are classified as other investment assets as of December 31, 2006.

***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, logistics and magnesium coil and sheet production. See Note 29 of Notes to Consolidated Financial Statements.

***Inflation***

Inflation in the Republic, which was 3.6% in 2004, 2.8% in 2005 and 2.2% in 2006 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

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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.

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

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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 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*****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 4B. Business Overview Major Products.

Our domestic sales in 2006 decreased by 7.1% in terms of total sales revenues and decreased by 8.3% in terms of sales volume of steel products compared to 2005. In 2006, our domestic sales 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 domestic sales volume, as well as a decrease in the price of steel products sold in Korea.

Our export sales in 2006 increased by 11.1% in terms of sales revenues and by 21.4% in terms of sales volume compared to 2005. Exports 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 in terms of sales revenues in 2006



compared to 2005 was primarily attributable to an increase in export sales volume, which more than offset a decrease in the price of steel products sold abroad and the reduction in net sales in Won from export sales caused by appreciation of the Won against the Dollar.

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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 customs duties and transportation costs) increased by 23.5% to \$55.10 in 2006 from \$44.60 in 2005, and the average price of nickel per ton (including all associated costs such as customs duties and transportation costs) increased by 42.2% to \$21,654 in 2006 from \$15,230 in 2005. Depreciation and amortization 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 total export volume. 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 17.6% to Won 3,314 billion compared to Won 4,022 billion in 2005 primarily due to decreases in operating income, non-operating income-others and 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 36.9% to Won 133 billion in 2006 from Won 211 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 gain on foreign currency translation decreased by 43.3% to Won 84 billion in 2006 from Won 149 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 in 2006 to 27.5% as in 2005. See Note 25 of Notes to Consolidated Financial Statements.

**Table of Contents*****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.

***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, decreased by 1.0% to Won 24.2 billion in 2006 from Won 24.5 billion in 2005.

***2005 Compared to 2004***

Our sales in 2005 increased by 9.7% to Won 26,302 billion from Won 23,973 billion in 2004, reflecting an increase of 10.6% in the average unit sales price per ton of our steel products, as discussed in Overview Sales Volume, Prices and Product Mix above, which more than offset a 2.1% decrease in the sales volume of our steel products.

Sales volume of stainless steel products, which accounted for 6.2% of total sales volume, showed the greatest decrease among our major steel product categories in 2005 with a decrease of 7.3%. Sales volume of hot rolled products, which accounted for 33.2% of total sales volume, decreased by 5.8%. In addition, sales volume of plates, which accounted for 10.3% of total sales volume, decreased by 5.7%. These decreases in sales volume were partially offset by increases in sales volume of silicon steel sheets and cold rolled products. Sales volume of silicon steel sheets, which accounted for 2.4% of total sales volume, showed the greatest increase among our major steel product categories in 2005 with an increase of 4.5%. Sales volume of cold rolled products, which accounted for 33.6% of total sales volume, increased by 2.2%. See Item 4. Information on the Company Item 4B. Business Overview Major Products.

Our domestic sales in 2005 increased by 10.9% in terms of total sales revenues but decreased by 3.0% in terms of sales volume of steel products compared to 2004. In 2005, our domestic sales accounted for approximately 73.5% of our total sales volume, compared to 74.2% in 2004. The increase in domestic sales revenues in 2005 compared to 2004 was attributable primarily to an increase in the price of steel products sold in Korea, which more than offset a

decrease in domestic sales volume.

Our export sales in 2005 increased by 6.9% in terms of sales revenues and by 0.4% in terms of sales volume compared to 2004. Exports as a percentage of total sales volume increased to 26.5% of our total sales volume of steel products in 2005 compared to 25.8% in 2004. The increase in export sales in terms of sales revenues in 2005 compared to 2004 was primarily attributable to an increase in the price of steel products sold abroad and to a lesser

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extent, an increase in export sales volume, which more than offset the reduction in net sales in Won from export sales due to appreciation of the Won against the Dollar.

Gross profit in 2005 increased by 13.9% to Won 7,535 billion from Won 6,612 billion in 2004. Gross margin in 2005 increased to 28.6% from 27.6% in 2004, as the 9.7% increase in sales more than offset an 8.1% increase in cost of goods sold in 2005 to Won 18,767 billion from Won 17,361 billion in 2004. The increase in cost of goods sold was attributable primarily to increases in purchase of raw materials, as well as an increase in labor expenses resulting from higher performance bonuses. Raw materials costs in 2005 increased primarily as a result of a general increase in the unit costs of coal, iron ore, nickel and scrap metal, as well as an increase in our production of crude steel to 31.4 million tons in 2005 compared to 31.1 million tons in 2004. The average price of coal per ton (including all associated costs such as customs duties and transportation costs) increased from \$72.02 in 2004 to \$112.15 in 2005. The average price of iron ore per ton (including all associated costs such as customs duties and transportation costs) increased from \$31.96 in 2004 to \$44.22 in 2005.

Operating income in 2005 increased by 14.4% to Won 6,083 billion compared to Won 5,319 billion in 2004. Operating margin increased to 23.1% in 2005 from 22.2% in 2004, as selling and administrative expenses increased by 12.3% in 2005 to Won 1,451 billion compared to Won 1,293 billion in 2004. The increase in selling and administrative expenses resulted principally from increases in provision for doubtful accounts, advertising expenses, fees and charges and labor-related expenses. Our provision for doubtful accounts increased by 94.4% in 2005 to Won 104 billion from Won 54 billion in 2004 primarily as a result of slowdown in the construction industry and an increase in reserve for doubtful receivables of POSCO Engineering & Construction Co., Ltd. Advertising expenses increased by 98.8% in 2005 to Won 98 billion from Won 49 billion in 2004 primarily as a result of reclassification of advertising expenses incurred in our Pohang and Gwangyang plants, which had been classified as manufacturing cost until 2004, pursuant to recommendation by our internal accounting standards review committee in 2005. Our fees and charges in 2005 increased by 59.3% to Won 122 billion compared to Won 77 billion in 2004, primarily as a result of an increase in such expenses from 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 13.3% to Won 315 billion in 2005 from Won 278 billion in 2004, primarily as a result of a Won 20 billion increase in salaries, as well as higher welfare expenses and performance bonuses. Our welfare expenses increased by Won 12 billion in 2005 compared to 2004 primarily as a result of our decision to sell 1,325,800 shares of treasury stock in 2005 to the employee stock ownership association, with the difference between the fair value and the proceeds being recognized as welfare expenses.

Our net income in 2005 increased by 5.2% to Won 4,012 billion compared to Won 3,814 billion in 2004 as an increase in operating income discussed above, a decrease in loss on impairment of investments, an increase in non-operating income-others and a decrease in interest expense more than offset effects from an increase in non-operating expenses-others and a decrease in gain on recovery of allowance for doubtful accounts. Loss on impairment of investments decreased by 87.5% to Won 12 billion from Won 95 billion in 2004 primarily due to the absence of large impairments of investments in 2005 such as the impairment of Won 79 billion in 2004 related to our decision to permanently cease construction of our mini-mill discussed above. Non-operating income-others increased by 50.6% to Won 211 billion compared to Won 140 billion in 2004 primarily due to the reclassification of certain research and development costs relating to a strip casting testing plant previously recognized as expenses and an increase in interest payments to POSCO Engineering & Construction by its subcontractors from delayed receivables. We previously recognized research and development costs relating to a strip casting plant as expenses based on our conclusion that the technology was not available for immediate commercialization. However, we made an adjustment to non-operating income-others in 2005 because we classified the testing plant as tangible asset in 2005 and plan to use the plant to test our new technologies. Our interest expense decreased by 22.2% to Won 149 billion in 2005 from Won 192 billion in 2004 as we reduced our borrowings in 2005. Our non-operating expenses-others increased to Won 854 billion in 2005 from Won 165 billion in 2004 primarily due to an increase in subsidies to 1,672 employees who

were transferred to outsourcing companies in 2005 to increase our labor productivity compared to 40 such employees in 2004, our 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, as well as a loss of Won 120 billion related to our disposal of SK Telecom shares to enhance shareholders' equity through disposition of non-core assets. Our gain on recovery of allowance for doubtful

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accounts in 2005 decreased by 85.3% to Won 19 billion compared to Won 127 billion in 2004, primarily due to the absence of large recoveries in 2005 such as our recovery of Won 108 billion from settlement of liquidation dividends from POSVEN in 2004.

Our effective tax rate in 2005 was 26.9% compared to 28.1% in 2004. The statutory income tax rate applicable to us, including resident tax surcharges, decreased to 27.5% in 2005 from 29.7% in 2004. See Note 25 of Notes to Consolidated Financial Statements.

**Segment Results Steel**

Our sales to external customers increased by 9.7% to Won 24,887 billion in 2005 from Won 22,684 billion in 2004, primarily as a result of the reasons discussed above. After adjusting for inter-segment transactions, our net sales increased by 8.0% to Won 20,912 billion in 2005 from Won 19,361 billion in 2004.

Operating profit increased by 13.5% to Won 5,880 billion in 2005 from Won 5,181 billion in 2004, primarily as a result of the reasons discussed above. Depreciation and amortization increased by 3.2% to Won 1,604 billion in 2005 from Won 1,554 billion in 2004, 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 45.7% to Won 3,994 billion in 2005 from Won 2,741 billion in 2004, primarily due to an increase in sales from domestic construction activities of POSCO Engineering & Construction. After adjusting for inter-segment transactions, our net sales increased by 27.2% to Won 2,148 billion in 2005 from Won 1,689 billion in 2004.

Operating profit increased by 161.0% to Won 245 billion in 2005 from Won 94 billion in 2004, primarily due to an increase in profitable domestic construction activities of POSCO Engineering & Construction.

**Segment Results Trading**

Our sales to external customers increased by 13.0% to Won 3,374 billion in 2005 from Won 2,986 billion in 2004, primarily due to an increase in the average unit sales price per ton of steel products, which more than offset a decrease in the sales volume of steel products.

Operating profit decreased by 29.7% to Won 24 billion in 2005 from Won 35 billion in 2004, primarily due to a decrease in the sales volume of steel products.

