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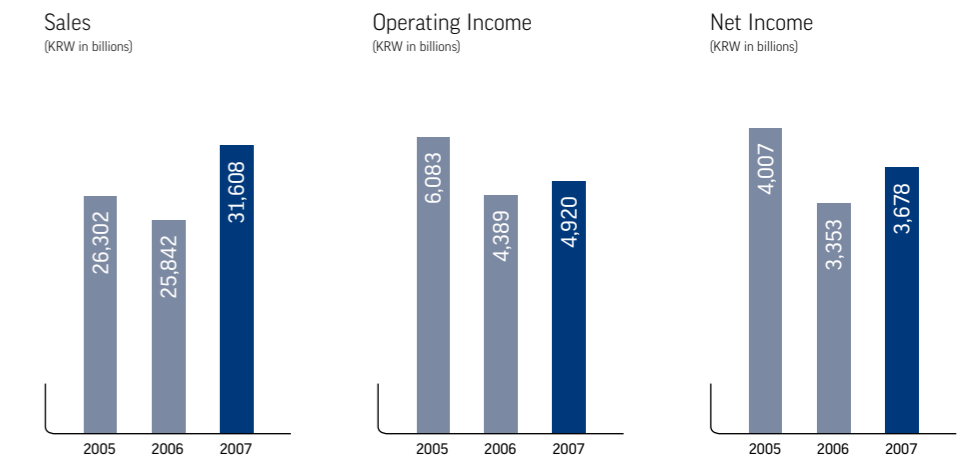
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All figures have been rounded for estimating purposes only. Please refer to the Consolidated Financial Statements for actual figures.

At a Glance

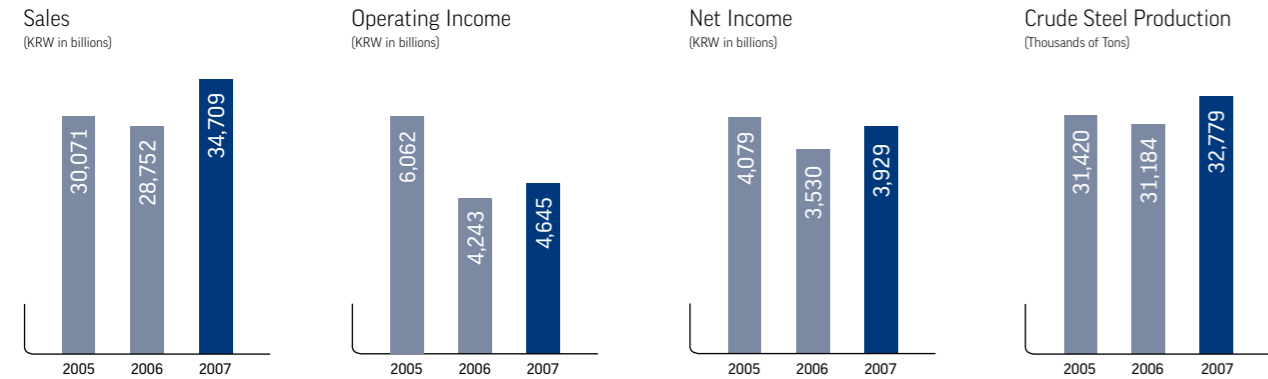
POSCO begins the quest toward "Creating Another Success Story." Building on forty years of accomplishments, we are pursuing global leadership by forging worldwide strategic alliances, joint ventures and equity acquisitions that will define the first year of our powerful new story. We intend to accelerate innovation, sharpen our competitive edge and implement the five core values of our new vision; Customer, Challenge, Execution, People and Integrity.



- Customer**, because customer-first service is our vital operating principle.
- Challenge**, because turning the impossible into reality is the living spirit of POSCO.
- Execution**, because achieving our targets is key to our history and attitude.
- People**, because respect for performance and relationships is the soul of our determination.
- Integrity**, because upholding business ethics and transparency is the bedrock of our enterprise.

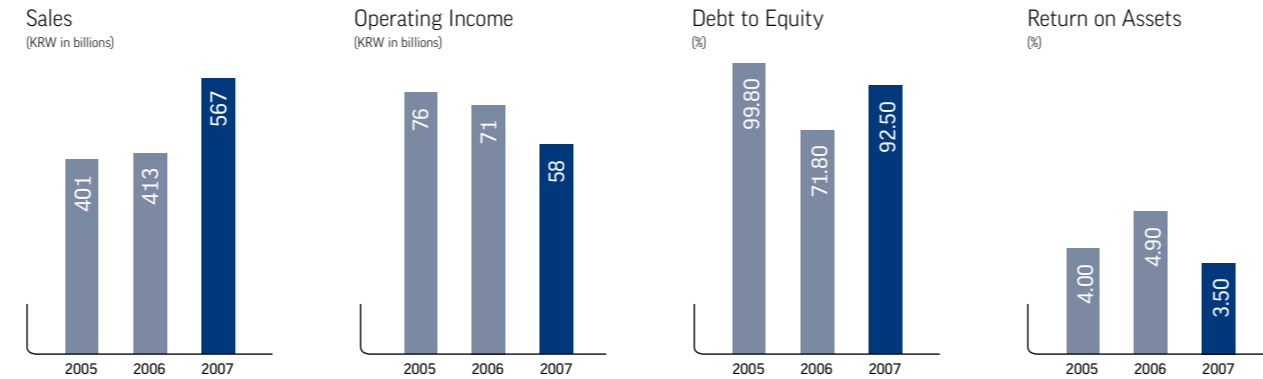
Steel

POSCO produces a diversified portfolio of high-grade steel products at plants around the world, including eight outside Korea. POSCO Specialty Steel manufactures high-quality steel for industrial products. Pohang C&C produces galvanized, aluminized and color steel sheets. Zhangjiagang Pohang Stainless Steel in China produces stainless steel in an integrated production system. By developing plants in key markets, including an integrated steel works in India and post-production systems in Vietnam and Mexico, we are extending our global reach.



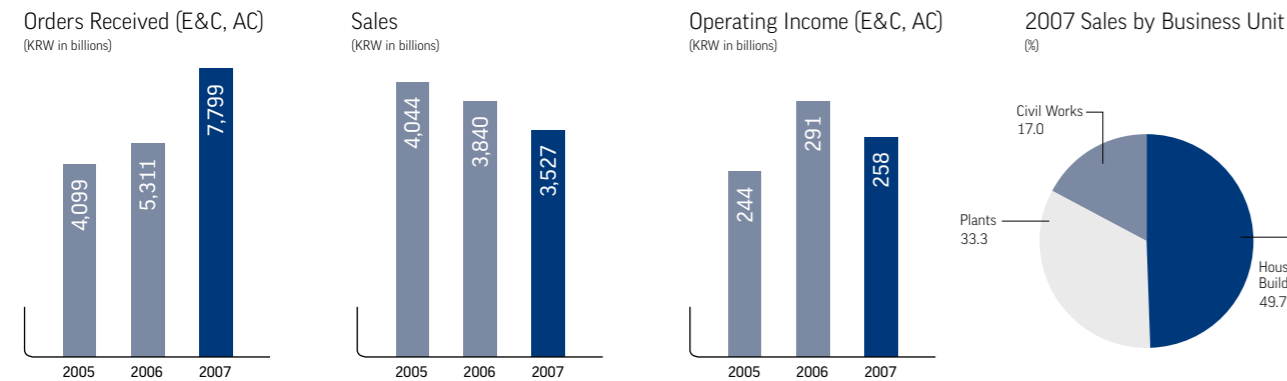
Energy

Since 2006, when POSCO acquired POSCO Power in Korea, we have focused on the energy business as a key new growth engine. We are actively identifying opportunities for power, natural gas, overseas resources and renewable energy projects as our professional engineers build the foundation for POSCO's future by developing projects that generate synergistic expansion.



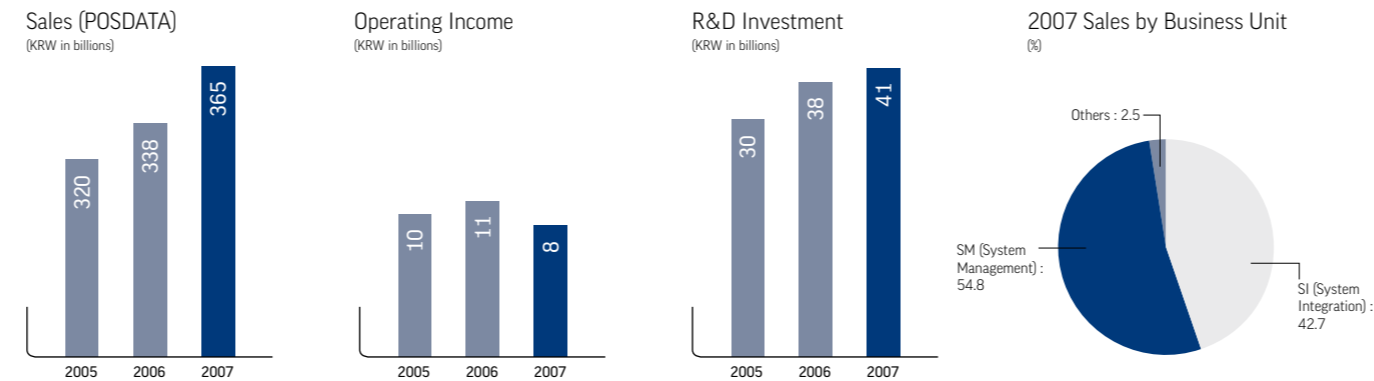
E&C

Founded in 1994, POSCO E&C is an award-winning global contracting enterprise. With expertise in building the infrastructure of developing countries, such as new cities and plants, the company is rapidly expanding into such markets as Africa, Vietnam, India and Chile. POSCO E&C's competitive abilities and technologies fuel synergistic opportunities with POSCO's widening worldwide steel business.



IT

Launched in 1989, POSDATA is a top global IT service provider. We are involved in such strategic business initiatives as mobile Internet technology, including Mobile WiMAX, and IT products like ETC or Electronic Toll Collection terminals. We also focus on high-profit businesses such as RFID and other ubiquitous technologies. POSDATA delivers convenience, innovation and value across all of its client industries.



Financial Highlights

Consolidated Financial Summary

(KRW in billions, in thousand tons)

	2005	2006	2007
Sales	26,302	25,842	31,608
CoGs	18,767	19,897	24,903
Operating Income	6,083	4,389	4,920
Net Income	4,022	3,314	3,678
Current Assets	11,640	12,237	14,394
Non-Current Assets	15,867	18,912	21,881
Total Assets	27,507	31,149	36,275
Interest-Bearing Debt	3,048	4,369	5,362
Total Shareholders' Equity	19,874	22,402	25,118
Per Share Data			
Net Income	50,790	42,115	46,854
Ratio			
Operating Margin	23.1%	17.0%	15.6%
Return on Asset	15.6%	11.3%	10.9%
Return on Equity	22.2%	15.7%	15.5%
Liabilities to Equity	38.4%	39.0%	44.4%
Crude Steel Production	31,420	31,184	32,779

Non-Consolidated Financial Summary

(KRW in billions, in thousand tons)

	2005	2006	2007
Sales	21,695	20,043	22,207
CoGs	14,703	15,033	16,606
Operating Income	5,912	3,892	4,308
Net Income	3,995	3,207	3,678
Current Assets	8,400	7,871	8,768
Non-Current Assets	15,807	18,492	21,723
Total Assets	24,207	26,363	30,491
Current Liabilities	3,776	1,747	2,811
Non-Current Liabilities	920	2,824	3,178
Total Liabilities	4,696	4,571	5,989
Total Shareholders' Equity	19,511	21,792	24,502
Per Share Data			
Net Income	50,438	40,748	48,444
Dividends	8,000	8,000	10,000
Ratio			
Operating Margin	27.3%	19.4%	19.4%
Return on Asset	17.5%	12.2%	12.1%
Return on Equity	22.4%	14.7%	15.0%
Liabilities to Equity	24.1%	21.0%	24.4%
Crude Steel Production	30,545	30,153	31,064

Dear Shareholders and Customers,

Forty years ago, we embraced the challenge of building a world-class steel company at a time and in a place where many said it couldn't be done. Yet we have realized that far-sighted vision with distinction and passion. Supported by hard work, determination and the will to succeed, POSCO has built the platform that catapulted us into global leadership. We are honored to share this special fortieth anniversary with our shareholders, customers and employees. We are grateful for their faith and continuing support.

In keeping with our roots, we forged a new vision for "Creating Another Success Story" last year. That grand tale has now begun. In 2007, POSCO sales revenue hit KRW32 trillion and profits topped KRW4.31 trillion, fueled by the company's emphasis on value-added strategic products, such as automotive steel. Strategic management, advanced technology and the astute use of resources and equipment led to dramatic cost savings of KRW829 billion. Major subsidiaries, such as the engineering and construction, energy and IT businesses, also experienced solid growth.

Today, POSCO is sharpening its competitive edge in such areas as environment-friendly processes, the global business network and breakthrough technologies. Already, we have accomplished the world's first commercialization of FINEX iron-making technology, which both reduces costs and benefits the environment. The company is stepping up overseas activities in key markets with increased operations, new plant construction and joint ventures.

With a foundation supported by forty years of dramatic growth and profitable earnings, we see the challenges of the next four decades as the building blocks for "Creating Another Success Story."



Navigating the Path in 2008

Even so, POSCO is alert to the challenges of 2008. The global economy is experiencing a downturn as a result of the U.S. sub-prime mortgage crisis, the tight-money policy in China and skyrocketing prices for raw materials, such as oil and minerals. The economy in Korea continues difficult. That's because of uncertainties in global capital markets. In the global steel industry, we note strong demand and fierce competition. The industry is consolidating at a rapid pace and major investment plans have been announced. We also anticipate continuing cost increases in iron ore and coal, as competition for customers turns intense.

Yet such management challenges have long been characteristic of the industry. As in the past, the company is confident of steering a winning path. Last year, POSCO reached solid management achievements with robust profits. That resulted from banking on high-value product development and low-cost production management.

Looking ahead, we are building the POSCO Vision 2018. This is our pledge to achieve KRW100 trillion in annual revenue and 50 million tons of global crude steel production within ten years. We have set this target based on our proven record of 10% annual growth every year for the past forty years. Just so, the "new POSCO" is being built on growth and profitability, on stability and sustainability.

Our plan for KRW100 trillion by 2018 includes specific benchmarks and strategies. First, we will advance our production capabilities and develop overseas markets to become a "Global Big 3, Top 3" steel company with KRW70 trillion in revenue. We will uphold our excellence in both quality and quantity. In other sectors, such as energy, construction, IT and marine engineering, we will develop our existing core businesses as well as drive new growth to reach KRW30 trillion in revenue.

To realize the POSCO Vision 2018, we have created the "3S" strategy. In the coming ten years, POSCO plans to "Size Up" capabilities in the overseas markets; "Speed Up" management systems that can cope with every business environment; and "Synergy Up" our alliances by strengthening growth with subsidiaries and connected business systems.

As we move toward our 2018 goals, POSCO will nurture its worldwide talent, expertise and skills to manage the uncertainties of today while achieving triumphant growth in the future.

Strategically Developing Global POSCO

To become one of the world's top three steelmakers, POSCO will increase its global capacity to 50 million tons and boost domestic production capacity to 40 million tons. That will serve as the central production base for global growth. This phase also includes developing production bases in India and Vietnam as well as the Middle East, North and South America and in Europe.

During 2008, POSCO's greenfield project in the Indian state of Orissa will acquire mineral exploration rights. And we will begin site improvements and move on to build our steelworks. Ultimately, this ambitious facility will produce 12 million tons a year.

In 2009, we expect to complete the cold-rolling mill in Vung Tau, near Ho Chi Minh City in Vietnam. In addition, we will complete the automotive steel sheet plant in Mexico, which will supply GM, Volkswagen and Hyundai Motors.

As we aggressively pursue growth, POSCO is seeking opportunities for strategic alliances, joint ventures and equity acquisition. In 2007, we completed a joint-venture agreement with Nippon Steel to develop a by-products recycling business. The POSCO-Nippon Steel RHF Joint Venture facilities will be located in southern region of Korea.

Throughout 2008, POSCO will build its global profile and marketing channel by focusing on customers. We expect to deepen relationships with core customers as we attract new customers and establish efficient service systems. Our worldwide sales bases will jump to 35, bringing annual capacity to 4 million tons.

Besides revving up growth engines at home and abroad, POSCO is honing its world-best competitiveness by both strategic and daily efficiencies. We are driving integrated cost improvements, such as better use of raw materials, smarter technology, lower-cost design and first-rate energy-saving operations.

Reducing Costs and Improving Operational Excellence

Our continuous cost reductions, helped by management discipline and forward-looking production methods, are making us more competitive. As prices for raw materials rise, we are sustaining our targets for growth with strategic cost-cutting. We also are exploring new mine development and ensuring our access to existing mines. Overall, POSCO is not only securing a stable supply of materials we need but also finding new ways to save on costs.

Our emphasis on cost reduction keeps the company flexible in a cyclical industry and also permits us to leverage opportunities as they arise.

In 2008, the company has set a cost-reduction target of KRW750.6 billion.

Strengthening our Technology Leadership

In 2008, POSCO plans to increase its global market share of high value-added products with a "World First, World Best" strategy. POSCO will reinforce its capacity to produce premium products by investing in expansion and strategic R&D.

We increased our annual capability to produce premium steel at Pohang by constructing a second dephosphorization furnace and completing a third steel-plate heat treatment furnace. We revamped the cold-rolling mill and Continuous Galvanizing Line (CGL) at Gwangyang Works, which also boosted capacity. We are moving toward increased share of the automotive and home appliance steel markets.

We continue to benefit from the competitive advantage of FINEX, POSCO's next-generation technology. The eco-friendly FINEX facility at Pohang Works, Korea, the first in the world, has given POSCO substantial leadership in steel technology and best practices. To maintain our status as "World Best, World First, and World Most," we are implementing technological innovations in cost management. In addition, we are developing proprietary technology to reduce CO₂ while collaborating with other steel makers to meet the challenges of the post-Kyoto Protocol era.

Fueling Innovative Growth

POSCO is fueling growth in the steel industry and in steel-related businesses that act as new growth engines. For instance, after entering the global business, POSCO E&C is constructing a new blast furnace and developing a power plant in Vietnam. POSCO Specialty Steel is increasing sales because of the capabilities of a new forging plant. POSDATA's WiBro technology, recently adopted as a global standard for third-generation mobile communications technology, is rolling out new operations. Some of the corporation's prominent subsidiaries are poised to become public companies, all of which will add to the value of the POSCO Group.

POSCO is also identifying relevant growth opportunities in the global energy business, including those for power, natural gas, overseas resources and renewable energy projects. We are acquiring related business rights and building a foundation for POSCO's future as we move toward sustainable 21st-century power. In addition, POSCO is promoting renewable energy with such cutting-edge products as solar, wind and fuel-cell energy as well as recycling centers that are helping to develop a zero-waste society.

Building our Corporate Culture based on Five Core Values

Becoming the best begins with the best corporate culture. In 2007, we proclaimed, the "Global POSCO Way," a campaign for our leap forward as a world-class steel maker. We defined five core POSCO values: (1) Customer; (2) Challenge; (3) Execution; (4) People; and (5) Integrity. The company is committed to a culture of cross-cultural global staff and stakeholders. We are dedicated to building an organization of motivated employees with a shared vision of goals and global skills.

As part of this effort, we have successfully incorporated Six Sigma innovations. POSCO also has implemented Quick Six Sigma (QSS), a customized program for our environment. The Global POSCO Way and QSS initiatives will transform POSCO into a World-Best company.

Giving back to the community is rooted in our corporate culture. Social contributions and environmental protections are key to POSCO's responsibility and respect for customers and communities. Our diverse programs include the POSCO Asia Fellowship from the POSCO TJ Park Foundation, which promotes social contributions with a global perspective. We also support education in the Korean language and culture and development for next-generation leaders. In addition, POSCO encourages employees to become involved in helping people in need in the communities where our workplaces are located.

Achieving Objectives to Move Forward

For 2008, POSCO has set a “stretch target,” of producing 35 million tons of steel and record-setting sales of KRW34 trillion. The company expects to create value and to continuously save costs in order to reach these goals.

All of us at POSCO will strive to achieve our business objectives for sustainable growth and hope to have the affection and support of our shareholders to sustain us.

Building on our founders' accomplishments, a new generation at POSCO is Creating Another Success Story, one that goes beyond here and beyond now. Around the world, we are reaching out, expanding our minds and our hearts as we rise to the challenges and shape a future of strong growth and innovation. With the support of our shareholders, customers and employees, we will perform at the very top of our abilities. With your help, we are dedicated to continued excellence.

Thank you.

A handwritten signature in black ink, reading "K. T. Lee". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Ku-Taek Lee
CEO

BOARD OF DIRECTORS

1. Ku-Taek Lee
CEO
Chairman of
Executive Management Committee

3. Joon-Yang Chung
President
Chief Operating Officer and
Chief Technology Officer /
Executive Management Committee

2. Seok-Man Yoon
President
Chief Marketing Officer /
Corporate Communications Dept. /
Energy Business Dept., Seoul office /
Finance and Operation Committee /
Executive Management Committee

4. Soung-Sik Cho
Senior Executive Vice President
POSCO-India (President) /
India Project Dept. /
Executive Management Committee



5. Dong-Hee Lee

Senior Executive Vice President
Chief Finance Officer /
Finance and Operation Committee /
Executive Management Committee

6. Jong-Tae Choi

Senior Executive Vice President
Chief Staff Officer /
Director Candidate Recommendation
Committee / Secretariat Dept. /
Executive Management Committee

7. Yoon-Suk Suh

Chairman of the Board /
Chairman of the Audit Committee /
Chairman of the Insider Trading
Committee / Evaluation and
Compensation Committee

8. Young-Ju Park

Chairman of the Evaluation and
Compensation Committee /
Finance and Operation Committee

9. Jeffrey D. Jones

Audit Committee /
Insider Trading Committee

10. Won-Soon Park

Chairman of the Director Candidate
Recommendation Committee /
Finance and Operation Committee

11. Wook Sun

Director Candidate
Recommendation Committee /
Audit Committee /
Insider Trading Committee

12. Charles Ahn

Director Candidate
Recommendation Committee /
Evaluation and Compensation
Committee

13. Sung K. Huh

Chairman of the Finance and
Operation Committee /
Evaluation and Compensation
Committee

14. Sang-Yong Park

Audit Committee /
Insider Trading Committee



5



8



10



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13



3



11

Establishing a model for transparent governance

Today's rapidly changing economy is both global and immediate. Companies that conduct worldwide business must be transparent and prepared to meet international standards and scrutiny. At POSCO, we are building a company that is not only commercially successful but also highly principled. As a result, we are strategically organized to achieve operational efficiencies at the lowest possible cost. We are positioned to encourage growth even when conditions turn stressful. We are expert in managing a diverse portfolio of assets in power generation, mining and technology and steel, our core industry. By weighing medium- and long-term strategies, our Board of Directors helps to guide management to accomplish these objectives in a manner both ethical and financially rewarding to our shareholders.

Recent management consolidation and reforms have established a strong foundation upon which to grow. With eight outside directors, out of a total of 14, the Board is now more independent. In addition, outside directors meet among themselves to discuss Board agendas, which strengthens their independence. On behalf of shareholders, we have instituted cumulative and write-in voting systems, while an Insider Trading Committee ensures full transparency in our dealings with affiliated companies and individuals. POSCO's vision and principles on this fundamental issue are articulated in the form of a corporate governance policy.

Shareholders approved the separation of the positions of Chief Executive Officer and Chairman of the Board in 2006. In 2007, they voted to add an article about the composition and operation of the Candidate Recommendation Committee in order to further assure independent election of a qualified Chief Executive Officer. Such initiatives and policies have earned recognition for POSCO as a model of transparent governance. Besides other citations for excellent governance, the company was awarded "Best Company in Corporate Governance" and "Good Company in Corporate Governance" every year since 2005 from the Corporate Governance Service, the most respected domestic organization in its field. In December 2007, POSCO also received the "Grand Prize in Corporate Transparency" from Korea's five major economic and business organizations, including the Korea Employers Federation.

The Board convened seven times during 2007 with a 96.2% attendance rate. At these meetings, directors held in-depth discussions about issues critical to the globalization and sustainable growth of the company. Among these, in 2007, the Board approved the business plan for fiscal year 2008, the acquisition of MEGS Industries in Malaysia, the investment in Aral Sea Exploration Project in Uzbekistan, the joint venture project for a U.S. steel pipe plant and the new establishment and extension investment of overseas steel processing facilities in 2008. In addition, the Board received a special report on POSCO affiliates' enlisting plan for Korean stock market.

POSCO 2007 Board of Directors Committee Activities

The Director Candidate Recommendation Committee

2007 Meetings: 3

Agenda: Recommendations for outside director candidates; evaluation of standing director candidates.

The Evaluation and Compensation Committee

2007 Meetings: 2

Agenda: Two items, including evaluation of POSCO's overall financial performance.

The Finance and Operation Committee

2007 Meetings: 5

Agenda: Deliberation of 21 items, including plans for equity investment in Hyundai Heavy Industries and the acquisition of MEGS Industries in Malaysia; approved the four items delegated to them by the Board and informed the other directors of the results; reported their deliberated opinions to the Board regarding the other 17 items.

The Executive Management Committee

2007 Meetings: 12

Agenda: Deliberated on 28 topics, including relining of the Gwangyang No. 4 blast furnace.

The Insider Trading Committee

2007 Meetings: 5

Agenda: Contribution plan for the POSCO Education Foundation, among other items.

The Audit Committee

2007 Meetings: 7

Agenda: Review the 2006 yearly audit.

Committees

Director Candidate Recommendation Committee

Won-Soon Park, Chair

Wook Sun / Charles Ahn / Jong-Tae Choi

Evaluation and Compensation Committee

Young-Ju Park, Chair

Yoon-Suk Suh / Charles Ahn / Sung K. Huh

Finance and Operation Committee

Sung K. Huh, Chair

Young-Ju Park / Won-Soon Park / Seok-Man Yoon / Dong-Hee Lee

Audit Committee

Yoon-Suk Suh, Chair

Jeffrey D. Jones / Wook Sun / Sang-Yong Park

Insider Trading Committee

Yoon-Suk Suh, Chair

Jeffrey D. Jones / Wook Sun / Sang-Yong Park

Executive Management Committee

Ku-Taek Lee, Chair

Seok-Man Yoon / Joon-Yang Chung / Soung-Sik Cho /

Dong-Hee Lee / Jong-Tae Choi



Continuous Galvanizing Line
Gwangyang, Korea

We lead the steel industry ...

POSCO is working to become one of the world's top three steelmakers. We are securing industry leadership and enhancing business performance with advanced technology, aggressive efficiencies and a keen eye for market opportunities, such as high-value, high-quality automotive steel.



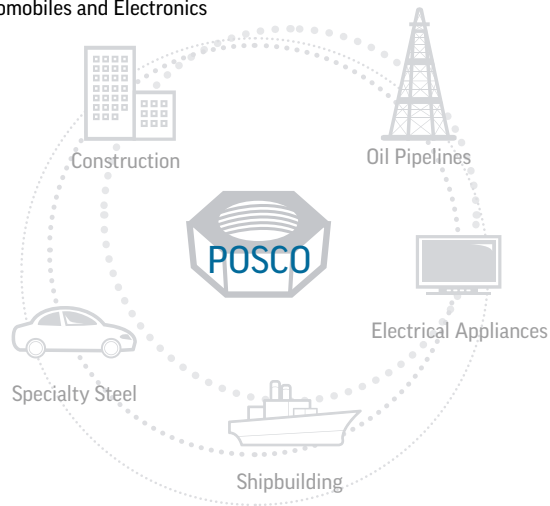
Continuous Galvanizing Line
Gwangyang, Korea

... with innovative and high-value products.

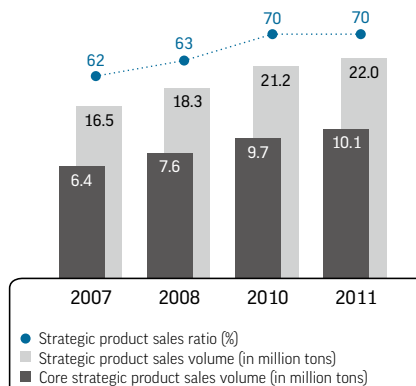
Leadership in action

POSCO produces high-strength automotive steel and leverages its processing technologies, such as TWB, hydroforming and hot press forming, to reduce automaker welding and reduce auto weight. In addition, our technologies for core products, such as steel plates for LNG Carriers and our highly efficient electrical steel saves energy and serve our customers. With a diverse and high-quality product portfolio, we are steadily gaining worldwide market share.

● High-End Steel Products for Automobiles and Electronics



● High-End Steel Production





Coil Center
Ho Chi Minh City, Vietnam



We are truly global ...

POSCO is expanding its steel business in markets around the globe. By boosting our international production capacity, forging strategic alliances and building a worldwide network that integrates resources, production and customers, we are becoming a leading steelmaker.



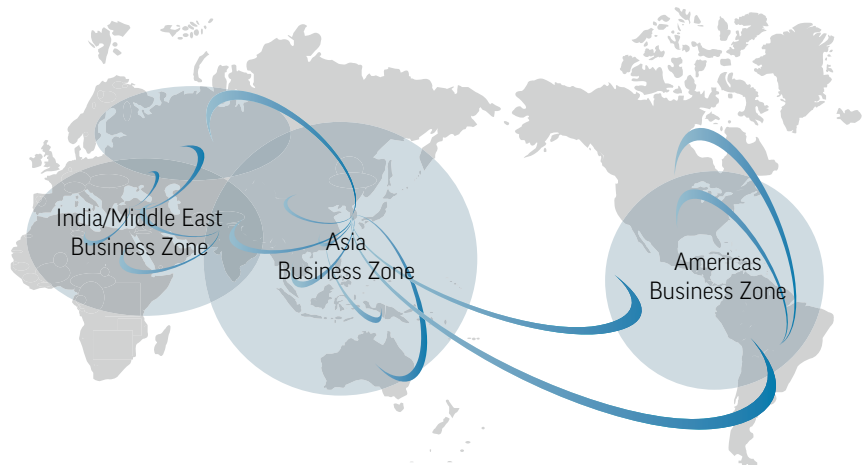
Coil Center
Ho Chi Minh City, Vietnam

... with production and markets around the world.

Going global

POSCO is developing a global marketing network that is pioneering new markets and building new client relationships. We are establishing plants in core emerging markets such as India and Vietnam. With active worldwide management, we are directing materials and human resources where and when they are needed. We are realizing our vision of becoming a truly global company.

● POSCO's Global Production and Sales Network



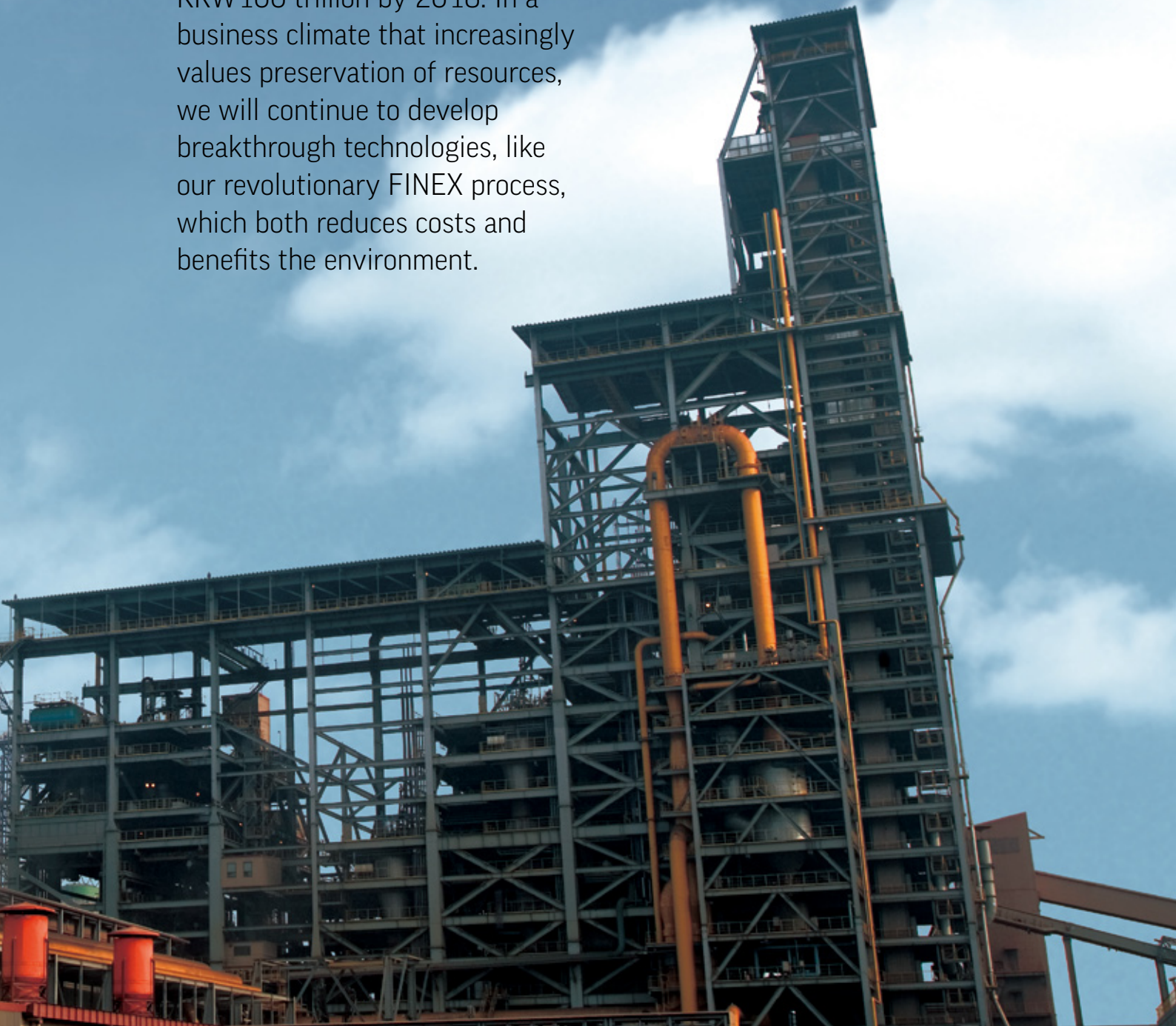


FINEX Plant
Pohang, Korea



We set new benchmarks ...