**Item 5.B. Liquidity and Capital Resources**

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

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In billions of Won)</b>		
Net cash provided by operating activities	W 4,946	W 5,464	W 3,900
Net cash used in investing activities	3,386	3,744	3,379



Net cash used in financing activities	1,650	1,578	227
Cash and cash equivalents at beginning of period	594	482	654
Cash and cash equivalents at end of period	482	654	936
Net increase (decrease) in cash and cash equivalents	(112)	172	282

### Capital Requirements

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets and payments of long-term debt. Net cash used for investing activities was Won 3,386 billion in 2004, Won 3,744 billion in 2005 and Won 3,379 billion in 2006. These amounts included purchases of property, plant and equipment of Won

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2,265 billion in 2004, Won 3,361 billion in 2005 and Won 3,709 billion in 2006. We recorded net acquisition of trading securities of Won 64 billion in 2004 and net disposal of trading securities of Won 222 billion in 2005 and Won 806 billion in 2006. We also recorded acquisition of other investment assets of Won 1,083 billion in 2004, Won 239 billion in 2005 and Won 131 billion in 2006, as well as net acquisition of available-for-sale securities of Won 167 billion in 2004, Won 273 billion in 2005 and Won 524 billion in 2006. In our financing activities, we used cash of Won 1,125 billion in 2004, Won 1,368 billion in 2005 and Won 1,353 billion in 2006 for principal repayments of outstanding long-term debt. We used Won 305 billion in 2004, Won 1,295 billion in 2005 and Won 851 billion in 2006 for the repurchase of our shares from the market as treasury stock. We raised cash of Won 82 billion in 2004, Won 932 billion in 2005 and Won 70 billion in 2006 from disposal of treasury shares, including our sale of 3,500,000 shares in the form of ADSs in connection with the listing on the Tokyo Stock Exchange in November 2005.

We paid dividends on common stock in the amount of Won 525 billion in 2004, Won 681 billion in 2005 and Won 636 billion in 2006.

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 3,709 billion in 2006 and, under current plans, are estimated to increase to approximately Won 4,600 billion in 2007. We retain the ability to reduce or suspend our planned capital expenditures. However, our failure to undertake planned expenditures on steel-producing facilities could adversely affect the modernization of our production facilities and our ability to produce higher value-added products.

In addition to our funding requirements relating to our capital investment program, payments of the principal of and interest on indebtedness and repurchase of our shares from the market as treasury stock will require considerable resources. Principal repayment obligations with respect to long-term debt outstanding as of December 31, 2006 are Won 404 billion in 2007, Won 476 billion in 2008, Won 423 billion in 2009, Won 199 billion in 2010 and Won 1,641 billion in 2011 and beyond. As of December 31, 2006, we had short-term borrowings of Won 1,239 billion and current portion of long term debt of Won 404 billion. We expect to repay these obligations primarily through cash provided by operations and additional borrowings. We plan to spend Won 889 billion in 2007 to repurchase our shares from the market as treasury stock.

The following table sets forth the amount of long-term debt, capital lease and operating lease obligations, excluding current portion of long-term debt, as of December 31, 2006.

	Total	Payments Due by Period			
		Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
<b>Contractual Obligations</b>					
Long-term debt obligations	2,738.7		1,098.0	1,640.7	
Capital lease obligations	0.3	0.3			
Operating leases obligations	5.2	4.2	1.0		
Purchase obligations	(a)	(a)	(a)	(a)	(a)
Other long-term liabilities					

Total	2,744.2	4.5	1,099.0	1,640.7
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- (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, 2006, 462 million tons of iron ore and 120 million tons of coal remained to be purchased under long-term contracts.

In addition, as of December 31, 2006, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies and non-affiliated companies totaled Won 598 billion and Won 476 billion, respectively. See Note 17 of Notes to Consolidated Financial Statements for our commitments and contingent liabilities.

**Table of Contents****Capital Resources**

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

Our major sources of cash have been net earnings before depreciation and amortization and proceeds of long-term debt and other long-term liabilities, and we expect that these sources will continue to be our principal sources of cash in the future. Net income before depreciation and amortization were Won 5,380 billion in 2004, Won 5,635 billion in 2005 and Won 5,097 billion in 2006, and cash proceeds from long-term debt were Won 280 billion in 2004, Won 594 billion in 2005 and Won 2,160 billion in 2006. Total long-term debt, including current portion and excluding discount on debentures issued, was Won 3,104 billion as of December 31, 2004, Won 2,190 billion as of December 31, 2005 and Won 3,143 billion as of December 31, 2006.

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

Our total shareholders' equity increased from Won 16,386 billion as of December 31, 2004 to Won 22,402 billion as of December 31, 2006. 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 30.2% of our sales in 2004, 29.4% of our sales in 2005 and 33.2% of our sales in 2006 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, 2006, approximately 50.8% 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 the Republic, which had historically been higher than for Dollar or Yen-denominated financings.

Our liquidity is also affected by our construction expenditures and raw materials purchases. Cash used for purchases of property, plant and equipment was Won 2,265 billion in 2004, Won 3,361 billion in 2005 and Won 3,709 billion in 2006. We have entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. At December 31, 2006, 462 million tons of iron ore and 120 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 5,493 billion as of December 31, 2004, Won 5,759 billion as of December 31, 2005 and Won 7,155 billion as of December 31, 2006. As of December 31, 2006, we had unused credit lines of Won 1,330 billion out of total available credit lines of Won 1,535 billion. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.



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

	<b>As of December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In billions of Won)</b>		
Cash and cash equivalents, net of government grants	W 480	W 653	W 936
Short-term financial instruments	647	760	867
Trading securities	2,690	2,611	2,001
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount	3,094	3,045	3,492
Inventories	3,066	3,793	4,018

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

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

	<b>As of December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In billions of Won)</b>		
Trade accounts and notes payable	W 1,082	W 1,146	W 1,507
Short-term borrowings	658	860	1,239
Income tax payable	1,087	1,367	701
Current portion of long-term debt, net of discount on debentures issued	1,047	1,057	404

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 2004, 2005 and 2006 amounted to 2,265 billion, Won 3,361 billion and Won 3,709 billion, respectively.

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Our current capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. Our total capital expenditures are estimated to be approximately Won 4,600 billion in 2007. The following table sets out the major items of our capital expenditures as of December 31, 2006:

Project	Expected Completion Date	Total Cost of Project (In billions of Won)	Estimated Remaining Cost of Completion as of December 31, 2006
<b>Pohang Works:</b>			
Construction of FINEX plant(1)	April 2007	731	37
Second relining of no. 3 blast furnace	July 2007	256	13
Installation of de-phosphorization facility at no. 2. steelmaking plant(1)	March 2007	149	14
Expansion of cokes plant	December 2007	277	139
Modernization of no. 2 plate mill	January 2008	115	104
Installation of heat treatment furnace at no. 3 plate plant	August 2007	110	79
Pickling and tandem cold rolled mill at no. 2 cold rolling mill(1)	March 2007	141	38
<b>Gwangyang Works:</b>			
Modernization of no. 3 hot rolled mill	December 2007	235	142
Coke oven gas purification facility(1)	June 2007	175	73
Relining of no. 3 blast furnace	December 2007	147	119
Modernization of no. 2 continuous galvanizing line	December 2007	61	50
Installation of de-phosphorization facility at no. 2. steelmaking department	December 2007	195	166

(1) Completed as of the filing date of this annual report on Form 20-F.

**Significant Changes in Korean GAAP**

In December 2004, the Korean Accounting Standards Board ( KASB ) issued Statements of Korean Financial Accounting Standards ( SKFAS ) No. 23, Earning per share. This statement improves the determination and presentation for earning per share amounts in order to conform to the international financial reporting standards. The provisions of this standard are effective prospectively for earnings per share beginning on or after December 31, 2006. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

In February 2006, the KASB issued SKFAS No. 21, Preparation and Presentation of Financial Statements. Under SKFAS No. 21, the financial statements consist of a balance sheet, a statement of income, a statement of appropriations (disposition) of retained earnings (accumulated deficit), a statement of cash flows, a statement of

changes in stockholders equity and footnotes. The provisions of this standard are effectively for financial statements beginning on or after December 31, 2006. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

In April 2006, the KASB issued SKFAS No. 22, Share-based Payment. Under SKFAS No. 22, a share-based payment in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity should be recognized in the financial statements based on its fair value. The provisions of this standard are effective for share-based payment agreements beginning on or after December 31, 2006. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.



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In January 2007, the KASB issued SKFAS No. 25, Consolidated financial statements. SKFAS No. 25 defines consolidated scope and entities and revises the presentation method of minority interest in the consolidated financial statements. The provisions of this standard are effective for the financial year ending on or after December 31, 2007. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

## **U.S. GAAP Reconciliation**

Our consolidated financial statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. For a discussion of the significant differences between Korean GAAP and U.S. GAAP, see Note 32 of Notes to Consolidated Financial Statements.

We recorded net income under U.S. GAAP of Won 3,408 billion in 2006 compared to net income of Won 4,102 billion in 2005 and Won 3,460 billion in 2004 primarily due to the factors discussed in Operating Results. Our net income under U.S. GAAP of Won 3,408 billion in 2006 is 2.8% higher than our net income under Korean GAAP of Won 3,314 billion. See Note 32(a) of Notes to Consolidated Financial Statements.

## **Recent Accounting Pronouncements in U.S. GAAP**

In February 2006, the Financial Accounting Standards Board ( FASB ) issued Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. and is effective for all financial instrument acquired or issued after beginning of an entity's first fiscal year that begins after September 15, 2006. We are currently evaluating the impact of this new standard but do not expect the adoption of this statement to have a material impact on our financial position or result of operations.

In June 2006, the FASB issued Financial Interpretation ( FIN ) No. 48, Accounting for Uncertainty in Income Taxes, which applies to all tax positions related to income taxes. FIN No. 48 prescribes a recognition threshold and measurement process for recording in the consolidated financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We assess tax positions taken in the consolidated financial statements and evaluate quarterly for realizability on a more likely than not basis. We are in the process of evaluating the impact that FIN 48 may have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS 157 may have on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB No. 87, 88, 106 and 132(R) ( SFAS 158 ). SFAS 158 requires that the funded status of defined benefit postretirement plans be recognized on our balance sheet, and changes in the funded status be reflected in comprehensive income, effective fiscal years ending after December 15, 2006. The standard also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, effective for fiscal years ending after December 15, 2008. We are currently evaluating the impact that SFAS 158 may have on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued FASB Staff Position AUG AIR-1, Accounting for Planned Major Maintenance Activities. This position does not permit the accrue-in-advance method for accounting for planned major maintenance activities. The position is effective for fiscal year beginning after December 15, 2006 and earlier adoption is permitted. We believe the adoption of FASB Staff Position AUG AIR-1 will not have a material impact on our financial position or results of operations.

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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.

### **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, 2006, Pohang University of Science & Technology and the Research Institute of Industrial Science and Technology employed a total of 321 researchers.

In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. As of December 31, 2006, the Technical Research Laboratory employed a total of 311 researchers.

We recorded research and development expenses of Won 206 billion as cost of goods sold in 2004, Won 173 billion in 2005 and Won 271 billion in 2006, as well as research and development expenses of Won 71 billion as selling and administrative expenses in 2004, Won 53 billion in 2005 and Won 54 billion in 2006. In addition, we made donations to educational foundations supporting basic science and technology research, amounting to Won 40 billion in 2004, Won 33 billion in 2005 and Won 33 billion in 2006. We also donated Won 32 billion in 2004, Won 17 billion in 2005 and Won 22 billion in 2006 to Pohang University of Science & Technology, a university founded by us. See Notes 23 and 24 of Notes to Consolidated Financial Statements.

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, 2006, 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 5A. and Item 5B. above where relevant.

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

As of December 31, 2004, 2005 and 2006, 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.

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**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:

<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years as Director</b>	<b>Years with POSCO</b>	<b>Age</b>	<b>Expiration of Term of Office</b>
Lee, Ku-Taek	Chief Executive Officer and Representative Director		18	38	61	February 2010
Yoon, Seok-Man	President and Representative Director	Chief Marketing Officer, Corporate Communication Dept.	4	30	58	February 2010
Lee, Youn	President and Representative Director	General Superintendent, Stainless Steel Division	3	33	59	February 2008
Chung, Joon-Yang	President and Representative Director	Chief Operating Officer and Technology Officer	4	32	59	February 2010
Cho, Soung-Sik	Senior Executive Vice President	POSCO-India Pvt. Ltd.	2	32	56	February 2009
Lee, Dong-Hee	Senior Executive Vice President	Chief Finance Officer	2	30	57	February 2009

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

**Table of Contents****Outside Directors**

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

<b>Name</b>	<b>Position</b>	<b>Principal Occupation</b>	<b>Years as Director</b>	<b>Age</b>	<b>Expiration of Term of Office</b>
Kim, E. Han	Chairman of the Board	Professor, University of Michigan	5	60	February 2008
Park, Young-Ju	Director	Chairman, Eagon Industrial Co., Ltd.	4	66	February 2009
Jun, Kwang-Woo	Director	Chairman, Deloitte Consulting	4	58	February 2010
Jones, Jeffrey D	Director	Attorney, Kim & Chang	4	54	February 2010
Suh, Yoon-Suk	Director	Professor, Ewha Woman's University	4	52	February 2009
Park, Won-Soon	Director	Executive Director, Beautiful Foundation	4	51	February 2010
Sun, Wook	Director	Former President & CEO, Samsung Human Resources Development Center	3	62	February 2008
Ahn, Charles	Director	Chairman of the Board, AhnLab, Inc.	3	45	February 2008
Huh, Sung K	Director	President, Gwangju Institute of Science and Technology	2	59	February 2009

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:

<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Kim, Dong-Jin	Senior Executive Vice President	POSCO-China Holding Corp.	33	60

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Choi, Jong-Tae	Senior Executive Vice President	Chief Staff Officer	33	57
Kim, Sang-Ho	Executive Vice President	Legal Affairs Dept.	6	53
Hur, Nam-Suk	Executive Vice President	General Superintendent, Gwangyang Works	32	57
Oh, Chang-Kwan	Executive Vice President	General Superintendent, Pohang Works	29	54
Kwon, Young-Tae	Executive Vice President	Coal Procurement Dept., Iron Ore Procurement and Raw Materials Investment Dept., Steelmaking Raw Materials Procurement Dept.	32	56



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<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Chang, Hyun-Shik	Executive Vice President	Energy Business Dept.	5	56
Kim, Jin-Il	Executive Vice President	Market Development Dept., Production Order and Process Dept., Product Technology Dept.	32	54
Kwon, Oh-Joon	Executive Vice President	General Superintendent, Technical Research Laboratories	20	56
Park, Han-Yong	Executive Vice President	Human Resources Dept.	29	56
Chung, Keel-Sou	Executive Vice President	Zhangjiagang POSCO Stainless Steel Co. Ltd.	32	57
Ha, Sang-Wook	Senior Vice President	Deputy General Superintendent, Technical Research Laboratories	32	54
Kim, Sang-Young	Senior Vice President	Corporate Communication Dept.	20	55
Lee, Young-Suk	Senior Vice President	Stainless Steel Strategy Dept., Stainless Steel Sales Dept., Stainless Steel Sales Development Dept.	30	56
Kim, Sang-Myun	Senior Vice President	Deputy General Superintendent, Gwangyang Works (Administration)	29	56
Park, Kee-Young	Senior Vice President	Hot Rolled Steel Sales Dept., API Steel Sales Dept., Plate Sales Dept., Wire Rod Sales Dept.	30	55
Won, Jong-Hai	Senior Vice President	Materials Purchasing and Supply Management Dept.	30	55
Kim, Tae-Man	Senior Vice President	Deputy General Superintendent, Pohang Works (Administration)	28	53
Cho, Jun-Gil	Senior Vice President	Deputy General Superintendent, Pohang Works (Hot and Cold Rolling)	30	54
Yoo, Kwang-Jae	Senior Vice President	Stainless Steel Production and Technology	29	55
Yoon, Yong-Chul	Senior Vice President	Deputy General Superintendent, Gwangyang Works (Iron and Steel Making)	29	54
Cho, Noi-Ha	Senior Vice President	Deputy General Superintendent, Gwangyang Works (Hot and Cold Rolling)	29	54

Yoon, Yong-Won	Senior Vice President	Facilities Investment Planning Dept., Plant and Equipment Procurement Dept.	29	54
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<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Kim, Soo-Kwan	Senior Vice President	Auditing Dept., Corporate Ethics Dept.	30	55
Park, Ki-Hong	Senior Vice President	Corporate Strategic Planning Dept.	1	49
Choo, Wung-Yong	Senior Vice President	European Union Office	24	54
Kim, Sung-Kwan	Senior Vice President	India Project Dept.	30	56
Jang, Byung-Hyo	Senior Vice President	POSCO-Japan Corp.	30	53
Kim, Joon-Sik	Senior Vice President	Technology Development Dept.	26	53
Jang, Young-Ik	Senior Vice President	Stainless Steel Raw Materials Procurement Dept.	28	53
Kim, Moon-Seok	Senior Vice President	Seoul Office	28	53
Yun, Tai-Han	Senior Vice President	Marketing Strategy Dept., Sales and Production Planning Dept.	27	54
Cho, Bong-Rae	Senior Vice President	Deputy General Superintendent, Pohang Works (Iron and Steel Making)	27	54
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 Dept.	26	52
Kong, Yoon-Chan	Senior Vice President	Human Resources Development Center, Corporate Philanthropy Dept.	27	53
Lee, In-Bong	Vice President	Information Planning Dept.	26	52
Shin, Jung-Suk	Vice President	Zhangjiagang POSCO Stainless Steel Co. Ltd.(Marketing)	28	54
An, Byung-Sik	Vice President	Deputy General Superintendent, Pohang Works (Maintenance)	29	51
Baek, Sung-Kwan	Vice President	Business Investment Dept., Vietnam Steel Project Dept., Magnesium Project Dept.	26	51
Cho, Chang-Hwan	Vice President	Deputy General Superintendent, Gwangyang Works (Maintenance)	27	52
Yoon, Dong-Jun	Vice President	Business Innovation Dept.	23	48

**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

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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 16.4 billion in 2006 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 5.8 billion in 2006.

We have also granted stock options to some of our Directors and executive officers. See Item 6E. 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, Young-Ju Park (committee chair), Yoon-Suk Suh, and Won-Soon Park, and one Standing Director, Seok-Man Yoon. The Director Candidate Recommendation Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. Any shareholder holding an aggregate of 0.5% or more of our outstanding shares with voting rights for at least six months may suggest candidates for Outside Directors to the committee.

#### **Evaluation and Compensation Committee**

The Evaluation and Compensation Committee comprises four Outside Directors, Kwang-Woo Jun (committee chair), Wook Sun, Charles Ahn and Sung K. Huh. 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, Sung K. Huh (committee chair), Young-Ju Park and Won-Soon Park and two Standing Directors, Seok-Man Yoon and Dong-Hee Lee. This committee is an operational committee that oversees decisions with respect to finance and operational matters, including making assessments with respect to potential capital investments and evaluating prospective capital-raising activities.

#### **Executive Management Committee**

The Executive Management Committee comprises six Standing Directors: Ku-Taek Lee (committee chair), Seok-Man Yoon, Youn Lee, Joon-Yang Chung, Soung-Sik Cho and Dong-Hee Lee. 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 Yoon-Suk Suh (committee chair), E. Han Kim, Jeffrey D. Jones and Wook Sun.

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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, Yoon-Suk Suh (committee chair), Jeffrey D. Jones, E. Han Kim and Wook Sun. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

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**Differences in Corporate Governance Practices**

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

**NYSE Corporate Governance Standards**

**POSCO's Corporate Governance Practice**

**Director Independence**

Independent directors must comprise a majority of the board

Our articles of incorporation provide that our board of directors must comprise no less than a majority of Outside Directors. Our Outside Directors must meet the criteria for outside directorship set forth under the Securities and Exchange Act of Korea.

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), and 9 out of 15 directors are Outside Directors.

**Nomination/Corporate Governance Committee**

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

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

**Compensation Committee**

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

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

**Executive Session**

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

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

**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 incorporations 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.

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**NYSE Corporate Governance Standards**

**POSCO's Corporate Governance Practice**

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines

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

**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

We have adopted a Code of Conduct for all directors, officers and employees. A copy of our Code of Conduct is available on our website at [www.posco.co.kr](http://www.posco.co.kr).

**Item 6.D. Employees**

As of December 31, 2006, we had 28,297 employees, including 10,774 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 28,853 employees, including 9,849 persons employed by our subsidiaries, as of December 31, 2005, and 27,919 employees, including 8,524 persons employed by our subsidiaries, as of December 31, 2004. 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, 2006, 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, 2006, our employees owned approximately 1.5% of our common stock through an employee stock ownership association.



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

The persons who are currently our Directors or executive officers held, as a group, 3,061 common shares as of December 31, 2006, the most recent date for which this information is available. The table below shows the ownership of our common shares by Directors and executive officers.