POSCO is “Creating Another Success Story.” We are becoming a top global 100 company with expected steel sales of KRW70 trillion and consolidated sales of KRW100 trillion by 2018. In a business climate that increasingly values preservation of resources, we will continue to develop breakthrough technologies, like our revolutionary FINEX process, which both reduces costs and benefits the environment.



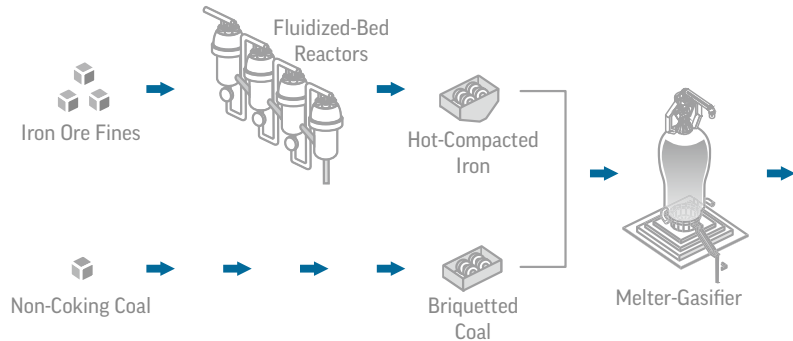
FINEX Plant
Pohang, Korea

... with breakthrough technologies that respect resources.

FINEX initiative

POSCO commercialized FINEX, an innovative and eco-friendly iron-making technology that uses cheaper raw materials while reducing pollutant emissions. Our environment-friendly breakthroughs are enabling us to secure core competencies and propel the company into industry leadership. We are accelerating our advanced technologies and fueling sustainable growth.

● The FINEX Ironmaking Process





A Super-sized LNG Carrier
Built by Daewoo Shipbuilding
& Marine Engineering
Geoje, Korea

We look to the future ...

POSCO is developing innovative technologies and products that maximize our strategic core businesses. We are fueling new growth engines and leveraging the significant synergies of our subsidiaries to share our vision, advance our brand equity and build human capital.





A Super-sized LNG Carrier
Built by Daewoo Shipbuilding
& Marine Engineering
Geoje, Korea

... by building synergistic opportunities through strategic collaborations.


New horizons

POSCO first launched its energy business by utilizing by-product gases from the iron-making process. We then entered the LNG terminal and renewable energy businesses. With expertise in building steel plants as the foundation, we developed the E&C business for plant, public infrastructure and urban development. Looking ahead, we will continue to diversify our business and identify the key new growth engines that forge a greater POSCO.

- POSCO's Diverse Growth Engines for a Greater Business Group







Gwang-An Grand Bridge
Busan, Korea

We deliver greater value ...

POSCO is one of the world's most environmentally responsible steelmakers. We connect people and the world to achieve a balance of sustainable growth and protecting the planet. We produce high-quality recyclable steel and pioneering technologies that deliver convenience and benefits to people around the world.



... with sustainable growth for everyone.

Contributing to a better life

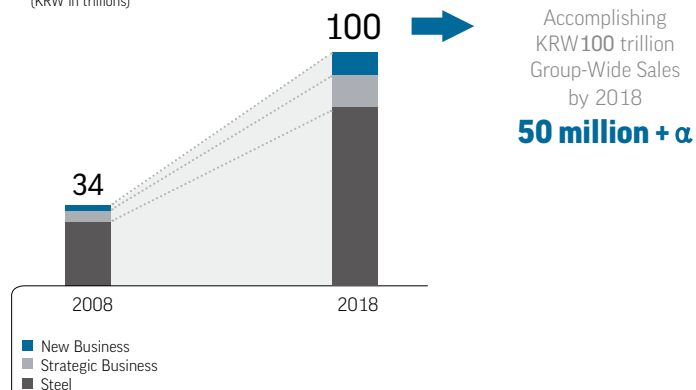
POSCO contributes to the international community and the global economy by providing better products at lower prices based on our world-class capability in the steel industry. By 2018, the POSCO Group will achieve 10% annual growth in our steel business and KRW30 trillion revenue in the non-steel businesses. We are dedicated to delivering greater value to our shareholders and to the world beyond.

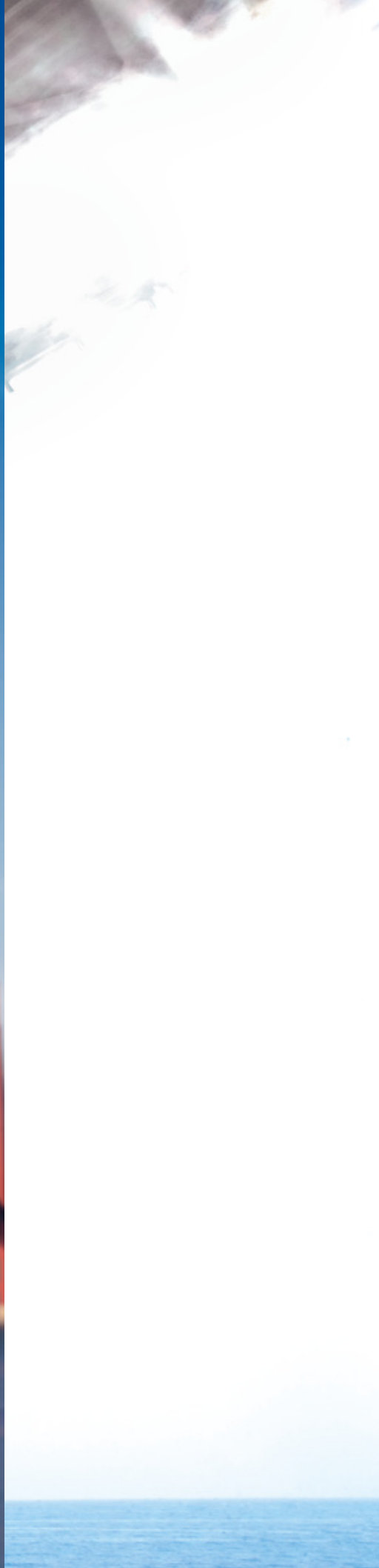
● POSCO Vision and Core Value



● Production Plan for the 2018 Vision

(KRW in trillions)







Review of Operations

At POSCO, vision originally inspired us to do the “impossible” by building the two largest integrated steelworks in the world. In 2007, POSCO is becoming a global leader and setting the stage for even greater growth by releasing its energetic vision for the future, entitled “Creating Another Success Story.”

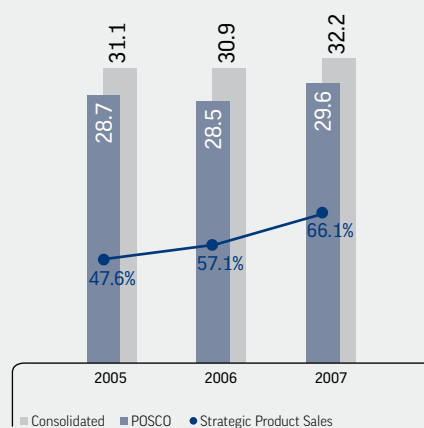
Steel

Driving innovative growth for future generations

In our quest for global competitiveness, we are focused on high-grade steel products, strengthening access to raw materials and leveraging synergistic opportunities with our subsidiaries. Anticipating current market challenges, POSCO is poised to achieve its strategic growth objectives.

Finished Product Sales

(in million tons)



(in thousand tons)

	2005	2006	2007
POSCO	28,659	28,542	29,581
Zhangjiagang STS	470	461	738
POSCOSS	797	834	861
POSCO C&C	594	673	753





Achieving global success

POSCO produces diversified product portfolios and high-grade steel products around the world. POSCO Specialty Steel is a global leader in high-quality steel for automobiles, machinery, nuclear power plants, ship-building, aeronautics and electronics. POSCO C&C produces galvanized, aluminized and color steel sheet with a million-ton annual production capacity.

POSCO

Working toward our new vision, we increased domestic and international investments, established a value-added, low-cost production system, strengthened our marketing and retooled our organization to concentrate on core businesses. As a result, and despite the choppy environment, POSCO Steel Sector achieved sales of KRW34.7 trillion and operating income of KRW4.6 trillion (on a nonconsolidated basis).

Performing as a leader

While developed countries like the U.S. slowed, the global economy managed fairly stable growth last year owing to the vigor of emerging markets like the BRICs (Brazil, Russia, India and China). Worldwide, the steel industry is coping with oversupply. This oversupply is being fueled by new capacity, especially from China, and by significant plant expansion at home. Increases in the price and demand for raw materials are also driving change and watchful management.

Nevertheless, guided by astute experience, POSCO steered a winning course, securing notable accomplishments. The strategic steel products sector strengthened its worldwide profile. This was accomplished by responding to rising prices for raw materials with product increases. We also launched new marketing initiatives, such as customer service improvements, and improved our direct export ratio. Broadening our export channels, we are bringing our overseas steel service centers to 35, in Asian markets such as China and Japan, and in newer markets, such as Poland, Slovenia, and Mexico. Critical to future success, these initiatives are enabling us to quickly meet customer demand and to enhance Early Vendor Involvement (EVI) as we partner with customers and build lasting relationships.

Increasing sales in a competitive environment

In 2007, POSCO sold 29.6 million tons of finished steel products, an increase of 1 million tons over 2006. POSCO achieved sales of KRW22 trillion and operating income of KRW4.3 trillion (on a non-consolidated basis). Sales of automotive steel have more than tripled in the past half-dozen years, from 1.7 million tons in 2001 to 5.7 million tons in 2007. We expect to sell more than 6.2 million tons of automotive steel in 2008 as we focus on increasing market share in that sector as well as in electrical steel.

Building production around the world

In the arena of steel technology, POSCO is preparing for its leap to become one of the world's top three steelmakers. We established higher value-added and low-cost systems to strengthen our core business. We are adding capacity and building new facilities around the world.

In Korea, we are upgrading facilities with increased production capabilities and more advanced technology. Our eco-friendly 1.5 million ton FINEX factory, the first in the world with our proprietary iron-making technology, is now complete, giving POSCO distinctive leadership. We expanded our production capacity for premium steel by constructing a second dephosphorization furnace at Pohang, which has resulted in quality improvements as well. We also completed a second cold-rolled steel and third steel-plate heat treatment furnace, and are streamlining the Gwangyang fourth cold-rolled and the second Continuous Galvanizing Line.

The company is successfully growing overseas. Last September, establishing a foothold in the North and Central American markets, we began building a 400,000-ton steel plant in Mexico to produce automotive exposed steel parts. We expect completion by June 2009. We also started construction last August on a cold-rolled steel plant in Vietnam, which will have a capacity of 1.2 million tons. We completed a high-quality steel processing center with a capacity of 140,000 tons in Poland last October and have also completed a Benxi CRM plant in China.

POSCO acquired a coated steel plant in Malaysia in 2007, and, in India, POSCO has secured environmental permits for its forward-looking integrated steelwork plant and port construction in 2008. In addition, by constructing our third automotive steel processing center, we entered Thailand's automotive steel market, which previously was exclusive to Japanese steelmakers. We are protecting our access to raw materials by making deeper investments in overseas mine development, particularly in Australia.

Bolstering profits with cost-saving efficiencies

With the dedicated effort of every employee, POSCO achieved dramatic cost-savings of more than KRW829 billion in 2007. Building on that accomplishment, we sharpened our world-best competitiveness by driving further integrated cost efficiencies, such as better use of lower-cost raw materials, streamlining systems design and energy-saving measures.

Stainless Steel

POSCO produced 31.1 million tons of crude steel in 2007. Of this, at the Pohang Works, 1.7 million tons was stainless steel production. Stainless steel differs from carbon steel in market conditions, the production process and the mix of required raw materials.

Stainless steel sales in 2007

Although the consolidated sales of Pohang, Zhangjiagang-Pohang Stainless and Chingtao (Qingdao-Pohang Stainless) reached KRW7.3 billion in 2007, an increase of KRW2,088.1 billion over last year, operating profit decreased owing to fluctuations in the price of nickel.

Pohang mill sales reached KRW4661.8 billion, an increase of KRW364.2 billion compared to 2006. Zhangjiagang Pohang Stainless achieved KRW2660.2 billion in sales, an uptick of KRW1,339.4 billion from the previous year, thanks to the full-swing operation of its new upstream process facilities. Despite the sluggish market, Zhangjiagang-Pohang's profit dipped only slightly because the company secured lower-priced raw materials in China.

Marketing activities

POSCO acquired 15.4% shares of Thainox, a major steelmaker in Thailand, which will secure an alternative sales source for hot-rolled steel and a base for moving into promising Southeast Asia markets. In addition, POSCO invested in DhSTS, a spin-off of Taihan Electric Wire, a leading Korean electric wiremaker, in order to strengthen its sales infrastructure by increasing the ratio of its stainless cold-rolled steel products.

The price of nickel has been seesawing, jumping from US\$34,000 (KRW33.2 million) at the end of 2006 to US\$54,000 (KRW52.7 million) per ton last May and US\$26,000 (KRW25.4 million) by December 2007.

This drop in the second half of the year precipitated a market depression, and the global stainless steel industry cut production. The third quarter, in particular, saw decreases in crude steel production, dropping 17% (1.17 million tons), compared with the previous year.

Prospects for 2008

Forecasts according to Heinz Pariser for the global production of crude stainless steel in 2008 are 32.3 million tons, up 14% over 2007, thanks to the full operation of China's increased facilities, inventory decreases in Europe and the recovery of new orders. Pohang's objective for this year's production is 2.65 million tons, including 0.85 million tons from Zhangjiagang-Pohang Stainless, or an increase of 170,000 tons compared to 2007. Sales are expected to reach KRW710 million. Growth strategies

for our stainless steel division include plans to strengthen price competitiveness, to stabilize the business base by bolstering access to natural resources and to secure lower-cost materials.

In our joint venture with SNNC, a nickel smelting company, we will begin operation in September 2008, producing 30,000 tons of nickel per year with the maximum use of more affordable stainless scrap to improve profitability. In addition, we will sharpen sales of auto exhaust systems and electronic components in order to increase sales of cold-rolled steel in the domestic market. We will also make use of our existing carbon steel sales network to promote the diversification of export markets.

POSCO Specialty Steel Co., Ltd.

Joining the POSCO Group in 1997, POSCO Specialty Steel has since become one of the world's topnotch specialty steel manufacturers. The company produces high-quality steel for automobiles, machinery, nuclear power plants, ships, aeronautics and electronics. Located in Changwon City in the South Gyeongsang Province, POSCO Specialty Steel is equipped for yearly production capacity of 963,000 tons of crude steel. Capacity includes 775,000 tons of rolled or forged products, 180,000 tons of pickled coil and 21,000 tons of steel tubes and pipes.

The company has achieved striking growth every year, currently performing at four times its 1997 performance of KRW390 billion. In 2007, despite the adverse business climate, characterized by a sharp rise in prices for oil and raw materials, a strong Korean Won and falling nickel prices, POSCO Specialty Steel recorded an unprecedented KRW1.55 trillion in sales revenue and KRW89.3 billion in operating income, up KRW21.9 billion from 2006.

Focusing on overseas business

Last year, POSCO Specialty Steel exported US\$0.74 billion worth of steel, up 63% from 2006, winning two prestigious awards, the Export Tower of US\$0.7 billion and the Bronze Tower Order of Industrial Service. The company's CEO and marketers traveled overseas to meet with clients for on-site promotions, which has directly influenced the volume of high value-added products and direct exports. As a result, direct exports soared 209% from the previous year, to US\$40.6 million, up from US\$13.1 million in 2006.

In 2007, we focused on diversifying our markets by increasing exports to Southeast Asia, Africa and the Middle East. We are working to enhance competitiveness by developing a range of new products and materials, improving merchandising, leveraging research from professional institutes and global consultants about cultivating international markets and more.

Strategic planning for new growth engines

Since 2004, POSCO Specialty Steel has been working toward its vision to “Create the Best Specialty Steelmaker,” investing KRW240 billion in renovating outdated facilities and bolstering productivity, quality and competitive costs. We completed the first phase of facility enhancement in 2007.

POSCO Specialty Steel has actively responded to market changes, even as the industry is undergoing restructuring owing to China’s low-price policy and Japan’s expansion into the steelmaking market. Investing in technological prowess and quality enhancements, we will finish six plants, including AOD (Argon Oxygen Decarburization), HV MILL (Horizontal Vertical Mill), RSM/DST (Reducing & Sizing Mill/Direct Solution Treatment) and No. 2 PK (Pickling). The company’s newly operational forging plant is equipped with a 9,000-ton machine, which is producing large-sized round bars, rectangular bars, ship shafts and other shipbuilding and industrial products.

Looking ahead, POSCO Specialty Steel is planning to concentrate its investment on 60-ton new steelmaking, bloom revamping and slag processing facilities for cost-savings. The company also will focus on future growth engines such as special alloys (titanium and others) and roll manufacturing, based on its Phase 2 investment plan. Such initiatives will enable us to produce 1.2 million tons of blister steel and reach KRW2.2 trillion in sales by 2012, solidifying our position as a global leader in the market.

Setting goals for VSC-POSCO Steel Corp.

In Vietnam, our VSC-POSCO Steel (VPS) affiliate has achieved remarkable performance since POSCO management debuted last August. In 2007, VPS produced 174,000 tons, sales of KRW110 billion and net income of KRW4 billion. In 2008, performance looks to be equally stellar. Involvement in VPS management will set the foundation for our advances in Southeast Asia. POSCO is planning further investments in the Vietnamese market, including the electric furnace business. We have also opened offices in China and Thailand to pioneer efforts into other global markets.

POSCO Coated & Color Steel Co., Ltd.

Established in 1988 at Pohang Steel Complex, POSCO Coated & Color Steel Co., Ltd. (POSCO C&C) manufactures galvanized, aluminized and color steel sheet with an annual production capacity of 1 million tons. In 2007, sales increased more than 18% over 2006, with profits of KRW14.7 billion.

POSCO C&C is building on its foundation for long-term growth and profitability by accelerating new product development and restructuring the organization.

Production

To better cope with changing market conditions and establish ourselves as the industry leader, we successfully renovated the No. 1 CCL and increased production capacity via continuous management improvements. We achieved total production of 10 million tons. Cost-saving measures led to 10% reductions.

R&D

Our mission for 2007 was to strengthen our new product development capacity and marketing activities while maintaining focus on existing technologies. Through this process, we drove increased sales of home appliances, including LCD, PDP and more. Utilizing ALZASTA, an in-house proprietary technology, we developed new products such as CU-substitute painted cold-rolled steel sheets and stainless steel anti-fingerprint painted cold-rolled steel sheets. In addition, working with outside research institutes such as RIST and POSTECH, we secured top-level new technology that raised our manufacturing capacity.

Sales

To establish sustainable growth, we concentrated sales efforts on profitability and key strategic products. As a result, in 2007, we increased sales of ALCOSTA, reaching 269,800 tons, of which 203,500 were exported. At the same time, we also boosted sales of non-construction color products and restructured our new product development team to focus on higher-quality customized products and customer satisfaction. We experienced stronger market share in emerging markets in Europe and in Central and South Americas as well in key regions in China. As a result, our exports increased more than 25% over 2006, a historic record.

Managing growth

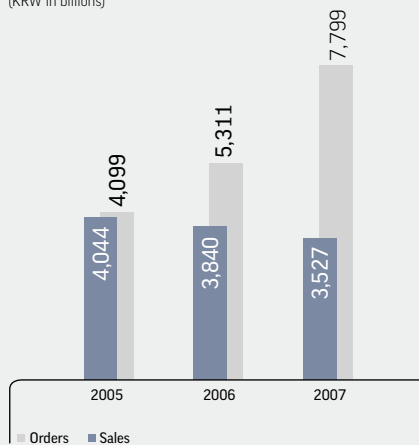
In 2007, production and sales volume of high value-added products, such as ALCOSTA and ALZASTA, significantly improved profitability, yielding a KRW10 billion jump in sales. Thanks to our profit-oriented strategies and the dedication of employees, we achieved our 2007 goals of producing 1.2 million tons and reaching KRW1.2 trillion in sales, despite market difficulties. POSCO C&C is realizing its vision of becoming the “World’s Best Coated & Color Steel Company.”

E&C

POSCO Engineering & Construction Co., Ltd., leverages world-class talent and technology with turnkey efficiency to provide complete project services, from planning to design, construction and test operations.

Founded in 1994, the company today is a leading enterprise in the global business environment. E&C's strength stems from its expertise and experience in building the infrastructure of developing countries, such as new cities and plants. The company's competitive abilities and technologies fuel synergistic opportunities with POSCO's widening worldwide steel business. E&C is dedicated to growth built on quality and safety.

Orders & Sales
(KRW in billions)





Succeeding in a challenging market

In 2007, POSCO E&C recorded more than KRW7.7 trillion in orders for the first time in its history, a 40% rise over the previous year's KRW5.3 trillion. Fueled by best-ever orders, we achieved substantial gains of KRW3.4 trillion in sales, realizing KRW200 billion in net, after-tax profit.

The private housing sector in Korea experienced major declines last year, mostly owing to real-estate price stabilization policies. Public construction also suffered a downturn as fierce competition for government contracts eroded profitability. In reaction, leading domestic construction companies focused on overseas activities, especially on orders from oil-producing countries in the Middle East and Africa.

Nevertheless, in spite of these conditions, POSCO E&C succeeded in joining the ranks of the country's top construction companies, posting unparalleled orders and vigorous sales and profits.

Sharpening our competitive edge

In 2007, as part of a strategic plan to boost competitiveness, we set up a new Marketing Office and secured 20 core technologies to reinforce companywide efficiencies, cost-effectiveness and project management. In addition, the company implemented a global purchasing system and supplier database that extended our global reach and international capabilities. As a result of these efforts, we are broadening our overseas activities while also forging lucrative alliances and attracting new business at home.

Throughout the year, we continued to build our worldwide profile with such projects as coal-fired power plants in Chile and a blast furnace in India. International business now represents 30% of total orders for POSCO E&C, a result of our global traction.

In the area of energy and power generation, considered a new growth engine for Korea, we recorded KRW2.9 trillion in orders, thus dramatically exceeding our original target of KRW940 billion. Notable successes in this new-business arena include a strategic tie with Samsung Engineering for a chemical plant and the tidal power generation project in Garolim Bay, valued at KRW500 billion.

In the public sector, we achieved excellent results, demonstrating successful bid ratios of 52% of turnkey projects and 76% of Social Overhead Capital (SOC) projects, for a total of KRW1.1 trillion worth of orders, up from KRW1 trillion in 2006.

We reinforced our leadership in the steel plant sector with orders worth KRW400 billion for new steelmaking facilities in Pohang and KRW200 billion for first-stage repair of the No. 4 blast furnace in Gwangyang. The company also completed 39 POSCO-related projects.

Innovative management by objective

In 2007, we established the Management Innovation Team to spearhead change-management training across work sites. First launched in 2006, the Process Innovation (PI) system has now graduated to second-stage implementation. We are promoting overseas project efficiencies, enhancing competitiveness and strengthening quality control. Risk management systems continue to focus on safety-first and environmentally sound operations.

Creating a responsible corporate culture

POSCO E&C consistently earns awards for admirable management and 2007 was no exception. The company ranked No. 18 of the "Most Respected Companies in Korea," the highest of any construction company, and won "Grand Prize" and "Best CEO Prize" in the Korean Green Management Awards, as well as "Comprehensive Grand Prize" in the Safety Management Awards. In addition, our five-year record as No. 7 in Korea's construction capability evaluation got even better. We moved up to No. 6.

As a socially responsible company, POSCO E&C hosts a biannual campaign for blood donations and myriad volunteer services, ranging from housing improvements for seniors who live alone to participating in the cleanup of the Taean oil spill.

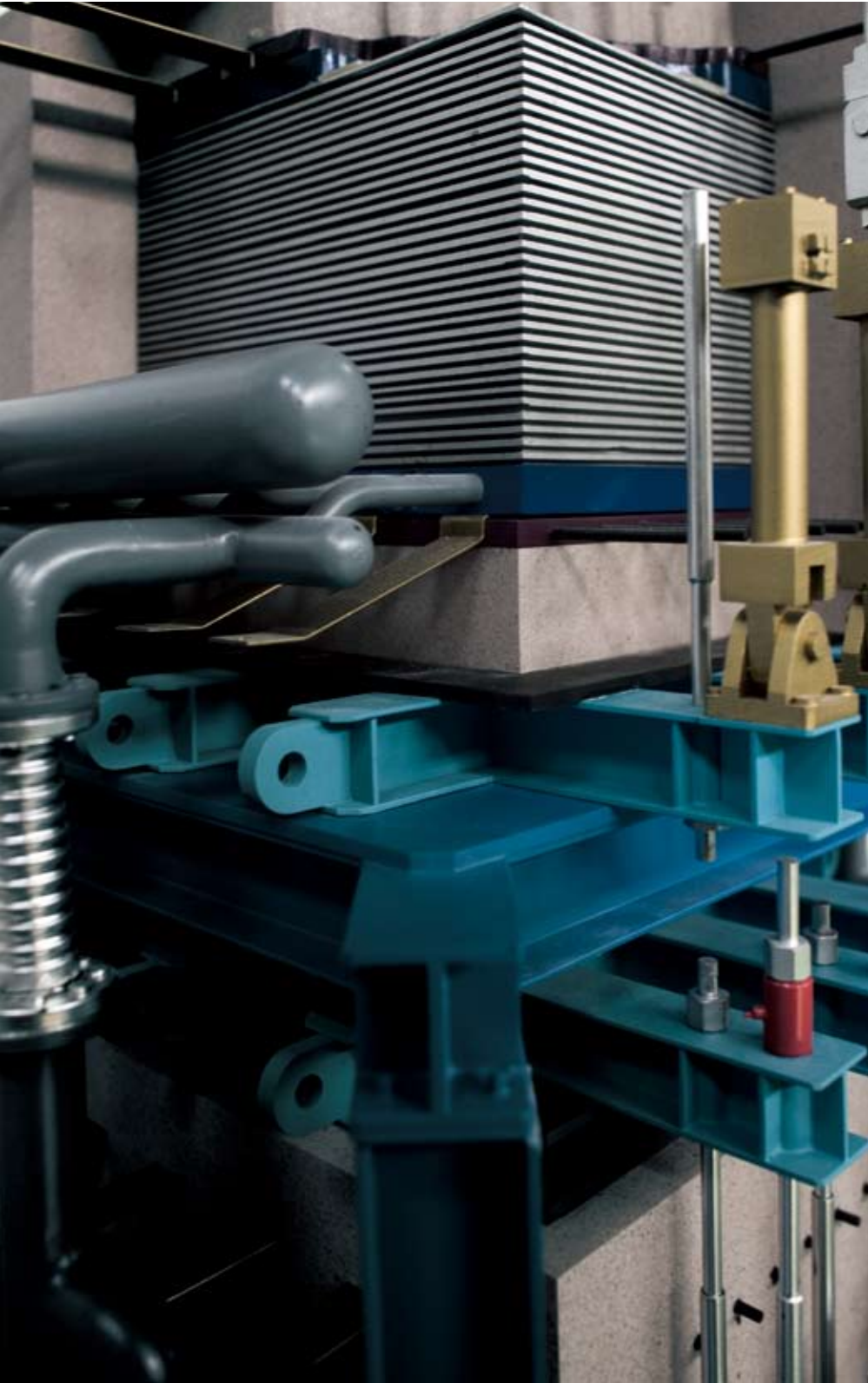
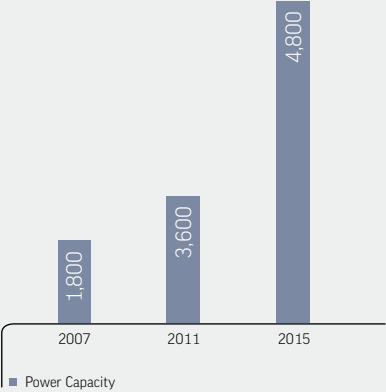
Based on quality management, strong ethics and transparent governance, POSCO E&C is propelling its leadership into the future. By 2015, building on our companywide "SMART" vision – Specialty, Morality, Activeness, Revolution and Top Performance – we expect to achieve our goal of becoming a "Global Top 30" company.

Energy

POSCO has decades of accumulated experience as well as the know-how and infrastructure to secure a wide horizon of energy projects in all arenas, including natural gas, coal, power and more.

With a focus on the energy business, which is a key new growth engine, POSCO is doing its utmost to identify appropriate opportunities for power, natural gas, overseas resources and renewable energy projects. We are also moving to acquire related business rights. Our professional engineers are building the foundation for POSCO's future by developing energy projects that generate synergistic expansion as we move toward sustainable 21st-century power.

POSCO-Power
Power Capacity Expansion Plan
(MW)





Envisioning energy for our future

We pursue clean and sustainable energy solutions. We are exploring overseas resources as we develop cutting-edge technology that will provide renewable energy. We are also actively responding to climate change to reduce greenhouse gases and build a better future for everyone.

POSCO POWER Realizing our new identity

In 2007, as a core POSCO affiliate, POSCO Power began implementing its new corporate vision and the forward-looking management that will produce continuous innovation. We achieved KRW567.4 billion in sales and KRW35 billion in net profit, compared to sales of KRW413.3 billion and net profit of KRW41.5 billion in 2006.

With the goal of accelerating the company's expansion and its ability to meet society's growing demands for clean energy, POSCO Power signed a Memorandum of Understanding (MOU) in 2007 for a strategic partnership with the Korean Electric Power Corp. (KEPCO) to expand into the stationary fuel cell market.

POSCO Power began constructing the fuel cell manufacturing plant in Pohang in 2007, aiming to reach annual manufacturing capacity of 50 MW by 2008 and up to 100 MW by 2010.

Expanding the capacity for power

Currently, POSCO Power operates a 1,800 MW power plant in Incheon to ensure the stable supply of electricity to the Seoul metropolitan area. POSCO Power will complete 1,200 MW LNG Combined Cycle Power Plant by 2011, and another 1,200 MW by 2015, near the existing Incheon power plant. The company will also construct two 300 MW by-product gas power plants in Pohang and Gwangyang by 2010. By 2015, POSCO Power will boost its total generating capacity to 4,800 MW.

POSCO Pursuing cleaner energy

By focusing on CO₂ reduction and non-oil-based fuel supply in the steel making process, POSCO has successfully replaced the formerly-used BC-oil and LPG with LNG since July 2005. As the first private direct LNG importer in Korea, we constructed the Gwangyang LNG receiving terminal, which is equipped with two 100,000-cubic-meter storage tanks, two open-rack vaporizers and other process facilities.

Since our first cargo in June 2005, we have imported 47 cargoes, including the contract volume of K-Power, and supply 300 thousand mt/yr of natural gas to Gwangyang Works, 250 thousand mt/yr to Pohang Works and 600 thousand mt/yr of natural gas to K-Power to fuel steel making facilities in Gwangyang and Pohang Steel Works and for the combined cycle power plants.

In July 2007, POSCO began work on the current receiving terminal to increase its LNG storage capacity from 200,000 to 365,000 cubic meters. As of December 2007, the construction is about 22% complete, and the third storage tank will be in place

by September 2010. With this additional capacity we expect to increase the operational efficiency of the Gwangyang receiving terminal to meet rising demand for natural gas for the steel making process from 2010 onward.

Exploring overseas resources

POSCO is actively seeking business opportunities in the upstream operation of petroleum, especially in the field of natural gas. In 2007, POSCO participated in the Aral Sea Exploration Project in Uzbekistan, taking 9.8% of interest from the Korea National Oil Corporation (KNOC).

Right now, seismic exploration is underway to find promising prospects. POSCO is expecting sizable resources from this project and exploratory results will be followed by drilling activity in early 2009.

Promoting renewable energy

In an effort to encourage a zero-waste society, POSCO will reprocess 1.5 million tons of sewage sludge a year into fuel, which represents 40% of the total annual sludge generated in Korea. By 2011, using this reprocessing method, we intend to supply 300,000 tons a year of dried sludge as fuel to power plants. We also reprocess 780,000 tons of household waste a year, or 10% of Korea's total. The result is 390,000 tons of Refuse-Derived Fuel (RDF), which generates 80 MW of power.

To further this effort, in November 2007, the company began a RDF power generation project in Busan and construction of a sludge recycling center in Suwon.

Working with other power companies, POSCO is also testing sludge fuel technologies in order to bolster government-sponsored household waste-burned 10 MW power generation.

Responding to climate change

With adoption of the United Nations Bali Roadmap in December 2007, developing as well as advanced nations will have to reduce greenhouse gases, as outlined in the Kyoto Protocol. All nations must now negotiate and adjust their greenhouse gas reduction targets for 2012 and the future.

In response, first, POSCO is activating Clean Development Mechanism (CDM) projects to acquire Certified Emission Reductions (CERs) as we work to reduce carbon dioxide from the steel manufacturing processes. POSCO is trying to register three projects with the UN, including combined cycle power generation that uses waste gas from FINEX and the Gwangyang small hydropower generation as well as participating in afforestation CDM projects.

POSCO is carrying out feasibility studies for nations in Southeast Asia and Latin America in order to earn 10% of its CER acquirement target overseas.

IT

POSDATA Co., Ltd., offers forward-looking information technology for convergent and mobile networks, including consulting and outsourcing services, network and systems integration and mobile WiMAX.

Founded in 1989, the company has emerged as a leading global IT service provider and a pioneer in Wireless Broadband Internet (WiBro) or mobile WiMAX technologies. With rising demand for the freedom, mobility and power of advanced IT services, POSDATA delivers the utmost in convenience, innovation and value across all of its client industries.





Investing in the future

In 2007, POSDATA built on its strategic platform for growth by diversifying into new businesses, such as IT manufacturing and global IT outsourcing. We achieved KRW365 billion in sales and KRW8.4 billion in operating profit.

Last year, we completed high-profile projects that strengthened our reputation for quality and competitiveness, such as the initial stages of the Nationwide Hi-Pass Extension project of Korea's highway system. The company kept pace with POSCO's drive toward globalization by securing international e-projects and by accelerating adoption of our proprietary WiMAX services in overseas markets.

We are diversifying into convergent IT manufacturing businesses and boosting our market share by developing capabilities for the Electronic Toll Collection System (ETCS), Digital Video Surveillance (DVR), Internet Protocol (IP) phone and multifunction units and Internet Protocol Television (IPTV).