<b>Shareholders</b>	<b>Number of Common Shares Owned</b>
Chang-Kwan Oh	770
Jong-Tae Choi	673
E. Han Kim	364
Jin-Il Kim	150
Young-Ik Jang	138
In-Bong Lee	130
Tai-Han Yun	130
In-Hwan Jang	130
Joon-Sik Kim	128
Tae-Man Kim	91
Yong-Chul Yoon	81
Yong-Won Yoon	79
Noi-Ha Cho	70
Soo-Kwan Kim	42
Sang-Wook Ha	40
Oh-Joon Kwon	19
Han-Yong Park	12
Jun-Gil Cho	2
Youn Lee	2
Dong-Jin Kim	2
Nam-Suk Hur	2
Kee-Yeoung Park	2
Jong-Hai Won	2
Kwang-Jae Yoo	2
Total	3,061

**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, 2007. With respect to all of the options granted, we may elect either to issue shares of common stock, distribute treasury stock or pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the date on which the options are granted and within seven years from the second anniversary of the issuance of such options. All of the stock options below relate to our common stock.

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	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
		From	To				
Ku-Taek Lee	July 23, 2001	7/24/2003	7/23/2008	98,900	45,184	24,518	20,666
	July 23, 2004	7/24/2006	7/23/2011	151,700	49,000	0	49,000
Tae-Hyun Hwang	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	7,653	1,384
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
Seok-Man Yoon	September 18, 2002	9/19/2004	9/18/2009	116,100	11,179	4,000	7,179
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Youn Lee	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	903	8,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Joon-Yang Chung	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	3,931	5,385
	July 23, 2004	7/24/2006	7/23/2011	151,700	4,900	0	4,900
Soung-Sik Cho	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	5,903	3,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
Dong-Hee Lee	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644
Young-Ju Park	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
	April 26, 2003	4/27/2005	4/26/2010	102,900	2,401	0	2,401
E. Han Kim	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Kwang-Woo Jun	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Jeffrey D. Jones	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Yoon-Suk Suh	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000
Wook Sun	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000
Charles Ahn	2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000



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Executive Officers	Grant Date	Exercise Period		Exercise Price	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
		From	To				
Dong-Jin Kim	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	7,903	1,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Jin-Chun Kim	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	8,037	1,000
Jong-Tae Choi	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	4,903	4,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
	April 28, 2005	4/29/2007	4/28/2012	194,900	12,000	0	12,000
Sang-Ho Kim	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	5,316	4,000
Nam-Suk Hur	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000
	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	3,931	5,385
Chang-Kwan Oh	September 18, 2002	9/19/2004	9/18/2009	116,100	9,316	931	8,385
Young-Tae Kwon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644
Hyun-Shik Chang	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	8,272	1,332
Jin-Il Kim	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644
Oh-Joon Kwon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	5,282	4,322
Han-Yong Park	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Keel-Sou Chung	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Wook Ha	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Young Kim	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Young-Suk Lee	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Myun Kim	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Kee-Yeoung Park	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Kyu-Jeong Lee	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Jong-Hai Won	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Tae-Man Kim	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Jun-Gil Cho	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Kwang-Jae Yoo	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Yong-Chul Yoon	2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000

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Noi-Ha Cho	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Yong-Won Yoon	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000

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**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, 2006.

<b>Shareholders</b>	<b>Number of Shares Owned</b>	<b>Percentage</b>
National Pension Corporation	2,496,272	2.86
SK Telecom	2,481,310	2.85
Pohang University of Science and Technology	2,330,000	2.67
Directors and executive officers as a group	3,061	0.00
Public(1)	70,282,299	80.61
POSCO (held in the form of treasury stock)	7,022,466	8.06
POSCO (held through treasury stock fund)	2,571,427	2.95
Total issued shares of common stock	87,186,835	100.00%

(1) Includes 18,753,548 shares of common stock, representing 21.51% of the total issued shares of common stock, in the form of ADRs.

**Item 7.B. Related Party Transactions**

We have issued guarantees of Won 443 billion as of December 31, 2004, Won 561 billion as of December 31, 2005 and Won 598 billion as of December 31, 2006, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. Please see Note 17 of Notes to Consolidated Financial Statements.

As of December 31, 2004, 2005 and 2006, 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-83.

**Legal Proceedings**

***Claim against the Fair Trade Commission***

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

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

**Table of Contents*****Anti-dumping and Countervailing Proceedings and Safeguard Measures***

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

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

**Dividends**

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

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 2006. Of these shares, 77,592,942 shares were outstanding and 7,022,466 shares were held by us in treasury and 2,571,427 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.

<b>Year</b>	<b>Annual Dividend per Common Stock to Public</b>	<b>Interim Dividend per Common Stock (In Won)</b>	<b>Average Total Dividend per Common Stock</b>
2002	3,000	500	3,500
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

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, 2001.

	<b>High</b>	<b>Price (In Won)</b>	<b>Low</b>	<b>Average Daily Trading Volume (Number of Shares)</b>
<b>2002</b>				
First Quarter	160,000		117,500	303,579
Second Quarter	154,000		121,500	323,772
Third Quarter	139,000		101,000	324,477
Fourth Quarter	130,500		103,500	269,624
<b>2003</b>				
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
<b>2004</b>				
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
<b>2005</b>				
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
<b>2006</b>				
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
<b>2007</b>				
First Quarter	395,000		286,500	282,570
January	329,500		286,500	249,795
February	377,500		338,000	296,034
March	395,000		333,000	304,724
Second Quarter (through June 26)	481,000		366,000	252,448
April	400,000		366,000	274,187
May	446,000		392,500	212,728
June (through June 26)	481,000		443,000	274,661



**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 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, 2006, 18,753,548 ADSs were outstanding, representing 21.51% 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, 2001.

	Price		Average Daily Trading Volume (Number of ADSs)
	High	Low	
	(In US\$)		
2002			
First Quarter	29.25	22.41	372,788
Second Quarter	30.64	23.35	355,145
Third Quarter	29.52	21.30	354,089
Fourth Quarter	27.40	21.20	268,750
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
January	88.18	76.49	718,195
February	59.77	89.96	728,882
March	106.88	89.87	852,614
Second Quarter (through June 26)	129.60	99.34	719,552
April	107.93	99.34	736,761

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May	119.30	105.16	639,143
June (through June 26)	129.60	117.9	798,707



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**Item 9.B. *Plan of Distribution***

**Not Applicable**

**Item 9.C. *Markets***

**The Korean Securities Market**

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

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

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

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

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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 (through June 26)	1,438.89	1,813.84	1,345.08	1,749.55	1.6	14.5

Source: The Stock Market Division of the Korea Exchange

- (1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.
- (2) 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.

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period; since the calendar year is the accounting period for the majority of companies, this may account for the drop in KOSPI

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between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

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

<b>Previous Day's Closing Price (Won)</b>	<b>Rounded Down to (Won)</b>
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 Stock Market Division of the Korea Exchange by the securities companies. In addition, a securities transaction tax at the rate of 0.15% will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax at the rate of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10. Additional Information Item 10E. Taxation Korean Taxation.

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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 and Value		
	Number of Listed Companies	(Billions of Won)	(Millions of Dollars)(1)	Thousands of Shares	(Millions of Won)	(Thousands of Dollars)(1)
1979	355	2,609	5,391	5,382	4,579	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	575,680
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 (through June 26)	732	860,124	928,658	332,119	4,278,673	4,619,599

Source: The Stock Market Division of the Korea Exchange

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

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

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solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

### **Further Opening of the Korean Securities Market**

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

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

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

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

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

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

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

Under the 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. If a securities company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million per depositor per financial institution in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Securities and Exchange Act, as amended,



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securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the Depositor Protection Act with the Korea Securities Finance Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

**Item 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, 2006, 87,186,835 Common Shares were issued, of which 7,022,466 shares were held by us in treasury and an additional 2,571,427 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 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.

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.

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

## **Distribution of Free Shares**

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

## **Preemptive Rights and Issuance of Additional Shares**

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

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

publicly offered pursuant to the Securities and Exchange Act;

issued to members of our employee stock ownership association;

represented by depositary receipts;

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

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

issued to domestic or foreign corporations pursuant to a joint venture agreement, strategic coalition or technology inducement agreement; 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 Securities and Exchange Act. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2006, approximately 1.5% of the outstanding Shares were held by members of our employee stock ownership association.

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### **General Meeting of Shareholders**

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

as necessary;

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

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

at the request of our audit committee.

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

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

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

### **Voting Rights**

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

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.

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

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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.

## **Annual Report**

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

Under the Securities and Exchange Act, we must file with the FSC and the Korea Exchange (1) an annual securities report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of



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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 24-3, Yoido-dong, Youngdungpo-gu, Seoul, Korea.

## **Acquisition of Shares by Us**

We may not acquire our own Shares except in limited circumstances, such as a reduction in capital. In addition, we may acquire Shares through purchases on the Korea Exchange or through a tender-offer. In addition, we may acquire interests in our own Shares through agreements with trust companies and asset management companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends, subject to certain procedural requirements.

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

## **Liquidation Rights**

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

## **Item 10.C. *Material Contracts***

None.

## **Item 10.D. *Exchange Controls***

## **Notes**

Korean law does not limit the right of non-Koreans to hold notes denominated in foreign currencies outside Korea. In order for us to issue such notes outside Korea, we are required to submit a report to the Minister of Finance and Economy or our designated foreign exchange bank (depending on the aggregate issuance amount) with respect to the issuance of the notes. Furthermore, in order for us to make payments of principal of or interest on the notes and other amounts as provided in the indenture and the notes, each actual payment should be reviewed by a foreign

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exchange bank at the time of such actual payment. The purpose of this review is to ensure that the actual remittance amount is consistent with the amounts payable under the notes.

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

## **Shares and ADSs**

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively the Foreign Exchange Transaction Laws) 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.

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

## **Government Review of Issuance of ADRs**

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

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

## **Reporting Requirements for Holders of Substantial Interests**

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

Securities is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change.

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

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In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company's shares accounts for 10% or more of the total issued and outstanding shares (a major stockholder) must report the status of his or her shareholding to the Korea Securities 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; and

direct investment as defined in the Foreign Investment Promotion Law.

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

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

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are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depository issuing depository 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 Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Minister of Commerce, Industry and Energy. 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



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

#### **Korean Taxation**

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

a resident of Korea;

a corporation 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.

#### ***Note***

##### ***Taxation of Interest***

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

##### ***Taxation of Capital Gains***

Under specific exemptions granted under Korean tax law, you will not be subject to any Korean income or withholding taxes in connection with the capital gains from sale, exchange or other disposition of a note if (i) you transfer the note to another non-resident (other than to such transferee's permanent establishment in Korea) under the corporation tax law or (ii) you transfer the note to a resident or a non-resident of Korea outside Korea (regardless of whether the transferees have a permanent establishment in Korea) by virtue of the Special Tax Treatment Control Law of Korea (the STTCL), provided that the issuance of the note outside Korea is deemed to be an overseas issuance under the STTCL. If you sell or otherwise dispose of a note through other ways than those mentioned above, any gain realized on the transaction will be taxable at ordinary Korean withholding tax rates (the lesser of, subject to the

production of satisfactory evidence of the acquisition cost of, and certain direct transaction costs attributable to the disposal of, the relevant notes, 27.5% of the net gain or 11% of the gross sale proceeds), unless an exemption is available under an applicable income tax treaty. See the discussion under Tax Treaties below for an additional explanation on treaty benefits.

**Table of Contents***Inheritance Tax and Gift Tax*

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

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

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

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See the discussion under *Tax Treaties* below for an additional explanation on treaty benefits.

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

*Taxation of Capital Gains*

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

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

Under a tax ruling issued by the Korean tax authority in 1995 (the 1995 tax ruling ), ADSs are treated as securities separate from the underlying shares represented by such ADSs and, based on such ruling, (i) capital gains earned by you from the transfer of ADSs to another non-resident (other than to such transferee's permanent establishment in Korea) will not be subject to Korean income taxation and (ii) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea will be exempt from Korean income taxation by virtue of the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL.

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

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the ADR depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under Tax Treaties below for an additional explanation on claiming treaty benefits.

***Tax Treaties***

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

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

***Inheritance Tax and Gift Tax***

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depository 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

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exceptions you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

With respect to transfer of ADRs, a tax ruling was issued in 2004 by the Korean tax authority (the 2004 tax ruling ) to the effect that depositary receipts (which the ADRs fall under) constitute share certificates subject to the securities transaction tax; provided that, under the Securities Transaction Tax Law, the transfer of depositary receipts listed on the New York Stock Exchange, the Nasdaq National Market or other qualified foreign exchanges is exempt from the securities transaction tax. Based on the 2004 tax ruling and the relevant provisions of the Securities Transaction Tax Law, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax.

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

## **United States Taxation**

This summary describes the material U.S. federal income tax consequences for a U.S. holder (as defined below) of owning our notes, shares of common stock or ADSs. This summary applies to you only if you hold notes, shares of common stock or ADSs as capital assets for tax purposes and, in the case of the notes, only if you purchased such notes in the applicable initial offering at their issue price. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds notes, shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds notes, shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of our stock.

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

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

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

a citizen or resident of the United States;

a U.S. domestic corporation; or

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



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*Notes*

*Interest*

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

*Sale, Exchange or Retirement*

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

*Shares of Common Stock and ADSs*

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

*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 depositary's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) 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 ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on 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 2005 or 2006 taxable year. In addition, based on our audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2007 taxable year.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of ADSs and common shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their 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.

**Table of Contents***Sales and Other Dispositions*

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

*Foreign Tax Credit Considerations*

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

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

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

**Item 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

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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, 2006, we had entered into seven currency forward contracts and one option contract. Our aggregate net valuation gain of above contracts was approximately Won 1 billion but net transaction loss was Won 25 billion in 2006. 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.

**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, 2006, we did not have any outstanding interest rate swap contract.



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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, 2006 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

2007	2008	2009	2010	Maturities		December 31, 2006		December Total
				2011	Thereafter	Total	Fair Value	
344,974	33,825	336,217	4,288	874,315	58,379	1,651,998	1,640,606	991,100
4.38%	4.90%	4.54%	3.43%	4.98%	2.68%	4.68%		5.30%
		5,000				5,000	5,000	
		5.31%				5.31%		
344,974	33,825	341,217	4,288	874,315	58,379	1,656,998	1,645,606	991,100
1,290,619	433,678	73,325	190,670	15,194	693,112	2,696,599	2,753,934	2,020,892
3.54%	0.30%	4.48%	5.92%	5.39%	3.70%	3.27%		2.82%
8,019	8,019	8,019	4,010			28,068	28,068	37,357
6.17%	6.17%	6.17%	6.17%			6.17%		5.50%
1,298,639	441,698	81,344	194,680	15,194	693,112	2,724,666	2,782,002	2,058,249
1,643,612	475,523	422,562	198,968	889,509	751,491	4,381,664	4,427,607	3,049,349

(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, 2006, 462 million tons of iron ore and 120 million tons of coal remained to be purchased under long-term supply contracts. We generally do not use commodity derivatives to manage our commodity price risks. As of December 31, 2006, we had entered into one nickel forward contract, which recorded net transaction loss of Won 12 billion in 2006.

**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, 2006, we hold a 2.88% interest in SK Telecom (excluding shares placed as collateral for exchangeable bonds issued in August 2003) and a 3.07% 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**



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**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, 2006. 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 (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 performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 based on criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Our management has excluded POSCO Power Corporation, our wholly-owned subsidiary, from its assessment of internal control over financial reporting as of December 31, 2006 because we acquired the company in a purchase

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business combination in 2006. POSCO Power Corporation comprised approximately 2% of our consolidated sales in 2006 and approximately 3% of our consolidated total assets as of December 31, 2006.

Samil PricewaterhouseCoopers, an independent registered public accounting firm, which also audited our consolidated financial statements as of, and for the year ended December 31, 2006, as stated in their report which is included herein, has issued an attestation report on management's assessment 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 management's assessment 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 during 2006 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 2007, our shareholders elected the following four members of the audit committee: E. Han Kim (committee chair), Jeffrey D. Jones, Yoon-Suk Suh and Wook Sun. In addition, they determined and designated that Yoon-Suk Suh is an audit committee financial expert within the meaning of this Item 16A. The board of directors have approved this newly elected audit committee, and reaffirmed the determination by our shareholders that Yoon-Suk Suh is an audit committee financial expert and further determined that he is independent within the meaning of applicable SEC rules.

**Item 16B. *Code of Ethics***

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

**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, 2005 and 2006:

<b>For the Year Ended</b>	
<b>December 31,</b>	
<b>2005</b>	<b>2006</b>

**(In millions of Won)**

Audit fees	W1,064	W1,485
Audit-related fees	846	141
Tax fees	59	104
Other fees		
Total fees	W1,969	W1,730

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

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annual financial statements of POSCO Canada Ltd. and POSCO Terminal Co., Ltd. and review of interim financial statements. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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

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

**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**

**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, 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share (In Won)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that may yet be Purchased under the Plans
January 1 to January 31				
February 1 to February 29				
March 1 to March 31				
April 1 to April 30				
May 1 to May 31	1,347,417	W 261,759	1,347,417	396,318
June 1 to June 30	1,055,988	234,409	396,318	
July 1 to July 31	613,815(1)	240,064		
August 1 to August 31	117,457(1)	234,085		
September 1 to September 30	73,292(1)	238,035		
October 1 to October 31	15,000(1)	251,742		
November 1 to November 30	8,000(1)	271,934		
December 1 to December 31	177,219(1)	297,054		

Total	3,408,188	W	249,729	1,743,735
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(1) Stocks purchased through the treasury stock fund

**PART III**

**Item 17. *Financial Statements***

**Not Applicable**

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**Item 18. *Financial Statements***

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Consolidated Balance Sheets as of December 31, 2005 and 2006	F-3
Consolidated Statements of Income for the Years Ended December 31, 2004, 2005 and 2006	F-4
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2004, 2005 and 2006	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2005 and 2006	F-6
Notes to Consolidated Financial Statements	F-7

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**Item 19. Exhibits**

- 1.1 Articles of incorporation of POSCO (English translation)
- 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 subsidiaries of POSCO
- 12.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 15.1 Consent of Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers

\* Filed previously



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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

POSCO

*(Registrant)*

/s/ Ku-Taek Lee

Name: Ku-Taek Lee

Title: Chief Executive Officer and  
Representative Director

Date: June 27, 2007

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of  
POSCO:

We have completed an integrated audit of POSCO's 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements**

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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the Republic of Korea. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

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 32 to the consolidated financial statements.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 15(b), that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit

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.



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to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

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.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded POSCO Power Corp. from its assessment of internal control over financial reporting as of December 31, 2006 because it was acquired by the Company in a purchase business combination during 2006. We have also excluded POSCO Power Corp. from our audit of internal control over financial reporting. POSCO Power Corp. comprised approximately 2% of the Company's 2006 consolidated sales and approximately 3% of the Company's consolidated total assets at December 31, 2006.

/s/ Samil PricewaterhouseCoopers  
Seoul, Republic of Korea  
May 15, 2007

**Table of Contents****POSCO and Subsidiaries****Consolidated Balance Sheets  
December 31, 2006 and 2005**

	2006	2005	(Note 2) 2006
	(In millions of Korean won and thousands of US dollar)		
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents, net of government grants (Notes 3 and 27)	W 936,288	W 653,364	\$ 1,006,761
Short-term financial instruments (Notes 3, 13 and 27)	867,310	760,371	932,591
Trading securities (Note 4)	2,000,647	2,610,502	2,151,234
Current portion of available-for-sales securities (Note 7)	13,375	90,889	14,381
Current portion of held-to-maturity securities (Note 7)	153,476	2,688	165,028
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 13, 27 and 28)	3,491,659	3,044,720	3,754,472
Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 17, 27 and 28)	246,804	241,587	265,381
Inventories, net (Notes 6, 13 and 29)	4,018,205	3,792,594	4,320,651
Deferred income tax assets (Note 25)	118,073	131,790	126,960
Other current assets, net of allowance for doubtful accounts (Note 11)	391,116	311,831	420,555
Total current assets	12,236,953	11,640,336	13,158,014
Property, plant and equipment, net (Notes 8, 13, 14 and 29)	14,643,120	12,271,710	15,745,290
Investment securities (Notes 7, 13, 27 and 29)	3,165,055	2,815,741	3,403,285
Intangible assets, net (Notes 9 and 29)	557,082	453,709	599,013
Long-term loans receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27, 28 and 29)	62,295	42,040	66,984
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 29)	44,348	41,390	47,686
Deferred income tax assets (Notes 25 and 29)	266,866	39,922	286,953
Guarantee deposits (Notes 27 and 29)	60,368	49,081	64,911
Long-term financial instruments (Notes 3, 13, 27 and 29)	12,339	19,506	13,267
Other long-term assets, net of allowance for doubtful accounts and present value discount (Notes 5, 11 and 29)	100,647	133,875	108,224
Total assets	W 31,149,073	W 27,507,310	\$ 33,493,627