Expanding IT services

POSDATA is exploring new investments, such as a Memorandum of Understanding (MOU) to participate in u-City development. In the public sector, we have participated in u-City projects led by the Pohang and Chungju city governments. In the private sector, we are involved in the Universal City Theme Park, which will be constructed in Hwaseong, Gyeonggi Province and is expected to be one of the world's largest.

In the railways sector, we completed implementation of a telecommunications system for the light rail transit between Busan and Gimhae at 18 stations and terminals.

POSDATA is also entering new IT markets by participating in Star Bank's Electronic Document Management Systems (EDMS) project. We are gaining overseas momentum with work on e-government projects with the city of Batam in Indonesia and with the Democratic Republic of the Congo.

We are aggressively marketing our IPTV expertise at home and abroad. Last December, we completed Hanaro Telecom's IPTV project. POSDATA also joined other IPTV-related Korean companies in a road-show presentation to gain IPTV markets in Vietnam.

Our Enterprise Resource Planning (ERP) business is thriving as well. We are integrating ERP solutions for subsidiaries of Dongwha Holdings and have conducted information projects for POSTECH, POSCO Power, Gyeonggi Innovation Corporation, Incheon Urban Development Corporation and other clients.

Making the Internet fly

In our strategic WiBro business, POSDATA is developing commercial products in cooperation with other communications companies, as well as pursuing global marketing practices.

In 2007, we launched our proprietary FLYVO Center, which provides a centralized venue to verify and demonstrate POSDATA's groundbreaking FLYVO mobile broadband access system.

In a world-first, we also successfully completed Internet Protocol v6 for WiBro, working with Korea Telecom (KT).

POSDATA has continued to develop products that apply Wave 2 technology, such as Smart Antenna and multiple-input multiple-output (MIMO). Building on those efforts, we attracted favorable attention for introducing MIMO-based products at last October's PlugFest in Taiwan.

Overseas, despite fierce competition, the company secured a commercial equipment supply sale in Singapore while, at home, we cooperated with KT to build a "WiBro Town" in Pohang City.

Driving convergent IT manufacturing

In the arena of automotive on-board units (OBU), POSDATA has developed a monolithic microwave IC chip (MMIC), which will lower unit price and improve performance.

In the DVR business, POSDATA is adding more affordable products to its high-end premium products, and reinforcing global marketing by ramping up sales networks in China, Southeast Asia and North America.

We are bolstering our IP phone business by supplying products to SK Networks, SK Telink and LG Dacom. In order to broaden options in domestic and overseas markets, we are also developing a wireless IP phone, and intend to commercialize this new product by year's end.

Continuing our innovative advances, POSDATA has boosted its game unit business, expanding into manufacturing PCMCIA cards for laptop computers and USB modems through POSBRO, a company that specializes in the development of WiBro personal devices. As a result, we introduced the world's first specialized online game units at the WiMAX World USA 2007 in Chicago, the largest international event for the wireless broadband industry. We also began supplying USB modems, thus moving toward our goal of becoming a "Total Solution Provider" for the WiBro business. In addition, POSDATA is forcefully moving into game content development by building alliances with Web portal enterprises.

Research & Development

Securing global leadership with advanced technology

With a keen understanding of the company's strategic goals, R&D leads POSCO toward technological innovations that bolster its worldwide leadership and increase profitability. The goal of R&D activities, such as our FINEX, fine ore direct reduction process, is to generate sophisticated steel products and process technologies that are both cost-effective and environmentally friendly. Currently, R&D efforts are focused on 12 key areas that are expected to enable us to produce premium steel products by transforming our production systems.



Investing in breakthroughs that fuel growth

POSCO is directing R&D efforts toward eight key products, including premium automotive steel, electrical steel and API-grade steel. To increase our competitiveness, we have invested more than KRW1 trillion in constructing and renovating ten facilities in Pohang and Gwangyang and developed 37 types of new products.

Accomplishing key technology developments

Becoming a world-class automotive steel supplier

In 2007, the company produced more than 5 million of automotive steel and established a proprietary product manufacturing and commercialization system. We completed development of a core operating technology in Galvanized Annealing (GA) production by raising the speed of the GA steel manufacturing line. Following successful development of MAFE and GI ACE sheets, we also developed PSM sheets and commercialized these as 490 MPa-grade dual phase automotive steel. As a result, POSCO became one of the world's main automotive steel suppliers.

Developing high-grade API steel

With oil field development characterized by increasingly harsh and remote environments, POSCO has promoted development and production of high-grade, high-strength American Petroleum Institute-specification linepipe steel. We produced 840,000 tons of API steel in 2007. In the hot-rolled steel business, we commercialized and supplied API-X80 steel grade with low-temperature toughness.

Enhancing the competitiveness of stainless steel

In a climate of fierce competition and fluctuating prices for raw materials, POSCO is developing strategic products and improvements in 400-grade steel manufacturing technology.

We expanded uses for NEP (New Excellent Product) product certification, reduced sticking defects of 445NF steel in replacing 300-grade steel and raised the quality of 430-grade steel to a competitive level. In 300-grade steel, POSCO focused on manufacturing high-grade steel differentiated from that imported from China, paying special attention to high-grade BA quality stabilization through appropriate scale removal in hot rolling.



Boosting production of electrical steel

POSCO has expanded production of its high-grade electrical steel to meet consumer needs. We have developed three types of new products, including low core-loss and high-magnetic induction, non-oriented electric steel plates and post-SRA low core-loss non-oriented electric plate. In addition, we developed facilities, materials and operational technologies for a variety of insulation coating, establishing a technology support system for clients.

Meeting demand for TMCP steel

Anticipating growing demand for steel plate, POSCO is expanding facilities and technologies. Capacity will jump from the current 3.8 million tons to 4.5 million tons in 2008 and to 5 million tons in 2009. The company is further planning to complete a new 2 million-ton steel plate plant in Gwangyang by July 2010. The supply of high-grade materials for steel plate, such as Thermo Mechanical Control Process (TMCP) plates, will also grow substantially, owing to an improved processing technique.

Advancing high-grade wire rod products

POSCO successfully cultivated overseas markets for high-grade wire rods by developing five types of new products, including wire rod for 1,300 MPa high tensile strength bolt, and by establishing quality certification of its products from such global suppliers as Bridgestone and Scheffler.

Making history with FINEX technology

In 2003, POSCO validated the reliability of FINEX with a 600,000-ton demo plant. We then began building an annual 1.5 million-ton production facility for process commercialization in 2004. We achieved normal operation, on schedule, in September 2007. As a result, POSCO has succeeded in creating a legacy in the global steel industry.

Developing a new strip casting process

A new process that directly casts 2-4 mm-thick coils from liquid steel, strip casting is an innovation that speeds casting slabs and hot rolling. At a demo plant completed in June 2006, we successfully produced 500 tons of continuous strip casting. We are expecting to commercialize the technology in 2008.

Environment

Preserving our planet for future generations

POSCO is committed to enhancing value by promoting harmony between people and nature. To achieve these goals, POSCO has built an environmental management system (EMS) that incorporates our environmental vision, policy, organizations and assessment system.

In 2007, our efforts were directed toward three objectives: (1) Reducing pollutants and focusing on a better ecosystem for humans and natural life; (2) forging trusted relationships with stakeholders in the environmental sector; and (3) voluntarily implementing national policies and international conventions that work to preserve the planet.



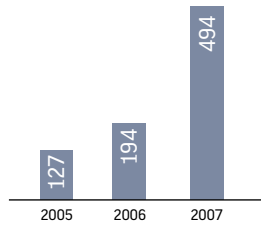
Enhancing Value

Investing in the environment

Since our founding in 1968, we have invested a total of KRW3.45 trillion in environmental improvement projects, which represents 8.9% of our total investments in environmental performance. In 2007, we invested KRW494 billion, or 12.2% of our total investment in environmental facilities.

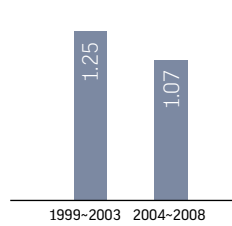
Key Environmental Facility Investment

(KRW in billions)



Energy Consumption Reduction

(million TOE)



We continue to focus investments and technology development on reducing pollutants.

In 2004, POSCO installed the best available technology (BAT)-absorption facility for activated carbon—at the No. 3 and No. 4 sinter plants in our Pohang Works, thereby greatly reducing emissions of SO_x, NO_x and dioxin. In December 2007, we completed environment facilities in sinter plants at our Gwangyang Works, using Selective Catalytic Reduction (SCR) technology.

A total of 98.7% of all by-products produced in the steelworks are recycled and all of the blast furnace slag and steel making slag are reused as resources. To increase the added value from blast furnace slag, 82% of the total volume in 2007 was produced as granulated slag. At the same time, steel making slag is used to meet a variety of needs, such as restoring marine ecology.

Promoting energy efficiency and conservation activities

POSCO enthusiastically supports voluntary efforts to save energy and improve efficiencies. In 1998, we signed a voluntary agreement with the Korean government to reduce greenhouse gas emissions through energy conservation and facility upgrades. As a result, from 1999 – 2003, we reduced 1.25 million TOE (Ton of Oil Equivalent: corresponds to 10 million kcal) in energy consumption, using 1997 as the base year. In a second voluntary agreement with the government, from 2004 – 2008, we will reduce energy consumption by 1.07 million TOE, with 2003 as the base year. We plan to invest KRW890 billion in energy facilities to reach these objectives.

Climate change initiatives

Global warming has become one of the world's greatest challenges. POSCO actively participates in international initiatives that research and implement solutions to address global warming.

In addition, we are increasingly recycling gas by-products from our production processes to provide district heating for local communities. The company is further reducing CO₂ emissions by developing high-quality electrical steel products that are much more energy-efficient as well as high-strength automotive steel, which improves automotive production.

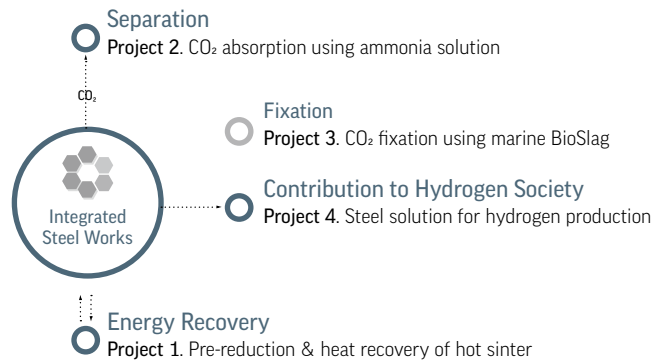
Developing eco-friendly technology

We have successfully commercialized FINEX, a next-generation technology that can replace the blast furnace method. Eco-friendly FINEX eliminates the sintering and coke-making steps, which results in significantly less pollutants.

In cooperation with other international steelmakers, such as Arcelor-Mittal, ThyssenKrupp and Nippon Steel, POSCO is developing additional technologies to reduce CO₂ emissions. Simultaneously, we are working on proprietary technology in order to remain competitive.

Under the POSCO CO₂ Breakthrough Framework, we are committed to research into mid- and long-term technological solutions that will dramatically curb CO₂ emissions.

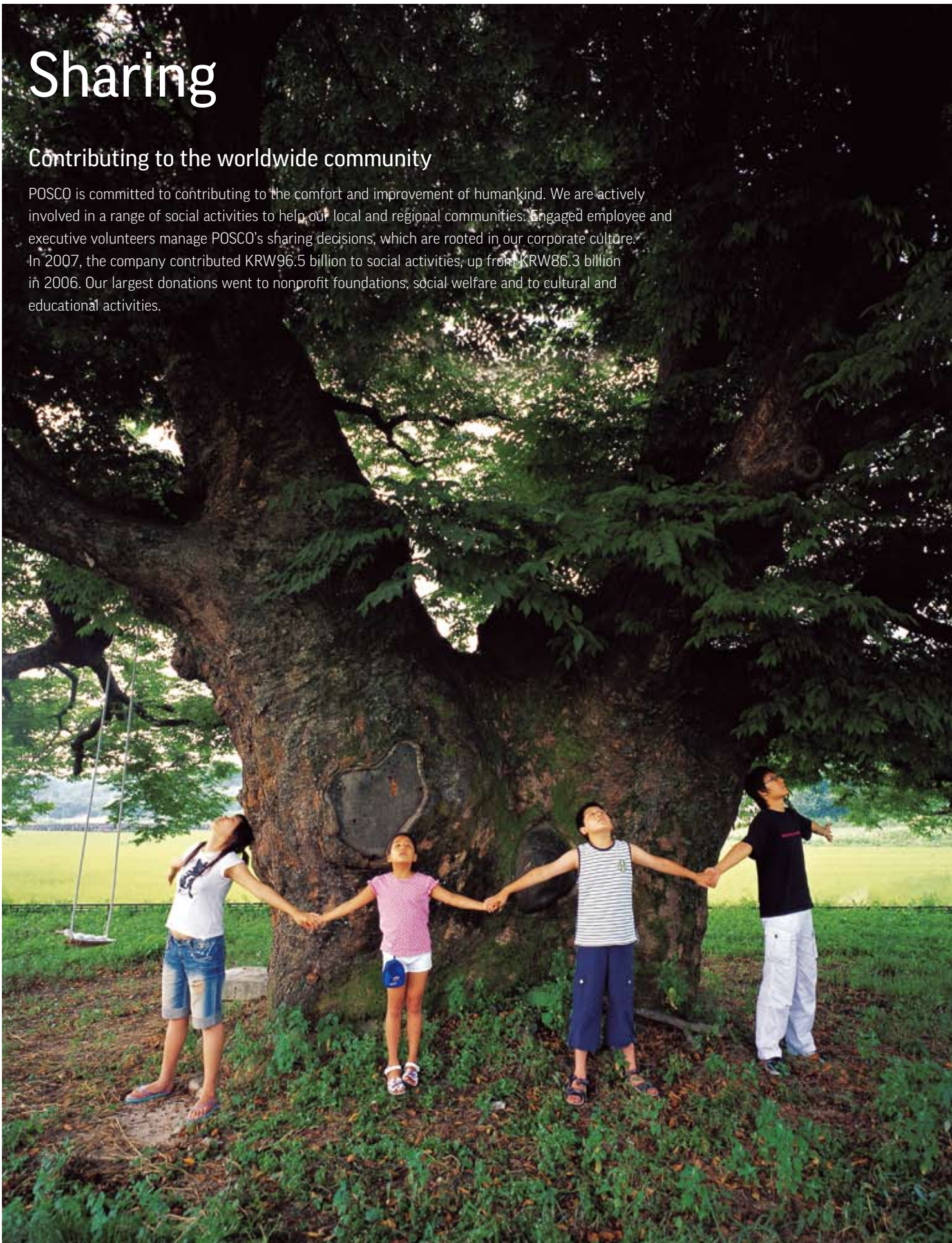
POSCO CO₂ Breakthrough Framework:



Sharing

Contributing to the worldwide community

POSCO is committed to contributing to the comfort and improvement of humankind. We are actively involved in a range of social activities to help our local and regional communities. Engaged employee and executive volunteers manage POSCO's sharing decisions, which are rooted in our corporate culture. In 2007, the company contributed KRW96.5 billion to social activities, up from KRW86.3 billion in 2006. Our largest donations went to nonprofit foundations, social welfare and to cultural and educational activities.





Encouraging employee volunteers

POSCO fosters a culture of employee volunteering. Launched in 2003, POSCO Volunteers attracted 74.2% of employees in 2006 to 88.7% in 2007, or about 18,943 employees and their families. Volunteer service hours have climbed from about 361,732 hours in 2006 to 547,283 hours in 2007. Headquartered in Seoul, POSCO Volunteers also coordinates programs in Pohang and Gwangyang.

Support for service activities

Founded in 2004, the Volunteer Service Mileage System has awarded certificates that recognize more than 100 hours of service to 3,039 employees and their families, with 49 of those honored for 1,000 hours. POSCO provides its volunteers with goods, vehicles and lunches and employees can volunteer via the company's Intranet.

Altogether, 9,578 employees have completed our volunteer service e-Learning courses, which were first offered in September 2005. Employees may also register for related online audio courses on the Korea Council of Volunteering homepage.

Employee participation programs

POSCO operates a monthly volunteer program, "Saturdays for Sharing," which drew 63,355 people last year and a monthly average of 5,279. Our three Sharing Houses provide free hot meals to elderly, handicapped and low-income residents in Pohang and Gwangyang, serving an average 550 people per day in 2007. More than 450,000 people have taken advantage of this meal service. Other activities include employee donations of lecture and manuscript fees, which contributed KRW59 million to charities in 2007.

Engaging subsidiaries and business partners

Together with our subsidiaries, affiliates and partner firms, POSCO donated KRW10 billion to the Community Chest of Korea as part of a year-end collection for neighbors in need. Following the debut of POSCO Volunteers, ten of our subsidiary firms—POSCO E&C, POSCON, POSMEC, POSCO C&C, POSCO Specialty Steel, POSREC, Samjung P&A, RIST, POSTEEL and POSDATA—formed their own volunteer service teams.

Volunteer activities with NGOs

Working with the Korea Food for the Hungry International, POSCO produced 3,000 sets of emergency relief kits and, in 2007, 2,400 kits were delivered to North Korean residents hit hard by the August rainy season. Another 600 kits were given to Jeju Island residents who suffered damage from Typhoon Nari. With Habitat for Humanity, we established the POSCO College Volunteer Group of 100 students in 40 colleges nationwide. Working with Beautiful Store, in 2007, employees and our affiliates donated KRW258 million raised during POSCO Day events. And we continued our blood donation drive, partnering with the Korean Red Cross. Last year, 2,343 employees from POSCO, subsidiaries and outsourcing service partners took part in the drive.

Global volunteer activities

POSCO also contributes to international neighbors. We sponsored surgery for 23 children to correct cleft lips or palates in the Indian state of Orissa, where POSCO is constructing a steel mill. To forge friendlier ties, we signed the POSCO-India Fellowship agreement that awards scholarships to Orissa universities. In China, POSCO-China contributed educational equipment for primary schools while also promoting a campaign to help people hit by disasters. In Vietnam, we also sponsored operations for children with cleft lips or palates, and helped to build schools. We supported IT talent development by building a computer center in Bangladesh. In addition, we sponsored surgeries for facially deformed children in Cambodia and the Philippines and continued emergency relief efforts in Indonesian and Pakistan.



Developing talent and leaders for the next generation

POSCO Educational Foundation

The POSCO Educational Foundation was established in 1971 and currently operates 12 institutions in the Pohang and Gwangyang regions, ranging from kindergartens to high schools. Since its launch, the Foundation has spearheaded efforts to maximize the benefits of education by recruiting the best teachers, implementing diverse specialty education models and providing quality educational guidance. All five Foundation elementary and middle schools won best school awards at the 14th National English/Math Competition organized by Sungkyunkwan University, with Pohang Jecheol Jigok Elementary taking the best school award for 14 consecutive years. Gwangyang Jecheol Elementary School won the best elementary group award at the 2007 International Youth Mathematics Competition for three consecutive years, which is sponsored by Tianjin Broadcasting & TV Network and *Tianjin Daily* in China. In 2008, at Pohang Jecheol Technical High School, all 210 graduates obtained licenses in six fields on average, landing jobs or advancing to higher learning institutes.

POSTECH

In December 2006, POSTECH, renamed from Pohang University of Science and Technology, celebrated its 20th anniversary as Korea's first research-oriented university. POSTECH possesses the only Pohang Light Source (PLS) or "light factory" in Korea and operates 60 affiliated R&D institutes, including the largest BT R&D facility among Korean universities, and the National Center for Nanomaterials & Technology, the center of Korea's nanotechnology infrastructure. Since its establishment, POSTECH has produced highly qualified professionals in basic sciences and engineering, including 4,019 graduates from undergrad programs, 5,489 from masters programs and 1,331 from doctoral courses.

POSTECH has received both domestic and international recognition for its outstanding sciences program. In 2007, the university was 11th in the Citation/Faculty category of the S-QS World University Rankings 2007 by *The Times*, which is the highest ranking in the Asian region. POSTECH was also voted best Korean university by *The JoongAng Ilbo*.

POSCO TJ Park Foundation

The POSCO TJ Park Foundation was founded in August 2005, based on an expansion and reorganization of the POSCO Scholarship Foundation. Its main goals are to foster next-generation leaders, promote Asian networking and broaden the range of social contributions.

In order to make social contributions in a more sustainable manner, POSCO TJ Park Foundation promotes 11 programs with our three core strategies of nurturing young leaders, expanding networks among Asian countries and focusing on the enrichment of local communities.

The major programs of the Foundation include:

- POSCO TJ Park Prize: Established in 2006 to commemorate Tae Joon Park's accomplishment in founding POSCO and the Korean steel industry, the prize is given in the fields of science, education and philosophy.
- POSCO Asia Fellowships: Support for students in Korea, China, Japan and Vietnam designed to promote Asian cultural and educational exchanges.
- POSCO Scholarships: Support for high-achieving Korean students.
- POSCO Caregiving: Programs that offer basic services for the elderly or disabled.
- POSCO NGO Fellowships: Long-term training programs in North America for NGO workers.
- POSCO Steel Art Award: Prizes awarded for creative and esthetic art using steel and steel.



Supporting our local communities

POSCO engages in a range of social contributions that fulfill its role as a leader in the growing communities in which we work and live.

Cultural Programs

Mecenat Activities: POSCO is continuing its Mecenat activities that support cultural and artistic work in the Pohang, Gwangyang and Seoul areas. The varied program features music concerts at the POSCO Center, Campus Symphony Festival and Pohang Fireworks and Lights Festival.

Seoul POSCO Center Atrium: Every month, the atrium of the POSCO Center in Seoul serves as a performance hall for various music concerts. The free performances by classical and popular artists are a hit with the public. POSCO has sponsored 94 performances since 1999.

POSCO Campus Symphony Festival: Since May 2004, POSCO has arranged symphony concert tours of university campuses. We staged 10 festival performances in 2007, starting with KAIST. By going beyond corporate cultural events, we have invigorated exchanges among industry, academia and local residents, and promoted university campuses as venues for the cultural arts.

Pohang Hyoja Art Hall: We began our Mecenat activities in earnest with the construction of the Hyoja Art Hall in 1980, which provided a regional stage for cultural arts. In 2007, the hall hosted 17 performances, ranging from magic shows to ballet performances.

Gwangyang Baekwoon Art Hall: The debut of the Baekwoon Art Hall in 1992 opened the way for Gwangyang residents to experience high-quality concerts and a diverse genre of performances. In 2007, the Hall staged 20 performances and other events and exhibitions.

POSCO also sponsors two professional soccer clubs, the Pohang Steelers and the Chonnam Dragons in Gwangyang, as well as local sports programs and teams.

Community Development

Since 2004, POSCO has hosted the annual Pohang International Fireworks Festival, which drew about 3.7 million spectators in 2007. We also staged the Gwangyang Korean Traditional Music Festival in 2007, which attracted 30,000 participants.

Sister Relationships: POSCO has forged ties among 224 towns, schools and groups to strengthen bonds with communities and provide volunteer services. Results of these activities are evaluated every year in order to accurately reflect community intentions.

Children's Steel Camp: Launched in 1993 and held every summer, the Steel Camp hosts students from Pohang and Gwangyang to teach them the value of steel and the importance of preserving the environment. At the 15th annual camp last summer, 861 sixth-graders participated. In addition, the Junior Engineering Classroom program teaches some 1,888 regional elementary school students the fundamentals of science.

Study Room: We operate five Study Rooms in low-income neighborhoods in Pohang. Through the program, 120 elementary and middle-school students receive academic lessons, counseling and the opportunity to participate in cultural experiences.

Support for Neighbors in Need: Since 2004, working with local groups and NGOs, we provide KRW300,000 in monthly living expenses for 240 disadvantaged households in Pohang and Gwangyang. Recognized as a model program, the campaign helps beneficiaries become independent.

POSWITH: In July 2007, POSCO established POSWITH, which hires more than 30% handicapped employees. POSWITH provides POSCO and its subsidiaries with such services as cleaning, OA system management and more.

POSCO:

Four Decades of Challenge and Success

The forty-year history of POSCO's sweat and endeavor – and the legend of how the company led the national economy by building a steel industry from scratch – is the history of steel in Korea. Today, after decades of unprecedented growth, POSCO is positioned as a leader in the global steel industry.



1968 – The Legend Begins

POSCO got its start on April 1, 1968 as the Pohang Iron and Steel Co., Ltd. The daunting responsibility of building the steelworks fell to Tae Joon Park, then president of Korea Tungsten Co., Ltd. In the 1960s, Korea's steel industry was still primitive. No company could produce the large-scaled steel products.

The importance of developing a national integrated steelworks, along with the parallel task of modernizing the nation, is impossible to overemphasize. Yet the project was delayed by grave challenges. Construction required enormous capital and advanced technology, neither of which was available to President Park.

Eventually, in October 1968, funds to begin steelworks construction were guaranteed by the government and the Korea International Steel Associates (KISA). However, further delays arose when an analysis released by the International Bank for Reconstruction and Development (IBRD), the World Bank forerunner, concluded that feasibility for steelworks construction in Korea was doubtful. The country, said the IBRD, ought to focus on developing a machinery industry. The U.S. Agency for International Development also issued a warning that if the construction project went forward, it would disrupt the existing global steel industry. With such negative reviews, construction through KISA was no longer viable.

As skepticism rose around the country, the fledgling company still had not identified funding. The situation seemed bleak and some suggested scrapping the project entirely. But the will to go forward won out. On December 3, 1969, eight months after incorporation, Pohang gained the capital and the technology to build its steelworks through the Korea-Japan Agreement. With that, construction of the country's first integrated steelworks was on track. Capacity for the plant was projected at 1.03 million tons.

After 30 months of intense preparation, a small town in Pohang became the massive steelworks site. The government, community and POSCO collaborated on the site, which created the foundation for a domestic steel industry. The company had taken its first historic step, assuming responsibility for both national pride and the success of POSCO.

1973 – Sweat Flows with Molten Steel

Construction of Pohang Works, Phase 1 started on April 1, 1970, two years to the day after the company's birth. Expectations and profile were high. The proposed steelworks had become a prized project of the entire nation and failure was not an option. Everyone at POSCO worked with heroic resolve, yet delays of the HR plant still began to slow progress. Immediately, in response, President Tae Joon Park announced an emergency regime, ordering that 24,717 feet of concrete be poured every day, an unheard of standard for 1970. People at POSCO worked round the clock, 24 hours a day, to finish the phase of concrete pouring within the promised two-month deadline. The complicated situation of simultaneously working on both construction and operations forged the unyielding spirit of POSCO.

Then, on June 9, 1973, success arrived. Gold-colored molten steel began to pour from the tap hole for the first time. That moment was POSCO's true first victory in building a Korean steel industry and reviving the nation's economy. The boiling molten steel represented the endeavors and hard work of POSCO employees and citizens around the country.

1981 – The Legend Continues at Youngil Bay

After four rounds and eleven long years of expansion at Pohang Works, Phase 1, POSCO finally completed construction of its integrated steelworks in 1981. From a launch that lacked for funds, technology and experience, the company had transformed the barren site into a massive steelworks capable of producing 8.5 million tons of crude steel a year. Faith had worked reality. That success fueled the confident vision that Pohang Iron and Steel could become a major global player.

At the same time the company was laying the groundwork and constructing the steelworks, POSCO leadership was keenly aware of the need to build its human capital and technology. The company dispatched a large number of employees to train overseas and opened an in-house center to nurture local talent. Those forward-looking efforts were the driving force behind constructing the best steelworks in Korea, even as naysayers said it couldn't be done in a developing country. POSCO proved them wrong by standing strong and achieving the "impossible." The company's success at creating its world-class integrated steelworks soon became "The Legend of Youngil Bay", which alongside Pohang steelworks.



1981 – Exploration at Gwangyang Bay

As the world economy ramped up in the 1970s, demand for steel increased. At the ceremony to celebrate completion of Pohang Works, Phase 1 construction in 1973, Korean President Jung-Hee Park, who is often credited with fueling the nation's economic boom, shaped a plan for a second steelworks. Demand for steel products during the 1980s was estimated to climb to 12 to 13 million tons a year. A second integrated steelworks would boost the company's annual capacity to 10 million tons. The idea began to take hold.

At the time, controversy about the second steelworks grew over both the choice of operator and the site selection. Location could determine the project's success or failure. Time went by and the selection process remained intermittent and confusing, reflecting the exigencies of national economic policy. In the summer of 1979, the site was tentatively decided as Asan Bay. But POSCO found Asan Bay to be impossible because the high tide would require construction of a lock gate that, alone, would cost upward of KRW670 billion. The company began seeking a new site.

The winter of 1980 was one of the most severe of the previous half-century. Yet it did not deter POSCO from carrying on detailed site research. The result was that Gwangyang Bay had optimal conditions for steelworks construction, with a large influx of water from Sumjin River and wide tideland. At last, POSCO won approval and Gwangyang Bay became the site for the second steelworks. POSCO began another chapter of its success, defined by the principle of building the best steelworks with the minimum of cost.

1992 – The Dream of Steelworks by the Sea

POSCO took on new challenges at Gwangyang Bay. In order to minimize environmental impact and construct a sound steelworks, the company decided on a foundation strengthened by sand compaction. Quality sand from the mouth of the Sumjin River and the Gwangyang Bay was transported via pipe to fill in the land as the steelworks site materialized.

Ultimately, Gwangyang Steelworks reconfigured the area's map. The steelworks rests on a massive tract of reclaimed land, measuring 160 million square feet. Based on the company's experience and technology accumulated at Pohang, construction of Phase 1 to Phase 4 went more quickly than any other steelworks being built at the time. POSCO had gained a clear competitive edge in the global steel market. While Pohang Steelworks in Youngil Bay required much hard working, Gwangyang Steelworks was based on technology with the advantages of location by the sea.

At Gwangyang, all plant and production facilities were placed in a line, in order to shorten processing time. All processes were automated by Internet-based real-time systems that covered the process from production to shipping. The steelworks introduced state-of-the-art facilities and even built a weatherproof dock so ships could enter and exit during severe weather. From the outset, the steelworks was planned with "green" technology. A 24-hour Environment Monitoring System made it possible to check and manage environmental by-products. More than 98% of the water used for the process was recycled.

The epitome of advanced technology and contemporary facility, Gwangyang Steelworks is widely recognized as the Dream Steelworks.

On October 2, 1992, after a quarter-century of construction at Pohang and completion of the Gwangyang Works, Phase 4, POSCO was established as a global steel company with annual production capacity of 21 million tons. The company was poised for its next phase.



1994 – A Second Leap to Become a Global Company

In 1994, POSCO became the first Korean company to be listed on the New York Stock Exchange with USD300 million worth of Depositary Receipts, followed by the London Exchange in 1995, and the Tokyo Exchange in 2005. The company has established capability for 24-hour stock transactions.

To further expand its reach, POSCO introduced globalization policies for a worldwide network and localization policies to explore new markets. Till 2007, Forty-six (46) overseas branches and local entities had been established in China and other countries. At this point, the industry is watching what POSCO will do next. The company's outstanding performance and competitiveness also attracts media attention, including features such as "The World's Most Admired Steel Company," (*Fortune*, 2006), "Best Corporate Governance" (*Finance Asia*, 2006) and one of "the most admired Asian companies" (*BusinessWeek*, 2007). Industry analysts evaluate POSCO as strongly competitive.

Since 1997, the company's credit rating has constantly improved. In 2007, POSCO earned Standard & Poor's A rating, the same as for Korea as a nation, and Moody's A1 rating, even higher than Korea's A2. This is the highest credit rating among all the integrated steelworks of the world and stems from POSCO's efforts to reduce cost, focus on sales of strategic products, such as automotive steel plates, acquire high profitability and maintain financial stability. The percentage of foreign ownership of POSCO stock in 2007 was 49%, proving POSCO's international investment value.

2008 and Beyond – Global POSCO, Ever-Reaching

In keeping with the privatization process in 2000, POSCO established professional management systems to make the company more effective and nimble. In September 2001, the corporate identity was changed to promote the company's global status, and, in March 2002, the name was officially changed from Pohang Iron and Steel to POSCO. Through continuous facility rationalization and expansion, as of 2007, production capacity reached 31 million tons per year, with Pohang responsible for 13.7 million tons and Gwangyang producing 17.4 million tons.

Securing future competitiveness, POSCO was the first company to successfully commercialize the innovative eco-friendly iron-making technology of FINEX by building a facility with a capacity of 1.5 million tons a year. This has helped the company maintain leadership in the steel industry, despite environmental pressures and competition for natural resources. Equally important, POSCO is introducing a new and customized management paradigm in order to lead in the digital era. The company's management system puts customer value first and enables POSCO to anticipate and manage fast-changing market conditions. Some of the initiatives include Process Innovation (PI), which standardizes and integrates processes, and Six Sigma, practices that systematically set objectives in order to streamline business. Such management reorganization lays the foundation for POSCO's global growth. As of 2006, the company was the world's fourth largest crude steel producer and, as of 2007, second in the world in total capacity and market value.

As POSCO prepares for its leadership in the worldwide steel industry, the company will continue to grow, while deepening its strong capabilities. POSCO is dedicated to contributing to customers and to society as it becomes one of the top 100 global companies.

First & Best 40



01

01

Apr. 1968, Launch of Pohang Iron and Steel Co., Ltd. Corporate bylaws are established and the company name and logo are chosen as Tae Joon Park becomes president of the new Pohang Iron and Steel Co., Ltd. Initial capital totals KRW14 billion and original shareholders include the Minister of Finance and Korea Tungsten Co., Ltd.

02

Apr. 1970, Construction of Pohang Works, Phase 1 On April 1, in an era focused on developing a self-sustaining Korean economy, Korean President Chung Hee Park and Vice Prime Minister Hak Ryoul Kim join President Tae Joon Park at the build site for Pohang Works in Youngil Bay.



02

03

Oct. 1972, First Manufacture of Hot Rolled Coil On October 3, with the plant finally complete, President Tae Joon Park commemorates the occasion of the first-ever manufacture of HR Coil by writing "Created with Blood and Sweat" on the first HR Coil. Medium-thick plates were successfully manufactured a few months earlier, reaching the market on July 31.



03

04

Jun. 1973, Production at Pohang Blast Furnace 1 At 7:30 a.m. on June 9, with employees and construction officials nervously watching, the furnace tap hole suddenly opens wide and golden-colored hot molten steel starts to flow freely. The large blast furnace is the first in the history of Korea.

05

Jul. 1973, Completion of Pohang Works, Phase 1 In all, 22 plants and facilities required for the integrated steel process are completed with construction costs that total USD287 per crude steel ton, the lowest in worldwide steel manufacturing history.