**LIABILITIES AND SHAREHOLDERS EQUITY**

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Current liabilities			
Trade accounts and notes payable (Notes 27 and 28)	W	1,507,227	W 1,145,729 \$ 1,620,674
Short-term borrowings (Notes 12, 27 and 28)		1,238,749	859,774 1,331,988
Current portion of long-term debts, net of discount on debentures issued (Notes 13 and 27)		404,412	1,057,200 434,851
Accrued expenses (Note 27)		221,936	698,062 238,641
Other accounts and notes payable (Notes 27 and 28)		290,867	194,486 312,760
Withholdings (Note 27)		133,131	101,956 143,151
Income tax payable		701,037	1,366,847 753,803
Deferred income tax liabilities (Note 25)		77,541	645 83,377
Other current liabilities (Note 16)		507,395	456,864 545,589
<b>Total current liabilities</b>		<b>5,082,295</b>	<b>5,881,563 5,464,834</b>
Long-term debts, net of current portion and discount on debentures issued (Notes 13, 27 and 28)		2,725,502	1,131,270 2,930,648
Accrued severance benefits, net (Note 15)		331,006	274,812 355,920
Deferred income tax liabilities (Note 25)		460,342	213,867 494,992
Other long-term liabilities (Notes 14, 16 and 21)		148,186	132,121 159,338
<b>Total liabilities</b>		<b>8,747,331</b>	<b>7,633,633 9,405,732</b>
Commitments and contingencies (Note 17)			
Shareholders' equity			
Common stock (Note 1)		482,403	482,403 518,713
Capital surplus (Note 18)		4,035,273	3,991,409 4,339,003
Retained earnings (Note 19)		18,863,333	16,168,892 20,283,154
( Net income: W3,314,181 million in 2006 and W4,022,492 million in 2005			
Losses in excess of minority interest: W2,568 million in 2006 and W22,448 million in 2005)			
Capital adjustments, net (Note 20)		(1,468,474)	(1,153,697) (1,579,005)
		21,912,535	19,489,007 23,561,865
Minority interest			
Common stock		251,479	174,457 270,408
Capital surplus and retained earnings		237,728	210,213 255,622
		489,207	384,670 526,030
<b>Total shareholders' equity</b>		<b>22,401,742</b>	<b>19,873,677 24,087,895</b>
<b>Total liabilities and shareholders' equity</b>	<b>W</b>	<b>31,149,073</b>	<b>W 27,507,310 \$ 33,493,627</b>

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

**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Income  
Year Ended December 31, 2006, 2005 and 2004**

	2006	2005	2004	(Note 2) 2006
	(In millions of Korean won and thousands of US dollar, except per share amounts)			
<b>Sales (Notes 28 and 29)</b>	W 25,842,326	W 26,301,788	W 23,973,053	\$ 27,787,447
<b>Cost of goods sold (Note 28)</b>	19,896,764	18,767,195	17,360,706	21,394,370
Gross profit	5,945,562	7,534,593	6,612,347	6,393,077
<b>Selling and administrative expenses (Note 23)</b>	1,556,415	1,451,317	1,292,928	1,673,564
Operating income	4,389,147	6,083,276	5,319,419	4,719,513
<b>Non-operating income</b>				
Interest and dividend income (Note 28)	182,832	161,135	141,054	196,594
Gain on foreign currency transactions	156,722	114,615	130,915	168,518
Gain on foreign currency translation	84,269	148,857	177,889	90,611
Gain on valuation of trading securities	19,467	15,357	22,497	20,932
Gain on disposal of trading securities	67,284	59,436	43,012	72,349
Gain on disposal of property, plant and equipment	19,144	24,225	13,769	20,585
Gain on valuation of derivatives (Note 22)	1,857	1,671	9,594	1,997
Gain on derivative transactions (Note 22)	15,477	3,857	12,452	16,642
Earnings of equity method investees (Note 7)	47,147	26,095	3,505	50,695
Gain on recovery of allowance for doubtful accounts	13,776	18,591	126,861	14,812
Gain on disposal of investments	8,183	2,973	7,304	8,799
Others	133,066	210,853	139,967	143,083
	749,224	787,665	828,819	805,617
<b>Non-operating expenses</b>				
Interest expense (Note 28)	183,290	149,337	192,030	197,086
Other bad debt expense	70,370	30,146	16,229	75,667
Loss on foreign currency transactions	137,567	95,646	112,343	147,922
Loss on foreign currency translation	4,855	9,091	17,407	5,220
Losses of equity method investees (Note 7)	722	6,371		776
Donations (Note 24)	154,678	153,018	169,546	166,321
Loss on disposal of property, plant and equipment	54,179	42,815	29,086	58,257
Loss on valuation of derivatives (Note 22)	820	21,393	2,646	882

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Loss on derivative transactions (Note 22)	40,363	9,000	9,332	43,401
Loss on impairment of investments	2,088	11,846	94,824	2,245
Others	204,847	854,089	165,273	220,265
	853,779	1,382,752	808,716	918,042
Extraordinary income			3,388	
Net income before income tax expense and minority interest	4,284,592	5,488,189	5,342,910	4,607,088
Income tax expense (Note 25)	921,951	1,473,589	1,501,646	991,345
Net income before minority interest	3,362,641	4,014,600	3,841,264	3,615,743
Minority interest in income of consolidated subsidiaries	48,460	(7,892)	27,039	52,108
Net income	W 3,314,181	W 4,022,492	W 3,814,225	\$ 3,563,635
<b>Per share data(Note 26) (in Korean won and US dollar)</b>				
Basic and diluted ordinary income per share	W 42,115	W 50,790	W 47,155	\$ 45.28
Basic and diluted earnings per share	42,115	50,790	47,185	45.28

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  
Year Ended December 31, 2006, 2005 and 2004**

	<b>Common Stock</b>	<b>Common Amount</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Capital Adjustments</b>	<b>Minority Interest</b>	<b>Total</b>
	<b>(In millions of Korean won and thousands of US dollar)</b>						
<b>Balance as of January 1, 2004</b>	88,966,155	W 482,403	W 3,828,773	W 9,875,080	W (1,229,988)	W 293,299	W 13,249,567
Net income for 2004				3,814,225			3,814,225
Effect of change in percentage of ownership of investees			1,527	1,167			2,694
Dividends				(524,602)			(524,602)
Change in losses in excess of minority interest (Note 19)				(10,042)		10,042	
Retirement of treasury stock	(1,779,320)			(304,711)			(304,711)
Change in treasury stock			63,695		158,025		221,720
Overseas operations translation adjustment					(126,552)		(126,552)
Changes in valuation gain and loss on investment securities					51,933		51,933
Effect of change in percentage of minority interest						(22,488)	(22,488)
Minority interest in income of consolidated						27,038	27,038

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subsidiaries									
Others			1,383		1		(4,152)		(2,768)
<b>Balance as of December 31, 2004</b>	87,186,835	W 482,403	W 3,895,378	W 12,851,118	W (1,150,734)	W 307,891	W 16,386,056		
<b>Balance as of January 1, 2005</b>	87,186,835	W 482,403	W 3,895,378	W 12,851,118	W (1,150,734)	W 307,891	W 16,386,056		
Net income for 2005				4,022,492					4,022,492
Effect of change in scope of consolidation (Note 1)			167	3,981					4,148
Effect of change in percentage of ownership of investees			(12,893)	598					(12,295)
Dividends				(680,794)					(680,794)
Change in losses in excess of minority interest (Note 19)					(22,448)		22,448		
Change in treasury stock			108,018			(279,061)			(171,043)
Overseas operations translation adjustment						(11,524)			(11,524)
Changes in valuation gain and loss on investment securities						290,143			290,143
Effect of change in percentage of minority interest							62,223		62,223
Minority interest in income of consolidated subsidiaries							(7,892)		(7,892)
Others			739	(6,055)		(2,521)			(7,837)

**Balance as of  
December 31,  
2005**

87,186,835	W	482,403	W	3,991,409	W	16,168,892	W	(1,153,697)	W	384,670	W	19,873,677
------------	---	---------	---	-----------	---	------------	---	-------------	---	---------	---	------------

**Balance as of  
January 1,  
2006**

87,186,835	W	482,403	W	3,991,409	W	16,168,892	W	(1,153,697)	W	384,670	W	19,873,677
------------	---	---------	---	-----------	---	------------	---	-------------	---	---------	---	------------

Net income for  
2006

						3,314,181						3,314,181
--	--	--	--	--	--	-----------	--	--	--	--	--	-----------

Effect of  
change in  
scope of  
consolidation  
(Note 1)

			(1,012)			40,649						39,637
--	--	--	---------	--	--	--------	--	--	--	--	--	--------

Effect of  
change in  
percentage of  
ownership of  
investees

			(8,645)									(8,645)
--	--	--	---------	--	--	--	--	--	--	--	--	---------

Dividends

						(636,487)						(636,487)
--	--	--	--	--	--	-----------	--	--	--	--	--	-----------

Change in  
losses in  
excess of  
minority  
interest  
(Note 19)

						(2,568)			2,568			
--	--	--	--	--	--	---------	--	--	-------	--	--	--

Change in  
treasury stock

			50,565					(711,485)				(660,920)
--	--	--	--------	--	--	--	--	-----------	--	--	--	-----------

Overseas  
operations  
translation  
adjustment  
(Note 20)

								(51,839)				(51,839)
--	--	--	--	--	--	--	--	----------	--	--	--	----------

Changes in  
valuation gain  
and loss on  
investment  
securities  
(Note 20)

								462,912				462,912
--	--	--	--	--	--	--	--	---------	--	--	--	---------

Effect of  
change in  
percentage of  
minority  
interest

										53,509		53,509
--	--	--	--	--	--	--	--	--	--	--------	--	--------

Minority  
interest in  
income of  
consolidated  
subsidiaries

										48,460		48,460
--	--	--	--	--	--	--	--	--	--	--------	--	--------

Others

			2,956			(21,334)		(14,365)				(32,743)
--	--	--	-------	--	--	----------	--	----------	--	--	--	----------

**Balance as of  
December 31,  
2006**

87,186,835	₩	482,403	₩	4,035,273	₩	18,863,333	₩	(1,468,474)	₩	489,207	₩	22,401,742
------------	---	---------	---	-----------	---	------------	---	-------------	---	---------	---	------------

**Balance as of  
January 1,  
2006**

87,186,835	\$	518,713	\$	4,291,838	\$	17,385,906	\$	(1,240,535)	\$	413,624	\$	21,369,546
------------	----	---------	----	-----------	----	------------	----	-------------	----	---------	----	------------

Net income for  
2006

3,563,635	3,563,635
-----------	-----------

Effect of  
change in  
scope of  
consolidation  
(Note 1)

(1,088)	43,709	42,621
---------	--------	--------

Effect of  
change in  
percentage of  
ownership of  
investees

(9,296)	(9,296)
---------	---------

Dividends

(684,394)	(684,394)
-----------	-----------

Change in  
losses in  
excess of  
minority  
interest

(Note 19)

(2,762)	2,762
---------	-------

Change in  
treasury stock

54,371	(765,037)	(710,666)
--------	-----------	-----------

Overseas  
operations  
translation  
adjustment  
(Note 20)

(55,741)	(55,741)
----------	----------

Changes in  
valuation gain  
and loss on  
investment  
securities

(Note 20)

497,755	497,755
---------	---------

Effect of  
change in  
percentage of  
minority  
interest

57,537	57,537
--------	--------

Minority  
interest in  
income of  
consolidated  
subsidiaries

52,107	52,107
--------	--------

Others

3,178	(22,940)	(15,447)	52,107	52,107	(35,209)
-------	----------	----------	--------	--------	----------

**Balance as of  
December 31,  
2006**

87,186,835    \$   518,713    \$   4,339,003    \$   20,283,154    \$   (1,579,005)    \$   526,030    \$   24,087,895

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

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**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Cash Flows  
Year Ended December 31, 2006, 2005 and 2004**

	<b>2006</b>		<b>2005</b>		<b>2004</b>		<b>(Note 2)</b>
							<b>2006</b>
	<b>(In millions of Korean won and thousands of US dollar)</b>						
<b>Cash flows from operating activities</b>							
Net income	W	3,314,181	W	4,022,492	W	3,814,225	\$ 3,563,635
Adjustments to reconcile net income to net cash provided by operating activities							
Depreciation and amortization		1,782,738		1,612,556		1,565,361	1,916,923
Accrual of severance benefits		144,931		213,082		192,648	155,840
Provision for doubtful accounts, net		173,931		115,865		(56,961)	187,024
Gain on foreign currency translation, net		(76,453)		(138,296)		(165,136)	(82,208)
Gain on valuation of trading securities, net		(18,863)		(15,124)		(22,497)	(20,282)
Loss (gain) on valuation of derivatives, net		(1,037)		19,722		(6,948)	(1,115)
Loss (gain) on derivatives transaction, net		24,886		5,143		(3,120)	26,759
Gain on disposal of trading securities and investments, net		(66,507)		(58,865)		(42,159)	(71,513)
Loss on disposal of property, plant and equipment, net		35,035		18,590		15,317	37,672
Earnings of equity method investees, net		(46,425)		(19,724)		(3,505)	(49,919)
Minority interest in income of consolidated subsidiaries		48,460		(7,892)		27,039	52,107
Others		374,968		391,778		382,045	403,190
		2,375,664		2,136,835		1,882,084	2,554,478
Changes in operating assets and liabilities							
Decrease(Increase) in trade accounts and notes receivable		(398,201)		45,112		(869,353)	(428,173)
Increase in inventories		(380,143)		(706,528)		(903,532)	(408,756)
Increase in other accounts and notes receivable		(30,932)		(94,499)		(63,329)	(33,260)
Increase in accrued income		(26,205)		(19,757)		33,906	(28,178)
Increase in advance payments		(73,034)		(83,702)		1,076	(78,531)
Increase in prepaid expenses		(5,009)		(1,360)		(1,565)	(5,386)
Increase(Decrease) in trade accounts and notes payable		272,270		(170,131)		317,983	292,764
Increase(Decrease) in other accounts and notes payable		122,673		(7,571)		73,813	131,906
Increase(Decrease) in advances received		78,449		(7,888)		104,073	84,354
Increase(Decrease) in accrued expenses		(459,579)		493,376		52,874	(494,171)

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Increase(Decrease) in income tax payable	(715,691)	281,240	486,198	(769,560)
Deferred income tax, net	(59,480)	(151,602)	137,986	(63,957)
Payment of severance benefits	(36,817)	(84,049)	(28,346)	(39,588)
Increase in group severance insurance deposits	(48,880)	(98,790)	(95,848)	(52,559)
Increase(Decrease) in other current liabilities	5,855	(30,479)	(4,598)	6,296
Others	(35,515)	(58,375)	8,247	(38,189)
	(1,790,239)	(695,003)	(750,415)	(1,924,988)
Net cash provided by operating activities	3,899,606	5,464,324	4,945,894	4,193,125
<b>Cash flows from investing activities</b>				
Disposal of trading securities	15,322,978	12,758,304	10,482,755	16,476,321
Acquisition of trading securities	(14,516,637)	(12,536,599)	(10,546,422)	(15,609,287)
Disposal of available-for-sale securities	145,990	347,987	27,558	156,978
Acquisition of available-for-sale securities	(669,732)	(620,686)	(194,344)	(720,142)
Disposal of short-term financial instruments	1,516,362	1,322,222	1,416,087	1,630,497
Acquisition of short-term financial instruments	(1,610,510)	(1,434,935)	(1,354,342)	(1,731,732)
Disposal of long-term financial instruments	113,339	1,509	3	121,870
Acquisition of property, plant and equipment	(3,709,422)	(3,360,537)	(2,265,074)	(3,988,626)
Disposal of property, plant and equipment	425,976	66,273	74,041	458,039
Collection of short-term loans	64,436	107,484	100,983	69,286
Short-term loans provided	(62,641)	(119,033)	(39,864)	(67,356)
Long-term loans provided	(6,388)	(33,406)	(4,665)	(6,869)
Acquisition of intangible assets	(131,575)	(81,605)	(89,739)	(141,479)
Acquisition of other investment assets	(131,096)	(239,211)	(1,083,445)	(140,962)
Others	(130,556)	77,816	90,326	(140,383)
Net cash used in investing activities	(3,379,476)	(3,744,417)	(3,386,142)	(3,633,846)
<b>Cash flows from financing activities</b>				
Proceeds from short-term borrowings	4,119,189	4,828,860	5,847,951	4,429,236
Proceeds from long-term debt	2,160,279	594,312	280,038	2,322,881
Proceeds from other long-term liabilities	15,535	497,193	72,136	16,704
Disposal of treasury stock	69,779	931,664	81,724	75,031
Repayment of current portion of long-term debt	(1,188,281)	(1,040,410)	(1,018,064)	(1,277,722)
Repayment of short-term borrowings	(3,821,014)	(4,715,293)	(5,861,889)	(4,108,617)
Repayment of long-term debt	(165,212)	(328,037)	(106,558)	(177,648)
Payment of cash dividends	(636,487)	(680,794)	(524,570)	(684,394)
Acquisition of treasury stock	(851,123)	(1,295,163)	(304,712)	(915,186)
Repayment of other long-term liabilities	(78,173)	(398,998)	(76,300)	(84,057)
Others	148,808	29,024	(39,477)	160,010
Net cash used in financing activities	(226,700)	(1,577,642)	(1,649,721)	(243,762)

Effect of exchange rate changes on cash and cash equivalents	(15,245)	(4,425)	(22,267)	(16,393)
Net increase in cash and cash equivalents from changes in consolidated subsidiaries	4,364	33,939	382	4,693
Net increase(decrease) in cash and cash equivalents	282,549	171,779	(111,854)	303,817
<b>Cash and cash equivalents</b>				
Beginning of the period	653,871	482,092	593,946	703,087
End of the period	W 936,420	W 653,871	W 482,092	\$ 1,006,904

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

	2006		2005		2004		2006	
	(In millions of Korean won and thousands of US dollar)							
Cash paid during the year for interest	W	179,501	W	154,240	W	214,845	\$	193,012
Cash paid during the year for Income tax		1,305,077		1,443,439		854,899		1,403,309

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, 2006 and 2005****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 17 other domestic subsidiaries and 34 overseas subsidiaries, whose accounts are included in the consolidated financial statements, and 17 equity-method investees, are provided below.

***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, 2006, POSCO's shareholders are as follows:

	Number of Shares	Percentage of Ownership (%)
National Pension Corporation	2,496,272	2.86
SK Telecom Co., Ltd.	2,481,310	2.85
Pohang University of Science and Technology	2,330,000	2.67
Others	79,879,253	91.62
	87,186,835	100.00

As of December 31, 2006, 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 Exchanges.

***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, 2006:

Primary Business	Net Assets	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership
			POSCO	Subsidiaries	Total			
			(In millions of Korean Won)(1)					

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Engineering and construction	W	1,106,668	30,000,000	27,281,080		27,281,080	90.94	Pohang
Steel sales and service		293,447	18,000,000	17,155,000		17,155,000	95.31	Pohang
Electronic control devices manufacturing		129,593	3,519,740	3,098,610		3,098,610	88.04	Pohang
Coated steel manufacturing		267,016	6,000,000	4,000,000		4,000,000	66.67	Pohang
Steel work maintenance		51,062	1,700,000	1,700,000		1,700,000	100.00	Pohang
Computer hardware and software distribution		159,511	81,551,600	50,440,720		50,440,720	61.85	Sungnam
Economic research and consulting		23,010	3,800,000	3,800,000		3,800,000	100.00	Seoul
Athletic facilities operation		43,647	3,945,000	2,737,000	1,208,000	3,945,000	100.00	Suncheon PO

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

Primary Business	Net Assets	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location
			POSCO (In millions of Korean Won)(1)	Subsidiaries	Total		
Architecture and consulting	W 23,294	230,000	230,000		230,000	100.00	Seoul
Specialty steel manufacturing	436,303	26,000,000	26,000,000		26,000,000	100.00	Changwon
Machinery installation	33,135	1,000,000	1,000,000		1,000,000	100.00	Gwangyang
Investment in venture companies	32,740	6,000,000	5,700,000		5,700,000	95.00	Pohang
Manufacturing	120,342	5,907,000	3,544,200		3,544,200	60.00	Pohang
Distribution and warehousing	32,600	5,000,000	2,550,000		2,550,000	51.00	Gwangyang
Facilities management	31,385	714,286	214,286		214,286	30.00	Seoul
Packing materials manufacturing	68,955	3,000,000	270,000	831,756	1,101,756	36.73	Pohang
Generation of Electricity	489,762	40,000,000	40,000,000		40,000,000	100.00	Seoul
Investment in new technology	28,619					22.11	Seoul