06

Jan. 1977, First R&D Center With the completion of Pohang Works, Phase 1, the company must rely on steelmakers in other countries for advanced facilities and technologies. In response, in order to secure competitive advantages and guarantee facility expansion, Pohang establishes the R&D group in 1976. On January 1, the company begins construction of its first R&D Center.

07

Aug. 1977, "The Pohang Legend" During a review of construction for the power generation fan facility, President Tae Joon Park notices a fault in the base. Although the facility is 80% complete, he orders it to be rebuilt. On August 2, the structure is exploded so work can start anew.

04



08

Oct. 1978, Beginning of Gwangyang Bay Finally, on October 27, the government selects POSCO as the operator and the site list narrows to Garorim Bay, Asan Bay and Gwangyang Bay. Then, on November 4, 1981, the company's recommendation of Gwangyang Bay wins approval.

08



09

Sep. 1983, Opening of Greenhills Coal Mine in Canada After the oil crises of the 1970s, in order to secure stable access to resources, the company begins directly investing in mine development, beginning with the Tanoma mine in the U.S. in 1979, then the Mt. Thorley mine in Australia and the Greenhills Mine in Canada.

10

Aug. 1985, Establishment of Jechul Training Institute Since 1968, POSCO's Production Training Department offered training "to educate employees to world-class levels of knowledge and technology." On August 17, the company expands and renames the department, establishing a systematic educational foundation called the Jechul Training Institute.

11

Dec. 1985, Launch of Fiber-Optic LAN System On December 2, the company establishes a high-tech LAN system, using fiber optic cable to link Pohang, Gwangyang and Seoul. In 1987, the Steel VAN, an electronic data system, connects the company with clients for the first time in Korea.

12

April. 1986, Joint Venture with U.S. Steel In order to secure share in the U.S. HR market, and to successfully address U.S. trade issues, the company begins joint operation of the Pittsburg CR Plant with the United States Steel Corp., creating USS-POSCO Industries. The venture represents the start of the company's long-term international cooperation with U.S. Steel.



13

14

Mar. 1987, Completion of Gwangyang Works, Phase 1 On April 1, the company finishes construction of a new headquarters building in Pohang and, on May 7, also completes construction of Gwangyang Works, Phase 1. With annual crude steel capacity now 11.8 million tons, the era of "One Company, Two Works System" begins. With two plants operating, the company has further secured competitive advantages, as Pohang Works specializes in small-volume production of multiple products and Gwangyang Works in large-volume production of a small number of products.

14



13

Dec. 1986, Investment in Talent From the outset, the company has actively invested in training to nurture talent. On December 3, POSCO establishes the Pohang University of Science and Technology (POSTECH), which focuses on science and engineering. In March 1987, the company completes construction of the Research Institute of Industrial Science and Technology (RIST).

15

Jun. 1988, Going Public On June 10, the government lists POSCO as the first nationalized company to offer stock to the public. With this announcement, 27.3% of company shares previously owned by the government and the Korea Development Bank (KDB) are available to the public. Along with the public offering, the company allocates 10% of its 9,178,914 listed stock to employees.



15

16

Nov. 1989, Beginning of POSDATA On November 27, POSCO's IT systems and network department spins off as an independent systems integrator. In 2000, POSDATA is listed on the KOSDAQ. With the explosive growth of the IT industry, POSDATA successfully expands into outsourcing and Internet-based businesses, leveraging its IT capabilities in the areas of steel and manufacturing.

17

Nov. 1990, Pohang Soccer Stadium On November 10, POSCO boosts the development of professional soccer in Korea by building the first stadium in the country to be dedicated to the sport.

20

Oct. 1994, Listed on the NYSE Chairman Kim Man Je signs a MOU to list the company on the New York Stock Exchange, the first by a Korean company and the second for a steel company (after British Steel). A year later, the London Stock Exchange follows suit.

18

Oct. 1992, 25 Years of POSCO Construction On October 2, on the main grounds of Gwangyang Works, the company celebrates the final construction of Pohang and Gwangyang Works, which has taken a quarter-century. Annual crude steel capacity is now 21 million tons.

18



19

Jun. 1994, The POSCO Research Institute On June 1, the company's research group spins off to form the POSCO Research Institute (POSRI), which serves as a high-performing think tank for POSCO and its subsidiaries to help develop new management paradigms and the practical application of knowledge.

20



<p>21 Dec. 1994, Beginning of POSEC Confirming its international reach, POSCO founds POSCO E&C (POSEC), consolidating all engineering and construction functions into the new entity, including Geoyang Development Co., Ltd., POSCO Engineering Co., Ltd. and the engineering and construction divisions of POSCO.</p>	<p>22 Dec. 1994, Construction of Pohang Light Source (PLS) Providing key equipment and data for a variety of needs, including basic and applied research, Pohang Light Source completes construction, fulfilling its role as the driving engine of Korean science and technology.</p>	<p>24 Aug. 1995, Opening of POSCO Center On August 31, the company completes construction of the POSCO Center, an intelligent building with state-of-the-art IT functionality. The East and West Centers, with total floor space of 54,700 py (1,946,390 feet) house the office area of the company and the subsidiaries along with the POSCO Art Gallery, POSCO Center Promotion Hall, Art Hall and Steel Gallery. The building embodies the present and future of the company, and earns the year's Korea Construction Culture Grand Price.</p>	<p>24</p> 
	<p>23 Jan. 1995, Completion of Strip Casting Pilot Plant In order to develop the commercial technology of strip casting, a key casting technology that enables manufacturing hot strips from molten steel, POSCO constructs a large-scale strip caster with a width of 1,300 mm. The plant opens on January 29.</p>		
<p>25 Jan. 1999, Launch of Process Innovation (PI) The company introduces enterprise-wide PI in order to streamline ordering, production, shipping and other business processes. The goal is to maximize shareholder value through customer-centric management.</p>		<p>26</p> 	<p>26 Oct. 2000, POSCO Privatized Since the company sold some of its nationalized shares to the public in 1988, the government now sells its remaining 3.14% and the Korea Development Bank (KDB) 2.73% shares as Depository Receipts (DR), thus accelerating privatization. On September 28, 2000, POSCO abolishes the limits on per-person share ownership and opens the company to the market economy.</p>
<p>27 May 2002, Introduction of Six Sigma Initiatives On May 2, the company initiates Six Sigma programs and soon broadens the initiative to all business functions. By June 2004, POSCO has successfully nurtured 798 Green Belts, 114 Black Belts, and 47 Master Black Belts through the Six Sigma program, strengthening its competitiveness.</p>	<p>27</p> 	<p>28 Jan. 2003, Launch of the Enterprise Portal On January 17, POSCO becomes the first company in Korea to create an Enterprise Portal (EP) that can provide customized information. EP integrates information gathered from its internal systems, such as ERP, with external information from the Internet into a single gateway. The new EP provides critical information for employees.</p>	
	<p>29 May 2003, POSCO Volunteer Group The company introduces a special group to encourage employee volunteers in the community. As of 2003, some 19,000 employees participate in 400 volunteer organizations that help the needy in their neighborhoods.</p>	<p>29</p> 	<p>30 Nov. 2003, Establishment of POSCO-China and POSCO-Japan Writing a new chapter in its history, POSCO launches two holding companies abroad. POSCO-China begins on November 7 and POSCO-Japan debuts on October 15, 2004.</p>

31

Jan. 2005, Crude Steel Production Breaks Records POSCO'S annual production of crude steel hits an unprecedented 30.2 million tons, the first time the company exceeds 30 million tons a year.

32

Jun. 2005, MOU for Integrated Steel Works in India The company signs an initial agreement with the Orissa Government in Bhubaneswar for an integrated steelworks and mine development. This is the single largest international investment initiated by a Korean company. In August, the company establishes the POSCO India Corporation.

32



33

Jun. 2006, Completion of 6CGL Facilities at Gwangyang Steelworks With construction of the 6CGL, POSCO Gwangyang Steelworks gains an advanced automotive steel plate production facility with a capacity of 6.5 million tons, including 2.1 million tons of CGL. This creates the foundation to produce high-tension steel plate with a tensile strength of 120 kgf/mm².

33



34

Nov. 2006, Investment in Vietnam Project POSCO wins approval from the Vietnamese Government to invest in the Vietnam Steelworks. The facility will have crude steel capacity of 3 million tons of HR and 1.5 million tons of CR, with an estimated total investment of USD1.13 billion.

37



35

35

Nov. 2006, Completion of Zhangjiagang Pohang Stainless Steel Works With construction of the Zhangjiagang Pohang Integrated Stainless Production Facility and its annual production capacity of 600,000 tons, the company is established as a major force in the stainless steel arena, which has value-add among steel products. The plant will have a total capacity of 2.6 million tons.

36

Mar. 2007, "The Global POSCO Way" POSCO begins the new chapter of its legendary success. Building on its founding principle of the "Steel Industry Saves the Nation," the company announces a new vision: "Creating another Success Story, Beyond Here, Beyond Now."

37

Apr. 2007, Construction of First Commercial FINEX Facility Utilizing the revolutionary iron-making technology developed from 1992 - 2004 and completed in March 2007, the company succeeds in the commercialization of FINEX technology, which results in annual production capacity of 1.5 million tons.

38

Jul. 2007, Opening the Magnesium Sheet Plant With magnesium sheet considered a future growth engine, the company opens a plant inside the Suncheon Haeryong Industrial Complex with a capacity of 3,000 tons. POSCO continues its position as a world-class integrated materials company.

39



39

Nov. 2007, 20th NSC-POSCO Strategic Alliance Steering Committee Since 2000, POSCO and Nippon Steel have jointly enhanced their competitive edge via strategic alliances, such as sharing stock, buying resources together and exchanging steel materials for seven years.

40

Apr. 2008, 40th Anniversary POSCO celebrates its 40th year in business. At the founding on April 1, 1968, company assets totaled only KRW1.6 billion. By 2007, assets have grown more than 19,000 times, to KRW30.53 trillion. In 1973, when Pohang Works, Phase 1 became operational, sales were only KRW41.6 billion. In 2007, sales have grown 530 times, to KRW22.2 trillion.

40



Milestones

Foundation Years

- June 1967 Pohang chosen as first building site of Pohang Iron and Steel Co., Ltd. (POSCO)
- November 1967 Company's Development Committee established
- March 1968 First general meeting establishes logo and corporate bylaws
- April 1968 Pohang Iron and Steel Co. Ltd., officially incorporated

Pohang Construction Period

- April 1970 Pohang Works, Phase 1 begun
- December 1972 Headquarters moved to Pohang
- June 1973 Pohang Works No. 1 Blast Furnace tapped for the first time
- July 1973 Pohang Works, Phase 1 completed (Annual crude steel capacity: 1.03 million tons)
- October 1973 Membership in International Iron and Steel Institute
- May 1976 Pohang Works, Phase 2 completed (Annual crude steel capacity: 2.6 million tons)
- December 1978 Pohang Works Phase 3 completed (Annual crude steel capacity: 5.5 million tons)
- February 1981 Pohang Works, Phase 4-1 completed (Annual crude steel capacity: 8.5 million tons)
- November 1981 Gwangyang Bay selected as site for second steelworks

Gwangyang Construction Period

- May 1983 Pohang Works, Phase 4-2 completed (Annual crude steel capacity: 9.1 million tons)
- May 1985 Gwangyang Works, Phase 1 begun
- December 1986 Pohang University of Science and Technology (POSTECH) established
- March 1987 Research Institute of Industrial Science and Technology (RIST) established
- May 1987 Gwangyang Works, Phase 1 completed (Annual crude steel capacity: 11.8 million tons)
- June 1988 POSCO stock listed on the Korea Stock Exchange
- July 1988 Gwangyang Works, Phase 2 completed (Annual crude steel capacity: 14.5 million tons)
- March 1989 Pohang Works No. 1 Stainless Steel Mill completed (Annual stainless steel capacity: 320,000 tons)
- December 1990 Gwangyang Works, Phase 3 completed (Annual crude steel capacity: 17.5 million tons)
- October 1992 POSCO's quarter-century of construction completed (Gwangyang Works, Phase 4 completed; annual crude steel capacity: 20.8 million tons)

Global Expansion Period

- December 1993 ISO 9002 certification acquired
- October 1994 POSCO stock listed on the New York Stock Exchange
- December 1994 Pohang Light Source (PLS) installed
- September 1995 POSCO Center opened
- October 1995 POSCO stock listed on the London Stock Exchange
- November 1995 Pohang Works COREX plant completed (Annual crude steel capacity: 600,000 tons)
- August 1996 Pohang Works No. 2 Stainless Steel Mill completed (Annual stainless steel capacity: 840,000 tons)
- October 1996 Gwangyang Works No. 5 Blast Furnace begun and No. 1 Mini Mill completed
- March 1997 Introduction of outside director and outside auditor systems
- March 1999 Gwangyang Works No. 5 Blast Furnace completed (Annual crude steel capacity: 28 million tons)
- April 2000 Gwangyang Works No. 5 Blast Furnace lighted
- October 2000 Privatization completed
- July 2001 Introduction of POSPIA, an integrated digital information management system
- March 2002 Corporate name is legally changed to POSCO
- March 2002 Pohang Works No. 3 Stainless Steel Mill completed (Annual stainless steel capacity: 1.66 million tons)
- June 2003 New POSCO code of conduct announced
- July 2003 The POSCO Museum opened
- November 2003 POSCO-China established
- June 2005 POSCO-India signs MOU with Government of Orissa for a mega steel plant
- June 2006 Gwangyang Works No. 6 CGL completed (Annual automotive steel sheet capacity: 6.5 million tons)
- March 2007 Global POSCO Way vision announced
- May 2007 Pohang Works FINEX Plant completed (Annual crude steel capacity: 1.5 million tons)

POSCO and Subsidiaries

Consolidated Financial Statements
December 31, 2007 and 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



Samil PricewaterhouseCoopers

Kukje Center Building 191 Hankangro 2 ga, Yongsanku

Seoul 140-702, KOREA

(Yongsan P.O. Box 266, 140-600)

To the Board of Directors and Shareholders of POSCO:

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

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 35 to the consolidated financial statements.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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.

Samil PricewaterhouseCoopers

Seoul, Republic of Korea

June 10, 2008

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.

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

(in millions of Korean won and thousands of US dollar)	2007	2006	2007 (Note 2)
Liabilities and Shareholders' Equity			
Current liabilities			
Trade accounts and notes payable (Notes 28 and 29)	₩ 2,246,890	₩ 1,507,227	\$ 2,401,036
Short-term borrowings (Notes 12, 28 and 29)	1,572,020	1,238,749	1,679,868
Current portion of long-term debts, net of discount on debentures issued (Notes 13 and 28)	483,402	404,412	516,565
Accrued expenses (Note 28)	172,971	221,936	184,838
Other accounts and notes payable (Notes 28 and 29)	502,665	290,867	537,150
Withholdings (Note 28)	133,495	133,131	142,653
Income tax payable	930,822	701,037	994,681
Deferred income tax liabilities (Note 25)	120,992	77,541	129,292
Other current liabilities (Note 15)	461,358	507,395	493,010
Total current liabilities	6,624,615	5,082,295	7,079,093
Long-term debts, net of current portion and discount on debentures issued (Notes 13, 28 and 29)	3,306,486	2,725,502	3,533,326
Accrued severance benefits, net (Note 14)	336,095	331,006	359,152
Deferred income tax liabilities (Note 25)	654,969	460,342	699,903
Other long-term liabilities (Notes 15 and 21)	234,858	148,186	250,970
Total liabilities	11,157,023	8,747,331	11,922,444
Commitments and contingencies (Note 16)			
Shareholders' equity			
Common stock (Notes 1 and 17)	482,403	482,403	515,498
Capital surplus (Note 18)	4,176,592	4,035,273	4,463,125
Capital adjustments, net (Note 20)	(2,727,147)	(1,678,229)	(2,914,242)
Accumulated other comprehensive income (Notes 22 and 27)	784,933	209,754	838,783
Retained earnings (Note 19)	21,767,302	18,863,333	23,260,635
Total shareholders' equity	24,484,083	21,912,534	26,163,799
Minority interest	633,657	489,208	677,129
Total shareholders' equity	25,117,740	22,401,742	26,840,928
Total liabilities and shareholders' equity	₩ 36,274,763	₩ 31,149,073	\$ 38,763,372

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

CONSOLIDATED STATEMENTS OF INCOME

(in millions of Korean won and thousands of US dollar, except per share amounts)	2007	2006	2005	2007 (Note 2)
Sales (Notes 29 and 30)	₩ 31,607,741	₩ 25,842,326	₩ 26,301,788	\$ 33,776,172
Cost of goods sold (Note 29)	24,902,663	19,896,764	18,767,195	26,611,095
Gross profit	6,705,078	5,945,562	7,534,593	7,165,077
Selling and administrative expenses (Notes 23, 32 and 33)	1,785,217	1,556,415	1,451,317	1,907,691
Operating income	4,919,861	4,389,147	6,083,276	5,257,386
Non-operating income				
Interest and dividend income (Note 29)	234,841	182,832	161,135	250,952
Gain on foreign currency transactions	158,346	156,722	114,615	169,209
Gain on foreign currency translation	19,179	84,269	148,857	20,495
Gain on valuation of trading securities	16,039	19,467	15,357	17,139
Gain on disposal of trading securities	57,236	67,284	59,436	61,163
Gain on disposal of property, plant and equipment	15,182	19,144	24,225	16,223
Gain on valuation of derivatives (Note 22)	12,741	1,857	1,671	13,615
Gain on derivative transactions (Note 22)	17,689	15,477	3,857	18,903
Earnings of equity method investees (Note 7)	71,563	47,147	26,095	76,472
Gain on recovery of allowance for doubtful accounts	41,124	13,776	18,591	43,945
Others	174,567	141,248	213,827	186,543
	818,507	749,223	787,666	874,660
Non-operating expenses				
Interest expense (Note 29)	239,913	183,290	149,337	256,373
Other bad debt expense	16,335	70,370	30,146	17,455
Loss on foreign currency transactions	130,679	137,567	95,646	139,644
Loss on foreign currency translation	65,432	4,855	9,091	69,921
Losses of equity method investees (Note 7)	28,929	722	6,371	30,913
Donations (Note 24)	197,366	154,678	153,018	210,906
Loss on disposal of property, plant and equipment	43,544	54,179	42,815	46,531
Loss on valuation of derivatives (Note 22)	3,617	820	21,393	3,865
Loss on derivative transactions (Note 22)	6,312	40,363	9,000	6,746
Loss on impairment of investments	11,542	2,088	11,846	12,334
Others	95,768	204,847	854,090	102,337
	839,437	853,779	1,382,753	897,026
Net income before income tax expense	4,898,931	4,284,591	5,488,189	5,235,020
Income tax expense (Note 25)	(1,274,226)	(921,951)	(1,473,589)	(1,361,644)
Net income (loss) of consolidated subsidiaries before acquisition	(53,259)	9,558	7,607	(56,913)
Net income	₩ 3,677,964	₩ 3,353,082	₩ 4,006,993	\$ 3,930,289
Net income attributable to controlling interest	₩ 3,558,660	₩ 3,314,181	₩ 4,022,492	\$ 3,802,800
Net income attributable to minority interest	₩ 119,304	₩ 38,901	₩ (15,499)	\$ 127,489
Basic and diluted earnings per share (Note 26) (in Korean won and US dollar)	₩ 46,854	₩ 42,115	₩ 50,790	\$ 50

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Korean won and thousands of US dollar)	Common stock	Common amount	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest	Total
Balance as of January 1, 2005	87,186,835	₩ 482,403	₩ 3,895,378	₩ (703,328)	₩ (447,406)	₩ 12,851,118	₩ 307,891	₩ 16,386,056
Net income for 2005	-	-	-	-	-	4,022,492	-	4,022,492
Effect of change in scope of consolidation	-	-	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 treasury stock	-	-	108,018	(279,061)	-	-	-	(171,043)
Overseas operations translation adjustment (Note 27)	-	-	-	-	(30,251)	-	-	(30,251)
Changes in valuation gain and loss on investment securities (Note 27)	-	-	-	-	324,757	-	-	324,757
Changes in capital adjustment arising from equity method investments (Note 27)	-	-	-	-	(35,364)	-	-	(35,364)
Effect of change in percentage of minority interest	-	-	-	-	-	-	62,223	62,223
Minority interest in income of consolidated subsidiaries	-	-	-	-	-	-	(15,499)	(15,499)
Others	-	-	739	16,956	-	(28,503)	30,055	19,247
Balance as of December 31, 2005	87,186,835	₩ 482,403	₩ 3,991,409	₩ (965,433)	₩ (188,264)	₩ 16,168,892	₩ 384,670	₩ 19,873,677
Balance as of January 1, 2006	87,186,835	₩ 482,403	₩ 3,991,409	₩ (965,433)	₩ (188,264)	₩ 16,168,892	₩ 384,670	₩ 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 treasury stock (Note 20)	-	-	50,565	(711,485)	-	-	-	(660,920)
Overseas operations translation adjustment (Note 27)	-	-	-	-	(46,086)	-	-	(46,086)
Changes in valuation gain and loss on investment securities (Note 27)	-	-	-	-	432,469	-	-	432,469
Changes in capital adjustment arising from equity method investments (Note 27)	-	-	-	-	11,635	-	-	11,635
Effect of change in percentage of minority interest	-	-	-	-	-	-	61,639	61,639
Minority interest in income of consolidated subsidiaries	-	-	-	-	-	-	38,901	38,901
Others	-	-	2,956	(1,311)	-	(23,902)	3,998	(18,259)
Balance as of December 31, 2006	87,186,835	₩ 482,403	₩ 4,035,273	₩ (1,678,229)	₩ 209,754	₩ 18,863,333	₩ 489,208	₩ 22,401,742

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Korean won and thousands of US dollar)	Common stock	Common amount	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest	Total
Balance as of January 1, 2007	87,186,835	₩ 482,403	₩ 4,035,273	₩ (1,678,229)	₩ 209,754	₩ 18,863,333	₩ 489,208	₩ 22,401,742
Net income for 2007	-	-	-	-	-	3,558,660	-	3,558,660
Effect of change in scope of consolidation (Note 1)	-	-	37	-	-	-	62,024	62,061
Effect of change in percentage of ownership of investees	-	-	(5,500)	-	-	-	-	(5,500)
Dividends	-	-	-	-	-	(655,099)	-	(655,099)
Change in treasury stock (Note 20)	-	-	175,231	(1,045,274)	-	-	-	(870,043)
Overseas operations translation adjustment (Note 27)	-	-	-	-	87,957	-	-	87,957
Changes in valuation gain and loss on investment securities (Note 27)	-	-	-	-	498,711	-	-	498,711
Changes in capital adjustment arising from equity method investments (Note 27)	-	-	-	-	(7,455)	-	-	(7,455)
Changes in valuation of derivatives (Note 27)	-	-	-	-	(4,034)	-	-	(4,034)
Effect of change in percentage of minority interest	-	-	-	-	-	-	16,380	16,380
Minority interest in income of consolidated subsidiaries	-	-	-	-	-	-	119,304	119,304
Others	-	-	(28,449)	(3,644)	-	408	(53,259)	(84,944)
Balance as of December 31, 2007	87,186,835	₩ 482,403	₩ 4,176,592	₩ (2,727,147)	₩ 784,933	₩ 21,767,302	₩ 633,657	₩ 25,117,740
Balance as of January 1, 2007	87,186,835	\$ 515,498	\$ 4,312,110	\$ (1,793,363)	\$ 224,145	\$ 20,157,440	\$ 522,770	\$ 23,938,600
Net income for 2007	-	-	-	-	-	3,802,800	-	3,802,800
Effect of change in scope of consolidation (Note 1)	-	-	40	-	-	-	66,280	66,320
Effect of change in percentage of ownership of investees	-	-	(5,877)	-	-	-	-	(5,877)
Dividends	-	-	-	-	-	(700,041)	-	(700,041)
Change in treasury stock (Note 20)	-	-	187,252	(1,116,985)	-	-	-	(929,733)
Overseas operations translation adjustment (Note 27)	-	-	-	-	93,991	-	-	93,991
Changes in valuation gain and loss on investment securities (Note 27)	-	-	-	-	532,924	-	-	532,924
Changes in capital adjustment arising from equity method investments (Note 27)	-	-	-	-	(7,966)	-	-	(7,966)
Changes in valuation of derivatives (Note 27)	-	-	-	-	(4,311)	-	-	(4,311)
Effect of change in percentage of minority interest	-	-	-	-	-	-	17,504	17,504
Minority interest in income of consolidated subsidiaries	-	-	-	-	-	-	127,489	127,489
Others	-	-	(30,400)	(3,894)	-	436	(56,914)	(90,772)
Balance as of December 31, 2007	87,186,835	\$ 515,498	\$ 4,463,125	\$ (2,914,242)	\$ 838,783	\$ 23,260,635	\$ 677,129	\$ 26,840,928

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Korean won and thousands of US dollar)	2007	2006	2005	2007 (Note 2)
Cash flows from operating activities				
Net income	₩ 3,677,964	₩ 3,353,082	₩ 4,006,993	\$ 3,930,289
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	2,126,729	1,782,738	1,612,554	2,272,632
Accrual of severance benefits	211,758	144,931	213,082	226,285
Provision for doubtful accounts, net	37,237	173,931	115,865	39,792
Loss (gain) on foreign currency translation, net	49,334	(76,453)	(138,296)	52,719
Gain on valuation of trading securities, net	(15,599)	(18,863)	(15,124)	(16,669)
Gain on valuation of derivatives, net	(9,124)	(1,037)	19,722	(9,750)
Loss (gain) on derivatives transaction, net	(11,377)	24,886	5,143	(12,157)
Gain on disposal of trading securities and investments, net	(57,199)	(66,507)	(58,865)	(61,123)
Loss on disposal of property, plant and equipment, net	28,362	35,035	18,590	30,308
Earnings of equity method investees, net	(42,634)	(46,425)	(19,724)	(45,559)
Net income (loss) of consolidated subsidiaries before acquisition	(53,259)	9,558	7,607	(56,913)
Others	263,988	374,968	391,783	282,098
	2,528,216	2,336,762	2,152,337	2,701,662
Changes in operating assets and liabilities				
Increase in trade accounts and notes receivable	(613,548)	(398,201)	45,112	(655,640)
Increase in inventories	(461,226)	(380,143)	(706,528)	(492,868)
Decrease (increase) in other accounts and notes receivable	67,929	(30,932)	(94,499)	72,589
Increase in accrued income	(15,218)	(26,205)	(19,757)	(16,262)
Increase in advance payments	(70,847)	(73,034)	(83,702)	(75,708)
Increase in prepaid expenses	(23,658)	(5,009)	(1,360)	(25,281)
Increase in trade accounts and notes payable	561,078	272,270	(170,131)	599,570
Increase in other accounts and notes payable	164,460	122,673	(7,571)	175,742
Increase (decrease) in advances received	(16,884)	78,449	(7,888)	(18,042)
Decrease in accrued expenses	(108,184)	(459,579)	493,376	(115,606)
Increase (decrease) in income tax payable	162,806	(715,691)	281,240	173,975
Deferred income tax, net	(20,127)	(59,480)	(151,602)	(21,508)
Payment of severance benefits	(64,975)	(36,817)	(84,049)	(69,432)
Increase in group severance insurance deposits	(147,366)	(48,880)	(98,790)	(157,476)
Increase (decrease) in other current liabilities	(13,055)	5,855	(30,479)	(13,951)
Others	(54,105)	(9,616)	(50,321)	(57,817)
	(652,920)	(1,764,340)	(686,949)	(697,713)
Net cash provided by operating activities	5,553,260	3,925,504	5,472,381	5,934,238

(in millions of Korean won and thousands of US dollar)	2007	2006	2005	2007 (Note 2)
Cash flows from investing activities				
Disposal of trading securities	9,064,842	15,322,978	12,758,304	9,686,731
Acquisition of trading securities	(8,173,811)	(14,516,637)	(12,536,599)	(8,734,570)
Disposal of available-for-sale securities	9,412	145,990	347,987	10,058
Acquisition of available-for-sale securities	(1,180,449)	(653,466)	(319,854)	(1,261,433)
Disposal of short-term financial instruments	1,705,169	1,516,362	1,322,222	1,822,151
Acquisition of short-term financial instruments	(2,678,616)	(1,610,510)	(1,434,935)	(2,862,380)
Disposal of long-term financial instruments	34,555	113,339	1,509	36,926
Acquisition of property, plant and equipment	(2,892,247)	(3,709,422)	(3,360,537)	(3,090,668)
Disposal of property, plant and equipment	34,958	425,976	66,273	37,356
Proceeds from short-term loans	108,221	64,436	107,484	115,646
Short-term loans provided	(50,687)	(62,641)	(119,033)	(54,164)
Long-term loans provided	(24,235)	(6,388)	(33,406)	(25,898)
Acquisition of intangible assets	(81,946)	(131,575)	(81,605)	(87,568)
Acquisition of other investment assets	(160,098)	(131,095)	(239,211)	(171,081)
Others	21,220	(130,557)	77,814	22,672
Net cash used in investing activities	(4,263,712)	(3,363,210)	(3,443,587)	(4,556,222)
Cash flows from financing activities				
Proceeds from short-term borrowings	6,811,282	4,119,189	4,828,860	7,278,566
Proceeds from long-term debt	1,054,138	2,160,279	594,312	1,126,457
Proceeds from other long-term liabilities	37,060	15,535	497,193	39,603
Disposal of treasury stock	406,991	69,779	931,664	434,912
Repayment of current portion of long-term debt	(278,699)	(1,188,281)	(1,040,410)	(297,818)
Repayment of short-term borrowings	(6,599,799)	(3,821,014)	(4,715,293)	(7,052,574)
Repayment of long-term debt	(248,087)	(165,212)	(328,037)	(265,107)
Payment of cash dividends	(655,099)	(636,487)	(680,794)	(700,041)
Acquisition of treasury stock	(1,291,362)	(851,123)	(1,295,163)	(1,379,956)
Repayment of other long-term liabilities	(94,072)	(78,173)	(398,998)	(100,526)
Others	(143,209)	106,643	(279,863)	(153,034)
Net cash used in financing activities	(1,000,856)	(268,864)	(1,886,529)	(1,069,518)
Effect of exchange rate changes on cash and cash equivalents	30,901	(15,245)	(4,425)	33,021
Net increase in cash and cash equivalents from changes in consolidated subsidiaries	36,815	4,365	33,939	39,341
Net increase in cash and cash equivalents	356,407	282,550	171,779	380,859
Cash and cash equivalents				
Bginning of the year	936,421	653,871	482,092	1,000,663
End of the year	₩ 1,292,828	₩ 936,421	₩ 653,871	\$ 1,381,522

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

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

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

Notes to Consolidated Financial Statements

1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (Collectively the "Company"), including POSCO Engineering & Construction Co., Ltd. (POSCO E&C) and 19 other domestic subsidiaries and 43 overseas subsidiaries, whose accounts are included in the consolidated financial statements, and 22 equity-method investees, which are excluded from the consolidation, are as follows:

The Controlling Company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The shares of POSCO have been listed on the Korea Stock Exchange since 1988. POSCO operates two plants and one office in Korea, and seven liaison offices overseas. POSCO operates its principal market in the domestic market in Korea and concentrates export and overseas sales in the Asia Pacific region including Japan, China and other countries.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Subsidiaries

The consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. The following table sets forth certain information with regard to consolidated subsidiaries as of December 31, 2007:

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Summary of Financial information (in millions of Korean won) ¹			Location
			POSCO	Subsidiaries	Total			Total Assets	Net Assets	Net Income (loss)	
Domestic											
POSCO E&C	Engineering and construction	30,000,000	27,281,080	-	27,281,080	90.94		2,763,452	1,358,478	205,847	Pohang
Posteel Co., Ltd.	Steel sales and service	18,000,000	17,155,000	-	17,155,000	95.31		532,013	324,736	19,093	Seoul
POSCON Co., Ltd.	Electronic control devices manufacturing	3,519,740	3,098,610	-	3,098,610	88.04		271,475	149,729	23,633	Pohang
Pohang Coated Steel Co., Ltd.	Coated steel manufacturing	6,000,000	3,412,000	-	3,412,000	56.87		403,993	275,322	9,306	Pohang
POSCO Machinery & Engineering Co., Ltd.	Steel work maintenance	1,700,000	1,700,000	-	1,700,000	100.00		103,308	50,029	(1,624)	Pohang
POSDATA Co., Ltd.	Computer hardware and software distribution	81,551,600	50,440,720	-	50,440,720	61.85		288,171	163,733	5,005	Sungnam
POSCO Research Institute	Economic research and consulting	3,800,000	3,800,000	-	3,800,000	100.00		26,335	23,185	175	Seoul
Seung Kwang Co., Ltd.	Athletic facilities operation	3,945,000	2,737,000	1,208,000	3,945,000	100.00	POSCO E&C (30.62)	76,779	41,992	(2,045)	Suncheon
POS-AC Co., Ltd.	Architecture and consulting	230,000	230,000	-	230,000	100.00		46,627	30,321	7,027	Seoul
POSCO Specialty Steel Co., Ltd.	Specialty steel manufacturing	26,000,000	26,000,000	-	26,000,000	100.00		1,062,479	491,770	60,238	Chang-won
POSCO Machinery Co., Ltd.	Machinery installation	1,000,000	1,000,000	-	1,000,000	100.00		43,711	22,770	(10,365)	Gwang-yang
POSTECH Venture Capital Corp.	Investment in venture companies	6,000,000	5,700,000	-	5,700,000	95.00		40,455	38,732	6,816	Pohang
POSCO Refractories & Environment Company Ltd. (POSREC)	Manufacturing	5,907,000	3,544,200	-	3,544,200	60.00		174,308	132,953	16,899	Pohang
POSCO Terminal Co., Ltd.	Distribution and warehousing	5,000,000	2,550,000	-	2,550,000	51.00		40,709	35,915	3,315	Gwang-yang
Metapolis Co., Ltd.	Construction	10,560,000	-	4,229,280	4,229,280	40.00	POSCO E&C (30.62)	357,740	61,651	23,361	Seoul ³
Posmate Co., Ltd.	Facilities management	714,286	214,286	-	214,286	30.00		60,273	36,694	6,484	Seoul
Samjung Packing & Aluminum Co., Ltd.	Packing materials manufacturing	3,000,000	270,000	831,756	1,101,756	36.73	Posmate Co., Ltd. (27.73)	144,942	77,793	10,727	Pohang
POSCO Power Corp.	Generation of Electricity	40,000,000	40,000,000	-	40,000,000	100.00		1,007,130	523,318	34,994	Seoul

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Summary of Financial information (in millions of Korean won) ¹			Location
			POSCO	Subsidiaries	Total			Total Assets	Net Assets	Net Income (loss)	
Postech 2006 Energy Fund	Investment in new technology	570	-	126	126	22.11	POSTECH Venture Capital Corp. (10.53) POSCO Power (11.58)	29,340	29,177	558	Seoul
POSCORE Co., Ltd.	Components manufacturing and sales	3,907,151	-	1,992,647	1,992,647	51.00	POsteel (51.00)	66,372	12,919	(13,217)	Chenan ³
Overseas											
POSCO America Corporation (POSAM)	Steel trading	320,796	319,024	1,772	320,796	100.00	POSCAN (0.55)	191,976	110,200	(18,189)	USA
POSCO Australia Pty. Ltd. (POSA)	Steel trading	761,775	761,775	-	761,775	100.00		323,885	181,140	18,081	Australia
POSCO Canada Ltd. (POSCAN)	Coal trading	1,099,885	-	1,099,885	1,099,885	100.00	POsteel (100.00)	131,664	112,591	6,539	Canada
POSCAN Elkview Coal Ltd.	Coal trading	304,061	-	304,061	304,061	100.00	POSCAN (100.00)	35,934	35,742	1,385	Canada
POSCO Asia Co., Ltd. (POA)	Steel trading	9,360,000	9,360,000	-	9,360,000	100.00		77,944	20,861	2,316	China
VSC POSCO Steel Corporation (VPS)	Steel manufacturing	-	-	-	-	40.00	POsteel (5.00)	35,491	15,234	4,100	Vietnam ²
DALIAN POSCO - CFM Coated Steel Co., Ltd.	Coated steel manufacturing	-	-	-	-	55.00	POsteel (10.00) POSCO-China (10.00)	67,646	9,625	(4,068)	China ²
POS-Tianjin Coil Center Co., Ltd.	Steel service center	-	-	-	-	70.00	POsteel (60.00)	31,440	9,988	1,402	China ²
POSMETAL Co., Ltd.	Steel service center	6,000	-	4,500	4,500	75.00	POSCO-Japan (75.00)	30,519	6,736	135	Japan
Shanghai Real Estate Development Co., Ltd.	Real estate rental	-	-	-	-	100.00	POSCO E&C (100.00)	138,092	92,360	9,091	China ²
IBC Corporation	Real estate rental	-	-	-	-	60.00	POSCO E&C (60.00)	76,223	28,005	5,858	Vietnam ²
POSLILAMA Steel Structure Co., Ltd.	Steel structure fabrication and sales	-	-	-	-	70.00	POSCO E&C (60.00) POsteel (10.00)	38,246	(14,156)	90	Vietnam ²
Zhangjiagang Pohang Stainless Steel Co., Ltd. (ZPSS)	Stainless steel manufacturing	-	-	-	-	82.48	POSCO-China (23.88)	1,315,745	569,173	76,796	China ²
POSCO (Guang-dong) Coated Steel Co., Ltd.	Coated steel manufacturing	-	-	-	-	95.19	POSCO-China (11.53)	81,239	22,994	2,998	China ²
POSCO-Thailand Co., Ltd.	Steel service center	5,941,570	3,805,383	2,136,187	5,941,570	100.00	POsteel (35.95)	100,650	18,734	525	Thailand
Myanmar-POSCO Steel Co., Ltd.	Specialty steel manufacturing and sales	19,200	13,440	-	13,440	70.00		8,819	3,581	48	Myanmar ³
Zhangjiagang POSHA Steel Port Co., Ltd. (ZPSP)	Stainless steel manufacturing	-	-	-	-	90.00	POSCO E&C (25.00) ZPSS (65.00)	11,735	11,654	673	China ²
POS-OPC Co., Ltd. (Fujiura Butsuruyu Center Co., Ltd.)	Warehousing	4,900	-	2,785	2,785	56.84	POSCO-Japan (56.84)	30,050	4,805	(600)	Japan ³

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Summary of Financial information (in millions of Korean won) ¹			Location
			POSCO	Subsidiaries	Total			Total Assets	Net Assets	Net Income (loss)	
POSCO Investment Co., Ltd.	Finance	5,000,000	5,000,000	-	5,000,000	100.00		157,712	68,609	3,553	China
POSMMIT Steel Centre Sdn. Bhd. (POSMMIT)	Steel service center	-	-	-	-	70.00	Posteel (40.00)	48,399	16,445	2,291	Malaysia ^{2,3}
Qingdao Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	-	-	-	-	80.00	POSCO-China (10.00)	199,990	83,558	14,072	China ²
POSCO (SUZHOU) Automotive Processing Center Co., Ltd.	Steel service center	-	-	-	-	100.00	POSCO-China (10.00)	101,012	36,649	1,999	China ²
POSEC-Hawaii Inc.	Construction	24,400	-	24,400	24,400	100.00	POSCO E&C (100.00)	41,148	22,166	6,331	USA
POS-Qingdao Coil Center Co., Ltd.	Steel service center	-	-	-	-	100.00	Posteel (100.00)	44,383	10,033	1,445	China ²
POS-ORE Pty. Ltd.	Iron ore mining and trading	17,500,001	-	17,500,001	17,500,001	100.00	POSA (100.00)	36,804	30,706	15,563	Australia
POSCO-China Holding Corp.	Investment	-	-	-	-	100.00		197,989	196,271	6,219	China ²
POSCO-Japan Co., Ltd.	Steel trading	90,438	90,438	-	90,438	100.00		394,730	58,188	5,975	Japan
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.	Facilities manufacturing	-	-	-	-	100.00	POSCO E&C (100.00)	8,050	5,646	128	China ²
POS-CD Pty. Ltd.	Coal trading	12,550,000	-	12,550,000	12,550,000	100.00	POSA (100.00)	17,250	8,051	(1,793)	Australia
POS-GC Pty. Ltd.	Coal trading	11,050,000	-	11,050,000	11,050,000	100.00	POSA (100.00)	17,139	8,298	(430)	Australia
POSCO-India Private Ltd.	Coal trading	225,000,000	225,000,000	-	225,000,000	100.00		58,355	53,708	-	India
POS-India Steel Processing Centre Pvt. Ltd.	Steel service center	65,790,858	42,764,058	-	42,764,058	65.00		44,391	20,653	4,799	India
POS-NPC Co., Ltd.	Steel service center	49,000	-	44,100	44,100	90.00	POSCO-Japan (90.00)	33,053	2,518	605	Japan
POSCO-Foshan steel processing Center Co., Ltd.	Steel service center	-	-	-	-	100.00	POA (22.10) POSCO-China (33.20)	98,900	21,537	(2,607)	China ²
POSCO E&C (Beijing) Co., Ltd.	Construction and engineering	-	-	-	-	100.00	POSCO E&C (100.00)	40,753	10,747	1,765	China ^{2,3}
POS-MPC S.A. de C.V.	Steel service center	1,656,638	-	1,010,550	1,010,550	61.00	POSAM (61.00)	82,591	13,410	(563)	Mexico
Zhangjiagang Pohang Port Co., Ltd.	Raw material and steel depot service	-	-	-	-	100.00	ZPSS (47.30) POSA (27.70) POSCO-China (25.00)	22,677	11,042	487	China ²
POSCO-Vietnam Co., Ltd.	Cold-rolled steel manufacturing and sales	-	-	-	-	100.00		154,164	146,713	(2,180)	Vietnam ²
POSCO-Mexico Co., Ltd.	Cold-rolled steel manufacturing and sales	494,152,598	257,916,530	236,236,068	494,152,598	100.00	POSCAN (47.80)	40,440	40,435	(2,062)	Mexico ³

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Summary of Financial information (in millions of Korean won) ¹			Location
			POSCO	Subsidiaries	Total			Total Assets	Net Assets	Net Income (loss)	
POSS Delhi Steel Processing Centre Pvt. Ltd.	Steel service center	1,263	966	-	966	76.48		17,473	13,851	531	India ³
POS-NP Pty. Ltd.	Coal trading	35,000,000	-	35,000,000	35,000,000	100.00	POSA (100.00)	36,653	27,443	(1,284)	Australia ³
POSCO-Vietnam Processing Center Co., Ltd.	Steel service center	11,040,000	8,832,000	-	8,832,000	80.00		10,003	9,946	(459)	Vietnam ³
Suzhou POSCORE	Components manufacturing and sales	-	-	-	-	100.00	POSCORE (100.00)	25,889	10,913	1,622	China ^{2,3}

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

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

³ These subsidiaries are newly included in the consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity-Method Investees

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

Investees	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Net Assets ¹ (in millions of Korean won)	Location
			POSCO	Subsidiaries	Total				
Domestic									
eNtoB Corporation	E-business	3,200,000	560,000	300,000	860,000	26.88	POSCO E&C (3.75)	24,169	Seoul
MIDAS Information Technology Co., Ltd.	Engineering	3,402,000	-	866,190	866,190	25.46	POSCO E&C (25.46)	20,957	Seoul
Songdo New City Development Inc.	Real estate	-	-	-	-	29.90	POSCO E&C (29.00)	(132,596)	Seoul ³
Gail International Korea Ltd.	Real estate	-	-	-	-	29.90	POSCO E&C (29.00)	38,560	Seoul ³
SNNC Co., Ltd.	Fe-Cr manufacturing	37,000,000	18,130,000	-	18,130,000	49.00		182,209	Gwangyang ²
Chungju Enterprise City	Construction	8,000,000	-	2,008,000	2,008,000	25.10	POSCO E&C (22.00) POADATA (3.10)	38,150	Chungju
Overseas									
KOBRASCO	Iron ore trading	4,021,438,370	2,010,719,185	-	2,010,719,185	50.00		85,021	Brazil ²
USS - POSCO Industries (UPI)	Steel processing	-	-	-	-	50.00	POSAM (50.00)	124,222	USA ^{2,3}
Poschrome (Proprietary) Limited	Fe-Cr manufacturing	86,700	21,675	-	21,675	25.00		26,720	Republic of South Africa
Guangdong Xingpu Steel Center Co., Ltd.	Steel processing	-	-	-	-	21.00	Posteel (10.50)	14,928	China ³
POS-Hyundai Steel Manufacturing India Private Ltd.	Steel processing	23,455,600	2,345,558	4,573,842	6,919,400	29.50	Posteel (19.50)	13,644	India
POSVINA Co., Ltd.	Steel manufacturing	-	-	-	-	50.00		4,529	Vietnam ^{2,3}
PT POSMI Steel Indonesia (POSMI)	Steel service center	12,600	1,193	3,579	4,772	37.87	Posteel (28.40)	8,380	Indonesia ²
POSCO Bioventures L.P.	Investment in companies in the bio-tech industry	-	-	-	-	100.00	POSAM (100.00)	35,190	USA ^{3,4}
CAML Resources Pty. Ltd.	Material processing	9,715	-	3,239	3,239	33.34	POSA (33.34)	43,912	Australia ²
Nickel Mining Company SAS	Material processing	6,601,426	3,234,698	-	3,234,698	49.00		409,431	New Caledonia ²
Liaoning Rongyuan Posco Refractories Co., Ltd.	Manufacturing and sales	-	-	-	-	35.00	POSREC (35.00)	4,203	China ^{2,3}
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd.	Material processing	-	-	-	-	30.00	POSCO-China (30.00)	14,609	China ^{2,3}
An Khanh New City Development	Construction	-	-	-	-	50.00	POSCO E&C (50.00)	21,787	Vietnam ^{2,3}
Henan Tsingpu Ferro Alloy Co., Ltd.	Material processing	-	-	-	-	49.00	Zhangjiagang STS (49.00)	15,827	China ^{2,3}
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd.	Specialty steel manufacturing	-	-	-	-	34.00	POSCO-China (10.00)	29,672	China ^{2,3}
BX Steel POSCO Cold Rolled sheet Co., Ltd.	Steel manufacturing	-	-	-	-	25.00		207,462	China ³

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

² Although the Company owns over 30% equity interest in these investees, the Company is not their major shareholder. They were therefore excluded from consolidation.

³ No shares have been issued in accordance with the local laws and regulations.

⁴ The Company owns 100% equity interest in POSCO Bioventures L.P. However, due to an agreement with POSCO Bioventures L.P., which prohibits the Company from engaging in management activities, POSCO Bioventures L.P. was excluded from consolidation.

Subsidiaries or Investees Excluded from the Consolidated Financial Statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Location	Investees	Country	Reason
Overseas	Miller Pohang Coal Company Pty. Ltd. (MPCC)	Australia	Small company
	Qingdao Posco Steel Processing Co., Ltd.	China	Small company
	Zhangjiagang BLZ Pohang International Trading Co., Ltd. (MPCC)	China	Small company
	Yingkou Posrec Refractories Co., Ltd.	China	Small company
	Zhangjiagang Pohang Refractories Co., Ltd.	China	Small company
	San Pu Trading Co., Ltd.	China	Small company
	POSCO SeAH Steel Wire (Nantong) Co., Ltd.	China	Small company
	POSCO-JYPC Co., Ltd.	Japan	Small company
	HK Lamination (M) Sdn. Bhd.	Hongkong	Small company

Change in Scope of Consolidation

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

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

2. Summary of Significant Accounting Policies

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

Basis of Consolidated Financial Statements Presentation

POSCO and its domestic subsidiaries maintain their accounting records in Korean won and prepare statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language consolidated financial statements, but not required for a fair presentation of POSCO and its domestic subsidiaries' financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

Accounting Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Commission. The Company has adopted SKFAS No. 1 through No. 25, except No. 14 and No. 24, in its financial statements as of and for the year ended December 31, 2007. Significant accounting policies adopted by the Company for the annual financial statement are identical to the accounting policies followed by the Company for the annual financial statements for the year ended December 31, 2006, except for SKFAS Nos. 11, 21 through 25, which became effective for the Company on January 1, 2007.

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

- SKFAS No. 11, *Discontinued Operations*
- SKFAS No. 21, *Preparation and Presentation of Financial Statements I*
- SKFAS No. 22, *Share-based Payments*
- SKFAS No. 23, *Earnings Per Share*
- SKFAS No. 25, *Consolidated Financial Statements*

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

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

Principles of Consolidation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company records differences between the investment account and corresponding capital account of subsidiaries as goodwill or negative goodwill, and such differences are amortized over the estimated useful lives using the straight-line method. However, differences which occur from additional investments acquired in consolidated subsidiaries are reported in a separate component of shareholders' equity, and are not included in the determination of the results of operations. The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interest in consolidated subsidiaries.

Cash and Cash Equivalents, and Financial Instruments

Cash and cash equivalents include cash on hand, cash in banks, and highly liquid temporary cash investments with original maturities of three months or less. Investments which are readily convertible into cash within four months or more of purchase are classified in the balance sheet as financial instruments. The carrying amount of short-term financial instruments approximates fair value.

Revenue Recognition

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

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

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

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of individual accounts and historical collection experience.

Inventories

The quantity of inventory on hand is verified using the perpetual inventory system, which continuously updates the quantity of the inventory during the period, and by physical count as of the balance sheet date. Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit, which are stated at actual cost using the specific identification method. If the net realizable value of inventories (current replacement cost for raw materials) is lower than its cost, the carrying amount is reduced to the net realizable value and the difference between the cost and revalued amount is charged to current operations. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

For certain other subsidiaries, inventories are stated at the lower of cost or market, generally with cost being determined using the gross average method, moving-average method or first-in, first-out (FIFO) method. Individual accounting policies on inventories of POSCO and each subsidiary are enumerated on pages 77 and 78.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities (the exchange rates on the acquisition date for capital accounts), and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Individual depreciation methods for property, plant and equipment of POSCO and each subsidiary are enumerated on pages 77 and 78. Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

	Estimated useful lives
Buildings and structures	5 ~ 60 years
Machinery and equipment	3 ~ 25 years
Tools	4 ~ 10 years
Vehicles	3 ~ 10 years
Furniture and fixtures	3 ~ 10 years

The acquisition cost of an asset consists of its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use. When the estimated cost of dismantling and removing the asset and restoring the site, after the termination of the asset's useful life, meets the criteria for the recognition of provisions, the present value of the estimated expenditure shall be included in the cost of the asset.

Subsequent expenditure on property, plant and equipment shall be capitalized only when it increases future economic benefits beyond its most recently assessed standard of performance; all other subsequent expenditures shall be recognized as an expense in the period in which they are incurred.

Intangible Assets

Intangible assets are stated at acquisition cost, including incidental expenses, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives as described below.

	Estimated useful lives
Goodwill	5 years
Negative goodwill	5 ~ 10 years
Intellectual property rights	5 ~ 10 years
Port facilities usage rights	1 ~ 75 years ²
Land Usage Right	20 ~ 50 years ²
Deferred development expenses ¹	
Long-term power capacity rights	Contract term
Other intangible assets	2 ~ 25 years

¹ The costs incurred in relation to the development of new products and new technologies, including the development cost of internally used software and related costs, are recognized and recorded as development costs only if it is probable that future economic benefits that are attributable to the asset will flow into the entity and the cost of the asset can be measured reliably. The useful life of development costs is based on its estimated useful life, not to exceed 20 years from the date when the asset is available for use.

² Port facilities usage rights and land usage right with estimated useful lives of 20 years or more, and which represent the rights to use certain port facilities and land, are amortized over the term of exclusive rights.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Discounts on Debentures**

Discounts on debentures are amortized over the term of the debenture using the effective interest rate method. The discount is reported on the balance sheet as a direct deduction from the face amount of the debenture. Amortization of the discount is treated as an interest expense.

Government Grants

POSCO and domestic subsidiaries accounted for the government grants intended to be used for the acquisition of certain assets as deduction from the cost of the acquired assets. Before the acquisition of the assets specified by the grant, the amounts are recognized as a deduction from the account under which the asset to be acquired is to be recorded, or from the other assets acquired as a temporary investment of the grant received.

The government grants, contributed to compensate for specific expenses, are offset against the related expenses. Other government grants, for which the use or purpose is not specified, are recorded as gains from assets contributed, and are recognized in current operations.

Valuation of Assets and Liabilities at Present Value

POSCO and domestic subsidiaries value long-term loans receivable and long-term trade accounts and notes receivable at their present value as discounted at an appropriate discount rate. Discounts are amortized using the effective interest rate method and recognized as an interest income over the life of the related assets.

Restructuring of Receivables

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

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date. In addition, in accordance with the applicable laws and regulations, POSAM and 42 other overseas subsidiaries recorded the amount, which would be payable to employees at the time of termination, as accrued severance benefits.

POSCO and domestic subsidiaries have partially funded the accrued severance benefits through group severance insurance deposits with Samsung Life Insurance Company and others. The amounts funded under these insurance deposits are classified as a deduction from the accrued severance benefits liability. Subsequent accruals are to be funded at the discretion of the companies.

The Company made deposits to the National Pension Service in accordance with the National Pension Act of the Republic of Korea. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Derivative Instruments

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

Lease Transactions

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment, acquired under capital lease agreements, are recorded at cost as property, plant and equipment, and depreciated using the straight-line method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. The related lease rentals are charged to expense when incurred.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date, and resulting translation gains and losses are recognized in current operations.

Translation of Foreign Operations

Foreign currency assets and liabilities of the Company's overseas business branches and offices are translated at the exchange rate as of the balance sheet date, and income and expenses are translated at the weighted-average exchange rate of the reporting period. Gains or losses on translation are offset, and the net amount is recognized as an overseas operations translation debit or credit in the capital adjustments account. Overseas operations translation credit or debit is treated as an extraordinary gain or loss upon closing the foreign branch or office.

Reclassification of Prior Year Consolidated Financial Statement Presentation

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

Income Taxes

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impairment of Assets

The Company assesses the potential impairment of assets which are not recorded at fair value when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets is recorded in current operations up to the cost of the asset, net of accumulated depreciation or amortization, if any, before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Capitalization of Financing Expenses

Financing expense on borrowings associated with certain qualifying assets during the construction period that meet certain criteria for capitalization can be either capitalized or expensed as incurred. The Company chooses to expense as a financing expense the cost of manufacturing, acquisition, and construction of property, plant, and equipment that require more than one year to complete from the initial date to the date of the estimated completion of the manufacturing, acquisition and construction.

Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow or inflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability in case of an outflow, or the contingent asset in case of an inflow, is made in the notes to the financial statements.

Sale of Receivables

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

Treasury Stock

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

Stock Appreciation Rights

Compensation expense for stock appreciation rights, either partially or fully vested, is recorded based on the differences between the base unit price at the date of grant and the moving weighted average of quoted market price at the end of the period proportionally recognized over the vesting period and adjusted for previous recognized expense.

Basic Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

United States Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1: ₩935.80, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2007.

The U.S. dollar amounts are unaudited and are not presented in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

Cost determination methods for inventories and depreciation methods for property, plant and equipment of POSCO and its controlled subsidiaries are as follows:

Company	Inventories ¹	Depreciation of property, plant and equipment
POSCO	Moving-average method	Straight-line method
POSCO E&C	"	"
Posteel Co., Ltd.	"	"
POSCON Co., Ltd.	"	Straight-line method, Declining-balance method
Pohang Coated Steel Co., Ltd.	Gross average method	Straight-line method
POSCO Machinery & Engineering Co., Ltd.	Moving-average method	"
POSDATA Co., Ltd.	"	"
POSCO Research Institute	N/A	"
Seung Kwang Co., Ltd.	Gross average method	Straight-line method, Declining-balance method
POS-AC Co., Ltd.	N/A	"
Posco Specialty Steel Co., Ltd.	Moving-average method	Straight-line method
POSCO Machinery Corp.	"	"
POSTECH Venture Capital Co., Ltd.	N/A	Declining-balance method
POSCO Refractories & Environment Company Ltd. (POSREC)	Moving-average method	Straight-line method, Declining-balance method
POSCO Terminal Co., Ltd.	"	"
Metapolis Co., Ltd.	"	Declining-balance method
Posmate Co., Ltd.	N/A	"
Samjung Packing & Aluminum Co., Ltd.	Moving-average method	Straight-line method, Declining-balance method
POSCO Power Corp.	"	Straight-line method
Postech 2006 Energy Fund	N/A	N/A
POSCO America Corp. (POSAM)	Moving-average method	N/A
POSCO Australia Pty. Ltd. (POSA)	Gross average method	"
POSCO Canada Ltd. (POSCAN)	"	Straight-line method, Unit of production method
POSCAN Elkview Coal Ltd.	N/A	N/A
POSCO Asia Co., Ltd. (POA)	"	Declining-balance method
VSC POSCO Steel Corporation (VPS)	Moving-average method	Straight-line method
DALIAN POSCO-CFM Coated Steel Co., Ltd.	"	"
POS-Tianjin Coil Center Co., Ltd.	"	"
POSMETAL Co., Ltd.	"	"
Shanghai Real Estate Development Co., Ltd.	N/A	"
IBC Corporation	Specific identification method	"
POSLILAMA Steel Structure Co., Ltd.	Moving-average method	"

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Company	Inventories ¹	Depreciation of property, plant and equipment
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Moving-average method	Straight-line method
POSCO(Guangdong) Coated Steel Co., Ltd.	"	"
POSCO-Thailand Co., Ltd.	"	"
Myanmar POSCO Steel Co., Ltd.	"	"
Zhangjiagang POSHA Steel Port Co., Ltd.	"	"
POS-OPC Co., Ltd. (Fujiura Butsuryu Center Co., Ltd.)	Specific identification method	"
POSCO Investment Co., Ltd.	N/A	"
POSMMIT Steel Centre Sdn. Bhd.	Moving-average method	"
Qingdao Pohang Stainless Steel Co., Ltd.	"	"
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	"	"
POSEC-Hawaii Inc.	N/A	"
POS-Qingdao Coil Center Co., Ltd.	Moving-average method	"
POSCO-China Holding Corp.	N/A	"
POS-ORE Pty. Ltd.	Gross average method	"
POSCO-Japan Co., Ltd.	"	"
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.	"	"
POS-GC Pty. Ltd.	"	"
POS-CD Pty. Ltd.	"	"
POSCO-India Private Ltd.	N/A	"
POS-India Steel Processing Centre Pvt. Ltd.	Specific identification method	"
POS-NPC Co., Ltd.	Moving-average method	"
POSCO-Foshan Steel Processing Center Co., Ltd.	Specific identification method	"
POS-MPC S.A. de C.V.	"	"
Zhangjiagang Pohang Port Co., Ltd.	N/A	"
POSCO-Vietnam Co., Ltd.	Moving-average method	"
POSCO E&C (Beijing) Co., Ltd.	Specific identification method	"
POSCO-Mexico Co., Ltd.	N/A	"
POSS Delhi Steel Processing Centre Pvt. Ltd.	Specific identification method	"
POS-NP Pty. Ltd.	Gross average method	"
POSCO Vietnam Processing Center Co., Ltd.	Specific identification method	"
Suzhou POSCORE	Moving-average method	"

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

3. Cash and Cash Equivalents, and Financial Instruments

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

(in millions of Korean won)	Annual Interest Rate (%)	2007	2006
Cash and cash equivalents			
Cash on hand and bank deposits	0.00 ~ 2.00	₩ 95,292	₩ 19,925
Checking accounts	-	16,103	4,123
Corporate bank deposits	0.00 ~ 6.25	558,267	18,541
Time deposits in foreign currency and others	2.02 ~ 5.05	286,679	567,333
Maintained by overseas affiliates	0.00 ~ 12.00	336,487	326,498
		1,292,828	936,420
Less : Government grants		(247)	(131)
		₩ 1,292,581	₩ 936,289
Short-term financial instruments			
Time deposits	1.00 ~ 6.50	₩ 839,257	₩ 473,710
Installment accounts	3.00 ~ 4.50	160	1,534
Specified money in trust	5.00 ~ 6.25	3,002	20,447
Certificates of deposit	5.20 ~ 7.06	769,430	199,000
Commercial papers	5.91 ~ 5.91	14,587	20,220
Others	0.50 ~ 7.06	54,902	127,591
Maintained by overseas affiliates	2.25 ~ 8.50	61,741	24,808
		₩ 1,743,079	₩ 867,310
Long-term financial instruments			
Installment accounts	5.00 ~ 6.00	₩ 16,952	₩ 11,212
Guarantee deposits for opening accounts	-	113	116
Others	-	-	1,011
		₩ 17,065	₩ 12,239

As of December 31, 2007, the Company's financial assets amounting to ₩10,185 million (2006: ₩18,138 million) are pledged as collaterals and accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collaterals include short-term financial instruments amounting to ₩4,932 million and ₩5,565 million as of December 31, 2007 and 2006, respectively, and long-term financial instruments of ₩8,013 million as of December 31, 2006, in relation to performance guarantee deposits, short-term borrowings and long-term debts, and others; short-term financial instruments amounting to ₩5,140 million (2006: ₩4,444 million) in relation to government-appropriated projects; and long-term financial instruments amounting to ₩113 million (2006: ₩116 million) in relation to maintaining deposits for opening checking accounts (Note 13).

4. Trading Securities

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

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

5. Accounts and Notes Receivable, and Others

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

(in millions of Korean won)	2007	2006
Trade accounts and notes receivable	₩ 4,290,213	₩ 3,723,033
Less: Allowance for doubtful accounts	(254,417)	(231,214)
Present value discount	(194)	(159)
	₩ 4,035,602	₩ 3,491,660
Other accounts and notes receivable	₩ 248,601	₩ 285,919
Less: Allowance for doubtful accounts	(33,287)	(38,572)
Present value discount	(358)	(542)
	₩ 214,956	₩ 246,805
Long-term trade accounts and notes receivable	₩ 58,411	₩ 57,567
Less: Allowance for doubtful accounts	(16,187)	(9,901)
Present value discount	(2,305)	(3,319)
	₩ 39,919	₩ 44,347
Long-term loans receivable	₩ 43,201	₩ 62,814
Less: Allowance for doubtful accounts	(2,650)	(469)
Present value discount	(77)	(50)
	₩ 40,474	₩ 62,295

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

(in millions of Korean won)	Face Value	Present Value Discount	Book Value	Maturity Date	Discount Rate (%)
Other accounts receivable					
Tawryu Construction Co., Ltd.	₩ 9,418	₩ 114	₩ 9,304	2008	5.00
BNG Steel Co., Ltd.	10,000	747	9,253	2009	5.60
	₩ 19,418	₩ 861	₩ 18,557		
Long-term loans receivable					
Oh Sehwan and others	₩ 306	₩ 41	₩ 265	2017	7.50
Riviera C.C	260	36	224	2011	3.70
	₩ 566	₩ 77	₩ 489		
Long-term trade accounts receivable					
BNG Steel Co., Ltd. ¹	₩ 28,259	₩ 3,037	₩ 25,222	2008 ~ 2009	8.60
Others	27,888	2,499	25,389	2010 ~ 2016	4.70 ~ 6.50
	₩ 56,147	₩ 5,536	₩ 50,611		

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

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

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

(in millions of Korean won)	Description	Additions			Deductions ¹	Balance at the end of period
		Balance at beginning of period	Charged to costs and expenses	Change in scope of consolidation		
Year ended December 31, 2007:						
Reserves deducted in the balance sheet from the assets to which the apply:						
	Allowance for doubtful accounts	₩ 367,237	₩ 37,237	₩ -	₩ 62,708	₩ 341,766
Year ended December 31, 2006:						
Reserves deducted in the balance sheet from the assets to which the apply:						
	Allowance for doubtful accounts	₩ 263,111	₩ 173,931	₩ -	₩ 69,805	₩ 367,237
Year ended December 31, 2005:						
Reserves deducted in the balance sheet from the assets to which the apply:						
	Allowance for doubtful accounts	₩ 158,944	₩ 115,865	₩ 11	₩ 11,709	₩ 263,111

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

6. Inventories

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

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

7. Investment Securities

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

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

Available-for-Sale Securities

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

(in millions of Korean won)	2007	2006
Current portion of available-for-sale securities		
Investments in bonds	₩ 32,113	₩ 13,375
Available-for-sale securities		
Marketable equity securities	3,888,043	2,337,984
Non-marketable equity securities	599,414	459,188
Investments in bonds	3,762	35,581
Equity investments	20,350	15,473
	4,511,569	2,848,226
	₩ 4,543,682	₩ 2,861,601

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

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

¹ Marketable equity securities are stated at fair market value and the difference between the acquisition cost and the fair market value is accounted for under accumulated other comprehensive income in the consolidated balance sheets.

² The 1,889,840 SK Telecom Co., Ltd. shares have been placed as a collateral for exchangeable bonds (Note 13).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in millions of Korean won)	2007				2006	
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Book Value	Book Value	
Hankyung Shinmun Co., Ltd.	28,728	0.15	₩ 309	₩ 309	₩ 309	
Keo Yang Shipping Co., Ltd.	150,000	0.88	780	780	780	
Jeonnam Pro Football Co., Ltd.	19,799	13.20	99	99	99	
Dae Kyeong Specialty Steel Co., Ltd.	1,786,000	19.00	8,930	8,930	8,930	
The Korea Metal Journal Co., Ltd.	2,000	2.67	20	20	20	
Pohang Steelers Co., Ltd.	40,000	16.67	200	200	200	
Kihyup Technology Banking Corp.	600,000	10.34	3,000	3,000	3,000	
Poshome Co., Ltd.	10,000	3.69	50	50	50	
LG Powercom Corporation ¹	6,300,000	5.00	246,000	93,398	106,845	
The Seoul Shinmun Co., Ltd.	1,614,000	19.40	7,479	-	-	
ESCO Professionals, Ltd.	4,210	7.02	21	21	21	
TFS Global Co., Ltd.	5,290	8.82	26	26	26	
The Siam United Steel	11,071,000	12.30	34,658	34,658	34,658	
Global Unity Ltd.	70,649	13.33	710	710	710	
PT. POSNESIA Stainless Steel Industry ⁴	29,610,000	70.00	9,474	1,567	1,567	
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. ³	-	-	-	-	26,803	
CTA Co., Ltd.	73,390	14.68	37	37	37	
Woori DCI Co., Ltd.	5,653	18.84	28	28	28	
RCC Co., Ltd.	9,053	18.11	45	45	45	
Myanmar- POSCO Steel Co., Ltd. ⁵	-	-	-	-	3,717	
Nickel Mining Company SAS ³	-	-	-	-	28	
Wuhan Excellent Steel Center ²	-	5.00	432	432	432	
POSCO Steel Processing Center Co., Ltd. (POSK-PPC) ^{2,4}	-	20.00	1,869	1,869	928	
POSWITH Co., Ltd. ⁴	320,000	100.00	1,600	1,600	-	
MTS Korea Co., Ltd.	11,076	18.46	55	55	-	
Korea ST Co., Ltd.	796,000	19.90	13,930	13,930	-	
POSCO Poland Steel Processing Center (POS-PPC) ⁴	30,000	30.00	3,803	3,803	-	
POSCO-SAMSUNG-SUZHOU Processing Center (POSS-SZPC) ^{2,4}	-	30.00	1,608	1,608	-	
POSCO (Chongqing) Automotive Processing Center (POS-CPC) ^{2,4}	-	90.00	6,201	6,201	-	
POSCO Mexico Human Tech ^{2,4}	-	100.00	3	3	-	
POSCO-SAMSUNG-Slovakia Processing Center (POSS-SLPC) ^{2,4}	-	30.00	1,794	1,794	-	
Europe Steel Distribution Center (POS-ESDC, Logistics, Trading and Investment d.o.o) ^{2,4}	-	50.00	1,893	1,893	-	
HAMOS ^{2,4}	-	20.00	998	998	-	
Incheon International Airport Railroad Co., Ltd. ¹	22,101,940	11.96	110,510	179,026	110,510	
Busan-Gimhae Light Rail Transit Co., Ltd. ⁴	3,590,720	20.85	17,954	17,954	17,954	
Seoul Metro Line Nine Corporation	3,405,812	19.98	17,030	17,030	8,515	
Hankuk Leisure Co., Ltd.	839,964	16.42	8,627	8,627	8,476	
Vectus Limited ⁴	2,211,837	99.59	7,011	7,006	4,219	
U-space Co., Ltd.	2,800,000	10.00	14,000	14,000	-	

(in millions of Korean won)	2007				2006	
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Book Value	Book Value	
Daejeon Cogeneration Plant Co., Ltd. ¹	752,400	19.80	₩ 3,762	₩ 11,196	₩ -	
Shinbundang Railroad Co., Ltd.	2,061,000	6.73	10,305	10,305	-	
Kenertec Co., Ltd. ²	-	-	10,000	10,000	-	
EcoTown	1,596,000	19.00	7,980	7,980	-	
Pohang Youngil New Port	1,123,200	7.20	5,616	5,616	-	
Gyeong Su Highway Corp.	992,000	4.52	4,960	4,960	-	
Others			105,006	127,650	120,281	
			₩ 668,813	₩ 599,414	₩ 459,188	

¹ The fair values of LG Powercom Corporation and two other investees were based on the valuation report of a public rating services company. Investments without an objective fair value were recorded as acquisition costs, except for LG Powercom Corporation and two other investees.