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Steel trading	111,614	317,806	316,051	1,755	317,806	100.00	U.S.A.
Steel trading	88,772	761,775	761,775		761,775	100.00	Australia
Coal trading	59,582	1,099,885		1,099,885	1,099,885	100.00	Canada
Steel trading	18,353	9,360,000	9,360,000		9,360,000	100.00	Hongkong
Steel manufacturing	11,352					40.00	Vietnam
Coated steel manufacturing	12,894					55.00	China
Steel service center	7,880					70.00	China
Steel service center	6,304	6,000		3,000	3,000	50.00	Japan
Real estate rental	76,688					100.00	China
Real estate rental	21,958					60.00	Vietnam
Steel structure fabrication and sales	(14,075)					70.00	Vietnam
Stainless steel manufacturing	481,471					82.48	China
Coated steel manufacturing	18,377					95.19	China
Steel service center	15,247	5,941,570	2,327,288	2,136,187	4,463,475	75.12	Thailand

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

Primary Business	Net Assets	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	S
			POSCO	Subsidiaries	Total			
			(In millions of Korean Won)(1)					
Depot service	W 12,391					90.00	China	2
Finance	64,793	5,000,000	5,000,000		5,000,000	100.00	Hongkong	
Stainless steel manufacturing	63,728					80.00	China	
Steel service center	21,279					100.00	China	
Construction Steel service center	15,186	24,400		24,400	24,400	100.00	U.S.A.	
Iron ore mining and trading	7,876					100.00	China	P
	27,994	17,500,001		17,500,001	17,500,001	100.00	Australia	
Investment	167,666					100.00	China	
Steel trading	49,481	90,438	90,438		90,438	100.00	Japan	
Facilities manufacturing	5,104					100.00	China	
Coal trading	9,360	12,550,000		12,550,000	12,550,000	100.00	Australia	
Coal trading	7,813	11,050,000		11,050,000	11,050,000	100.00	Australia	
Coal trading	47,608	225,000,000	224,999,999		224,999,999	100.00	India	
Steel service center	13,746	65,790,858	42,764,058		42,764,058	65.00	India	
Steel service center	(504)	20,000		18,000	18,000	90.00	Japan	
	13,325					100.00	China	

Steel service center							
Coal trading	28,646	304,016	304,016	304,016	100.00	Canada	
Steel service center	13,308				61.00	Mexico	
Raw material and steel depot service	9,743				100.00	China	
Cold-rolled steel manufacturing and sales	34,512				100.00	Vietnam	

(1) Net assets of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.

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

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

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**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, 2006:

	Primary Business	Net Assets	POSCO	Number of Shares Subsidiaries (In millions of Korean Won)(1)	Total	Percentage of Ownership (%)	Location	Per Ow Subs
ration	E-business	W 20,936	560,000	180,000	740,000	23.13	Seoul	POS oth
Co.,	Engineering	16,889		866,190	866,190	25.46	Seoul	PO
City	Real estate	(119,916)				29.90	Seoul	PO
Inc.	Fe-Cr manufacturing	38,402	3,822,000		3,822,000	49.00	Gwangyang	
td.	Real estate	7,527				29.90	Seoul	PO
onal	Steel trading	74,422	2,010,719,185		2,010,719,185	50.00	Brazil	
ryu	Warehousing	2,782		600	600	30.00	Japan	POS
td.	Steel processing	121,016				50.00	U.S.A.	(50
O	Fe-Cr manufacturing	24,253	21,675		21,675	25.00	Republic of South Africa	
PI)	Steel processing	13,773				21.00	China	Poste
	Steel processing	9,422	2,345,558	4,573,842	6,919,400	29.50	India	Pos
ingpu	Investment in companies in the bio-tech industry	29,271				100.00	U.S.A.	(10
Co.,	Steel manufacturing	4,305				50.00	Vietnam	

Steel BHD	Steel service center	13,064	4,200,000		4,200,000	30.00	Malaysia	
Steel OSMI) Resources	Steel service center	8,291	1,193	3,579	4,772	37.87	Indonesia	Poste
	Material Processing	55,332		3,239	3,239	33.34	Australia	POS
iang on								
Co.,	Material Processing	10,574				30.00	China	PO (

- (1) Net assets of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.
- (2) The Company owns over 30% equity interest in KOBRASCO, UPI, POSMI, POSVINA Co., Ltd and CAML Resources Pty. Ltd. As the Company is not the major shareholder, they were 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.



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

	Primary Business	Net Assets	Number of Shares			Percentage of Ownership (%)	Location	Percentage Owned by Subsidiaries
			POSCO	Subsidiaries	Total			
								(In millions of Korean Won)(1)
o., Corp.	Construction	W 38,477		400,500	400,500	40.05	Hwasung	POSCO (40.05%)
ence	Software consulting, research, and development	6,497		1,004,080	1,004,080	22.35	Seoul	POSTECH Capital (22.35%)
o., d.	Semiconductor components manufacturing	665		33,870	33,870	29.97	Seoul	POSTECH Capital (29.97%)
SIA eel	WiBro Multi-Player terminals R&D and sales	395		1,224,000	1,224,000	51.00	Gunpo	POSCO (51.00%)
POSCO td. on	Rental residence construction and management	300		400,000	400,000	100.00	Incheon	POSCO (100%)
Co., sco sing	STS/CR Steel manufacturing and sales	11,458	29,610,000		29,610,000	70.00	Indonesia	
td.	Facilities manufacturing	1,437	13,440		13,440	70.00	Myanmar	
	Steel service center	1,321				100.00	China	POSCO (100%)
	Transportation (transportation system, PRT)	4,219		3,250,000	3,250,000	100.00	U.K.	POA (100%) POSTEL POSCO POSDAT POSCO & Engine

tie								
Co.,	Manufacturing	132			25.00		China	POSREC
osco Co.,	Manufacturing	4,030			35.00		China	POSREC
C , Ltd.	Construdtion and engineering	6,381			100.00		China	POSC (100
g								
Co.,	Manufacturing	1,166			50.00		China	POSREC
&								
n	Construdtion and engineering	1,929			100.00		Nigeria	POSC (100
.								
ng	Fe-Cr manufacturing	57	490	490	49.00		New Caledonia	
AS China								POS
	Computer service	193			100.00		China	(100
Co., Ltd	Steel manufacturing, warehousing, and shipping	(169)		34,000	34,000	69.40	Japan	POSC (69
Center	Steel manufacturing and sales	4,653				20.00	China	

- (1) The net assets of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.
- (2) Total assets were less than W7,000 million as of December 31, 2006.
- (3) The investee is in the process of liquidation as of December 31, 2006.
- (4) The capital investment was less than W7,000 million as of December 31, 2006.
- (5) The investee has shut down operations as of December 31, 2006.

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

The consolidated financial statements now include the accounts of POS-NPC Co., Ltd. and POSCO-Foshen Steel Processing Center Co., Ltd. as their total assets exceeded W7,000 million as of December 31, 2005. POS-MPC S.A. de C.V., Zhangjigang Pohang Port Co., Ltd., and POSCO-Vietnam Co., Ltd. are included in the consolidated financial statements as the Company made an investment to establish these entities during 2006 and has more than 50% ownership interest.. POSCO also established POSTEC 2006 Energy Fund during 2006 and holds less than 50% ownership interest. POSCO consolidates POSTEC 2006 Energy Fund because it has control over the entity by having the ability to appoint majority of the board of directors.

As a result, the total assets, sales, shareholders' equity and net income of the consolidated financial statements as of December 31, 2006, increased by W1,204,151 million, W613,292 million, W705,627 million, and W217,190 million, respectively.

Following are the subsidiaries which were consolidated in the prior year, but excluded from consolidation as of December 31, 2006.

<b>Subsidiaries</b>	<b>Location</b>	<b>Reason</b>
Myanmar- POSCO Steel Co., Ltd.	Myanmar	Suspension of business
Korea Energy Investment, Ltd.	Korea	Disolved after being merged by POSCO Power Corp.
SEO MUEUN Development Inc.	Korea	Cancelation of management agreement

**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, 2006, are summarized below:

***Basis of Consolidated Financial Statements Presentation***

POSCO and its domestic subsidiaries maintain their accounting records in Korean won and prepare statutory consolidated 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 Supervisory Commission. As SKFAS Nos. 15 through 17 became applicable to the Company on January 1, 2005, the Company adopted these standards in its consolidated financial statements covering periods

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**POSCO and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

beginning January 1, 2005. In addition, as SKFAS Nos. 18 through 20 became effective for the Company on January 1, 2006, the Company adopted these standards in its consolidated financial statements for the year ended December 31, 2006.

In addition, the Company adopted early the Korea Accounting Institute's Accounting Implementation Guide 06-2 and changed its method accounting for income taxes on temporary differences in relation to investments in subsidiaries and equity method investees to comply with the new requirement. The effect was a decrease in net income for 2006 by W16,311 million. The consolidated financial statements as of and for the year ended December 31, 2005, have been retroactively restated to reflect the accounting changes pursuant to SKFAS No. 1.

***Principles of Consolidation***

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

The Company records differences between the investment account and corresponding capital account of subsidiaries as a goodwill or a negative goodwill, and such differences are amortized over the estimated useful lives using the straight-line method. However, differences which occur from additional investments acquired in consolidated subsidiaries are reported in a separate component of shareholders' equity, and are not included in the determination of the results of operations. 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. In addition, if losses of the consolidated subsidiaries, included in minority interest, are in excess of minority interest, the deficit in excess of minority interest is charged to the equity of the controlling company. Until losses charged to the equity of the controlling company are recovered, all gains on related consolidated subsidiaries are recognized in the equity of the controlling company.

***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.

*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.

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**Table of Contents****POSCO and Subsidiaries****Notes to Consolidated Financial Statements (Continued)*****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 32 and 33.

***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 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



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

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 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 consolidated 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 32 and 33. Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

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

**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.

	<b>Estimated Useful Lives</b>
Goodwill	5 years
Negative goodwill	5-10 years
Intellectual property rights	5-10 years
Port facilities usage rights	1-75 years(2)
Land usage rights	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 rights represent the rights to use certain port facilities and land. Estimated useful lives of those rights whose estimated useful lives of 20 years or more are determined based on the term of contractual rights.

As of December 31, 2006, 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. In connection with the acquisition of POSCO Power Corp., the Company recognize intangible asset relating to the electricity power supply agreement, entered into with Korea Electric Power Corporation. The fair value of the agreement 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.