² No shares have been issued in accordance with the local laws or regulations.

³ The investments in these entities are reclassified from available-for-sale securities to equity-method investments in 2007.

⁴ Investees under liquidation, or in possession of total assets of less than ₩7,000 million as of December 31, 2007, were excluded from the equity method investments.

⁵ The entity is a consolidated subsidiary in 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2007			2006		
	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Increase (Decrease)	Ending Balance
<i>(in millions of Korean won)</i>						
Marketable equity securities						
SK Telecom Co., Ltd.	₩ (185,185)	₩ 86,802	₩ (98,383)	₩ (352,910)	₩ 167,725	₩ (185,185)
Hana Financial Group Inc.	143,594	5,072	148,666	132,918	10,676	143,594
Moonbae Steel Co., Ltd.	(865)	4,230	3,365	(496)	(369)	(865)
Hanil Iron & Steel Co., Ltd.	1,467	997	2,464	1,039	428	1,467
HI Steel Co., Ltd.	404	191	595	404	-	404
Korea Line Corporation	1,952	18,203	20,155	(1,783)	3,735	1,952
Nippon Steel Corporation	412,453	62,327	474,780	180,562	231,891	412,453
Hyundai Heavy Industries	-	224,798	224,798	-	-	-
SeAH Steel Corp.	-	5,246	5,246	-	-	-
Thainox Stainless Public Company Limited	-	2,858	2,858	-	-	-
Shinhan Financial Group Inc.	-	(11,114)	(11,114)	-	-	-
Dong Yang Steel Pipe Co., Ltd.	(2,092)	1,310	(782)	(2,041)	(51)	(2,092)
Union Steel Co., Ltd.	-	(12,031)	(12,031)	-	-	-
Others	11,550	97,668	109,218	6,755	4,795	11,550
	383,278	486,557	869,835	(35,552)	418,830	383,278
Non-marketable equity securities						
LG Powercom Corporation	(100,887)	8,573	(92,314)	(115,813)	14,926	(100,887)
Others	(618)	3,581	2,963	670	(1,288)	(618)
	(101,505)	12,154	(89,351)	(115,143)	13,638	(101,505)
	₩ 281,773	₩ 498,711	₩ 780,484	₩ (150,695)	₩ 432,468	₩ 281,773

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

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

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

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

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

(in millions of Korean Won)	2007				2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government and municipal bonds	₩ 4,818	₩ -	₩ -	₩ 4,818	₩ 1	₩ -	₩ -	₩ 1
Other bonds	31,118	419	(480)	31,057	48,452	503	-	48,955
	35,936	419	(480)	35,875	48,453	503	-	48,956
Marketable equity securities	2,711,958	1,357,567	(181,482)	3,888,043	1,806,004	794,156	(262,176)	2,337,984
Non-Marketable equity securities	668,813	123,409	(192,808)	599,414	599,195	-	(140,007)	459,188
	₩ 3,416,707	₩ 1,481,395	₩ (374,770)	₩ 4,523,332	₩ 2,453,652	₩ 794,659	₩ (402,183)	₩ 2,846,128

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

Held-To-Maturity Securities

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity-Method Investments

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

(in millions of Korean won)	Number of Shares Owned	Percentage of Ownership (%)	Acquisition Cost	Net Asset ¹	Book Value	
					2007	2006
Investee						
KOBRASCO	2,010,719,185	50.00	₩ 32,950	₩ 85,021	₩ 41,143	₩ 32,622
POS-OPC Co., Ltd. (Fujiura Butsuryu Center Co., Ltd.) ³	-	-	-	-	-	835
USS-POSCO Industries ²	-	50.00	241,098	124,222	59,771	49,380
Poschrome (Proprietary) Limited	21,675	25.00	4,859	26,720	5,165	4,826
Guangdong Xingpu Steel Center Co., Ltd. ²	-	21.00	1,852	14,928	3,026	2,487
POS-Hyundai Steel Manufacturing India Private Limited.	6,919,400	29.50	3,136	13,644	4,025	2,780
eNtoB Corporation	860,000	26.88	4,900	24,169	6,149	4,399
POSVINA Co., Ltd. ²	-	50.00	1,527	4,529	2,192	2,066
Posmmit Steel Centre Sdn. Bhd. ³	-	-	-	-	-	3,891
PT POSMI Steel Indonesia	4,772	37.87	1,467	8,380	3,177	3,205
MIDAS Information Technology Co., Ltd.	866,190	25.46	433	20,957	5,321	4,292
CAML Resources Pty. Ltd.	3,239	33.34	40,388	43,912	28,155	37,717
Nickel Mining Company SAS	3,234,698	49.00	157,585	409,431	200,622	-
SNNC Co., Ltd.	18,130,000	49.00	90,650	182,209	87,762	18,816
Henan Tsingpu Ferro Alloy Co., Ltd. ²	-	49.00	8,846	15,827	8,470	-
Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd. ²	-	34.00	9,516	29,672	10,043	-
BX Steel POSCO Cold Rolled Sheet Co., Ltd.	-	25.00	61,961	207,462	66,782	-
Songdo New City Development Inc. ^{2,4}	-	29.90	6,674	(132,596)	-	-
Gale International Korea, Inc.	4,265	29.90	21	38,560	11,385	2,070
An Khanh New City Development ²	-	50.00	11,359	21,787	10,893	-
Chungju enterprise City	2,008,000	25.10	10,040	38,150	9,576	-
POSCO Bioventures L.P. ²	-	100.00	46,102	35,190	35,190	33,931
Liaoning Rongyuan POSCO Refractories Co., Ltd. ²	-	35.00	1,125	4,203	1,380	-
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. ²	-	30.00	3,236	14,609	4,385	3,186
			₩ 739,725	₩ 1,230,986	₩ 604,612	₩ 206,503

¹ Due to the delay in the closing of the December 31, 2007 accounts and the settlement of closing differences, the equity method of accounting is applied based on the most recent available December 31, 2007 financial information, which has not been audited or reviewed.

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

³ POS-OPC Co., Ltd. and POSMMIT Steel Centre Sdn. Bhd. are consolidated in 2007 and excluded from the equity-method investments.

⁴ The equity method of accounting has been suspended for investment in Songdo New City Development Inc. as the Company's net investments have been reduced to zero. Unrecorded changes in equity interest in Songdo New City Development Inc. in 2007 amounted to ₩884 million and the accumulated unrecorded changes in equity interest through 2006 amounted to ₩38,666 million.

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

(in millions of Korean won)	As of January 1, 2007	Earnings (Losses) of Equity Method Investees	Other Increase (Decrease) ¹	As of December 31, 2007
Investee				
KOBRASCO	₩ 32,622	₩ 18,947	₩ (10,426)	₩ 41,143
POS-OPC Co., Ltd. (Fujiura Butsuryu Center Co. Ltd.)	835	-	(835)	-
USS-POSCO Industries	49,380	(10,096)	20,487	59,771
Poschrome (Proprietary) Limited	4,826	2,793	(2,454)	5,165
Guangdong Xingpu Steel Center Co., Ltd.	2,487	319	220	3,026
POS-Hyundai Steel Manufacturing India Private Limited.	2,780	827	418	4,025
eNtoB Corporation	4,399	488	1,262	6,149
POSVINA Co., Ltd.	2,066	172	(46)	2,192
Posmmit Steel Centre Sdn. Bhd.	3,891	-	(3,891)	-
PT POSMI Steel Indonesia	3,205	(65)	37	3,177
MIDAS Information Technology Co., Ltd.	4,292	1,002	27	5,321
Posco Power Co., Ltd.	-	-	-	-
CAML Resources Pty. Ltd.	37,717	(11,500)	1,938	28,155
Nickel Mining Company	-	32,229	168,393	200,622
SNNC Co., Ltd.	18,816	(2,637)	71,583	87,762
Henan Tsingpu Ferro Alloy Co., Ltd.	-	(1,489)	9,959	8,470
Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd.	-	(216)	10,259	10,043
BX Steel POSCO Cold Rolled Sheet Co., Ltd.	-	2,213	64,569	66,782
Songdo New City Development Inc.	-	-	-	-
Gale International Korea, Inc.	2,070	11,408	(2,093)	11,385
AN KHANH NEW CITY DEVELOPMENT	-	(353)	11,246	10,893
Chungju enterprise City	-	(464)	10,040	9,576
POSCO Bioventures L.P.	33,931	(1,066)	2,325	35,190
Liaoning Rongyuan POSCO Refractories Co., Ltd.	-	252	1,128	1,380
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd.	3,186	913	286	4,385
Sozhou POSCORE ²	-	(1,043)	1,043	-
	₩ 206,503	₩ 42,634	₩ 355,475	₩ 604,612

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

² The entity is included in the scope of consolidation in 2007. The loss of equity method investee was incurred before acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in millions of Korean won)	January 1, 2006	Increase (Decrease) ¹	Amortization (Recovery)	December 31, 2006	Increase (Decrease) ¹	Amortization (Recovery)	December 31, 2007
eNtoB Corporation	₩ -	₩ -	₩ -	₩ -	₩ 670	₩ 80	₩ 590
POSMIT Steel Centre Sdn. Bhd.	39	-	20	19	(19)	-	-
PT POSMI Steel Indonesia	354	49	182	221	-	187	34
POSCO Power Corp.	65,804	(62,148)	3,656	-	-	-	-
CAML Resources Pty. Ltd.	25,042	-	5,763	19,279	-	5,764	13,515
SNNC Co., Ltd.	-	-	-	-	209	21	188
BX Steel POSCO Cold Rolled Sheet Co., Ltd.	-	-	-	-	13,363	1,114	12,249
	₩ 91,239	₩ (62,099)	₩ 9,621	₩ 19,519	₩ 14,223	₩ 7,166	₩ 26,576

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

8. Property, Plant and Equipment

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

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

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

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

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

Construction-in-progress includes capital investments in Gwangyang No. 2 Minimill. Through a resolution of the Board of Directors in May 1998, the construction on the Minimill was temporarily suspended due to the economic situation in the Republic of Korea and the Asia Pacific region. The continuing unstable economic condition and related decrease in the selling price of products, resulting in the deterioration in profitability, drove the management's operation committee to cease the construction on the No. 2 Minimill in April 2002, and to use the buildings for the Tailor Welded Blank ("TWB") project designed to manufacture custom-made automobile body panels. The Company previously recognized impairment losses on the construction-in-progress in Gwangyang No. 2 Minimill amounting to ₩469,581 million and reclassified related machinery held to be disposed of in the future as other investment assets as of December 31, 2004. As of June, 2006, the Company entered into a contract with Al-Tuwairqi Trading & Contracting Establishment in Saudi Arabia to sell the No. 2 Minimill equipment for US\$ 96 million. The book values of property, plant and equipment held for sale amounted to ₩69,633 million and are classified as other investment assets as of December 31, 2007.

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

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

(in millions of Korean won)	Beginning Balance	Acquisition ¹	Disposal	Depreciation ³	Others ²	Elimination of Intercompany Transactions	Ending Balance
Land	₩ 1,311,755	₩ 67,228	₩ 2,462	₩ -	₩ 132,742	₩ (74)	₩ 1,509,189
Buildings	2,400,099	366,769	16,560	193,798	232,302	(165,788)	2,623,024
Structures	1,366,558	361,420	10,862	122,054	29,130	(77,376)	1,546,816
Machinery and equipment	6,674,178	3,391,203	370,812	1,585,314	976,260	(558,966)	8,526,549
Vehicles	44,101	12,442	8,382	15,832	6,149	(1,532)	36,946
Tools	84,134	32,598	5,262	43,284	8,565	(1,368)	75,383
Furniture and fixtures	76,879	10,184	8,623	35,858	30,966	(4,396)	69,152
Financial Lease assets	-	11,466	-	637	-	-	10,829
Construction-in-progress	2,685,416	2,937,680	73,678	-	(4,174,278)	(191,263)	1,183,877
	₩ 14,643,120	₩ 7,190,990	₩ 496,641	₩ 1,996,777	₩ (2,758,164)	₩ (1,000,763)	₩ 15,581,765

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

(in millions of Korean won)	Beginning Balance	Acquisition ¹	Disposal	Depreciation ³	Others ²	Elimination of Intercompany Transactions	Ending Balance
Land	₩ 1,202,734	₩ 56,561	₩ 10,116	₩ -	₩ 62,639	₩ (63)	₩ 1,311,755
Buildings	2,268,834	314,727	7,770	175,188	165,398	(165,902)	2,400,099
Structures	1,246,290	175,023	3,569	110,623	136,735	(77,298)	1,366,558
Machinery and equipment	4,866,840	2,873,485	31,762	1,394,402	886,787	(526,770)	6,674,178
Vehicles	30,429	28,597	647	16,760	4,737	(2,255)	44,101
Tools	101,568	36,409	415	52,247	790	(1,971)	84,134
Furniture and fixtures	72,176	38,907	678	29,346	1,028	(5,208)	76,879
Construction-in-progress	2,482,839	3,346,112	441,589	-	(2,568,247)	(133,699)	2,685,416
	₩ 12,271,710	₩ 6,869,821	₩ 496,546	₩ 1,778,566	₩ (1,310,133)	₩ (913,166)	₩ 14,643,120

¹ Includes asset transfer from construction-in-progress.

² Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation.

³ Includes depreciation expense of idle property.

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

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

9. Intangible Assets

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

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

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

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

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

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

(in millions of Korean won)	Beginning Balance	Acquisition	Disposal	Amortization (Recovery)	Others ¹	Elimination of Intercompany Transactions	Ending Balance
Goodwill	₩ -	₩ 100,088	₩ -	₩ 9,983	₩ -	₩ -	₩ 90,105
Negative goodwill	(1,794)	-	-	(406)	-	-	(1,388)
Intellectual property rights	1,394	50	9	230	16	-	1,221
Land usage rights	43,422	2,503	21,571	195	(720)	-	23,439
Development costs	47,299	3,527	418	5,025	22,870	(391)	67,862
Port facilities usage rights	127,258	3,272	-	18,429	1	-	112,102
Long-term electricity supply contract rights	-	73,559	-	5,015	-	-	68,544
Other intangible assets	236,130	58,057	650	66,340	(25,969)	(6,031)	195,197
	₩ 453,709	₩ 241,056	₩ 22,648	₩ 104,811	₩ (3,802)	₩ (6,422)	₩ 557,082

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

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

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

The list of significant intangible assets follows:

Account	2007	2006	Remaining Estimated Useful Life
Goodwill	₩ 68,894	₩ 90,105	3 years
Port facilities usage rights	24,742	26,624	13 years
Other intangible assets	30,719	69,621	1 year

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

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

10. Research and Development Costs, and Others

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

11. Other Assets

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

(in millions of Korean won)	2007	2006
Other current assets		
Short-term loans receivable (Note 28)	₩ 54,985	₩ 34,071
Accrued income	53,600	74,037
Advance payments	373,167	263,623
Prepaid expenses	58,319	18,285
Others	86,237	72,048
	626,308	462,064
Less: Allowance for doubtful accounts	(34,436)	(70,951)
	₩ 591,872	₩ 391,113
Other long-term assets		
Other investment assets (Notes 5 and 8)	₩ 116,409	₩ 135,406
Less: Allowance for doubtful accounts	(789)	(34,646)
Present value discount	(503)	(112)
	₩ 115,117	₩ 100,648

12. Short-Term Borrowings

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

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

13. Long-Term Debts

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

(in millions of Korean won)

Financial Institutions	Annual Interest Rate (%)	2007	2006
Debentures			
Domestic and foreign debentures	2.05 ~ 6.55	₩ 460,192	₩ 231,100
Less: Discount on debentures issued		(527)	(203)
		459,665	230,897
Won currency borrowings			
Korea Exchange Bank and others	1.00 ~ 5.70	3,147	1,885
Foreign currency borrowings			
Development Bank of Japan and others	1.00 ~ 4.60	19,711	162,485
		22,858	164,370
Loans from foreign financial institutions			
Sumitomo Bank and others	2.00 LIBOR + 0.80	879	8,797
Lease obligation			
HP Financial Services	5.00	-	348
		₩ 483,402	₩ 404,412

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

(in millions of Korean won)

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

¹ POSCO issued exchangeable bonds on August 20, 2003. They are exchangeable with 15,267,837 SK Telecom Co., Ltd. American Depository Receipts (ADRs). Details of exchangeable bonds are as follows:

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Issuance date:	August 20, 2003
Maturity date:	August 20, 2008 (full amount of principal is repaid if not exercised)
Rate:	Interest rate of zero percent
Face value:	JPY51,622,000,000
Issuance price:	JPY51,880,110,000
Exchangeable price:	JPY3,019/ADR
Exercise call period:	Commencing ten business days following the issuance date until ten business days prior to maturity date
Exercise put period:	Exactly three years following the payment date

On August 20, 2003, POSCO sold its 15,267,837 SK Telecom Co., Ltd. ADRs to Zeus (Cayman), a tax-exempted subsidiary formed under the laws of Cayman Islands. Zeus issued zero-coupon, exchangeable bonds amounting to JPY51,622 million which are fully and unconditionally guaranteed by POSCO and due in 2008. POSCO may elect to pay the holder cash in lieu of delivering SK Telecom Co., Ltd. ADRs (the "Cash Settlement Option"). The number of ADRs the holder is entitled to receive will be calculated by dividing the aggregate principal amount of the Notes to be exchanged by the exchangeable price. Under the Cash Settlement Option, such holder is entitled to receive the cash equivalent of the market value of ADRs upon exercise. These bonds are non-interest bearing and are exchangeable with SK Telecom Co., Ltd. ADRs at the option of the bondholder. The transaction between the POSCO and Zeus is deemed a borrowing transaction under the Korean generally accepted accounting principles. From 2004, in compliance with the terms of the exchangeable bonds, the dividends earned by Zeus from the SK Telecom Co., Ltd. ADRs were used to purchase additional 1,830,726 ADRs which brought down the exchangeable bond price to JPY3,019/ADR.

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

(in millions of Korean won)

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

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

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

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

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

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

(in millions of Korean won)

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

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

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

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

(in millions of Korean won)	2007		2006	
	Foreign Currency	Won Equivalent	Foreign Currency	Won Equivalent
Financial Institutions				
Korea Development Bank	EUR 5,236,941	₩ 7,234	EUR 6,062,451	₩ 7,410

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

14. Accrued Severance Benefits

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

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

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

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

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

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

(in millions of Korean won)	
2008	₩26,655
2009	31,831
2010	45,263
2011	51,778
2012 ~ 2017	448,912
	₩604,439

The above amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

15. Other Liabilities

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

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

16. Commitments and Contingencies

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

Grantors	Entity Being Guaranteed	Financial Institution	Amount Guaranteed ¹	Won Equivalent (in millions)	
POSCO	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Bank of China and others	CNY	145,200,000	₩ 18,651
			US\$	17,000,000	15,949
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China and others	US\$	199,925,000	187,570
	Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd.	Industrial & Commercial Bank of China	US\$	10,200,000	9,570
	POSCO Investment Co., Ltd.	Bank of Tokyo-Mitsubishi	CNY	87,000,000	11,175
POSCO E&C	Taegisan Wind Power Corporation	Standard Chartered Korea First Bank	US\$	42,000,000	39,404
	IBC Corporation	POSCO Investment Co., Ltd.	KRW	12,252	12,252
		The Export-Import Bank of Korea and others	US\$	15,000,000	14,073
POSCO-Japan Co., Ltd.	POSLILAMA Steel Structure Co., Ltd.		US\$	53,000,000	49,725
	POSCO-JNPC Co., Ltd.	Lisona Bank and others	JPY	3,600,000,000	30,000
POSCO Investment Co., Ltd.	POSCO-JOPC Co., Ltd.	Mizuho Bank and others	JPY	2,080,000,000	17,333
	Guangdong Pohang coated Steel Co., Ltd.	Bank of Tokyo-Mitsubishi	US\$	1,000,000	938
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	ING and others	US\$	120,000,000	112,584
	Qingdao Pohang Stainless Steel Co., Ltd.	Bank of Tokyo-Mitsubishi	US\$	52,500,000	49,256
	POSCO-MPPC S.A. de C.V.	Bank of Tokyo-Mitsubishi	US\$	9,600,000	9,007
				₩ 577,487	

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

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

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

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

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

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

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

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

As of December 31, 2007, the Company acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. The Company's lease expenses, with respect to the above lease agreements, amounted to ₩7,332 million for the year ended December 31, 2007. Future lease payments under the above lease agreements are as follows:

(in millions of Korean won)

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

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

(in millions of Korean won)

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

As of December 31, 2007, Posteel Co., Ltd. has entered into local and foreign credit agreements, of up to ₩613,399 million and with Hana Bank and other banks of which ₩464,193 million remains unused. In addition, Posteel Co., Ltd. has an unsettled document against acceptance amounting to JPY767 million and US\$46 million, and an unsettled document against payment in relation to exports amounting to US\$19 million.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

As of December 31, 2007, POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩100,000 million with Woori Bank. As of December 31, 2007, the Company has used ₩35,602 million of this loan agreement. In addition POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and seven other banks for opening letters of credit of up to US\$55 million, and for a loan of up to ₩165,000 million. It has outstanding balances related to letters of credit of US\$12 million, JPY299 million and EUR808 thousand. It has no outstanding loan balances.

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

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

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

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

As of December 31, 2007, Zhangjiagang Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY6,214 million and US\$320 million with Bank of China and other banks.

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

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

As of December 31, 2007, POS-Qingdao Coil Center Co., Ltd. has a loan agreement up to US\$5 million and CNY48 million with HSBC and others, and has outstanding balance of US\$5 million and CNY43 million.

As of December 31, 2007, POSCO-Japan Co., Ltd. has bank overdraft agreements for working capital of up to JPY54,272 million with MIZUHO bank and has outstanding balance of JPY35 million.

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

As of December 31, 2007, Samjung Packing & Aluminum Co., Ltd. has a bank overdraft agreement of up to ₩1,000 million and purchase loan agreements of up to ₩35,000 million with Woori Bank and other banks. In addition, Samjung Packing & Aluminum Co., Ltd. has entered into loan agreements for energy equipment of up to ₩870 million with Hana Bank. The accounts receivable in foreign currency sold to financial institutions and outstanding as of December 31, 2007 and 2006, amount to ₩7,095 million and ₩4,549 million, respectively, for which the Company is contingently liable upon the issuers' default. In addition, Samjung Packing & Aluminum Co., Ltd. has entered into an agreement with Woori Bank and four other banks for opening letters of credit in relation to trade of up to US\$73.5 million.

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

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

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

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

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

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

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

17. Capital Stock

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

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

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

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

18. Capital Surplus

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

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

19. Retained Earnings

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

Other Legal Reserve

Pursuant to the Special Tax Treatment Control Law, the Company appropriates retained earnings as a reserve for overseas investment loss and research and human resource development. These reserves are not available for dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

Voluntary Reserve

The Company appropriates a certain portion of retained earnings, such as reserve for business rationalization, reserve for business expansion and appropriated retained earnings for dividends, with the shareholders' approval, as a voluntary reserve. This reserve may be transferred to unappropriated retained earnings the approval of shareholders, and may be distributed as dividends after its reversal.

Dividends

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

(in millions of Korean won)	2007	2006	2005
Interim cash dividends			
Number of outstanding shares	75,816,426	77,780,460	78,759,934
Dividend ratio	50%	40%	40%
Dividend amount	₩ 189,541	₩ 155,561	₩ 157,520
Year-end cash dividends			
Number of outstanding shares	75,540,201	77,592,942	80,154,281
Dividend ratio	150%	120%	120%
Dividend amount	₩ 566,552	₩ 465,558	₩ 480,926

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

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

20. Capital Adjustments

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

(in millions of Korean won)	2007	2006
Treasury stock	₩ (2,715,964)	₩ (1,670,690)
Others	(11,183)	(7,539)
	₩ (2,727,147)	₩ (1,678,229)

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

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

21. Stock Appreciation Rights

POSCO granted stock appreciation rights to its executive officers in accordance with the stock appreciation rights plan approved by the Board of Directors. The details of the stock appreciation rights granted are as follows:

	1 st Grant	2 nd Grant	3 rd Grant	4 th Grant	5 th Grant	6 th Grant
Before the modifications ¹						
Number of shares	498,000 shares	60,000 shares	22,000 shares	141,500 shares	218,600 shares	90,000 shares
Exercise price	₩ 98,400 per share	₩ 135,800 per share	₩ 115,600 per share	₩ 102,900 per share	₩ 151,700 per share	₩ 194,900 per share
After the modifications ¹						
Grant date	July 23, 2001	April 27, 2002	Sept. 18, 2002	April 26, 2003	July 23, 2004	April 28, 2005
Exercise price	₩ 98,900 per share	₩ 136,400 per share	₩ 116,100 per share	₩ 102,900 per share	₩ 151,700 per share	₩ 194,900 per share
Number of shares granted	453,576 shares	55,896 shares	20,495 shares	135,897 shares	214,228 shares	90,000 shares
Number of shares cancelled	19,409 shares	-	-	-	-	-
Number of shares exercised	414,272 shares	42,126 shares	6,931 shares	100,598 shares	55,284 shares	52,000 shares
Number of shares outstanding	19,895 shares	13,770 shares	13,564 shares	35,299 shares	158,944 shares	38,000 shares
Exercise period	July 24, 2003 ~ July 23, 2008	April 28, 2004 ~ April 27, 2009	Sept. 19, 2004 ~ Sept. 18 2009	April 27, 2005 ~ April 26, 2010	July 24, 2006 ~ July 23, 2011	April 29, 2007 ~ April 28, 2012

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

(in Korean won)	2007		2006		2005	
	Number of stock appreciation rights outstanding	Weighted-average	Number of stock appreciation rights	Weighted -average exercise price per share	Number of stock appreciation rights	Weighted -average exercise price per share
Beginning of year	460,335	₩ 145,238	534,642	₩ 140,258	722,007	₩ 118,711
Granted	-	-	-	-	90,000	194,900
Exercised	(180,863)	145,344	(74,307)	109,404	(277,365)	101,899
Canceled	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Stock appreciation rights outstanding, end of year	279,472	145,170	460,335	145,238	534,642	140,258
Exercisable at the year end	279,472	₩ 145,170	370,335	₩ 133,169	230,414	₩ 108,276
Weighted-average fair value at grant date		₩ 116,176		₩ 116,176		₩ 116,176

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

(in Korean won)	Appreciation rights outstanding		
	Exercise prices	Shares	Weighted-average remaining contractual life
98,900	19,895	0.56 years	₩ 98,900
136,400	13,770	1.32 years	136,400
116,100	13,564	1.72 years	116,100
102,900	35,299	2.32 years	102,900
151,700	158,944	3.56 years	151,700
194,900	38,000	4.33 years	194,900
	279,472	3.10 years	₩ 145,170

22. Derivatives

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2007, and related contracts outstanding as of December 31, 2007, are as follows:

(in millions of Korean won)				Income Statement		Comprehensive Income ^(*)			
Company	Type of Transaction	Purpose of Transaction	Financial Institutions	Valuation Gain	Valuation Loss	Transaction Gain	Transaction Loss	Transaction Gain	Transaction Loss
POSCO	Embedded derivative	Hedge	KOREA ZINC INC	₩ -	₩ -	₩ -	₩ -	₩ 488	₩ 2,926
	Currency future	Exchange rate hedge	HSBE and others	301	-	-	-	12,892	2,816
POSCO E&C	Currency forward	Trading	Korea Exchange Bank and others	1,212	2,606	-	-	485	300
Posteel Co., Ltd.	"	"	SC Korea First Bank	-	-	-	-	-	3
Pohang Coated Steel Co., Ltd.	Currency future	Trading or Hedge	SC Korea First Bank and others	2,374	987	-	-	3,023	114
POSDATA	Currency forward	Cash flow hedge	Korea Exchange Bank	-	-	-	-	-	10
POSCO Specialty Steel Co., Ltd.	Currency forward	Trading	SC Korea First Bank	1	0	-	-	95	142
	SWAP	Fair market value edge	SC Korea First Bank	89	24	-	-	-	-
	SWAP	Cash flow hedge	SC Korea First Bank	-	-	-	524	-	-
POSCO Power Co., Ltd.	Currency forward	Trading	Woori Bank and others	-	-	-	-	432	1
	SWAP	Fair market value edge	ING Bank and others	1,368	-	-	-	274	-
	SWAP	Cash flow hedge	ING Bank and others	-	-	-	3,510	-	-
POSCO Australia Pty. Ltd. (POSA)	Derivative	Trading	MML	7,359	-	-	-	-	-
POS-MPC S.A. de C.V.	Currency future	Fair market value hedge	Standard Chartered	37	-	-	-	-	-
				₩ 12,741	₩ 3,617	₩ -	₩ 4,034	₩ 17,689	₩ 6,312

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in millions of Korean won)

Company	Type of Transaction	Purpose of Transaction	Financial Institutions	Valuation Gain	Valuation Loss	Transaction Gain	Transaction Loss
POSCO	Currency forward	Trading	SC Korea First Bank and others	₩ -	₩ -	₩ 779	₩ 11,491
	Nickel future	"	Sempra Metal Ltd.	-	-	-	12,205
POSCO E&C	Currency forward	"	Citibank and others	1	791	732	920
Posteel Co., Ltd.	"	"	Hana bank and others	-	-	37	300
Pohang Coated Steel Co., Ltd.	"	"	Shinhan Bank	-	-	1,258	843
	Option	"	"	1,856	12	1,734	83
POSDATA	Currency forward	Cash flow hedge	Korea Exchange Bank	-	-	53	25
Posco Specialty Steel Co., Ltd.	"	Fair market value hedge	SC Korea First Bank	-	17	190	78
POSCO Power Corp.	SWAP	Trading	Korea Development Bank and others	-	-	10,694	14,418
				₩ 1,857	₩ 820	₩ 15,477	₩ 40,363

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

(in millions of Korean won)

Company	Type of Transaction	Purpose of Transaction	Financial Institutions	Valuation Gain	Valuation Loss	Transaction Gain	Transaction Loss
POSCO	Currency forward	Trading	SC Korea First Bank and others	₩ -	₩ 18,727	₩ 688	₩ 861
	Nickel future	"	Sempra Metal Ltd.	-	-	1,674	637
POSCO E&C	Currency forward	"	Citibank Korea and others	1,546	1,982	600	6,722
Posteel Co., Ltd.	"	"	Hana bank and others	-	-	170	37
Pohang Coated Steel Co., Ltd.	"	"	Shinhan Bank	-	684	112	125
	Option	"	"	125	-	486	564
POSDATA	Currency forward	"	Korea Exchange Bank	-	-	90	12
POSCO Specialty Steel Co., Ltd.	"	"	SC Korea First Bank	-	-	37	42
				₩ 1,671	₩ 21,393	₩ 3,857	₩ 9,000

23. Selling and Administrative Expenses

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

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

24. Donations

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

(in millions of Korean won)	2007	2006	2005
POSTECH	₩ 25,000	₩ 22,000	₩ 17,050
POSCO Educational Foundation	47,200	33,000	33,000
Employee benefit welfare	66,600	59,400	69,960
Others	58,566	40,278	33,008
	₩ 197,366	₩ 154,678	₩ 153,018

25. Income Taxes

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

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

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

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

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

	Temporary Differences			Deferred Income Tax		
	January 1, 2007 ¹	Increase (Decrease)	December 31, 2007	January 1, 2007 ¹	Increase (Decrease)	December 31, 2007
(in millions of Korean won)						
Deductible temporary differences:						
Reserve for special repairs	₩ (403,384)	₩ 101,633	₩ (301,751)	₩ (110,930)	₩ 27,948	₩ (82,982)
Allowance for doubtful accounts	345,789	(53,026)	292,762	94,977	(14,445)	80,532
Reserve for technology developments	(1,484,767)	383,033	(1,101,734)	(408,311)	105,335	(302,976)
Dividend income from related companies	304,162	62,071	366,233	83,644	17,070	100,714
Depreciation expense	7,091	(155,084)	(147,993)	2,684	(42,799)	(40,115)
Valuation of equity method investments	(718,357)	(578,523)	(1,296,880)	(166,730)	(107,640)	(274,370)
Prepaid expenses	42,084	(7,653)	34,431	11,555	(2,088)	9,467
Impairment loss on property, plant and equipment	516,305	(96,220)	420,085	147,973	(26,490)	121,483
Accrued severance benefits	124,582	37,344	161,926	34,298	10,276	44,574
Group severance insurance deposits	(37,376)	(6,899)	(44,275)	(10,278)	(1,897)	(12,175)
Provision for construction losses	15,133	6,094	21,227	4,161	1,675	5,836
Provision for construction warranty	18,935	2,130	21,065	5,154	640	5,794
Appropriated Retained Earnings for Technological Development	(3,500)	667	(2,833)	(963)	183	(780)
Accrued income	(7,952)	(376)	(8,328)	(2,206)	(107)	(2,313)
Accrued on valuation of Inventories	441	254	695	121	69	190
Accrued on guarantee loss securities	41,300	(41,300)	-	11,358	(11,358)	-
Others	333,308	(39,448)	293,860	81,188	(7,769)	73,419
	(906,206)	(385,303)	(1,291,509)	(222,305)	(51,397)	(273,702)
Deferred tax from tax credit						
Tax credit transferred from prior year	20,137	2,588	22,725	19,004	945	19,949
Deficit carried forward	12,487	(3,299)	9,188	3,434	(908)	2,526
Others	-	-	-	(5,416)	(2,751)	(8,167)
	32,624	(711)	31,913	17,022	(2,714)	14,308
Current and deferred income taxes Capital adjustment arising						
Gain on valuation of available-for-sale securities	(112,643)	(160,305)	(272,948)	(30,975)	(44,085)	(75,060)
Loss on valuation of available-for-sale securities	(751,593)	(564,179)	(1,315,772)	(206,689)	(157,684)	(364,373)
Others	394,401	(154,950)	239,451	108,319	(42,428)	65,891
	-	4,276	4,276	-	1,176	1,176
	(469,835)	(875,158)	(1,344,993)	(129,345)	(243,021)	(372,366)
Sub total				(334,628)	(297,132)	(631,760)
Tax effect on elimination of intercompany profit and others				178,105	59,578	237,683
				₩ (156,523)	₩ (237,554)	₩ (394,077)

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

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

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

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	Temporary Differences			Deferred Income Tax		
	January 1, 2006 ¹	Increase (Decrease)	December 31, 2006	January 1, 2006 ¹	Increase (Decrease)	December 31, 2006
(in millions of Korean won)						
Deductible temporary differences:						
Reserve for special repairs	₩ (480,439)	₩ 77,055	₩ (403,384)	₩ (132,120)	₩ 21,190	₩ (110,930)
Allowance for doubtful accounts	226,593	119,200	345,793	62,340	32,782	95,122
Reserve for technology developments	(1,302,186)	(157,581)	(1,459,767)	(358,102)	(43,334)	(401,436)
Dividend income from related companies	256,503	47,659	304,162	70,538	13,106	83,644
Depreciation expense	111,925	(104,108)	7,817	31,732	(28,809)	2,923
Valuation of equity method investments	(389,678)	(328,653)	(718,331)	(143,720)	(23,007)	(166,727)
Prepaid expenses	47,234	(5,149)	42,085	12,988	(1,416)	11,572
Impairment loss on property, plant and equipment	517,740	(376)	517,364	148,657	(148)	148,509
Accrued severance benefits	100,734	23,855	124,589	27,732	6,568	34,300
Group severance insurance deposits	(60,190)	(16,903)	(77,093)	(16,553)	(4,649)	(21,202)
Provision for construction losses	18,251	(3,161)	15,090	5,019	(870)	4,149
Provision for construction warranty	12,154	4,582	16,736	3,343	1,260	4,603
Appropriated Retained Earnings for Technological Development	(30,833)	2,333	(28,500)	(8,479)	642	(7,837)
Accrued income	(5,224)	(3,306)	(8,530)	(1,335)	(1,027)	(2,362)
Accrued on valuation of Inventories	18,145	38,971	57,116	4,990	10,717	15,707
Accrued on guarantee loss securities	41,300	(228)	41,072	11,358	(63)	11,295
Others	362,574	(46,914)	315,660	53,391	(11,473)	41,918
	(555,397)	(352,724)	(908,121)	(228,221)	(28,531)	(256,752)
Deferred tax from tax credit transferred prior year and others :						
Tax credit transferred from prior year	15,924	4,213	20,137	15,396	1,410	16,806
Deficit carried forward	4,244	8,243	12,487	5,068	(2,202)	2,866
Others	2,029	(2,029)	-	(2,196)	(3,156)	(5,352)
	22,197	10,427	32,624	18,268	(3,948)	14,320
Current and deferred income taxes recognized directly to equity :						
Capital adjustment arising from equity method investments	(122,226)	27,120	(95,106)	(33,626)	7,473	(26,153)
Gain on valuation of available-for-sale securities	(374,973)	(350,021)	(724,994)	(103,118)	(96,256)	(199,374)
Loss on valuation of available-for-sale securities	591,159	(240,952)	350,207	162,569	(66,409)	96,160
Others	454	(454)	-	125	(125)	-
	94,414	(564,307)	(469,893)	25,950	(155,317)	(129,367)
Sub total				(184,003)	(187,796)	(371,799)
Tax effect on elimination of intercompany profit and others						
				41,292	177,563	218,855
				₩ (142,711)	₩ (10,233)	₩ (152,944)

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

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

26. Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year.

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

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

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

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

Diluted Earnings Per Share

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

27. Comprehensive income

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

(in millions of Korean won)	2007	2006	2005
Net income	₩ 3,677,964	₩ 3,353,082	₩ 4,006,993
Accumulated other comprehensive income :	575,179	398,019	259,142
Gain on valuation of available-for-sale securities ¹	498,711	432,469	324,757
Capital adjustment arising from equity method investments ²	(7,455)	11,636	(35,364)
Foreign currency translation adjustments ³	87,957	(46,086)	(30,251)
Gain on valuation of derivative instruments ⁴	(4,034)	-	-
	₩ 4,253,143	₩ 3,751,101	₩ 4,266,135
Comprehensive income attributable to controlling interest	₩ 4,118,011	₩ 3,721,622	₩ 4,277,958
Comprehensive income attributable to minority interest	₩ 135,132	₩ 29,479	₩ (11,823)

¹ Includes income tax effects of ₩(-)192,094 million (2006: ₩(-)169,652 million, 2005: ₩59,005 million)

² Includes income tax effects of ₩(-)34,698 million (2006: ₩(-)1,705 million, 2005: ₩(-)14,883 million)

³ Includes income tax effects of ₩(-)11,451 million (2006: ₩(-)5,753 million, 2005: ₩(-)18,727 million)

⁴ Includes income tax effects of ₩1,331 million

28. Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006, are as follows:

(in millions of Korean won, other currencies in thousands)	2007		2006
	Foreign Currency ³	Won Equivalent	Won Equivalent
Assets			
Cash and cash equivalents ¹	US\$	231,556	₩ 217,246
	JPY	74,355	620
	EUR	27	37
	Overseas subsidiaries (US\$)	430,853	404,226
Trade accounts and notes receivable	US\$	323,175	303,203
		6,042,643	50,355
	EUR	7,796	10,768
Other accounts and notes receivable	Overseas subsidiaries (US\$)	773,033	725,259
	US\$	5,235	4,499
	JPY	16,960	141
	EUR	11	15
Short-term and long-term loans receivable	Overseas subsidiaries (US\$)	73,300	68,770
	Overseas subsidiaries (US\$)	186,380	174,862
	Overseas subsidiaries (US\$)	71	66
	Overseas subsidiaries (US\$)	205,885	193,161
Guarantee deposits	US\$	427	401
	JPY	-	-
	EUR	41	57
	Overseas subsidiaries (US\$)	6,955	6,526
Total		₩ 2,160,212	₩ 1,458,299
Liabilities			
Trade accounts and notes payable	US\$	410,215	₩ 384,863
	JPY	1,509,059	12,576
	EUR	1,042	1,440
	Overseas subsidiaries (US\$)	520,780	488,595
Other accounts and notes payable	US\$	45,304	42,505
	JPY	636,330	5,302
	EUR	446	617
	Overseas subsidiaries (US\$)	44,335	41,595
Accrued expenses	US\$	2,552	2,394
	Overseas subsidiaries (US\$)	27,297	25,610
Short-term borrowings	US\$	194,394	182,380
	Overseas subsidiaries (US\$)	1,355,638	1,271,860
Withholdings	US\$	5,122	4,805
	JPY	145,910	1,216
	EUR	2,047	2,828
	Overseas subsidiaries (US\$)	2,864	2,687

(in millions of Korean won, other currencies in thousands)	2007		2006
	Foreign Currency ³	Won Equivalent	Won Equivalent
Debentures ^{2,4}	US\$ 390,000	₩ 365,898	₩ 278,880
	JPY 101,622,000	846,847	794,512
Loans from foreign financial institutions ⁴	US\$ 34,829	32,677	31,875
	JPY 384,000	3,200	4,503
	Overseas subsidiaries (US\$) 538,323	505,055	289,809
Foreign currency loans ⁴	US\$ -	-	13,868
	Overseas subsidiaries (US\$) 5,237	7,234	21,378
		₩ 4,232,184	₩ 3,016,737

¹ Includes cash and cash equivalents, short-term financial instruments and long-term financial instruments.

² Presented at face value.

³ Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of overseas subsidiaries are converted into US dollars.

⁴ Includes current portion of long-term debts.

29. Related Party Transactions

Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2007, 2006 and 2005, and the related account balances as of December 31, 2007 and 2006, are as follows:

(in millions of Korean won)	Sales and others ¹			Purchases and others ¹		
	2007	2006	2005	2007	2006	2005
POSCO E&C	₩ 20,000	₩ 12,134	₩ 3,758	₩ 984,030	₩ 1,618,205	₩ 1,732,462
Posteel Co., Ltd.	1,072,032	966,254	1,030,276	220,459	93,315	86,005
POSCON Co., Ltd.	120	177	131	244,365	219,602	235,232
Pohang Steel Co., Ltd.	436,206	367,443	426,007	1,327	853	1,105
POSCO Machinery & Engineering Co., Ltd.	157	1,908	92	152,844	125,996	160,787
POSDATA Co., Ltd.	4,516	2,290	1,009	173,660	175,046	182,149
POSCO Research Institute	3	-	-	17,280	18,553	14,350
Seung Kwang Co., Ltd.	-	-	-	69	6	110
POS-AC Co., Ltd.	862	732	566	24,298	30,546	29,554
POSCO Specialty Steel Co., Ltd.	5,175	2,844	3,440	88,258	70,299	53,618
POSCO Machinery Co., Ltd.	3,480	1,929	121	114,378	76,189	107,648
POSCO Refractories & Environment (POSREC)	250	166	261	213,753	211,122	195,329
POSTECH Venture Capital Co., Ltd.	94	77	63	-	-	-
POSCO America Corporation (POSAM)	130,150	84,227	97,920	686	277	-
POSCO Australia Pty. Ltd. (POSA)	18,206	17,821	10,163	231	2,235	31,305
POSCO Canada Ltd. (POSCAN)	40	-	-	71,120	91,502	102,841
POSCO Asia Co., Ltd. (POA)	600,059	440,078	552,694	121,098	73,353	130,871
Zhangjiagang Pohang Stainless Steel Co., Ltd.	22,474	487,037	723,522	-	-	-
POSCO-Japan Co., Ltd.	831,711	566,208	544,636	50,939	75,170	75,604
Others	273,214	328,329	317,176	271,594	253,698	338,718
	₩ 3,418,749	₩ 3,279,654	₩ 3,711,835	₩ 2,750,389	₩ 3,135,967	₩ 3,477,688

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(in millions of Korean won)	Receivables ²		Payables ²	
	2007	2006	2007	2006
POSCO E&C	₩ 186	₩ 7,933	₩ 105,178	₩ 77,678
Posteel Co., Ltd.	104,624	69,539	12,386	3,198
POSCON Co., Ltd.	7	1	24,842	18,016
Pohang Steel Co., Ltd.	40,431	41,029	119	94
POSCO Machinery & Engineering Co., Ltd.	6	4	20,431	13,211
POSDATA Co., Ltd.	10	1	31,614	26,639
POSCO Research Institute	1	-	6,394	3,766
Seung Kwang Co., Ltd.	-	2,034	-	-
POS-AC Co., Ltd.	1	-	2,001	1,177
POSCO Specialty Steel Co., Ltd.	40	-	8,067	3,103
POSCO Machinery Co., Ltd.	50	30	10,445	11,203
POSCO Refractories & Environment (POSREC)	9	9	24,265	23,742
POSTECH Venture Capital Co., Ltd.	-	-	66	-
POSCO America Corporation (POSAM)	4,447	401	-	-
POSCO Australia Pty. Ltd. (POSA)	-	-	-	-
POSCO Canada Ltd. (POSCAN)	21	13	9,635	14,166
POSCO Asia Co., Ltd. (POA)	24,323	20,827	1,922	1,277
Zhangjiagang Pohang Stainless Steel Co., Ltd.	-	6	-	-
POSCO-Japan Co., Ltd.	30,952	20,685	6	5,428
Others	18,974	9,430	25,711	23,396
	₩ 224,082	₩ 171,942	₩ 283,082	₩ 226,094

¹ Sales and others include sales, non-operating income and others; purchases and others include purchases, overhead expenses and others.

² Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2007 and 2006, and related account balances as of December 31, 2007, 2006 and 2005, are as follows:

(in millions of Korean won)	Sales and others ¹			Purchases and others ¹		
	2007	2006	2005	2007	2006	2005
eNtoB Corporation	₩ -	₩ -	₩ -	₩ 216,920	₩ 134,703	₩ 170,258
KOBRASCO	-	-	-	72,514	141,859	202,262
POSCHROME	35	-	-	41,735	35,009	45,043
POSVINA	5,056	2,684	11,239	-	-	-
USS-POSCO Industries (UPI)	245,814	356,190	312,377	-	-	-
Guangdong Xingpu Steel Center Co., Ltd.	3,094	10,295	-	-	-	-
SNNC Co., Ltd.	343	-	-	-	-	-
	₩ 254,342	₩ 369,169	₩ 323,616	₩ 331,169	₩ 311,571	₩ 417,563

(in millions of Korean won)	Receivables ²		Payables ²	
	2007	2006	2007	2006
eNtoB Corporation	₩ -	₩ -	\$ 2,999	\$ 1,917
KOBRASCO	-	-	4,048	9,737
POSCHROME	-	-	-	-
POSVINA	-	-	-	-
USS-POSCO Industries (UPI)	8	-	-	-
Guangdong Xingpu Steel Center Co., Ltd.	4,276	2,337	-	-
SNNC Co., Ltd.	1	-	-	-
	₩ 4,285	₩ 2,337	\$ 7,047	\$ 11,654

¹ Sales and others include sales, non-operating income and others; purchases and others include purchases, overhead expenses and others.

² Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

Eliminations of intercompany revenues and expenses for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)	Revenues		
	2007	2006	2005
Sales	₩ 8,111,931	₩ 7,670,446	₩ 8,293,069
Interest income	24,104	694	1,322
Rental income	4,883	1,273	1,014
Others	12,409	8,107	3,074
	₩ 8,153,327	₩ 7,680,520	₩ 8,298,479

(in millions of Korean won)	Expenses		
	2007	2006	2005
Cost of goods sold	₩ 7,957,616	₩ 7,332,282	₩ 8,094,089
Interest expense	5,608	3,912	3,778
Selling and administrative expenses	171,400	259,038	156,157
Others	18,703	85,288	44,455
	₩ 8,153,327	₩ 7,680,520	₩ 8,298,479

Eliminations of significant intercompany receivables and payables as of December 31, 2007 and 2006, are as follows:

(in millions of Korean won)	Receivables	
	2007	2006
Trade accounts and notes receivable	₩ 740,252	₩ 709,207
Short-term loans receivable	117,938	41,642
Other accounts and notes receivable	11,673	8,431
Long-term loans receivable	54,192	56,613
Other assets	201,439	113,497
	₩ 1,125,494	₩ 929,390

(in millions of Korean won)	Payables	
	2007	2006
Trade accounts and notes payable	₩ 468,811	₩ 494,980
Short-term borrowings	136,750	71,630
Other accounts and notes payable	263,149	173,648
Long-term debts	24,443	25,121
Other liabilities	232,341	164,011
	₩ 1,125,494	₩ 929,390

30. Segment and Regional Information

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2007:

(in millions of Korean won)	Engineering and construction		Trading	Others	Consolidation Adjustment	Consolidated
	Steel					
Statement of income						
Sales	₩ 27,910,722	₩ 3,801,882	₩ 4,018,003	₩ 3,989,066	₩ (8,111,932)	₩ 31,607,741
Less: Inter-segment	(4,738,741)	(1,092,309)	(874,520)	(1,406,362)	8,111,932	-
Net sales	₩ 23,171,981	₩ 2,709,573	₩ 3,143,483	₩ 2,582,704	₩ -	₩ 31,607,741
Operating profit	₩ 4,523,589	₩ 284,632	₩ 31,068	₩ 198,225	₩ (117,653)	₩ 4,919,861
Depreciation and amortization	1,919,594	16,188	5,591	160,778	24,578	2,126,729
Balance sheet						
Inventories	₩ 4,258,206	₩ 454,338	₩ 126,182	₩ 145,708	₩ (82,418)	₩ 4,902,016
Investments	8,205,751	565,983	333,688	775,105	(4,641,501)	5,239,026
Property, plant and equipment	15,110,911	142,157	198,856	1,341,015	(1,211,174)	15,581,765
Intangible assets	246,932	25,152	897	166,992	130,806	570,779
Goodwill	-	-	-	75,556	-	75,556

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2006:

(in millions of Korean won)	Steel	Engineering and construction	Trading	Others	Consolidation Adjustment	Consolidated
Statement of income						
Sales	₩ 23,727,533	₩ 3,752,233	₩ 3,046,127	₩ 2,986,879	₩ (7,670,446)	₩ 25,842,326
Less: Inter-segment	(3,984,759)	(1,631,547)	(632,841)	(1,421,299)	7,670,446	-
Net sales	₩ 19,742,774	₩ 2,120,686	₩ 2,413,286	₩ 1,565,580	₩ -	₩ 25,842,326
Operating profit	₩ 4,078,997	₩ 282,489	₩ 24,202	₩ 252,283	₩ (248,824)	₩ 4,389,147
Depreciation and amortization	1,712,672	12,284	5,967	141,114	(89,299)	1,782,738
Balance sheet						
Inventories	₩ 3,550,674	₩ 225,378	₩ 127,600	₩ 217,963	₩ (103,410)	₩ 4,018,205
Investments	5,867,366	434,047	276,560	527,388	(3,393,443)	3,711,918
Property, plant and equipment	14,075,709	75,712	201,797	1,358,874	(1,068,972)	14,643,120
Intangible assets	258,874	25,889	430	125,147	146,742	557,082
Goodwill	-	-	-	90,105	-	90,105

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2005:

(in millions of Korean won)	Steel	Engineering and construction	Trading	Others	Consolidation Adjustment	Consolidated
Statement of income						
Sales	₩ 24,886,534	₩ 3,993,961	₩ 3,373,587	₩ 2,340,775	₩ (8,293,069)	₩ 26,301,788
Less: Inter-segment	(3,974,711)	(1,845,747)	(990,742)	(1,481,869)	8,293,069	-
Net sales	₩ 20,911,823	₩ 2,148,214	₩ 2,382,845	₩ 858,906	₩-	₩ 26,301,788
Operating profit	₩ 5,879,972	₩ 244,910	₩ 24,453	₩ 190,378	₩ (256,437)	₩ 6,083,276
Depreciation and amortization	1,604,241	11,874	7,626	70,693	(81,880)	1,612,554
Balance sheet						
Inventories	₩ 3,275,723	₩ 205,622	₩ 102,569	₩ 314,233	₩ (105,553)	₩ 3,792,594
Investments	4,662,747	348,143	273,938	468,074	(2,611,346)	3,141,556
Property, plant and equipment	12,223,681	63,747	213,681	571,320	(800,719)	12,271,710
Intangible assets	326,780	26,712	505	110,527	(10,815)	453,709

Substantially all of the Company's operations are for the production of steel products. Net sales for the years ended December 31, 2007, 2006 and 2005, and non-current assets by geographic location as of December 31, 2007 and 2006, are as follows:

(in millions of Korean won) Customer Location	Sales ¹			Long Lived-Asset	
	2007	2006	2005	2007	2006
Korea	₩ 19,969,637	₩ 17,250,163	₩ 18,566,060	₩ 15,603,437	₩ 14,658,557
Japan	1,741,972	1,311,685	1,371,510	114,190	59,540
China	4,503,900	3,070,422	3,117,909	1,153,195	1,102,657
Asia/Pacific, excluding Japan and China	2,041,587	1,486,331	1,502,205	131,998	164,018
North America	732,002	610,240	550,331	387	88,794
Others	2,618,644	2,113,485	1,193,773	228,986	48,866
Consolidation adjustments	-	-	-	(1,080,368)	(922,230)
	₩ 31,607,742	₩ 25,842,326	₩ 26,301,788	₩ 16,152,545	₩ 15,200,202

¹ Represents revenues, net of consolidation adjustments, incurred based on customers' locations instead of the Company and subsidiaries' locations.

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Condensed consolidated balance sheets as of December 31, 2007 and 2006, categorized by type of business are as follows:

(in millions of Korean won)	Non-financial Institution		Financial Institution	
	2007	2006	2007	2006
Assets				
Current assets	₩ 14,315,689	₩ 12,161,686	₩ 77,844	₩ 75,267
Non-Current assets	21,748,269	18,776,636	132,961	135,484
Investment assets	5,109,363	3,576,481	129,663	135,437
Property, plant and equipment	15,581,387	14,643,073	378	47
Intangible assets	570,724	557,082	55	-
Other non-current assets	486,795	-	2,865	-
Total Assets	₩ 36,063,958	₩ 30,938,332	₩ 210,805	₩ 210,751
Liabilities				
Current liabilities	₩ 6,533,867	₩ 4,994,824	₩ 90,748	₩ 87,471
Non-Current liabilities	4,532,167	3,664,895	241	141
Total Liabilities	₩ 11,066,034	₩ 8,659,719	₩ 90,989	₩ 87,612

Condensed consolidated statements of income for the years ended December 31, 2007 and 2006, categorized by type of business are as follows:

(in millions of Korean won)	Non-financial Institution		Financial Institution	
	2007	2006	2007	2006
Sales	₩ 31,594,856	₩ 25,832,162	₩ 12,885	₩ 10,164
Cost of goods sold	24,896,387	19,891,544	6,276	5,220
Selling and administrative expenses	1,781,474	1,553,868	3,743	2,547
Operating income	4,916,995	4,386,750	2,866	2,397
Non-operating income	805,060	743,536	13,447	5,687
Non-operating expenses	834,844	851,338	4,593	2,441
Net income before income tax expense	4,887,211	4,278,948	11,720	5,643
Income tax expense	1,273,328	921,382	898	569
Net income of Subsidiaries before purchasing	(53,259)	9,558	-	-
Net income	₩ 3,667,142	₩ 3,348,008	₩ 10,822	₩ 5,074
Net income attributable to controlling interest	₩ 3,547,838	₩ 3,309,107	₩ 10,822	₩ 5,074
Net income attributable to minority interest	₩ 119,304	₩ 38,901	₩ -	₩ -

31. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2007, 2006 and 2005, are as follows:

(in millions of Korean won)	2007	2006	2005
Noncash financing activities:			
Reclassification of current portion of loans from foreign financial institutions	₩ 879	₩ 8,797	₩ 9,065
Reclassification of current portion of long-term debt	22,858	164,370	54,933
Reclassification of current portion of debentures	460,192	231,100	991,609
Reclassification of current portion of held-to-maturity securities	192,393	153,476	2,688

Certain amounts in consolidated financial statements as of and for the year ended December 31, 2006 and 2005, have been reclassified to conform to the December 31, 2007 consolidated financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

32. Professional Staff Development Costs

The Company's expenditures on education and training fees in relation to the development of professional personnel for the years ended December 31, 2007, 2006 and 2005, are as follows:

(in millions of Korean won)	2007	2006	2005
Fees for studying abroad	₩ 6,314	₩ 3,999	₩ 3,319
Fees for offsite training	3,025	4,498	4,217
Tutorial fees	3,905	3,778	5,548
Others	13,782	11,783	14,275
	₩ 27,026	₩ 24,058	₩ 27,359

33. Employees' Welfare

In order to enhance the welfare of employees, the Company provides fringe benefits to its employees, such as dining facilities, dispensary, scholarships, employee stock ownership plan, medical insurance, accident compensation, compensated absence and gymnasium facilities, among others. Employee benefits paid by the Company amounted to ₩481,713 million for the year ended December 31, 2007 (2006: ₩537,242 million, 2005: ₩714,157 million).

34. The Effect from Adjustment of Accounting Policy in Consolidated Subsidiaries

The accounting policy and estimates of the consolidated subsidiaries have been adjusted to confirm that of the Company. The effect of adjustments for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)	2007		
	Net Assets Value before Adjustment	Adjustment Amount	Net Assets Value after Adjustment
Posteel Co., Ltd.	₩ 324,736	₩ (626)	₩ 324,110
POSCON Co., Ltd.	149,729	901	150,630
Pohang Coated Steel Co., Ltd.	275,322	(2,821)	272,501
POSCO Asia Co., Ltd. (POA)	20,861	(544)	20,317
Zhanjiagang Pohang Stainless Steel Co., Ltd. (ZPSS)	569,173	(42,750)	526,423
POSCO Investment Co., Ltd.	68,609	(1,574)	67,035
POSCO Refractories & Environment Company Ltd. (POSREC)	132,953	6,451	139,404
Qingdao Pohang Stainless Steel Co., Ltd.	83,558	(6,215)	77,343
POSCO-Japan Co., Ltd.	58,188	(545)	57,643
Samjung Packing & Aluminum Co., Ltd.	77,793	2,362	80,155
POSCO Power Corp.	523,318	(1,509)	521,809

(in millions of Korean won)	2006		
	Net Assets Value before Adjustment	Adjustment Amount	Net Assets Value after Adjustment
Posteel Co., Ltd.	₩ 293,447	₩ (650)	₩ 292,797
POSCON Co., Ltd.	129,593	(769)	128,824
Pohang Coated Steel Co., Ltd.	267,016	(2,922)	264,094
POSCO Asia Co., Ltd. (POA)	18,353	(349)	18,004
Zhanjiagang Pohang Stainless Steel Co., Ltd. (ZPSS)	481,471	(32,705)	448,766
POSCO Investment Co., Ltd.	64,793	(1,556)	63,237
POSCO Refractories & Environment Company Ltd. (POSREC)	120,342	(5,403)	114,939
Qingdao Pohang Stainless Steel Co., Ltd.	63,728	(4,309)	59,419
POSCO-Japan Co., Ltd.	49,481	(337)	49,144
Samjung Packing & Aluminum Co., Ltd.	68,955	(1,501)	67,454

35. Significant Differences between Korean GAAP and U.S. GAAP

Reconciliation to U.S. Generally Accepted Accounting Principles

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Republic of Korea ("Korean GAAP"), which differs in certain material respects from generally accepted accounting principles in the United States of America ("U.S. GAAP"). Application of U.S. GAAP would have affected the balance sheets as of December 31, 2007, 2006 and 2005 and the net income for each of the three year periods ended to the extent described below.

A description of the material differences between Korean GAAP and U.S. GAAP as they relate to the Company are discussed in detail below.

(a) Reconciliation of net income from Korean GAAP to U.S. GAAP

(in millions of Korean won, except share data)	Adjustments before Income Tax	Income Tax Effect	Adjustments after Income Tax
For the year ended December 31, 2007			
Net income under Korean GAAP			₩ 3,558,660
Adjustments:			
Fixed asset revaluation	₩ 16,985	₩ (4,671)	₩ 12,314
Capitalized costs	23,853	(6,560)	17,293
Capitalized repairs	(882)	243	(639)
Investment securities	511	(141)	370
Amortizing of goodwill	29,160	(8,019)	21,141
Derivatives	(71,011)	19,529	(51,482)
Others, net	10,193	(2,803)	7,390
	₩ 8,809	₩ (2,422)	₩ 6,387
Net income as adjusted in accordance with U.S. GAAP			₩ 3,565,047
Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP			₩ 46,938
Weighted-average shares outstanding			75,952,869

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions of Korean won, except share data)	Adjustments before Income Tax	Income Tax Effect	Adjustments after Income Tax
For the year ended December 31, 2006			
Net income under Korean GAAP			₩ 3,314,181
Adjustments:			
Fixed asset revaluation	₩ 20,152	₩ (5,542)	14,610
Capitalized costs	35,435	(9,745)	25,690
Capitalized repairs	(1,269)	349	(920)
Investment securities	54,070	(14,869)	39,201
Amortizing of goodwill	25,322	(6,964)	18,358
Others, net	(4,588)	1,263	(3,325)
	₩ 129,122	₩ (35,508)	₩ 93,614
Net income as adjusted in accordance with U.S. GAAP			₩ 3,407,795
Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP			₩ 43,304
Weighted-average shares outstanding			78,694,181

(in millions of Korean won, except share data)	Adjustments before Income Tax	Income Tax Effect	Adjustments after Income Tax
For the year ended December 31, 2005			
Net income under Korean GAAP			₩ 4,022,492
Adjustments:			
Fixed asset revaluation	₩ 19,301	₩ (5,222)	14,079
Capitalized costs	15,381	(4,230)	11,151
Capitalized repairs	(5,312)	1,461	(3,851)
Investment securities	81,659	(22,456)	59,203
Amortizing of goodwill	8,875	(2,441)	6,434
Others, net	4,187	(12,097)	(7,910)
	₩ 124,091	₩ (44,985)	₩ 79,106
Net income as adjusted in accordance with U.S. GAAP			₩ 4,101,598
Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP			₩ 51,789
Weighted-average shares outstanding			79,198,135

(b) Reconciliation of shareholders' equity from Korean GAAP to U.S. GAAP

(in millions of Korean won)	Adjustments before Income Tax	Income Tax Effect	Adjustments after Income Tax
As of December 31, 2007			
Total shareholders' equity under Korean GAAP			₩ 25,117,740
Minority interest			(633,657)
			24,484,083
Adjustments:			
Fixed asset revaluation	₩ (136,471)	₩ 15,041	(121,430)
Capitalized costs	345,496	(95,011)	250,485
Capitalized repairs	1,573	(433)	1,140
Investment securities	(71,762)	19,735	(52,027)
Amortization of goodwill	63,356	(17,423)	45,933
Derivatives	(71,011)	19,529	(51,482)
Others, net	5,664	(1,558)	4,106
	₩ 136,845	₩ (60,120)	₩ 76,725
Shareholders' equity, as adjusted, in accordance with U.S. GAAP			₩ 24,560,809

(in millions of Korean won)	Adjustments before Income Tax	Income Tax Effect	Adjustments after Income Tax
As of December 31, 2006			
Total shareholders' equity under Korean GAAP			₩ 22,401,742
Minority interest			(489,208)
			21,912,534
Adjustments:			
Fixed asset revaluation	₩ (155,755)	₩ 19,986	(135,769)
Capitalized costs	321,643	(88,452)	233,191
Capitalized repairs	2,455	(675)	1,780
Investment securities	(84,269)	23,174	(61,095)
Amortizing of goodwill	34,196	(9,404)	24,792
Cumulative effect of FAS 123R	(4,097)	1,127	(2,970)
Others, net	(431)	119	(312)
	₩ 113,742	₩ (54,125)	₩ 59,617
Shareholders' equity, as adjusted, in accordance with U.S. GAAP			₩ 21,972,151

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(in millions of Korean won)	Adjustments before Income Tax	Income Tax Effect	Adjustments after Income Tax
As of December 31, 2005			
Total shareholders' equity under Korean GAAP			₩ 19,873,677
Minority interest			(384,670)
			19,489,007
Adjustments:			
Fixed asset revaluation	₩ (175,907)	₩ 25,528	(150,379)
Capitalized costs	286,208	(78,707)	207,501
Capitalized repairs	3,724	(1,024)	2,700
Investment securities	(66,594)	18,313	(48,281)
Amortization of goodwill	8,875	(2,441)	6,434
Others, net	60	(8,873)	(8,813)
	₩ 56,366	₩ (47,204)	₩ 9,162
Shareholders' equity, as adjusted, in accordance with U.S. GAAP			₩ 19,498,169

(c) Fixed asset revaluation

Under Korean GAAP, certain fixed assets were subject to upward revaluations in accordance with the Asset Revaluation Law, with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. When assets are sold, any revaluation surplus related to those assets under Korean GAAP would be reflected in income as additional gain on sale of assets under U.S. GAAP.

(d) Capitalized costs

Under Korean GAAP, the Company capitalizes certain foreign exchange gains and losses on borrowings associated with property, plant and equipment during the construction period. Under U.S. GAAP, all foreign exchange gains and losses are included in the results of operations for the current period. No foreign exchange gains and losses have been capitalized for the years ended December 31, 2007, 2006 and 2005 under Korean GAAP. Depreciation of net capitalized foreign exchange gains and losses carried forward from prior periods amounted to ₩1,048 million, ₩(2,099) million and ₩8,097 million for the years ended December 31, 2007, 2006 and 2005, respectively.

In addition, effective from the period beginning after December 31, 2002, under Korean GAAP, interest costs that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use are generally expensed as incurred, except when certain criteria are met for capitalization. The Company has adopted this application and expensed financing costs subject to the capitalization. Under U.S. GAAP, the Company is required to capitalize such amount. Capital projects that have had their progress halted would suspend the capitalization of interest and would also delay the accumulation of depreciation during the suspense period.

Capitalized interest for the years ended December 31, 2007, 2006 and 2005 are as follows:

(in millions of Korean won)	2007	2006	2005
Capitalized interest	₩ 104,014	₩ 123,350	₩ 86,269
Depreciation of capitalized interest	(73,888)	(72,034)	(60,581)
Net income impact	₩ 30,126	₩ 51,316	₩ 25,688

Under Korean GAAP, research and development costs, organization costs and internal use software costs have been recorded as intangible assets and amortized over a period not exceeding 20 years. Under U.S. GAAP, organization costs as well as research and developments costs are generally expensed as incurred. In addition, certain costs incurred for software developed for internal use, U.S. GAAP requires that costs incurred in the preliminary project stage be expensed as incurred. External direct costs such as material and service, payroll or payroll related costs for employees who are directly associated with the project, and interest costs incurred when developing computer software for internal use, should be capitalized and amortized on a straight-line method over the estimated useful life. Training costs, data conversion costs and general administrative costs should be expensed as incurred.

U.S. GAAP reconciliation adjustments for the capitalization and amortization of intangible assets which arose mostly from research and development cost for the years ended December 31, 2007, 2006 and 2005, are as follows:

(in millions of Korean won)	2007	2006	2005
Net income impact	₩ (7,321)	₩ (13,782)	₩ (18,404)

(e) Capitalized repairs

Under Korean GAAP, major repair costs associated with the Company's furnaces had been expensed as incurred, regardless of the nature of the expenditure until 2001. U.S. GAAP requires that repairs which extend an asset's useful life or significantly increase its value be capitalized when incurred and depreciated. Routine maintenance and repairs are expensed as incurred. Depreciation of capitalized repairs carried forward from prior periods has been recorded.

(f) Guarantees

Under Korean GAAP, the guarantor is required to disclose guarantees, including indirect guarantees of indebtedness of others. Under U.S. GAAP, the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after December 31, 2002. As of December 31, 2007, the guarantees issued or modified after December 31, 2002 by the Company for the repayment of loans amounts to ₩147,100 million, excluding guarantees issued either between parents and their subsidiaries or between corporations under common control (Note 16). The fair value of the liability recorded at the inception is amortized into income over the life of the guarantee contract. The Company has recognized the fair value of liabilities net of amortization amounting to ₩(566) million and ₩(417) million and ₩1,732 million for the years ended December 31, 2007, 2006 and 2005, respectively. This adjustment is included in Others, net.

(g) Stock Appreciation Rights

Under Korean GAAP, the Company accounted for stock-based compensation in accordance with the intrinsic value method for awards that call for settlement in cash, shares, or a combination of both measures. Stock compensation liabilities at the end of each period are determined as the amount by which the moving weighted average of quoted market value of the shares of the enterprise's stock covered by a grant exceeds the option price. The moving weighted average of quoted market value is calculated based on the weighted average market price of last one week, last one month and last two months of each period.

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Under U.S. GAAP, Statement of Financial Accounting Standards ("SFAS") No. 123(R) is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005, which applies to new awards and to awards modified, repurchased or cancelled after effective date. The Company adopted FAS 123(R) on January 1, 2006 using the modified prospective method. The compensation expense for the portion of the awards for which the requisite service period has not been rendered that are outstanding at December 31, 2005 needs to be remeasured from its intrinsic value to its fair value on the adoption date, and any difference to be reflected as the cumulative effect of change in accounting principle, net of any related tax effect. Also, reflected in the cumulative effect of change in accounting principle is the net cumulative impact of estimating future forfeitures in the determination of periodic expense, rather than recording forfeitures when they occur as previously permitted. Prior to adoption of FAS 123(R), the Company applied APB 25, intrinsic value method, as permitted under FAS 123 and recorded stock compensation liabilities under intrinsic value method using the quoted market value of the shares of the Company's stock covered by a grant exceed the option price.

The Company remeasured the value of its stock appreciation rights as of January 1, 2006 and applied the estimated future forfeitures, which resulted in a cumulative effect of change in accounting principle, net of tax, totaling ₩(2,970) million.

The following table illustrates the effect on Net Income and Earnings per Share if the Company had applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation for the year ended December 31, 2005:

(in millions of Korean won, except per-share amounts)	2005
Net Income, as reported	₩ 4,101,598
Add : Stock-based employee compensation expense included in reported net income, net of related tax effects	4,574
Deduct : Stock-based employee compensation expense determined under the fair value method, net of related tax effects	(6,457)
Pro forma net earnings	4,099,715
Earning per share-basic:	
As reported	51,789
Pro forma	51,765
Earning per share-diluted:	
As reported	51,789
Pro forma	51,765

As the share appreciation right is classified as liability awards, the fair value of stock options granted was remeasured as of the reporting date using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2007
Dividend yield range	1.74 ~ 2.98%
Expected volatility range	34.44 ~ 49.38%
Risk-free interest rate range	5.52 ~ 5.89%
Expected lives (in years)	0.45 ~ 3.51

U.S. GAAP reconciliation adjustments for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2007, 2006 and 2005 are included in Others, net and are as follows:

(in millions of Korean won)	2007	2006	2005
Net income impact	₩ 10,759	₩ (4,171)	₩ 2,455

The total stock compensation expense, in accordance with U.S. GAAP, for the years ended December 31, 2007, 2006 and 2005 amounts to ₩113,122 million, ₩54,056 million and ₩15,782 million, respectively.

(h) Investment Securities

The differences in accounting for investment securities relate to (i) recognition of an impairment loss under U.S. GAAP but not under Korean GAAP and (ii) Recognition of gain or loss on disposal of investments due to different classification under Korean GAAP and US GAAP.

(i) Recognition of an impairment loss

Under Korean GAAP, if the fair value of investments classified as either available-for-sale or held to maturity permanently declines compared to its acquisition cost as evidenced by events such as bankruptcy, liquidation, negative net asset values and cessation of operations, the carrying value of the debt or equity security is adjusted to fair value, with the resulting impairment loss charged to current operations. If the fair value of the security subsequently recovers, a gain is recognized up to the amount of previously recognized impairment loss.

Under U.S. GAAP, if the decline in fair value of investments classified as either available-for-sale or held to maturity is determined to be other-than-temporary, the cost basis of the individual security is written down to fair value as the new cost basis and the amount of the impairment loss is charged to current operations. In addition, U.S. GAAP prohibits gain recognition based on subsequent recoveries of previously impaired investments.

Both Korean GAAP and U.S. GAAP requires that all unrealized gains and losses arising from available-for-sale securities be recorded in accumulated other comprehensive income.

No other-than-temporary impairment is recorded for available-for-sale or held-to-maturity securities for the years ended December 31, 2007, 2006 and 2005.

(ii) Recognition of gain on disposal of available for sale investments

The Company disposed certain securities that had been previously impaired under U.S. GAAP purposes. The fair value of these securities subsequently recovered resulting in the reversal of the impairment under Korean GAAP. As a result, the Company's cost basis relating to those securities was higher under Korean GAAP than under U.S. GAAP. This difference in cost basis resulted in a gain of ₩511 million under U.S. GAAP upon disposal.

A summary of the U.S. GAAP adjustments relating to investment securities for the years ended December 31, 2007, 2006 and 2005 are as follows:

(in millions of Korean won)	2007	2006	2005
Impairment loss	₩ -	₩ (1,026)	₩ (7,882)
Recognition of gains on disposal	511	55,096	89,541
Net income impact	₩ 511	₩ 54,070	₩ 81,659

Information with respect to available-for-sale debt and equity securities as of December 31, 2007, 2006 and 2005 is as follows:

Investment Securities:

(in millions of Korean won)	2007	2006	2005
Book value at prior yearend plus investment acquired during current year	₩ 4,049,311	₩ 2,420,474	₩ 1,864,297
Unrealized gains and losses incurred during current year	498,711	443,097	328,276
Permanent impairment loss incurred during current year	(4,340)	(1,970)	(11,605)
Fair value (Korean GAAP)	4,543,682	2,861,601	2,180,968
Accumulated other-than-temporary impairment	(73,851)	(86,357)	(68,682)
Fair value (US GAAP)	₩ 4,469,831	₩ 2,775,244	₩ 2,112,286

(i) Goodwill

Under Korean GAAP, goodwill is amortized over the useful life during which future economic benefits are expected to flow to the enterprise, not exceeding twenty years. The Company amortizes goodwill over five years using straight-line method. Under U.S. GAAP, goodwill is not subject to amortization rather an impairment test is required at least annually.

(j) Embedded Derivatives

The Company issued exchangeable bonds in 2003. The exchangeable bonds are exchangeable into SK Telecom American Depository Receipts at the option of the holders. The exchangeable right is considered an embedded derivative instrument. Both Korean GAAP and U.S. GAAP requires that an embedded derivative instrument shall be separated from the host contract and accounted for as a derivative instrument if all of the specific criteria are met.

The difference between Korean GAAP and U.S. GAAP in accounting for embedded derivatives relates to condition of readily convertible to cash when determining it could be settled net (net settlement condition which is one of characteristics of derivative).

Under Korean GAAP, when the total number of shares to be converted in the contract is significant compared to the daily transaction volume, this embedded equity conversion option to shares does not regarded as an embedded derivative because it could not meet the characteristics of readily convertible to cash which is one of criteria in determining net settlement condition.

Under U.S. GAAP, in assessing whether a contract, which can contractually be settled in increments, meets definition of net settlement, an entity must determine whether or not the quantity of the asset to be received from the settlement of one increment is considered readily convertible to cash. If the contract can be settled in increments and those increments are considered readily convertible to cash, the entire contract meets the definition of net settlement.

(k) Deferred Income Taxes

In general, accounting for deferred income taxes is substantially the same between Korean GAAP and U.S. GAAP. The Company is also required to recognize the additional deferred tax effects that result from differences between the reported Korean GAAP and U.S. GAAP amounts.

36. Additional Financial Information in Accordance with U.S. GAAP

(a) Deferred taxes in accordance with U.S. GAAP

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities at December 31, 2007, 2006 and 2005, computed under U.S. GAAP, and a description of the consolidated financial statement items that created these differences are as follows:

(in millions of Korean won)	2007	2006	2005
Deferred tax assets:			
Fixed asset revaluation	₩ 15,041	₩ 19,986	₩ 25,528
Investment securities	-	221,139	77,984
Impairment loss on fixed assets	121,483	129,264	129,135
Impairment loss on investment securities	19,735	45,979	23,078
Allowance for doubtful accounts	80,532	91,478	61,142
Allowance for severance benefits	32,399	21,964	101,867
Depreciation expense	-	2,168	18,980
Capital expenditures	-	74	-
Research and development expense	-	-	12,988
Deferred taxes related to OCI	-	12,141	182,824
Denied accrual expenses	-	78,402	120,198
Derivatives	19,529	-	-
Others	292,116	45,172	86,287
Total deferred tax assets	580,835	667,767	840,011
(in millions of Korean won)	2007	2006	2005
Deferred tax liabilities:			
Gain on valuation of equity method investments	178,171	118,895	134,441
Reserve for repairs	82,982	110,930	132,120
Accrued income	2,313	16,446	917
Reserve for technology	303,756	397,375	388,117
Capitalized repairs	433	675	1,024
Capitalized costs	95,011	89,361	78,707
Deferred taxes related to OCI	372,366	141,155	162,434
Others	-	-	30,159
Total deferred tax liabilities	1,035,032	874,837	927,919
Net deferred tax assets (liabilities)	₩ (454,197)	₩ (207,070)	₩ (87,908)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(b) Comprehensive income

Under U.S. GAAP, comprehensive income and its components are required to be presented under the provisions of SFAS No. 130, Reporting Comprehensive Income. Comprehensive income includes all changes in shareholders' equity during the period except those resulting from investments by, or distributions to owners, including certain items not included in the current year's results of operations. Comprehensive income for the years ended December 31, 2007, 2006 and 2005 is summarized as follows:

(in millions of Korean won)	2007	2006	2005
Net income, as adjusted, in accordance with U.S. GAAP	₩ 3,616,529	₩ 3,407,795	₩ 4,101,598
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	74,982	(51,838)	(7,150)
Change in a fair value of a derivative instrument	(4,034)	-	-
Unrealized gains (losses) on investments	521,124	351,307	85,195
Reclassification adjustment for losses (gains) included in income	(658)	43,135	(1,665)
Comprehensive income, as adjusted, in accordance with U.S. GAAP	₩ 4,156,461	₩ 3,750,399	₩ 4,177,978

Accumulated other comprehensive income as of December 31, 2007, 2006 and 2005, is summarized as follows:

(in millions of Korean won)	Foreign currency translation adjustments	Change in a fair value of a derivative instrument	Unrealized gains (losses) on investments	Accumulated other comprehensive income
Balance, December 31, 2004	₩ 11,536	-	₩ 177,723	₩ 189,259
Foreign currency translation adjustments, net of tax benefit of ₩2,712 million	(7,150)	-	-	(7,150)
Unrealized gains on investments, net of tax expense of ₩(32,316) million			85,195	85,195
Less: Reclassification adjustment for net realized gain included in income, net of tax expense of ₩632 million	-	-	(1,665)	(1,665)
Current period change	(7,150)	-	83,530	76,380
Balance, December 31, 2005	₩ 4,386	-	₩ 261,253	₩ 265,639
Foreign currency translation adjustments, net of tax benefit of ₩19,663 million	(51,838)	-	-	(51,838)
Unrealized gains on investments, net of tax expense of ₩(147,661) million	-	-	351,307	351,307
Add: Reclassification adjustment for net realized losses included in income, net of tax benefit of ₩(16,362) million	-	-	43,135	43,135
Current period change	(51,838)	-	394,442	342,604
Balance, December 31, 2006	₩ (47,452)	-	₩ 655,695	₩ 608,243
Foreign currency translation adjustments, net of tax expense of ₩(28,441) million	74,982	-	-	74,982
Change in a fair value of a derivative instrument, net of tax benefit of ₩1,530 million	-	(4,034)	-	(4,034)
Unrealized gains on investments, net of tax expense of ₩(211,307) million	-	-	521,124	521,124
Add: Reclassification adjustment for net realized losses included in income, net of tax benefit of ₩249 million	-	-	(658)	(658)
Current period change	74,982	(4,034)	520,466	591,414
Balance, December 31, 2007	₩ 27,530	(4,034)	₩ 1,176,161	₩ 1,199,657

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(c) Fair Value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(i) Cash and cash equivalents, short-term financial instruments, trading securities, trade accounts and notes receivable, trade accounts and notes payable, and short-term borrowings

The carrying amount approximates fair value due to the short-term nature of those instruments.

(ii) Investment Securities

The fair value of market-traded investments such as listed company's stocks, public bonds and other marketable securities are based on quoted market prices for those investments. Investments in non-listed companies' stock, for which there are no quoted market prices, estimate of fair value is based on acquisition cost less impairment if any.

(iii) Long-Term loans, trade account and notes receivable

Loans receivable, accounts and notes receivable are reported net of specific and general provisions for impairment as well as present value discount factor. As a result, the fair values of long-term loans approximate their carrying values.

(iv) Long-Term debt

The fair value of long-term debt is based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

The estimated fair values of the Company's financial instruments stated under Korean GAAP as of December 31, 2007 and 2006 are summarized as follows

(in millions of Korean won)	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	₩ 1,292,581	₩ 1,292,581	₩ 936,288	₩ 936,288
Short-term financial instruments	1,743,079	1,743,079	867,310	867,310
Trading securities	1,286,939	1,286,939	2,000,647	2,000,647
Trade accounts and notes receivable, including long-term loans	3,819,857	3,819,857	3,845,106	3,845,106
Investment securities	5,178,723	5,178,723	3,165,055	3,165,055
Short-term borrowings	1,572,020	1,572,020	1,238,749	1,238,749
Trade accounts and notes payable	2,246,890	2,246,890	1,507,227	1,507,227
Long-term debt, including current portion	3,789,889	3,808,261	3,129,914	3,189,205

(d) Minority interest

Minority interests in consolidated subsidiaries are disclosed within the shareholders' equity section of the balance sheet. Under U.S. GAAP, minority interests are recorded between the liability section and the shareholders' equity section in the consolidated balance sheet.

(e) Classification differences in the Consolidated Statements of Income

Certain income and expense items in the Company's Consolidated Statements of Income including: (i) gains and losses on disposal of property, plant and equipment; (ii) impairment of property, plant and equipment; (iii) gains on recovery of allowance for doubtful accounts; (iv) other bad debt expenses; (v) and provision for early retirement benefits have been classified as non-operating under Korean GAAP and excluded from the determination of operating income. Under U.S. GAAP, the above noted income and expense items would be included in the determination of operating income. After reclassification of those items, operating income under U.S. GAAP would be ₩4,990,642 million and ₩4,306,707 million and ₩5,725,875 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Components of "Other" non-operating expenses

"Other" non-operating expenses disclosed within the Korean GAAP Consolidated Statements of Income are comprised of the following:

(in millions of Korean won)	2007	2006	2005
Loss on disposal of investments	₩ 17,660	₩ 66,116	₩ 121,474
Loss on impairment of property, plant and equipment	1,011	2,740	-
Provision for early retirement benefits ¹	-	14,672	418,567
Additional payment of income tax	-	13,472	194,506
Others	77,097	107,847	119,543
Total	₩ 95,768	₩ 204,847	₩ 854,090

¹ In 2000, the Company initiated an ongoing plan to offer special termination benefits to employees who voluntarily accept early retirement and received applications for early retirement from employees. The Company recorded no expense for the year ended December 31, 2007 and recorded an expense amounting to ₩14,672 million and ₩418,567 million, for the years ended December 31, 2006 and 2005, respectively, which represents lump sum early retirement benefits which were either paid or accrued for the applicants who were notified of acceptance and approval of their applications at each year end. The employees were terminated effective on or before December 31, 2006 and all liabilities associated with these early retirement benefits were settled by December 2006.

(f) Consolidated statement of cash flows

Under both Korean GAAP and US GAAP, cash flows are classified under operating activities, investing activities and financing activities.

Under U.S. GAAP, cash flows related to purchases and sales of trading securities are classified as cash flows from operating activities. However, under Korean GAAP, they are classified as cash flows from investing activities. Net cash flows from purchases and sales of trading securities are ₩891,031 million, ₩806,341 million and ₩221,705 million for the years ended December 31, 2007, 2006 and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Components of "Others" financing activities

"Others" financing activities disclosed within the Korean GAAP Consolidated Statements of cash flows are comprised of the following:

(in millions of Korean won)	2007	2006	2005
Proceeds from other current liabilities	₩ -	₩ 88,907	₩ 2,289
Repayment of other current liabilities	-	-	(1,640)
Dividends paid by subsidiaries	(13,765)	(7,530)	(11,300)
Issuance of new shares by subsidiaries	1,996	67,431	39,675
Additional acquisition of interest of subsidiaries (*)	(142,778)	(42,165)	(308,887)
Proceeds from disposal of interest of subsidiaries	11,338	-	-
Total	₩ (143,209)	₩ 106,643	₩ (279,863)

(*) Additional acquisition of minority interests in a subsidiary is classified as investment activities under US GAAP, while it is required to be classified as financing activities under Korean GAAP.

(g) Segment

The following table provides information on reconciliation of total assets of the reportable segments under Korean GAAP as of December 31, 2007:

(in millions of Korean won)	Steel	Construction	Trading	Others	Subtotal before Elimination	Reconciling adjustments	Consolidated
Segments' total assets	₩ 33,869,372	₩ 3,246,818	₩ 1,195,492	₩ 4,295,711	₩ 42,607,393	₩ (6,332,630)	₩ 36,274,763

37. Recent Accounting Pronouncements

U.S. GAAP

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The Company is in the process of evaluating the impact that SFAS 159 may have on the consolidated financial statements.

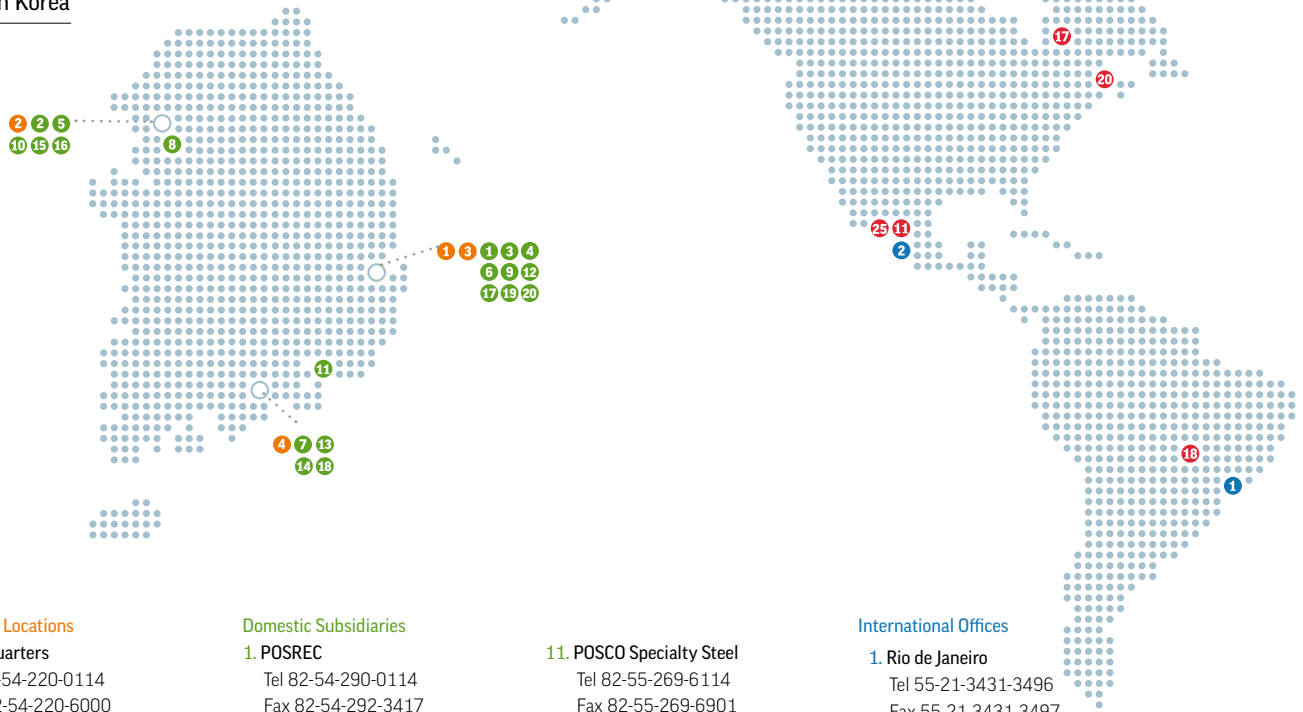
In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)). Under SFAS No. 141(R), companies are required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. This statement further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development (IPR&D) is capitalized as an intangible asset and amortized over its estimated useful life. The Company is in the process of evaluating the impact that SFAS 141 (revised 2007) may have on the consolidated financial statements. This statement will be effective for the Company for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period that begins on or after December 15, 2008.

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

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

POSCO Global Network

South Korea



Domestic Locations

1. **Headquarters**
Tel 82-54-220-0114
Fax 82-54-220-6000
2. **POSCO Center**
Tel 82-2-3457-0114
Fax 82-2-3457-1935
3. **Pohang Works**
Tel 82-54-220-0114
Fax 82-54-220-6000
4. **Gwangyang Works**
Tel 82-61-790-0114
Fax 82-61-790-7000

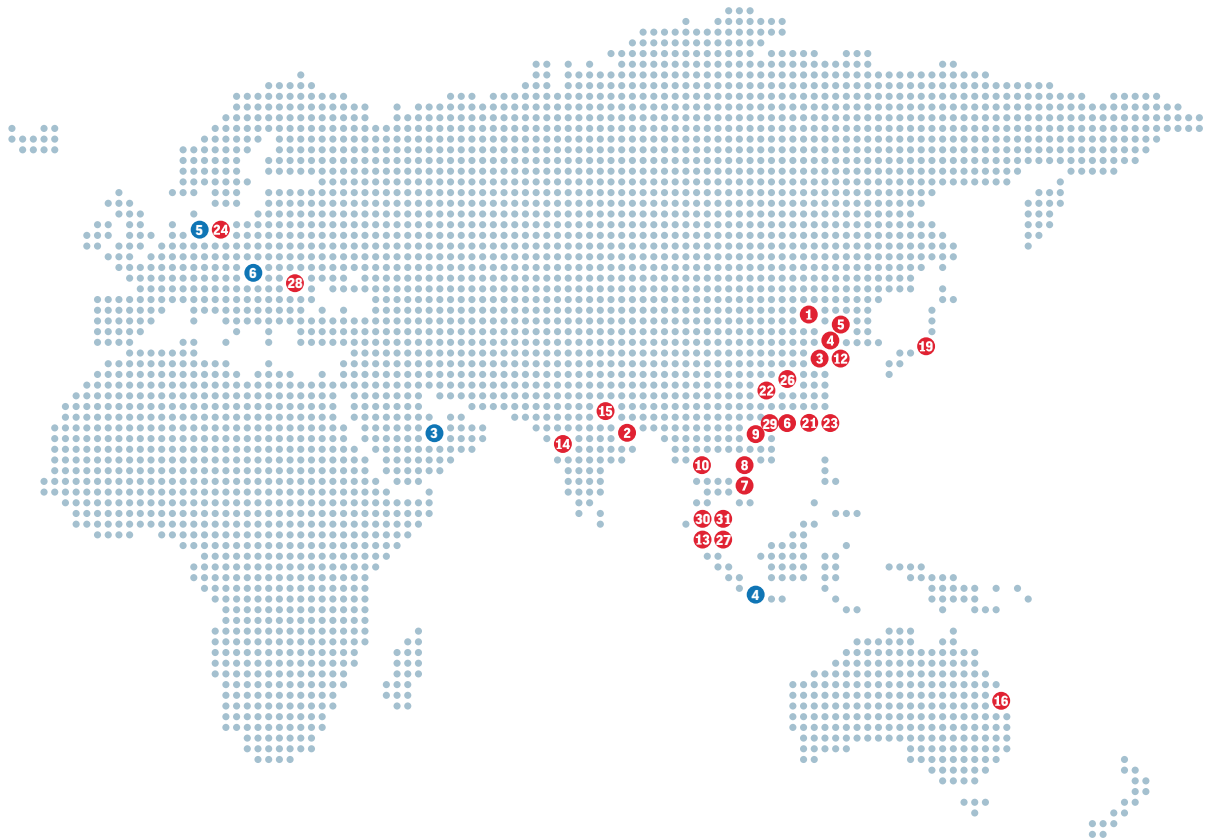
Domestic Subsidiaries

1. **POSREC**
Tel 82-54-290-0114
Fax 82-54-292-3417
2. **POS-AC**
Tel 82-2-3457-3700
Fax 82-2-3457-3898
3. **POSCON**
Tel 82-54-280-1114
Fax 82-54-278-5774
4. **POSCO E&C**
Tel 82-54-223-6114
Fax 82-54-223-6049
5. **POSTEEL**
Tel 82-2-3469-5000
Fax 82-2-3469-6700
6. **POSCO C&C**
Tel 82-54-280-6114
Fax 82-54-285-9009
7. **SeungKwang**
Tel 82-61-740-8000
Fax 82-61-743-9007
8. **POSDATA**
Tel 82-31-779-2114
Fax 82-31-779-2300
9. **POSMEC**
Tel 82-54-279-7114
Fax 82-54-279-7999
10. **POSRI**
Tel 82-2-3457-8000
Fax 82-2-564-8880

11. **POSCO Specialty Steel**
Tel 82-55-269-6114
Fax 82-55-269-6901
12. **POSTECH Venture Capital Corp.**
Tel 82-54-279-8484
Fax 82-54-279-8489
13. **POS-M**
Tel 82-61-798-3114
Fax 82-61-792-1072
14. **POSCO Terminal**
Tel 82-61-793-7411
Fax 82-61-790-6386
15. **POSCO Power**
Tel 82-2-3469-5909
Fax 82-2-3469-5999
16. **POSMATE**
Tel 82-2-528-2960
Fax 82-2-567-5461
17. **Samjung P&A**
Tel 82-54-280-8114
Fax 82-54-280-8301
18. **SNNC**
Tel 82-61-797-9114
Fax 82-61-797-9250
19. **POSWITH**
Tel 82-54-220-6464
Fax 82-54-220-7699
20. **PNR**
Tel 82-54-220-0315
Fax 82-54-275-1944

International Offices

1. **Rio de Janeiro**
Tel 55-21-3431-3496
Fax 55-21-3431-3497
2. **Mexico City**
Tel 5255-5525-0845
Fax 5255-5525-0815
3. **Dubai**
Tel 9714-221-8280
Fax 9714-221-8178
4. **Jakarta**
Tel 62-21-3000-3809
Fax 62-21-3000-3811
5. **European Union**
Tel 49-211-435-3051
Fax 49-211-435-3030
6. **Prague**
Tel 420-246-088-360
Fax 420-246-088-361



International Subsidiaries

1. POSCO China Holding Corp.
Tel 86-10-5166-6677
Fax 86-10-8440-0323
2. POSCO India Pvt. Ltd.
Tel 91-674-230-3690
Fax 91-674-230-0058
3. Zhangjiagang Pohang Stainless Steel Co., Ltd.
Tel 86-512-5856-9211
Fax 86-512-5855-3680
4. Qingdao Pohang Stainless Steel Co., Ltd.
Tel 86-532-8683-7020
Fax 86-532-8683-7011
5. Dalian POSCO Steel Co., Ltd.
Tel 86-411-8751-5003
Fax 86-411-8751-4710
6. POSCO (Guangdong) Coated Steel Co., Ltd.
Tel 86-757-2660-3002
Fax 86-757-2665-7760
7. POSCO Vietnam Co., Ltd.
Tel 84-64-923-014
Fax 84-64-923-000
8. POSVINA Co., Ltd.
Tel 84-8-731-3037
Fax 84-8-731-3619

9. VSC POSCO Steel Corporation
Tel 84-31-374-9133
Fax 84-31-385-0123
10. Myanmar POSCO Steel Co., Ltd.
Tel 95-1-635-367
Fax 95-1-635-418
11. POSCO Mexico S.A. de C.V.
Tel 52-833-274-1400
Fax 52-833-274-1405
12. POSCO China Suzhou Automotive Processing Center Co., Ltd.
Tel 86-512-5760-5952
Fax 86-512-5760-5950
13. POSCO Thailand Bangkok Steel Processing Center Co., Ltd.
Tel 66-2-256-6135
Fax 66-2-256-6138
14. POSCO India Pune Steel Processing Center Co. Pvt. Ltd.
Tel 91-2114-308-100
Fax 91-2114-308-146
15. POSCO India Delhi Automotive Processing Center Co. Pvt. Ltd.
Tel 91-124-421-6600
Fax 91-124-421-6605
16. POSCO Australia Pty. Ltd.
Tel 61-2-9258-9807
Fax 61-2-9241-2001
17. POSCO Canada Ltd.
Tel 1-604-688-9174
Fax 1-604-669-5805

18. Companhia Coreano-Brasileira de Pelotização (KOBRASCO)
Tel 55-27-3333-4864
Fax 55-27-3333-4762
19. POSCO Japan Co., Ltd.
Tel 81-3-3546-0924
Fax 81-3-3546-1215
20. POSCO America Corporation
Tel 1-201-585-3065
Fax 1-201-585-6001
21. POSCO Asia Company Ltd.
Tel 852-2827-8787
Fax 852-2535-8290
22. POSCO China Foshan Steel Processing Center Co., Ltd.
Tel 86-757-2381-3998
Fax 86-757-8387-1384
23. POSCO Investment Co., Ltd.
Tel 852-2802-7188
Fax 852-2845-7737
24. POSCO Poland Wroclaw Steel Processing Center Co., Ltd.
Tel 48-71-733-7262
Fax 48-71-733-7257
25. POSCO Mexico Human Tech S.A. de C.V.
26. POSCO China Chongqing Automotive Processing Center Co., Ltd.
Tel 86-23-8903-6558
Fax 86-23-8903-6556

27. POSCO Vietnam Hochiminh Steel Processing Center Co., Ltd.
Tel 84-8-520-2837
Fax 84-8-823-7840
28. POSCO Europe Steel Distribution Center Co., Ltd.
Tel 385-5-663-4161
29. POSCO China Wuhu Automotive Processing Center Co., Ltd.
Tel 86-553-593-6577
30. POSCO Malaysia Kuala Lumpur Steel Processing Center Sdn. Bhd.
Tel 60-3-6092-5200
31. POSCO Malaysia Sdn. Bhd.
Tel 60-3-3101-2422

Executive Officers

Senior Executive Vice President

Nam-Suk Hur

General Superintendent / Gwangyang Works

Keel-Sou Chung

Chief of Stainless Steel Division

Executive Vice President

Sang-Ho Kim

Legal Affairs Department

Chang-Kwan Oh

General Superintendent / Pohang Works

Young-Tae Kwon

Raw Materials Procurement Department

Hyun-Shik Chang

Energy Business Department

Jin-Il Kim

Vietnam Project Department

Oh-Joon Kwon

General Superintendent / Technical Research Laboratories

Han-Yong Park

Human Resources Department

Sang-Young Kim

Corporate Communication Department

Soo-Kwan Kim

General Superintendent / Human Resources Development Center,
Corporate Contribution Department

Senior Vice President

Jun-Gil Cho

Deputy General Superintendent / Gwangyang Works (Hot And Cold Rolling)

Kwang-Jae Yoo

Stainless Steel Production And Technology

Yong-Chul Yoon

Deputy General Superintendent / Gwangyang Works (Iron And Steel Making)

Noi-Ha Cho

Production Order And Process Department, Technical Service Department, Market Development Group, Automotive Flat Products Service Group

Yong-Won Yoon

Facilities Investment Planning Department, Pohang New Steel Making Plant Project Department, Gwangyang Plate Mill Project Department Raw Materials Handling Buildup Project Department

Ki-Hong Park

Finance Department

Wung-Yong Choo

European Union Office

Sung-Kwan Kim

India Project Department

Byung-Hyo Jang

POSCO-japan Co., Ltd.

Joon-Sik Kim

Technology Development Department, Magnesium Business Department

Young-Ik Jang

Stainless Steel Raw Materials Procurement Department

Moon-Seok Kim

Seoul Office

Tai-Han Yun

Hot Rolled Steel Sales Department, Api Steel Sales Group, Plate Sales Department, Wire Rod Sales Department

Bong-Rae Cho

Deputy General Superintendent / Pohang Works (Iron And Steel Making)

In-Hwan Chang

Cold Rolled Steel Sales Department, Automotive Flat Products Sales Department, Automotive Flat Products Exports Department, Flat Products Sales SCM Group, Coated Steel Sales Department, Electrical Steel Sales Department

Yoon-Chan Kong

Deputy General Superintendent / Gwangyang Works (Administration)

In-Bong Lee

Information Planning Department

Jung-Suk Shin

Zhangjiagang Pohang Stainless Steel Co., Ltd.

Byung-Sik An

Deputy General Superintendent, Pohang Works (Maintenance)

Sung-Kwan Baek

Investment Management Department

Chang-Hwan Cho

Deputy General Superintendent, Gwangyang Works (Maintenance)

Dong-Jun Yoon

Business Innovation Department

Kyung-Hoon Lee

Environment & Energy Department

Song-Hwan Chang

Deputy General Superintendent / Pohang Works (Administration)

Hoo-Geun Lee

FINEX Research & Development Project Department

Jong-Soo Woo

Deputy General Superintendent / Technical Research Laboratories

Chang-Gyun Kang

Auditing Department

Jung-Sik Lee

Deputy General Superintendent / Pohang Works (Hot And Cold Rolling)

Young-Sea Suh

Stainless Steel Strategy Group, Stainless Steel Hot Rolled Product Sales Department, Stainless Steel Cold Rolled Product Sales Department

Myung-Kil Park

Materials Purchasing And Supply Management Department

Young-Hoon Lee

Corporate Strategic Planning Department

Eun-Yeon Hwang

Marketing Strategy Department, Sales & Production Planning Group, Sales Logistics Group

Investor Information

POSCO 2007

Regarding POSCO Shares

As of December 31, 2007, the total number of POSCO shares outstanding is 87,186,835. Registered common stocks are listed and traded on the Korea Exchange (KRX) and 15,748,592 shares (62,994,368 ADRs) have been issued as depository receipts and are listed and traded on the New York Stock Exchange (NYSE), the London Stock Exchange (LSE), and the Tokyo Stock Exchange (TSE).

The symbol for POSCO is 005490 on the KRX, PKX on the NYSE, PIDD on the LSE, and 5412 on the TSE.

Depository and Transfer Agent for American Depositary Receipts (ADRs)

Holder of ADRs should deal directly with the depository, The Bank of New York Mellon, on all matters relating to their ADRs. The Bank of New York Mellon Shareowner Services
P.O. Box 358516
Pittsburgh, PA 15252-8516
Tel: 1-212-815-3874, 1-866-252-9777

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